Columbia Gas of Pennsylvania, Inc.
2021 General Rate Case
Docket No. R-2021-3024296
Standard Data Request
GASROR No. 10
Volume 2 of 3

Columbia Gas of Pennsylvania, Inc.
Standard Data Request
Rate of Return

Question No. GAS-ROR-010:

Please provide copies of all securities analysts' reports relating to the Company and/or its parent issued within the past 2 years.

Response: Columbia Gas of Pennsylvania, Inc.

Columbia Gas of Pennsylvania, Inc. (Company) is a wholly owned subsidiary of NiSource Gas Distribution, Inc. (NGD), which is a subsidiary of NiSource Inc. (Parent). There are no securities analysts reports that relate to the Company or NGD that are separate from such reports relating to the Parent.

Response: NiSource Inc.

Security analysts' reports issued within the past 2 years are attached in Attachment A – Attachment H.

Year	Attachment	Folder Name	Documents Included
2019	A	1Q	Guggenheim 1Q – 2019 Wolfe 1Q – 2019 KeyBanc 1Q – 2019 Guggenheim 1Q – 2019 Credit Suisse 1Q – 2019 Wells Fargo 1Q – 2019 J.P. Morgan 1Q – 2019 Bank of America 1Q – 2019 Goldman Sachs 1Q – 2019 UBS 1Q – 2019 Wells Fargo 1Q – 2019 Barclays 1Q – 2019 Guggenheim 1Q – 2019 Jefferies 1Q – 2019 Wolfe 1Q – 2019 Bank of America 1Q – 2019 Barclays 1Q – 2019 Goldman Sachs 1Q – 2019 Morningstar 1Q – 2019
	B	2Q	Wells Fargo 2Q – 2019 Wolfe 2Q – 2019 Bank of America 2Q – 2019 Goldman Sachs 2Q – 2019 Guggenheim 2Q – 2019 Wells Fargo 2Q – 2019 Goldman Sachs 2Q – 2019 Bank of America 2Q – 2019 Barclays 2Q – 2019 Goldman Sachs 2Q – 2019

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			Jefferies 2Q – 2019 UBS 2Q – 2019 Wells Fargo 2Q – 2019 Wolfe 2Q – 2019 Guggenheim 2Q – 2019 Bank of America 2Q – 2019 J.P. Morgan 2Q – 2019 Goldman Sachs 2Q – 2019
	C	3Q	Argus 3Q – 2019 Goldman Sachs 3Q – 2019 Wolfe 3Q – 2019 Credit Suisse 3Q – 2019 Argus 3Q – 2019 Morningstar 3Q – 2019 Wolfe 3Q – 2019 Bank of America 3Q – 2019 Barclays 3Q – 2019 Credit Suisse 3Q – 2019 Goldman Sachs 3Q – 2019 Guggenheim 3Q – 2019 Jefferies 3Q – 2019 UBS 3Q – 2019 Wells Fargo 3Q – 2019 Evercore 3Q – 2019 Goldman Sachs 3Q – 2019 J.P. Morgan 3Q – 2019 Credit Suisse 3Q – 2019
	D	4Q	Morningstar 4Q – 2019 Bank of America 4Q – 2019 Citi 4Q – 2019 Argus 4Q – 2019 Wolfe 4Q – 2019
2020	E	1Q	Morningstar 1Q – 2020 Jefferies 1Q – 2020 Barclays 1Q – 2020 Bank of America 1Q – 2020 Goldman Sachs 1Q – 2020 Valueline 1Q – 2020 BMO 1Q - 2020 Morningstar 1Q – 2020 Evercore 1Q – 2020 Wolfe 1Q – 2020 Wolfe 1Q – 2020 Bank of America 1Q – 2020 Wolfe 1Q – 2020

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	F	2Q	Barclays 2Q – 2020 Credit Suisse 2Q – 2020 Goldman Sachs 2Q – 2020 Jefferies 2Q – 2020 J.P. Morgan 2Q – 2020 UBS 2Q – 2020 Wells Fargo 2Q – 2020 BMO 2Q - 2020 Evercore 2Q – 2020 Guggenheim 2Q – 2020 Wolfe 2Q – 2020 Bank of America 2Q – 2020 Morningstar 2Q – 2020 Goldman Sachs 2Q – 2020 Argus 2Q – 2020 Bank of America 2Q – 2020 Credit Suisse 2Q – 2020 Bank of America 2Q – 2020 Jefferies 2Q – 2020 Wolfe 2Q – 2020 Citi 2Q – 2020 J.P. Morgan 2Q – 2020 Argus 2Q – 2020 UBS 2Q – 2020 Guggenheim 2Q – 2020 Bank of America 2Q – 2020 BMO 2Q - 2020 Goldman Sachs 2Q – 2020 UBS 2Q – 2020 Wells Fargo 2Q – 2020 Wolfe 2Q – 2020 Guggenheim 2Q – 2020 Bank of America 2Q – 2020 Wolfe 2Q – 2020 Wells Fargo 2Q – 2020 UBS 2Q – 2020 Goldman Sachs 2Q – 2020 BMO 2Q - 2020
	G	3Q	Goldman Sachs 3Q – 2020 Barclays 3Q – 2020 Bank of America 3Q – 2020 Credit Suisse 3Q – 2020 Goldman Sachs 3Q – 2020 Jefferies 3Q – 2020 J.P. Morgan 3Q – 2020 UBS 3Q – 2020 BMO 3Q - 2020 Guggenheim 3Q – 2020 Wolfe 3Q – 2020 Bank of America 3Q – 2020 Citi 3Q – 2020 Morningstar 3Q – 2020 Credit Suisse 3Q – 2020

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			Goldman Sachs 3Q – 2020 Wells Fargo 3Q – 2020 Jefferies 3Q – 2020 J.P. Morgan 3Q – 2020 Bank of America 3Q – 2020 Bank of America 3Q – 2020 Barclays 3Q – 2020 BMO 3Q – 2020 Bank of America 3Q – 2020 Citi 3Q – 2020 Evercore 3Q – 2020 Goldman Sachs 3Q – 2020 Guggenheim 3Q – 2020 J.P. Morgan 3Q – 2020 UBS 3Q – 2020 Wells Fargo 3Q – 2020 Wolfe 3Q – 2020 Bank of America 3Q – 2020 Credit Suisse 3Q – 2020 Credit Suisse 3Q – 2020 Goldman Sachs 3Q – 2020 J.P. Morgan 3Q – 2020 UBS 3Q – 2020 Guggenheim 3Q – 2020 Wells Fargo 3Q – 2020 BMO 3Q – 2020 Evercore 3Q – 2020 Wolfe 3Q – 2020 Bank of America 3Q – 2020 Credit Suisse 3Q – 2020
	H	4Q	Bank of America 4Q – 2020 Evercore 4Q – 2020 Credit Suisse 4Q – 2020 Guggenheim 4Q – 2020 Barclays 4Q – 2020 Goldman Sachs 4Q – 2020 Bank of America 4Q – 2020 BMO 4Q – 2020 Wolfe 4Q – 2020 Wells Fargo 4Q – 2020 UBS 4Q – 2020 Citi 4Q – 2020 Bank of America 4Q – 2020

GUGGENHEIM

Power, Utilities & Alternative Energy

January 7, 2019

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2019 Utility Outlook: We Didn't Hear A Bell… "Nothing's Over 'Til It's Over;" One More Round for Utilities

2019 Outlook: Utilities entering final rounds? We didn't hear a bell… Utilities can still do well but pick your winners wisely. *In this outlook piece, we are* ***downgrading several names on valuation: NJR to SELL; AEP, OGE, SR and CWEN to NEUTRAL; Upgrading to BUY: NI, CNP – CenterPoint new Best Idea (in place of NRG).***

We are hosting a brief client call discussing our 2019 Utility outlook @9am. Participant Dial-In: 1.800.446.1671

Password: Please contact your Guggenheim Sales Representative for Conference Call Password

2019 Outlook: Utilities entering final rounds? We didn't hear a bell… Utilities can still do well but pick your winners wisely. *In this outlook piece, we are* ***downgrading several names on valuation: NJR to SELL; AEP, OGE, SR and CWEN to NEUTRAL; Upgrading to BUY: NI, CNP – CenterPoint new Best Idea (in place of NRG).*** *We continue to bend our 40+ utility coverage space to more power/energy/multi industry levered names given our viewpoint that* ***we will continue to see a more pronounced capital rotation within the sector in 2019 – we saw major multiple divergences across market caps, business mixes, etc. in '18 so we expect stock picking will continue to matter in 2019.***

'19 bellwether BUYS: *SRE, NEE, D, VST and NRG*; **NEUTRAL ratings with bias:** *CMS, OGE, PCG, PNW*; **Regulated utility deep value plays:** *FE, ETR*.

"Rest at ease" bond surrogate calls becoming harder to come by... Out of our 40+ names under coverage, **the only "pure" bond surrogates we now recommend are DUK, ES, ETR, FE and WEC,** which we believe either trade at appealing valuations, have other factors at play that could contribute to more growth, and/or have upcoming potential catalysts that could re-rate shares to the upside where we think investors have been slow to catch on; other than these, we now favor utilities tilting to broader power/energy trends.

Pick your winners and losers wisely in '19: Investors increasingly on the hunt for ideas within the sector as was the case in '18; utility basket can't outperform the broad markets, in our view, but we think individual names can – **(1) Upgrading NI to BUY** from Neutral on valuation, eventual removal of the gas explosion overhang and incremental growth opportunities; **(2) Upgrading CNP to BUY** from Neutral **and adding to Best Idea List** on deep value, above-average growth, incremental opportunities post VVC deal etc. **(3) Downgrading on valuation and strong 2018 performance despite sound fundamentals — to NEUTRAL from BUY: AEP, OGE, SR**; **to SELL from NEUTRAL: NJR.** Lastly, **(4) Downgrading CWEN to NEUTRAL** from BUY given our viewpoint that investors in '19 have a small appetite for YieldCo's and while CWEN trades at a higher yield than NEP, NEP remains our preferred name to own given sponsor strength and material distribution growth prospects with very little needs to access the equity markets – CWEN should work but will take time, in our view, as more comfort is gained w/sponsor, contract quality and pipeline of opportunities.

CNP new Best Idea, removing NRG on '18 performance. While we still see material upside potential with BUY-rated NRG (and VST) in '19, **CNP valuation entering this year, coupled with incremental growth opportunities post VVC deal, cannot be ignored** – a limited entry point opportunity, in our view. **Side note:** w/several potential NT catalysts and an attractive valuation, we grappled with D as a Best Idea but decided on CNP as the "safer" call.

Continued on page 2…

California Dreamin'... California Callin'... Whole Lotta Shakin' Goin' On - We remain firm on our CA calls: BUY on EIX; Neutral on PCG. PCG could emerge as a material value play and we'd be the first to be *Rainin' in California* but too early to make that call given uncertainties with PCG including 2017/18 CalFire findings, stress tests analysis, legislative fixes/support, investigations into corp. culture/restructuring and a general message by the CPUC that tends to be conflicted at times, esp. w/PCG. We await more visibility with PCG as we believe EIX remains the "safer" way to play CA (outside of BUY-rated SRE) – in this note we refresh our liability assumptions etc. for each utility among other items.

We remain constructive on Power: Federal and State "Policy" remains the "3rd Factor" dictating energy price formation above power market fundamental like heat rates and gas. While merchant power market reform didn't quite come to a head in 2018, we certainly closed the year with a greater sense of urgency to address the "missing money" problem that has plagued merchant generators for years**.** In this note we lay out elements of reform, model power curve upside and mark our curves to mid-Dec. '18, update reserve margin forecasts, etc. **Don't get lost in the weeds – We see market reforms coming in two brackets: (1) Energy:** improvements to both price formation and scarcity pricing are coming in ERCOT and PJM in 2019; **(2) Capacity:** all eyes are on PJM in the new year as we await FERC's decision on reforms to the auction. **From a stock perspective: very tough to be negative on power in '19, hence our multiple BUYs on all power-levered names.**

Is it time to tap out? Are utilities entering final rounds? Sector valuation not great but utilities have some stamina remaining. Given the current BBB yield curve, regulated **utilities look fairly valued vs. forward yield expectations but we also see "minimal" downside risk for the group** *(~17x fair value vs the current ~16.8x multiple implies ~1% upside potential; factoring in the group's average dividend yield of 3.5% implies additional upside*). **Although we would note that premium valuation levels could be sustained for some time as has been the case historically** when there have been several externalities at play: **This begs the question – How far, for how long?** While we are in the latter rounds, we believe utilities still have runway as several externalities (e.g., macro/geopolitical uncertainties, thirst for yield, broad market trading at elevated levels, etc.) should continue to support the group trading beyond fundamentals and forward-yield expectations in the NT. **In other words**, other factors can be attributed to the movement in utility values above and beyond interest rate fundamentals all else equal… But **again, in our view, we are now likely in the final rounds: 2019 will likely continue to dictate a utility stock pickers market.**

Hockey stick recovery: M&A activity should pause in '19 before picking up again in '20 – at least within our coverage; but... plenty of assets potentially for sale. In the NT, within our coverage, we see very few potential acquisition targets but **certainly see more opportunities to sell one-off assets as well as less core utility OpCo's within a larger holding company including:** *Duke Kentucky, AEP's PSO, Southern's Nicor Gas, Mississippi Power or Virginia Natural Gas, NiSource's Columbia Gas of Massachusetts, Sempra's South American utilities, etc (see our M&A section below and our EEI note HERE for further thoughts).* We no longer believe that **FirstEnergy or Exelon** could be in the market to divest their NJ operations...not yet anyway. While strategic moves with **PPL** (i.e. selling company) could eventually transpire, we do not think it would be a 2019 story especially with Brexit uncertainty. Conversely, while we believe **Edison International** could be a buyer of assets, given current currency stemming from wildfires, we do not see an acquisition as likely in 2019. **NextEra** remains a natural bidder for Santee Cooper in SC (see our previous thoughts HERE and our NDR HERE). **Buyers of individual assets could be:** *Exelon, ConEd, Eversource, ALLETE, OGE Energy, WEC Energy, NRG Energy, Vistra Energy, DTE Energy, NextEra, American Water, NextEra Energy Partners etc.* **Outside of the aforementioned, much of 2019 should be focused on closing existing deals including**: *Duke's partial Commercial monetization, CNP/VVC merger, ConEd's Sempra solar deal, Sempra's remaining renewable wind asset sale, NextEra's Florida acquisition, etc.*

Further in the note, we: refresh our EPS forecasts through '21, introduce 2022 estimates, mark our regulated multiple to current forward bond yields, update our reserve margin forecasts, roll forward our valuation, model power price upside as policy takes shape, mark our power models to December curves, discuss key policy/regulatory issues to watch for this year, and map out other implications for the utility sector as investors enter 2019. In addition, we highlight company-specific catalysts such as rate/regulatory proceedings, pending and/

or potential legislative efforts, major projects under development, and discuss the M&A landscape among several other items.

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PORTFOLIO MANAGER SUMMARY

Let's pick stocks in 2019 – not a sector call …

In this 2019 utility/power outlook note, we refresh our view on the sector, as well as each of the companies we cover within it – key notables:

- **Upgrading CNP to BUY (from NEUTRAL) and adding to Best Idea List**
- **Removing NRG from Best Idea list given material '18 outperformance**
  - ...But retaining BUY given sizeable upside opportunities remaining in '19 and beyond for IPPs
- **Upgrading NI to BUY (from NEUTRAL)**
- **Downgrading NJR to Sell (from NEUTRAL)**
- **Downgrading AEP to Neutral (from BUY)**
- **Downgrading OGE to Neutral (from BUY)**
- **Downgrading SR to Neutral (from BUY)**
- **Downgrading CWEN to Neutral (from BUY)**

…2019 we expect more of the same as 2018...

'19 bellwether BUYS: *SRE, NEE, D, VST and NRG*; **NEUTRAL ratings with bias:** *CMS, OGE, PCG, PNW*; **Regulated utility deep value plays:** *FE, ETR*.

2019: Let's talk cyclicality, policy and even more sector capital rotation. *2018 we saw energy/cyclical plays like NRG, VST, EXC, NEE, DTE, SRE, etc., as well as some more traditional "regulated" utilities like CMS, WEC, ETR, ES, etc., materially outperform the utility index –* ***performance was widely dispersed within the sector and we expect the same dynamics to carry into 2019 with a more continued bend towards cyclical energy/power levered names remaining as the top quartile performers.*** As we discuss in this note, **in 2019 we recommend only 5 traditional utility "bond surrogates"** within our wide coverage space as we continue to expect more capital to be diverted into energy/powered levered names given sector valuation - we continue to bend our 40+ utility coverage space to more power/energy/multi industry levered names.

...But even more pronounced capital rotation into select names

In this note, we further highlight key trends/dynamics taking shape in each power market/RTO while modeling power price upside as policy takes shape and becomes the 3rd factor dictating curves above heat rates and gas, we update reserve margin forecasts at each RTO, discuss key policy/regulatory issues to watch for this year and which ones we think will matter; in addition, company-specific potential catalysts such as rate/regulatory proceedings, pending and/or potential legislative efforts, and status of major projects under development.

Further, we refresh our EPS forecasts through '21, introduce 2022 estimates, mark our regulated multiple to current forward bond yields, roll forward our valuation, mark our power models to December curves among other items.

Industry themes we highlight and discuss in this note include:

Policy reforms, sector valuation and M&A key thematic items

- **'19 Power markets** and evolving energy **policy landscape**;
  - *FERC/regional level agenda items, policy initiatives and which ones actually matter and impact to power prices as a result;*
  - *Potential for new nuclear lifelines in states we had previously considered too hostile: we foresee a robust debate in PA this spring, while OH remains a tougher environment;*

- *Commodity forward curves and updates on developments in each power market including reserve margin outlooks;*

- **M&A** – Hockey stick recovery: Pending/potential transactions, and other strategic activity on the horizon;
- **Key infrastructure project** status and upcoming potential catalysts;
- **Valuation dynamics** relative to forward bond yield expectations;
- **Regulatory proceedings** currently pending and key upcoming dates; and,
- **Focus on California** – latest thinking, models around wildfires and where our thesis stands, how it can evolve;
- **Company-specific updates while rolling forward our estimates to 2022, regulated utility valuations refreshed with latest forward yield expectations and re-based off 2020 fundamentals (vs. 2019), and merchant power outlooks marked to the 12/07/2018 forward power/gas commodity price curves…**

Limited upside and downside potential for utility basket – pick stocks…

Is it time to tap out? Are utilities entering final rounds? Sector valuation not great but we believe utilities have some stamina remaining. Given the current BBB yield curve, regulated **utilities look fairly valued vs. forward yield expectations but we also see "minimal" downside risk for the group** *(~17x fair value vs the current 16.8x multiple implies a modest ~4.5% total return; factoring in the group's average dividend yield of 3.5%*). **Although we would note that premium valuation levels could be sustained for some time as has been the case historically** when there have been several externalities at play: **This begs the questions – How far, and for how long?** While we are in the latter rounds, we believe utilities still have runway as several externalities (e.g., macro/geopolitical uncertainties, thirst for yield, broad market trading at elevated levels, etc.) should continue to support the group trading beyond fundamentals and forward-yield expectations in the NT. **In other words**, other factors can be attributed to the movement in utility values above and beyond interest rate fundamentals all else equal… But, **again, we are now likely in the final rounds: 2019 will likely continue to dictate a utility stock picker's market.**

...we now recommend 5 "bond surrogates"

"Rest at ease" bond surrogate calls becoming harder to come by... Out of our 40+ names under our coverage, **the only "pure" bond surrogates we now recommend are DUK, ES, ETR, FE and WEC,** which either trade at appealing valuations, have other factors at play that could contribute to more growth, and/or have upcoming potential catalysts that could re-rate shares to the upside where we think investors have been slow to catch on; other than these, we now favor utilities tilting to broader power/energy trends.

Making several portfolio changes

Pick your winners and losers wisely in '19: Investors increasingly on the hunt for ideas within the sector as was the case in '18; utility basket can't outperform the broad markets but individual names can – **(1) Upgrading NI to BUY** from NEUTRAL on valuation, eventual removal of the gas explosion overhang and incremental growth opportunities; **(2) Upgrading CNP to BUY** from Neutral **and adding to Best Idea List** on deep value, above average growth, incremental opportunities post VVC deal etc. **(3) Downgrading on valuation and strong 2018 performance despite sound fundamentals: to NEUTRAL from BUY: AEP, OGE, SR**; **to SELL from NEUTRAL: NJR.** Lastly, **(4) Downgrading CWEN to NEUTRAL** from BUY given our viewpoint that investors in '19 have a small appetite for YieldCo's and while CWEN trades at a higher yield than NEP, NEP remains our preferred name to own given sponsor strength and material distribution growth prospects with very little need to access the equity markets – **CWEN will work but will take time as more comfort is gained w/sponsor, contract quality and pipeline of oppty's.**

...CNP new Best Idea

2019 finally the year for capacity and energy policy reforms...

CNP new Best Idea, removing NRG on '18 performance. While we still see material upside potential with BUY-rated NRG (and VST) in '19, **CNP valuation entering this year coupled with incremental growth opportunities post VVC deal cannot be ignored** – a limited entry opportunity, in our view. **Side note –** w/several NT potential catalysts and an attractive valuation, we grappled with D as a Best Idea but decided with CNP as the "safer" call.

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...we have Buy ratings across the Power spectrum

California Dreamin'... California Callin'... Whole Lotta Shakin' Goin' On - We remain firm on our CA calls: BUY on EIX; Neutral on PCG. PCG could emerge as a material value play and we'd be the first to be *Rainin' in California* but too early to make that call given uncertainties with PCG including 2017/18 CalFire findings, stress tests analysis, legislative fixes/support, investigations into corporate culture/restructuring and a general message by the CPUC that tends to be conflicted at times especially with PCG. We await more visibility with PCG as EIX remains the "safer" way to invest in CA (outside of BUY-rated SRE) – **in the note we refresh our liability assumptions etc. for each utility among other items and assess if wildfires are priced-in or not.**

Plenty to talk about with strategic initiatives in '19

Hockey stick recovery: M&A activity likely to pause in '19 before picking up again in '20 – at least within our coverage; but... plenty of assets potentially for sale. In the NT, within our coverage, we see very few acquisition targets but **certainly see potentially more opportunities to sell one-off assets as well as less core utility OpCo's within a larger holding company including:** *Duke Kentucky, AEP's PSO, Southern's Nicor Gas, Mississippi Power or Virginia Natural Gas, NiSource's Columbia Gas of Massachusetts, Sempra's South American utilities etc.*

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Buyers of individual assets could be: *Exelon, ConEd, Eversource, ALLETE, OGE Energy, WEC Energy, NRG Energy, Vistra Energy, DTE Energy, NextEra, American Water, NextEra Energy Partners etc.* **Outside of the aforementioned, much of 2019 will be focused on closing existing deals including**: *Duke's partial Commercial monetization, CNP/VVC merger, ConEd's Sempra solar deal, Sempra's remaining renewable wind asset sale, NextEra's Florida acquisition, etc.*

See our M&A section below and our 2018 EEI Conference Summary HERE for further details and background thoughts on these activities as we head into the new year.

KEY RESEARCH CALLS

Valuations should continue to diverge in '19 like in '18 – pick stocks

2019 remains a utility stock-picker's market: Investors will increasingly distinguish between names within the sector as we saw in 2018 – not a sector call anymore. '18 stock performance was widely dispersed within the sector (i.e. energy/cyclical plays like NRG, VST, EXC, NEE, DTE, SRE, some more traditional "regulated" utilities like CMS, WEC, ETR, ES as well as some special opportunity plays like FE, EVRG, OGE, NJR materially outperforming the utility index as well as the broad markets). And, **we expect the same dynamics to carry into 2019 with a continued bend towards cyclical energy/power levered names remaining as the top quartile performers.**

Our ratings distribution is shifting away from "pure" bond surrogates...

Utilities have had a solid multi-year run in 2018 (+0% vs S&P -6%), and the group continues to trade beyond fundamentals or valuations implied by forward yield expectations, although valuation can only stretch so far for so long in our view, and we believe we are likely going into the latter rounds for the utility rally now – And while the group has performed well over the past several years, **there's been notable disparity within the group recently, with a wide dispersion of risk/reward remaining** – **Said differently**, stock picking is more important now than ever; we wouldn't go into 2019 owning a basket of utilities, the group is getting pricey, but we believe **there are plenty of opportunities to find value within the sector as was the case in '18**, with no shortage of stock-specific catalysts on the horizon, or long/short battlegrounds, in addition to some value the market typically takes longer to catch-up with.

Tilting even further away from regulated utilities. As highlighted above, the only "pure" regulated bond surrogates we now recommend are DUK, ES, ETR, FE and WEC. **Our focus shifted to more power-levered** (i.e. IPPs)**, diversified energy companies** (i.e. multi industry, integrated utilities) **going into 2019 with regulated valuations breaching forward bond yield expectations.** More specifically, these lofty utility values coupled with a trough commodity cycle prompt us to remain more constructive on integrated utilities and Independent Power Producers (IPPs) with BUY-ratings across the board (i.e. EXC, PEG, VST, NRG) as well as multi-industry players (i.e. CNP, D, SRE, NEE) – **see our updated ratings distribution entering 2019 below.**

Figure 1: Guggenheim's Power & Utilities Ratings Distribution[1]

Guggenheim Power & Utilities	Ratings Distribution		
	BUY	NEUTRAL	SELL
Electric Utilities *(19 total)* [2]	7	12	-
Gas Utilities *(5 total)*	1	2	2
Integrated Utilities *(2 total)*	2	-	-
Independent Power Producers *(2 total)*	2	-	-
Multi-Industry Utilities *(6 total)*	5	1	
Other *(3 total)*	1	2	
Guggenheim Power & Utility coverage	**19**	**16**	**2**

Source: Guggenheim Securities, LLC.
1: We are restricted on SJI due to investment banking activities
2: Includes Buy ratings on special opportunities including EIX, EVRG which are not considered "bond surrogates" per say despite being in the "electric utility" category.

...focusing on names more levered to the cyclical aspects of the energy value chain

Looking to '18 and beyond, investors should increasingly look for ideas within the sector, as a return to stock picking matters now more than even – especially with utility performance ending '18 with lofty valuation levels. Our bend continues to shift to names levered to broader energy trends, names levered to commodity price recovery constructive power price formation, with exposure to infrastructure constraints across the broader energy value chain, including midstream opportunities further upstream (e.g., developing/expanding gas pipelines), in addition to traditional investments in regulated electric transmission and distribution infrastructure, with peripheral growth platforms offering additional avenues to pursue for growth. **Regulated utilities have had a solid multi-year run, but as we emerge from a sustained period of low interest rates, investors tend to discount utilities that represent bond surrogates, turning focus to utilities with strong, visible growth to overcome expectations for higher yield elsewhere as well as those names levered to the more "cyclical" aspects of the energy value chain.**

There is a wide disparity of risk/reward within the group that should not be ignored either. We are not making a sector call as we recognize that just looking at the utility space in isolation, valuation is somewhat pricey versus forward bond yields. However, taking a step back and considering the various market factors at play, we believe stock picking finally matters in this space, and **continue to see value in several names that offer higher growth and dividends, as well as a bend towards those levered to broader energy trends, which aren't your typical bond surrogate.**

LET'S THINK IN RELATIVE TERMS: SOURCES/USES OF FUNDS - SHORT/LONG PAIRING IDEAS FROM RATINGS CHANGES AND KEY '19 CALLS

Below we summarize our key calls going into 2019, with BUY recommendations to pair with each of our downgrades; i.e., **Uses of funds to pair our SELL recommendations**, and **better opportunities to consider for names we are stepping aside on given solid performance in 2018**.

Making several key ratings changes and thinking in relative terms

We also highlight several utilities where we remain very-much entrenched despite our NEUTRAL-ratings, with reads on where each company could be headed in the right direction; i.e., **Battleground stocks where we remain neutral in anticipation of potential catalysts that could have us to re-visit our thesis**.

We round-off our key calls with **"Bellwether BUYs" – Relatively diversified utilities with a solid foundation of healthy regulated utilities at their core, complementary non-utility platforms with appropriate scale and broader exposure, and where we still see room for valuations to expand** despite where we are in the cycle for regulated bond surrogates or merchant commodity derivatives, etc. **as well as highlight two other "utility deep value plays" with very NT inflection points that investors have been slow to catch up on – good entry point opportunities.**

Figure 2: Guggenheim's key power & utility ratings changes, pair ideas; Neutral ratings w/upside bias

Guggenheim's Ratings Changes, Pair Ideas & Key Calls – *Not going into 2019 owning a basket of utilities*		
Upgrading to BUY & Adding to Best Idea List		***Pair Idea***
CNP	*Deep value, above average utility growth and incremental opportunities post VVC deal closure - BEST IDEA!*	**OGE**
Upgrading to BUY		***Source of Funds***
NI	*Valuation presents good entry point, NT catalysts include gas explosion moving into rearview mirror plus higher CapEx opportunities among other items key events to watch in 1H19.*	**SR/NJR**
Downgrading to SELL		***Use of Funds***
NJR	*Stretched valuation absent M&A, top tier performer in 2018 (+130bps above UTY for the year) - nothing broken but stock performance moved ahead of NT drivers and growth trajectory.*	**NI**
Downgrading to NEUTRAL		***Better Opportunities***
AEP	*Cautious on pure bond surrogates and downgrading on performance, valuation at a slight premium to electric counterparts - solid growth but reflected in shares and, only key NT catalyst remains PSO rate case or a strategic move in OK if negative outcome in proceeding; AEP could benefit from simplifying further. Overall, we like Mgmt. and see potentially higher CapEx but dynamic already reflected in shares.*	**FE, ETR, DUK**
OGE	*Purely a valuation call - fundamentals strong but priced-in for the NT but we do see an eventual entry point given our strong viewpoint of company, Mgmt. and incremental growth opportunities.*	**CNP**
SR	*Valuation call despite sound fundamentals, no M&A call from us. Multiple hard to justify. Cheaper names to own in the NT.*	**NI**
CWEN	*Story will take time to play out including sponsor and growth confidence.*	**NEP**
Guggenheim's Battleground Utilities: *NEUTRAL Ratings with Upside Bias*		
CMS	*Best in class and solid growth overall but valuation and performance in '18 has us seeking better entry point which could come in the NT as we remain fans of MI and Mgmt. It's a question of time for us.*	
OGE	*Despite downgrading, we look for an entry point again - possibly as we move through rate case which could yield higher growth as well as underutilized balance sheet getting deployed.*	
PNW	*Valuation becoming attractive esp. vs similar cap names (i.e. LNT).*	
Guggenheim's '19 Bellwether BUYs		
SRE	*Manageable growth guide with incremental opportunities to exceed including additional LNG (i.e. Total MOU), Oncor, CA GRC, InfraREIT/Sharyland deal - valuation presents good entry point especially given current yield cycle. SRE key holding given bend towards "energy" vs bond surrogacy.*	
NEE	*Conservative growth guide, further potential M&A utilizing borrowing capacity, Gulf Power acquisition that could eventually prove materially higher accretion, renewable economics prompting perpetual growth and LT commitment to NEP, aggressive interest hedging program, among other items should continue to re-rate story upward.*	
D	*Transformative year in '18 should transpire well in 2019 with sustainable 6-8% growth within and beyond current guide led by full ownership of Cove Point, SCG upside, Millstone incentives, VA legislation among other items key drivers - valuation continues to discount shareholder friendly actions.*	
VST	*We remain a BUY on VST despite top performer in 2018 on the back of solid FCF generation and our outlook for power markets, with the latest announcements around capital allocation including buybacks and dividend marking a key inflection point. We believe a lot of value remains and continue to see material upside opportunities with double digit FCF yield unsustainable especially given retail opportunities, de-levering, EBITDA-accretive cost cuts, market reforms among other items.*	
NRG	*Similar to VST, NRG key holding in '19 following transformational '18. We continue to model $2bn in buybacks through 2019 which should provide floor with shares that continue to trade at mid double digit FCF yields which fails to price-in market reforms, retail growth, further cost cuts and solid balance sheet among other items.*	
Regulated Utility Deep Value Plays - Key Inflection Point Stories		
FE	*Regulated utility inflection story that continues to trade at a deep discount to group on top quartile 6-8% regulated utility growth - investors slow to catch on as story evolves.*	
ETR	*Regulated utility inflection story that continues to trade at a deep discount to group on top quartile 6-8% regulated utility growth - investors slow to catch on as story evolves.*	

Source: Guggenheim Securities, LLC.

See pages 278 - 279 for analyst certification and important disclosures.

Time to get out of some names… some on strong performance

DOWNGRADES: NJR, AEP, OGE, SR, CWEN

Downgrading NJR to SELL; AEP, OGE, SR, CWEN to NEUTRAL

- **Downgrading NJR to SELL; Use of funds BUY-rated NI:** After a solid run in '18 we believe NJR's one turn premium to the gas group (itself skewed by NWN's 23x) is unjustified. We see fewer incremental items of note going forward (no SRL or PennEast 2.0) and do not see NJR as an acquisition target. **We recommend buying NI as a use of funds given:** it currently trades at almost a two-turn *discount* to the gas group, our belief that 2019 will see additional capex driven by gas safety requirements, and our thesis that the fallout from the Columbia Gas explosions in Massachusetts have been largely priced in. In addition, we do not ascribe to the assertion by some investors that the 2018 explosions may have damaged NI's regulatory relationships, both inside and outside of MA.
- **Downgrading AEP to NEUTRAL; Better Buy opportunity FE, ETR or even DUK:** downgrade is mainly based on valuation, performance and general cautiousness around pure bond surrogates – **we have become very selective**. **We see better re-rating opportunities with other fully regulated electric peers like ETR, FE who trade cheaper and have higher growth prospects (albeit with some higher leverage).** AEP worked in '18 as best it could, has good growth prospects but at this stage, fully priced in – NT potential catalyst is PSO rate case or strategic move. Overall, we like fundamentals, we like mgmt., and see somewhat higher capex but this is already reflected in performance. **Could also pair with BUY-rated DUK on valuation**.
- **Downgrading OGE to NEUTRAL; Better BUY opportunity CNP:** The downgrade is driven mainly by valuation as it comes on the heels of a great run in 2018 outperforming the utility sector by over 18% - **we were OGE supporters all year and are now essentially reversing our prior '18 pair idea between CNP and OGE.** Despite solid business fundamentals and a few potential catalysts waiting to play out (i.e. rate cases, grid modernization), we feel constructive outcomes are adequately priced in the stock with OGE closing the year valued at ~17x P/E on 2020 consensus EPS estimates. Currently we see better opportunity in CNP (15.6x P/E), a natural pair for OGE with comparable regulatory jurisdictions and midstream exposure through ENBL co-ownership but has more growth upside potential, especially post VVC deal. CNP has under-performed the utility sector by ~100 bp (a -16.4% under performance relative to OGE), and we believe the valuation disconnect between the pair presents a good buying opportunity. **That said, we look to get back into OGE as soon as opportunity presents itself.**
- **Downgrading SR to NEUTRAL; Better BUY opportunity NI:** We are downgrading SR mainly on valuation and lack of potential catalysts for upside in the stock. In our view, SR is a solid gas utility and midstream business with medium growth prospects, which is adequately represented in the current stock price. **We see a good opportunity to rotate into a cheaper name with better growth prospects like BUY-rated NI** - a utility that has underperformed on the heels of the MA gas explosion. NI has worked diligently to resolve investigative matters and will be looking to put extra capital to work on system safety, which could accelerate growth and re-rate the stock on the safety story.
- **Downgrading CWEN to NEUTRAL; Better BUY opportunity NEP:** Story will take time to play out including sponsor and growth confidence. Mgmt is very clear, in our view, that 5-8% DPS growth is a LT target and we believe this is a fair measure vs other income oriented sectors like MLPs, REITs, etc. With higher growth and a trusted, investment grade sponsor, we see NEP outperforming its yieldco peers despite the lower Yield. **More specifically, our viewpoint remains that investors**

in '19 will have a small appetite for YieldCo's and while CWEN trades at a higher yield than NEP, NEP remains our preferred name to own given sponsor strength and material distribution growth prospects with very little needs to access the equity markets – CWEN should work but will take time as more comfort is gained w/sponsor, contract quality and pipeline of oppty's.

UPGRADES: CNP, NI

CNP, NI – sound entry opportunities; CNP Best Idea

- **Upgrading CNP to BUY and adding to Guggenheim Best Idea list; NT pair idea NEUTRAL-rated OGE:** CNP has under-performed the utility sector by by ~100 bp (a -16.4% under performance relative to OGE) and we believe the **valuation disconnect between the pair presents a good buying opportunity especially with CNPs higher organic growth and incremental growth opportunities post VVC deal.** We believe CNP has solid Texas utility fundamentals with ~8% growth through 2022 in our estimates, with additional upside potential coming by way of the VVC acquisition and potential for accelerated growth based on expectations of deferred capital being brought back into the plan.
- **Upgrading NI to BUY; Source of funds SELL-rated NJR, NEUTRAL-rated SR; LNT also pair opportunity:** NI valuation provides a good entry point; watch for capex updates driven by gas safety requirements, mid-2019 analyst day ahead. NT catalysts also include gas event moving into the review mirror. NI trades at a discount to gas, modest premium to electric peers with above-average growth and incremental capital opportunities in the NT – NI's current 5-7% guide was affirmed after the September gas event and no change with the O&M profile. **Swap from SR, LNT and/or NJR who trade at a higher valuation with lower growth and less NT catalysts.**

NEUTRAL RATED W/UPSIDE BIAS: CMS, DTE, OGE, PNW

Some Neutrals can swing fast

- **CMS: We remain NEUTRAL-rated on CMS as the company trades at a significant premium to the electric utilities group but we wait for an entry point.** The premium in valuation at year-end (18.5x P/E vs. 17x for electric utilities on consensus 2020E) reflects above average growth, constructive regulatory relationships, consistent execution from management and best in class cost management practices that enable equity free growth. **At this point we are looking for a better entry point as we don't see material upside potential to our current $53 PT.** We note that broad market externalities could lead to elevated utility valuations in 2019, the absence of which could re-rate the sector valuations and present a buying opportunity for stocks such as CMS.
- **OGE: We are NEUTRAL-rated on OGE despite solid business fundamentals and a few potential catalysts waiting to play out (i.e. rate cases, grid modernization).** We feel constructive outcomes are adequately priced in the stock with OGE currently valued at ~17x P/E on 2020 consensus EPS estimates. **We may revisit our thesis as we head through the Sooner case, which could lend to further capital opportunities above current plan - for now, no NT catalysts for 1H 2019 so we believe we have time to see a better entry point.** We note that broad market externalities could lead to elevated utility valuations in 2019, the absence of which could re-rate the sector valuations and present a buying opportunity for stocks such as OGE.
- **PNW:** PNW's longtime premium somewhat evaporated with the Prop 127 process this fall, **with the stock now trading almost in line with the group on '20 and**

below **other SMID names where we don't see M&A – case in point: POR's 0.5x premium.** We believe PNW remains a strong stock given robust growth and its simple, single-state story, but we are not making an M&A call at this time. **Modest pullback could cause us to revisit our thesis.**

BELLWETHER '19 BUYS: SRE, NEE, D, VST, NRG

Bellwether '19 buys are cyclical energy plays

- **SRE: Presents a buying opportunity based on a catalyst rich 2019 year** – InfraREIT acquisition closing, business review and asset divestitures, corporate cost cutting and regulatory events. SRE expects to close the acquisition of InfraREIT in 2H2019, which will merge InfraREIT assets into the Oncor business and establish a 50% joint venture with Sharyland utilities on transmission development. The business review process will turn to a sale announcement of the South American utility assets in 1H2019 and could see a recycle of capital into North American infrastructure or return to shareholders, de-levering etc. SRE wind and midstream asset sales are expected to be announced in early 2019, providing more dry powder for re-investment. SRE will be commercially operating the Cameron LNG facility with all 3 trains expected in service before year end and the company is evaluating investment decisions on additional LNG terminals (Port Arthur, ECA, Cameron 4/5). The CA utilities will also be filing a cost of capital case, which early indications have pointed to a sizeable ROE increase (11.2% requested at FERC) and we believe the valuation has potential to re-rate higher on legislative or regulatory action on wildfire risk mitigation. **Overall, 2019 holds multiple constructive potential catalysts for SRE and we expect the stock to move higher, BUY, $134 PT.**
- **NEE: Great name to own in 2019 - Conservative growth guide, further M&A utilizing borrowing capacity, continued upside potential from Gulf Power deal on improving O&M, purchased power and higher capex – move past "optically" high P/E and focus on the bigger picture, which continues to show value on a cash flow basis.** That said, earnings growth likely breaching 9-10% post FL deal digestion. Looking through 2019, very tough for us to not see further multiple re-rating as story remains event driven by Gulf Power, which closed on Jan.1, 2019 followed by likely higher accretion vs current guide and an outcome/conclusion with Santee Cooper process in SC.
- **D: Transformative year in '18 should transpire well in 2019 with sustainable 6-8% growth within and beyond current guide led by full ownership of Cove Point, SCANA upside, potential Millstone incentives, Virginia legislation among other key drivers – valuation continues to discount shareholder-friendly actions, in our view.** We see the recently closed acquisition of SCANA as 2-3% under modest synergy assumptions; could be more room for upside on SCG deal given capex was held back during nuclear cost recovery/merger hearings - ample opportunity for renewables, potential expansion of ACP in SC among other items.
- **NRG: Capital return, capital return, capital return. Our Best Idea in 4Q18 (and top performer for the year) is poised to enter 2019 with more room to run in our view, shares are still trading at a somewhat unsustainable FCF yield** and mgmt. remains committed to returning capital via buybacks for the foreseeable future – we currently model up ~$2bn in 2019 and $1.5bn in the two subsequent years. The integrated power company model has come of age…
- **VST: A similar story to NRG**, albeit with some key nuances beyond pure timing that investors should be aware of: Foremost, VST remains focused on buybacks given where its stock currently trades (mid-teens FCF yield), but we note that mgmt. is *also* initiating a small dividend (~2% yield) that it targets to grow at a healthy 6-8% going

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forward. Finally, we highlight that the rotation of large block holders out of shares remains a slight overhang on the stock in our view, although we view this as more of a perception issue and note that some have already exited as of December '18.

DEEP VALUE REGULATED PLAYS: FE, ETR

FE, ETR deep value regulated electric plays

- **FE: A fully-regulated no-drama utility that grows at 6-8% and trades noticeably below the group.** Between T&D opportunities and the latest round of FE Tomorrow cost cuts, we believe FE is poised to grow above its 7% midpoint guide in 2019. FE remains a deep value play in our view, with additional room for the stock to re-rate into 2019 as more marginal investors catch up and get comfortable with the story.
- **ETR: It's finally started to work!** Investors have been cautious to catch on to the nuclear wholesale generation wind down story as the stock flipped between under- and out-performance through the year, closing ~5% ahead of the utility sector but we see much more room to run in '19. **We believe the fully regulated transition still has a lot of runway for outperformance in 2019** as we are looking forward to seeing announcements around the Indian Point decommissioning sales, as well as further approvals for NDT transfers. So far only Vermont Yankee has been approved, but it has created a feasible model for other decommissioning sales, and by generating robust interest from buyers could leave ETR cash positive after the transactions are completed. On the regulated front, ETR continues to target 5-7% regulated growth over the 4 year plan, which we feel the company could accomplish at the high end based on incremental organic capital deployment opportunities and projects such as grid modernization not currently incorporated in growth expectations. **Other item to note: Mgmt. could be in the process of enhancing and simplifying how they report their results, which could clear the air and become a catalyst in its own right.**

SUMMARY OF VALUATION AND ESTIMATE CHANGES

Our valuations apply a ~17x target multiple to our forward 2020E regulated electric utility earnings driven by a higher BBB corporate bond yield environment. Our target earnings multiple for regulated utilities is derived from our long-term corporate bond yield and utility valuation regression analysis. The updated analysis arrives at a combined ~17x target multiple before company specific discounts/premiums. For gas utilities, we ascribe a 4.0x premium relative to their electric counterparts – properly reflects mid-cycle despite the ebbs and flows of the spread.

Introducing 2022 estimates and refreshing our annual estimates through 2021. We now forecast out to 2022 for each company in our coverage and derive our 12-month price targets by applying our ~17x target multiple (plus company specific discounts/premiums) to 2020 fundamentals vs prior 2019.

Refreshing our power and commodity market assumptions. Our estimates for integrated utilities and IPPs now use the 12/07/2018 forward curves (vs. 09/28/2018 curves used in our prior estimates).

Figure 3: Summary of valuation and estimate changes vs. consensus

Regulated Electric Utilities	Rating	Price Target		Price	Est. Total Return				New Guggenheim Estimates (EPS)					Δ vs. Prior Estimates (%)					Δ vs. Consensus (%)				
		New	Prior	(01.04.19)	SPA	Div	Yield	TSR	2018E	2019E	2020E	2021E	2022E	'2018E	'2019E	'2020E	'2021E	'2022E	'2018E	'2019E	'2020E	'2021E	'2022E
AEP	Neutral	$78	$77	$73.44	6%	2.63	4%	10%	3.93	4.17	4.44	4.71	4.93	(1%)	-	2%	3%	-	-	1%	1%	2%	1%
ALE	Neutral	$74	$71	$74.50	(1%)	2.39	3%	3%	3.34	3.71	4.01	4.20	4.46	(1%)	(2%)	1%	-	-	(1%)	2%	2%	2%	-
AVA	Neutral	$42	$40	$42.15	(0%)	1.56	4%	3%	2.05	2.19	2.31	2.38	2.45	-	(2%)	(1%)	(1%)	-	(1%)	-	(1%)	(1%)	-
CMS	Neutral	$53	$48	$48.85	8%	1.53	3%	12%	2.35	2.50	2.69	2.88	3.08	-	(1%)	-	(1%)	-	-	-	-	-	1%
DUK	Buy	$94	$86	$85.37	10%	3.78	4%	15%	4.78	5.00	5.26	5.57	5.91	(1%)	-	1%	1%	-	1%	-	-	1%	3%
ED	Neutral	$82	$76	$76.55	7%	2.96	4%	11%	4.25	4.36	4.61	4.79	4.95	(1%)	(4%)	(1%)	2%	-	(1%)	1%	1%	1%	-
EIX	Buy	$69	$63	$58.42	18%	2.62	4%	23%	4.15	4.57	4.93	5.37	5.70	4%	1%	-	3%	-	-	1%	3%	9%	16%
ES	Buy	$72	$63	$64.09	12%	2.10	3%	16%	3.27	3.51	3.71	3.94	4.17	-	-	-	1%	-	-	1%	-	-	-
ETR	Buy	$96	$94	$84.80	13%	3.80	4%	18%	7.02	5.94	5.66	5.92	6.33	(1%)	-	-	2%	-	-	(2%)	(2%)	4%	-
EVRG	Buy	$63	$60	$55.89	13%	$1.97	4%	16%	2.63	2.93	3.27	3.42	3.58	-	1%	(1%)	-	-	3%	(1%)	(1%)	-	-
FE	Buy	$46	$43	$37.17	24%	1.53	4%	28%	2.56	2.57	2.63	2.81	3.02	(1%)	7%	(1%)	(4%)	-	1%	1%	4%	4%	-
LNT	Neutral	$41	$37	$41.72	(2%)	1.44	3%	2%	2.18	2.24	2.37	2.50	2.69	-	2%	2%	2%	-	1%	-	(1%)	(1%)	1%
PCG	Neutral	NA	NA	$24.40	-	-	-	-	3.84	4.07	4.39	4.57	4.67	-	1%	6%	5%	-	1%	1%	5%	8%	25%
PNW	Neutral	$89	$80	$84.73	5%	2.95	3%	9%	4.49	4.84	5.04	5.25	5.45	-	2%	1%	-	-	-	-	-	-	2%
POR	Neutral	$44	$42	$44.82	(2%)	1.50	3%	2%	2.32	2.43	2.54	2.68	2.75	-	(3%)	(4%)	(3%)	-	(1%)	(1%)	(1%)	(1%)	-
PPL	Neutral	$29	$29	$28.87	0%	$1.66	6%	6%	2.36	2.44	2.61	2.74	2.85	(2%)	2%	2%	1%	-	-	-	2%	2%	1%
SO	Neutral	$44	$47	$44.71	(2%)	$2.32	5%	4%	3.07	3.05	3.15	3.31	3.46	-	1%	1%	3%	-	1%	1%	1%	3%	-
WEC	Buy	$76	$69	$68.26	11%	2.31	3%	15%	3.32	3.50	3.73	3.98	4.26	-	-	-	-	-	-	-	-	-	1%

Regulated Gas Utilities	Rating	Price Target		Price	Est. Total Return				New Guggenheim Estimates (EPS)														
		New	Prior	(01.04.19)	SPA	Div	Yield	TSR	2018E	2019E	2020E	2021E	2022E	'2018E	'2019E	'2020E	'2021E	'2022E	'2018E	'2019E	'2020E	'2021E	'2022E
NI	Buy	$29	$28	$25.54	14%	0.78	3%	17%	1.28	1.38	1.48	1.58	1.68	(3%)	1%	3%	4%	-	-	3%	3%	3%	-
NJR	Sell	$39	$49	$45.26	(14%)	1.18	3%	(11%)	2.74	2.01	2.19	2.36	2.54	-	-	4%	5%	-	-	-	2%	2%	-
NWN	Sell	$49	$51	$58.19	(16%)	1.90	3%	(13%)	2.17	2.44	2.60	2.66	2.71	-	-	-	(2%)	-	(2%)	(1%)	1%	-	-
SR	Neutral	$77	$77	$73.78	4%	2.42	3%	8%	3.74	3.75	3.92	4.06	4.30	1%	1%	-	(2%)	-	1%	1%	1%	1%	-
VVC	Neutral	$72	$72	$71.97	0%	1.96	3%	3%	2.89	3.09	3.27	3.47	3.71	-	1%	1%	-	-	-	1%	-	-	-

Integrated Utilities	Rating	Price Target		Price	Est. Total Return				New Guggenheim Estimates (EPS)														
		New	Prior	(01.04.19)	SPA	Div	Yield	ETR	2018E	2019E	2020E	2021E	2022E	'2018E	'2019E	'2020E	'2021E	'2022E	'2018E	'2019E	'2020E	'2021E	'2022E
EXC	Buy	$53	$51	$44.61	19%	1.05	2%	21%	3.09	3.16	3.25	3.17	3.21	-	10%	6%	(1%)	-	(1%)	-	3%	1%	(1%)
PEG	Buy	$59	$59	$51.37	15%	1.89	4%	19%	3.13	3.28	3.49	3.60	3.83	-	-	2%	6%	-	1%	1%	(2%)	(1%)	1%

IPPs	Rating	Price Target		Price	Potential Return				New Guggenheim Estimates (EBITDA)														
		New	Prior	(01.04.19)	SPA	Div	Yield	ETR	2018E	2019E	2020E	2021E	2022E	'2018E	'2019E	'2020E	'2021E	'2022E	'2018E	'2019E	'2020E	'2021E	'2022E
NRG	Buy	$51	$51	$39.05	31%	0.12	0%	31%	2,373	1,975	1,858	1,900	1,936	(1%)	5%	(1%)	(4%)	-	-*	(1%)	1%	1%	-
VST	Buy	$37	$37	$23.07	60%	0.38	2%	62%	2,800	3,307	3,355	3,402	3,654	(2%)	-	-	-	-	1%	-	4%	6%	-

Multi-Industry Utilities	Rating	Price Target		Price	Potential Return				New Guggenheim Estimates (EPS)														
		New	Prior	(01.04.19)	SPA	Div	Yield	ETR	2018E	2019E	2020E	2021E	2022E	'2018E	'2019E	'2020E	'2021E	'2022E	'2018E	'2019E	'2020E	'2021E	'2022E
CNP	Buy	$33	$29	$28.68	15%	1.17	4%	19%	1.58	1.72	1.82	1.92	2.02	-	3%	2%	4%	-	-	2%	-	1%	-
D	Buy	$82	$77	$72.21	14%	3.67	5%	19%	4.02	4.27	4.49	4.76	5.18	(3%)	1%	1%	1%	-	(1%)	-	-	2%	8%
DTE	Buy	$129	$119	$109.99	17%	3.77	3%	21%	6.40	6.32	6.84	7.34	7.70	1%	1%	3%	5%	-	1%	1%	4%	5%	5%
NEE	Buy	$205	$197	$172.50	19%	$4.73	3%	22%	7.83	8.63	9.19	9.91	10.52	-	2%	2%	2%	-	1%	3%	2%	1%	(1%)
OGE	Neutral	$41	$39	$39.21	5%	1.53	4%	8%	2.06	2.14	2.30	2.41	2.51	-	(2%)	-	-	-	-	-	(1%)	-	-
SRE	Buy	$133	$127	$110.46	20%	3.88	4%	24%	5.47	6.13	7.29	7.60	7.96	-	1%	2%	1%	-	-	1%	1%	-	2%

Other	Rating	Price Target	Price		Potential Return				New Guggenheim Estimates (AWK: EPS) (CWEN,NEP:EBITDA)														
		New	Prior	(01.04.19)	SPA	Div	Yield	ETR	2018E	2019E	2020E	2021E	2022E	'2018E	'2019E	'2020E	'2021E	'2022E	'2018E	'2019E	'2020E	'2021E	'2022E
AWK	Neutral	$96	$83	$89.79	7%	1.90	2%	9%	3.30	3.61	3.96	4.27	4.60	-	2%	4%	4%	-	-	1%	2%	2%	-
CWEN	Neutral	$17	$22	$17.63	(4%)	1.32	7%	4%	1,039	1,069	1,116	1,159	1,224	2%	-	(6%)	(4%)	-	4%	(2%)	(3%)	-	-
NEP	Buy	$56	$50	$44.82	26%	1.93	4%	30%	1,106	1,393	1,560	1,811	1,981	8%	22%	17%	15%	-	20%	24%	23%	23%	-

Source: Factset market data and consensus estimates (01.04.19), Guggenheim Securities, LLC estimates.

*Consensus is post-restructuring

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GUGGENHEIM POWER & UTILITIES COMP SHEET

Figure 4: Guggenheim's Power & Utility Comp Sheet

Price as of Close Friday, January 04, 2019

Regulated Electric Utilities[(1)]

Ticker	Company	Market Cap ($bn)	Rating	Target Price	Current Price	Dividend (NTM) Yield	Dividend (NTM) Payout	Diluted Shares	Guggenheim EPS '18E	'19E	'20E	'21E	'22E	Guggenheim P/E '18E	'19E	'20E	'21E	'22E	Consensus EPS '18E	'19E	'20E	'21E	'22E	Consensus P/E '18E	'19E	'20E	'21E	'22E
AEP	American Electric Power	36.2	Neutral	$78	$73.44	3.6%	$0.59	493	3.93	4.17	4.44	4.71	4.93	18.7	17.6	16.5	15.6	14.9	3.94	4.12	4.38	4.63	4.90	18.6	17.8	16.8	15.9	15.0
ALE	ALLETE	3.8	Neutral	$74	$74.50	3.2%	$0.60	51	3.34	3.71	4.01	4.20	4.46	22.3	20.1	18.6	17.7	16.7	3.38	3.63	3.92	4.10	-	22.1	20.5	19.0	18.2	-
AVA	Avista*	2.8	Neutral	$42	$42.15	3.7%	$0.68	66	2.05	2.19	2.31	2.38	2.45	20.6	19.3	18.3	17.7	17.2	2.07	2.19	2.34	2.40	-	20.4	19.2	18.0	17.6	-
CMS	CMS Energy	13.8	Neutral	$53	$48.85	3.1%	$0.57	283	2.35	2.50	2.69	2.88	3.08	20.8	19.5	18.2	17.0	15.9	2.34	2.50	2.68	2.86	3.05	20.9	19.5	18.2	17.1	16.0
DUK	Duke Energy	60.9	Buy	$94	$85.37	4.4%	$0.72	713	4.78	5.00	5.26	5.57	5.91	17.8	17.1	16.2	15.3	14.4	4.75	4.97	5.24	5.53	5.75	18.0	17.2	16.3	15.4	14.8
ED	Consolidated Edison	23.8	Neutral	$82	$76.55	3.9%	$0.64	311	4.25	4.36	4.61	4.79	4.95	18.0	17.6	16.6	16.0	15.5	4.29	4.33	4.54	4.72	-	17.9	17.7	16.9	16.2	-
EIX	Edison International*	19.0	Buy	$69	$58.42	4.5%	$0.53	326	4.15	4.57	4.93	5.37	5.70	14.1	12.8	11.9	10.9	10.2	4.14	4.50	4.79	4.94	4.90	14.1	13.0	12.2	11.8	11.92
ES	Eversource Energy	20.2	Buy	$72	$64.09	3.3%	$0.57	317	3.27	3.51	3.71	3.94	4.17	19.6	18.3	17.3	16.3	15.4	3.27	3.48	3.69	3.92	-	19.6	18.4	17.4	16.3	-
ETR	Entergy	15.4	Buy	$96	$84.80	4.5%	$0.67	181	7.02	5.94	5.66	5.92	6.33	12.1	14.3	15.0	14.3	13.4	7.01	6.05	5.78	5.70	-	12.1	14.0	14.7	14.9	-
EVRG	Evergy	14.7	Buy	$63	$55.89	3.5%	$0.60	263	2.63	2.93	3.27	3.42	3.58	21.2	19.1	17.1	16.3	15.6	2.56	2.95	3.29	3.43	-	21.8	18.9	17.0	16.3	-
FE	FirstEnergy	19.0	Buy	$46	$37.17	4.1%	$0.58	511	2.56	2.57	2.63	2.81	3.02	14.5	14.4	14.1	13.3	12.3	2.53	2.54	2.52	2.71	-	14.7	14.6	14.7	13.7	-
LNT	Alliant Energy	10.2	Neutral	$41	$41.72	3.5%	$0.61	236	2.18	2.24	2.37	2.50	2.69	19.1	18.6	17.6	16.7	15.5	2.16	2.25	2.39	2.51	2.67	19.3	18.6	17.4	16.6	15.6
PCG	PG&E Corporation*	12.7	Neutral	NA	$24.40	0.0%	$0.00	519	3.84	4.07	4.39	4.57	4.67	6.4	6.0	5.6	5.3	5.2	3.82	4.04	4.17	4.22	3.75	6.4	6.0	5.8	5.8	6.5
PNW	Pinnacle West	9.5	Neutral	$89	$84.74	3.5%	$0.59	112	4.49	4.84	5.04	5.25	5.45	18.9	17.5	16.8	16.1	15.6	4.48	4.84	5.02	5.24	5.32	18.9	17.5	16.9	16.2	15.9
POR	Portland General Electric	4.0	Neutral	$44	$44.82	3.3%	$0.59	89	2.32	2.43	2.54	2.68	2.75	19.3	18.4	17.6	16.7	16.3	2.34	2.45	2.56	2.71	-	19.1	18.3	17.5	16.5	-
PPL	PPL Corporation	20.8	Neutral	$29	$28.87	5.7%	$0.64	720	2.36	2.44	2.61	2.74	2.85	12.2	11.8	11.1	10.5	10.1	2.36	2.43	2.55	2.68	2.82	12.2	11.9	11.3	10.8	10.24
SO	Southern Company	46.0	Neutral	$44	$44.71	5.2%	$0.74	1029	3.07	3.05	3.15	3.31	3.46	14.6	14.7	14.2	13.5	12.9	3.04	3.02	3.12	3.23	-	14.7	14.8	14.3	13.9	-
WEC	WEC Energy	21.5	Buy	$76	$68.26	3.4%	$0.62	316	3.32	3.50	3.73	3.98	4.26	20.6	19.5	18.3	17.2	16.0	3.33	3.51	3.74	3.96	4.20	20.5	19.5	18.3	17.2	16.3
***Average (Excl. EIX, PCG, PPL, SCG for P/E)**						**3.7%**	**58%**							**18.5**	**17.7**	**16.8**	**16.0**	**15.2**						**18.6**	**17.8**	**16.9**	**16.1**	**15.6**

Regulated Gas Utilities[(2)]

Ticker	Company	Market ($bn)	Rating	Target Price	Current Price	Dividend (NTM) Yield	Dividend (NTM) Payout	Diluted Shares	Guggenheim EPS '18E	'19E	'20E	'21E	'22E	Guggenheim P/E '18E	'19E	'20E	'21E	'22E	Consensus EPS '18E	'19E	'20E	'21E	'22E	Consensus P/E '18E	'19E	'20E	'21E	'22E
NI	NiSource	9.5	Buy	$29	$25.54	3.1%	53%	372	1.28	1.38	1.48	1.58	1.68	20.0	18.5	17.3	16.1	15.2	1.28	1.34	1.43	1.54	-	19.9	19.0	17.8	16.6	-
NJR	New Jersey Resources	4.0	Sell	$39	$45.26	2.6%	54%	89	2.74	2.01	2.19	2.36	2.54	16.5	22.5	20.6	19.2	17.8	2.74	2.01	2.14	2.31	-	16.5	22.5	21.1	19.6	-
NWN	NW Natural Gas	1.7	Sell	$49	$58.19	3.3%	73%	29	2.17	2.44	2.60	2.66	2.71	26.8	23.9	22.4	21.8	21.5	2.21	2.45	2.57	2.67	-	26.3	23.7	22.6	21.8	-
SR	Spire	3.7	Neutral	$77	$73.78	3.3%	62%	51	3.74	3.75	3.92	4.06	4.30	19.7	19.7	18.8	18.2	17.2	3.72	3.70	3.87	4.02	-	19.8	19.9	19.1	18.3	-
VVC	Vectren*	6.0	Neutral	$72	$71.97	2.7%	60%	83	2.89	3.09	3.27	3.47	3.71	24.9	23.3	22.0	20.7	19.4	2.88	3.05	3.27	3.47	-	25.0	23.6	22.0	20.7	-
***Average (Excl. VVC)**						**2.4%**	**48%**							**20.8**	**21.2**	**19.8**	**18.8**	**17.9**						**20.6**	**21.3**	**20.2**	**19.1**	**#####**

Integrated Utilities[(3)]

Ticker	Company	Market ($bn)	Rating	Target Price	Current Price	Dividend (NTM) Yield	Dividend (NTM) Payout	Diluted Shares	Guggenheim EPS '18E	'19E	'20E	'21E	'22E	Guggenheim P/E '18E	'19E	'20E	'21E	'22E	Consensus EPS '18E	'19E	'20E	'21E	'22E	Consensus P/E '18E	'19E	'20E	'21E	'22E
EXC	Exelon	43.1	Buy	$53	$44.62	2.4%	32%	967	3.09	3.16	3.25	3.17	3.21	14.4	14.1	13.7	14.1	13.9	3.12	3.15	3.17	3.14	3.25	14.3	14.2	14.1	14.2	13.7
PEG	PSEG	26.0	Buy	$59	$51.37	3.7%	54%	505	3.13	3.28	3.49	3.60	3.83	16.4	15.7	14.7	14.2	13.4	3.10	3.26	3.54	3.63	3.80	16.6	15.8	14.5	14.1	13.5
Average						**3.0%**	**43%**							**15.4**	**14.9**	**14.2**	**14.2**	**13.7**						**15.4**	**15.0**	**14.3**	**14.2**	**13.6**

Independent Power Producers (IPPs)[(4)]

Ticker	Company	Market ($bn)	Rating	Target Price	Current Price	Dividend (NTM) Yield	Dividend (NTM) Payout	Diluted Shares	Guggenheim Adjusted EBITDA '18E	'19E	'20E	'21E	'22E	Guggenheim EV / EBITDA '18E	'19E	'20E	'21E	'22E	Consensus Adjusted EBITDA '18E	'19E	'20E	'21E	'22E	Consensus EV / EBITDA '18E	'19E	'20E	'21E	'22E
NRG	NRG Energy	11.3	Buy	$51	$39.04	0.3%	0%	290	2,373	1,975	1,858	1,900	1,936	NA	NA	NA	NA	NA	1,770	2,004	1,842	1,878	-	9.4	8.2	8.6	8.6	NA
VST	Vistra Energy	11.6	Buy	$37	$23.07	2.2%	0%	504	2,800	3,307	3,355	3,402	3,654	8.0	6.8	6.6	6.4	5.7	2,763	3,321	3,232	3,202	-	7.8	6.3	6.1	5.6	NA
Average														**8.0**	**6.8**	**6.6**	**6.4**	**5.7**						**8.6**	**7.3**	**7.4**	**NA**	**NA**

Multi-Industry Utilities[(5)]

Ticker	Company	Market ($bn)	Rating	Target Price	Current Price	Dividend (NTM) Yield	Dividend (NTM) Payout	Diluted Shares	Guggenheim EPS '18E	'19E	'20E	'21E	'22E	Guggenheim P/E '18E	'19E	'20E	'21E	'22E	Consensus EPS '18E	'19E	'20E	'21E	'22E	Consensus P/E '18E	'19E	'20E	'21E	'22E
CNP	CenterPoint	14.4	Buy	$33	$28.68	4.1%	64%	501	1.58	1.72	1.82	1.92	2.02	18.1	16.7	15.8	14.9	14.2	1.58	1.69	1.81	1.90	-	18.1	17.0	15.8	15.1	-
D	Dominion	54.3	Buy	$82	$72.21	5.1%	82%	752	4.02	4.27	4.49	4.76	5.18	17.9	16.9	16.1	15.2	13.9	4.08	4.28	4.49	4.64	4.78	17.7	16.9	16.1	15.5	15.1
DTE	DTE Energy	19.9	Buy	$129	$109.99	3.4%	55%	182	6.40	6.32	6.84	7.34	7.70	17.2	17.4	16.1	15.0	14.3	6.31	6.23	6.56	6.98	7.34	17.4	17.7	16.8	15.8	15.0
NEE	NextEra	82.5	Buy	$205	$172.53	2.7%	51%	478	7.83	8.63	9.19	9.91	10.52	22.0	20.0	18.8	17.4	16.4	7.75	8.38	9.00	9.78	10.65	22.3	20.6	19.2	17.6	16.2
OGE	OGE Energy	7.8	Neutral	$41	$39.21	3.9%	67%	200	2.06	2.14	2.30	2.41	2.51	19.0	18.3	17.1	16.3	15.6	2.07	2.15	2.31	2.42	-	18.9	18.3	17.0	16.2	-
SRE	Sempra Energy	30.2	Buy	$133	$110.46	3.5%	53%	274	5.47	6.13	7.29	7.60	7.96	20.2	18.0	15.2	14.5	13.9	5.46	6.08	7.23	7.58	7.80	20.2	18.2	15.3	14.6	14.2
Average						**3.7%**	**62%**							**19.1**	**17.9**	**16.5**	**15.6**	**14.7**						**19.1**	**18.1**	**16.7**	**15.8**	**15.1**

Other

Ticker	Company	Market ($bn)	Rating	Target Price	Current Price	Dividend (NTM) Yield	Dividend (NTM) Payout	Diluted Shares	Guggenheim EPS '18E	'19E	'20E	'21E	'22E	Guggenheim P/E '18E	'19E	'20E	'21E	'22E	Consensus EPS '18E	'19E	'20E	'21E	'22E	Consensus P/E '18E	'19E	'20E	'21E	'22E
AWK	American Water Works	16.2	Neutral	$96	$89.79	2.1%	48%	181	3.30	3.61	3.96	4.27	4.60	27.2	24.9	22.7	21.0	19.5	3.30	3.57	3.87	4.19	4.58	27.2	25.2	23.2	21.4	19.6

Ticker	Company	Market ($bn)	Rating	Target Price	Current Price	Dividend (NTM) Yield	Dividend (NTM) Payout	Diluted Shares	Guggenheim Adjusted EBITDA '18E	'19E	'20E	'21E	'22E	Guggenheim EV / EBITDA '18E	'19E	'20E	'21E	'22E	Consensus Adjusted EBITDA '18E	'19E	'20E	'21E	'22E	Consensus EV / EBITDA '18E	'19E	'20E	'21E	'22E
CWEN	Clearway Energy	3.7	Neutral	$17	$17.63	7.5%	NA	183	1,039	1,069	1,116	1,159	1,224	9.3	9.2	9.2	8.7	8.6	998	1,095	1,152	-	-	9.0	8.7	8.2	-	-
NEP	NextEra Energy Partners	2.5	Buy	$56	$44.82	4.3%	NA	56	1,106	1,393	1,560	1,811	1,981	10.0	8.6	8.2	7.9	0.0	922	1,119	1,265	1,471	NA	12.0	10.7	10.2	9.7	NA

Note: We are currently restricted on SJI due to the firm's investment banking activities

(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.

(2) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).

(3) Integrated utilities own and operate regulated T&D franchises, as well as un-regulated power generation with commodity exposure.

(4) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.

(5) Mult-Industry Utilities operate some comibination of regulated electric and/or gas utilities, in addtion to substantial non-power unregulated activities (i.e. midstream, renewable development, energy trading, etc.).

Source: Bloomberg, Guggenheim Securities, LLC estimates.

KEY THEMES FOR 2019

CALIFORNIA DREAMIN'... CALIFORNIA CALLIN'... WHOLE LOTTA SHAKIN' GOIN' ON

We stand firm on our ratings – EIX "safer" option

We remain firm on our CA calls despite what appears to be optical "value" for PCG - BUY on EIX; NEUTRAL on PCG. PCG could emerge as a material value play and we'd be the first to be *Rainin' in California* but it's too early to make that call given uncertainties with PCG including 2017/18 CalFire wildfire findings, stress tests analysis, legislative fixes/support especially for '18 gap year, investigations into corporate culture/restructuring and a general message by the CPUC that tends to be conflicted at times, esp. with PCG. **We await more visibility with PCG as EIX remains the "safer" way to invest in CA (outside of BUY-rated SRE which is too diverse to be even considered a "CA play").**

Refreshing what liabilities could equate to...

We are refreshing our liability analysis for the most recent structural damage estimates while confirming our thesis on the potential upside in EIX stock on wildfire liability and the negatively skewed risks which keep us on the sidelines for PCG. **Our refreshed analysis of market implied liability and structural damage estimates implies *EIX has 11% potential upside* if we take the liability estimates in isolation, while *PCG has a potential downside of 22%*.** Both scenarios do not take into account any externalities around litigation outcomes, legislative involvement or regulatory recovery.

...EIX could have 11% upside; PCG 22% downside

So much going on in 2019: we are monitoring the CA legislature for continued work on wildfire liability reform, especially for the 2018 "gap" year, the CPUC for initiating implementation of SB901 cost caps, litigation in PCG's Butte fire case, litigation of 2017 fires in both Northern/Southern California and waiting for updated damage/insured loss estimates from the 2018 fires as well as CalFire findings for both Northern and Southern CA wildfire events for 2017 and 2018. What the CPUC also deems as "reasonable" for wildfire recovery also remains a big question mark.

PCG WILDFIRE LIABILITY UNCERTAINTY HAS ROOM TO MOVE STOCK LOWER

Implied value of NorCal 2017 and Camp 2018 fires using current price and our methodology is $21B embedded in shares... Specifically for this short term analysis we assume a base regulated utility multiple of 17x P/E on **2019E EPS of $4.03**, with a 1.5x turn discount for the challenged California regulatory climate (i.e., what we could theoretically see for valuations, excluding wildfire liabilities, for regulatory constructs that remain challenging and utilities that are dealing with binary items – valuation disparities in the sector have been wide, with discounts ranging between 1-4x). **With a 15.5x all-in P/E, we arrive at a $33B theoretic market cap for PCG, with the current $13B market cap representing a $21B discount... as we show below, ~$3B may not be currently priced in.**

~$3B in Wildfire liabilities is not currently priced in for PCG, in our view

Our fundamental view of 2017+2018 wildfire liabilities for PCG is ~$24B. For 2017 Northern California (NorCal 2017) liabilities, we use the CA insurance commissioner's estimated insured losses of ~$10B and gross up by a factor of 10% for uninsured and other damages claims, or $1.1B. This results in an aggregate $11.1B liability for NorCal 2017 (i.e., $1.2M per structure for 9,000 structures). Despite the $11.1B bottom-up estimate, **we previously modeled an ~$8B after-tax base case cost cap for utility liability in 2017 ($4B from an equity only perspective, ~$6B from debt only and ~$10B in a worst-case scenario including both equity and debt).** These cost cap numbers are based on our understanding and modeling of the application of SB901 with

See pages 278 - 279 for analyst certification and important disclosures.

math available below and a discussion in our prior note on cost cap for PCG. **This results in an $8B in uncovered liability for 2017 that shareholders could absorb, in our view.**

Figure 5: PCG Metrics Stress Tested ($M)

PCG Credit Metric Stress Test		2019E	2020E	2021E
FFO		$4,973	$5,501	$5,799
(-) Interest Expense on Additional Debt		(272)	(272)	(272)
(-) Reinstatement of Dividend		(1,184)	(1,254)	(1,340)
Ending FFO		***3,517***	***3,975***	***4,187***
Total Debt		20,886	21,186	21,486
(+) Debt Issuance to Cover Liabilities		6,044	6,044	6,044
Ending Total Debt		***26,930***	***27,230***	***27,530***
FFO/Debt Stress Tested		*13.1%*	*14.6%*	*15.2%*
Max Debt Absorbed				***6,044***
Interest Rate	4.5%			

PCG Equity Stress Test	2019E	2020E	2021E	
PCG P/E	*11.5x*	*11.1x*	*10.6x*	a
PCG Earnings Estimate	4.03	4.16	4.34	b
(-) Earnings Impact from Dilution	(0.29)	(0.53)	(0.53)	c
PCG Earnings After Equity Issuance	3.74	3.63	3.81	d = b - c
Price at the time of analysis (9/3/18)			$46.18	e
Market Value ($MM)			23,884	f
Book Value ($MM)			21,941	g
P/B			***1.1x***	h = f / g
Price Assuming Equity Issuance			$40.34	I = a x d
Market Value ($MM)			23,193	j
Book Value ($MM)			21,941	k
P/B Stress Tested			*1.06x*	L = j / k
Reinstatement of Dividend - 55% Payout Ratio	2.22	2.29	2.39	
Payout Ratio After Share Dilution	*59%*	*63%*	*63%*	
Max Equity Issued to Cover Liabilities			***4,000***	

Source: Company Filings, Guggenheim Securities, LLC estimates

Implied Liability Analysis	PCG	
Stock Price (12/31/18 close)	$23.75	
2019 EPS Estimate	$4.03	
Market P/E	5.9x	
Market Cap ($M)	**12,319**	
Assumptions		
Regulated P/E	17.0x	
CA Discount	1.5x	
Resolved CA P/E	**15.5x**	
Resolved Price	$62.47	
Shares (M)	534	
Market Cap ($M)	**33,356**	
Implied Wildfire Market Cap	**$21,037**	implied liability
Wildfire Liability Calcs		
NorCal 2017		
Structures Damaged / Destroyed	9,090	a
Damage Estimates Insured ($M)	10,000	b
Uninsured %	10%	c
Uninsured Gross Up ($M)	1,111	d - b
NorCal 2017 Estimate ($M)	**$11,111**	d = b / (1-c)
per structure ($M)	**1.22**	
Camp Fire 2018		
Structures Damaged / Destroyed	18,793	e
Estimate (Pro-rated per structure) ($M)	22,972	f = d / a * e
Camp Gross Estimate $M	**$22,972**	h = f
per structure ($M)	**1.22**	
Insurance total (2018)	(1,000)	i
Tax Effect @28%	(6,152)	Tax @28%
Camp Net Estimate $M	**$15,819**	j = h + I + tax
Cost Cap for NorCal 2017 (A-T)	8,000	k
NorCal 2017 Net Estimate $M	**$8,000**	= k
Bottom-up Net Estimate (2017+2018)	**$23,819**	L = j + k
Upside vs Implied ($M)	(2,782)	= implied liability - L
Upside / Share	-$5.21	
Upside %	-22%	

Source: CA Department of Insurance, CalFire, FactSet, Guggenheim Securities, LLC estimates

Wildfire liabilities could breech $24B after accounting for tax and insurance

Camp Fire 2018 liability is likely even worse (~$16B) than 2017 based on the higher number of structures and several other factors at play. Assuming the same $1.2M per structure (NOTE: see few lines down on what is embedded in this figure which goes above looking at just replacement values) as calculated previously and the 18,793 structures damaged, we arrive at a $23B gross liability, before tax offset (at 28%) and insurance proceeds of ~$1B. **We note that the estimate per structure figure implies all potential liabilities that are pro-rated to structures; which may include insured claims from residential, commercial, auto, agricultural and other items; as well as other claims not limited to: emotional damages, property improvements, tree damage, business equipment/goodwill, pets, future profits and all fees associated with appraisal, engineering and legal costs in the trial.** The net result of our calculation is **$16B of exposure from the 2018 Camp fire.**

We also note insurance industry consultant RMS estimated insured claims at ~$10B on early reports of 11,000 structures damage, while early CA insurance commissioner reported $7B of insured claims, but noted that claims are still being filed and the number is expected to rise.

The combined uncovered liability from the two PCG fire seasons in our fundamental view could be $24B, i.e., not be eligible for securitization, implying ~$3B potentially not accounted for in the current stock price, or a ~$22% downside. We note that the ultimate outcome of PCG liabilities could depend on legislative intervention, regulatory cost cap setting and legal challenges to Inverse Condemnation at the CA supreme court. We see risks skewed negatively against PCG in most of these venues. Even as some Senate and Assembly members vocalized support for further wildfire legislation, the legislature does not seem to have any bill text yet and political capital may have been expended in 2018 as opposition against PCG has grown with calls for penalties, criminal prosecution and even taking state control over parts of the utility.

EIX OVERSELLING POINTS TO UPSIDE, BETTER POSITIONED FOR FUTURE GROWTH

Wildfire liabilities overly priced into EIX stock

Implied value of the Thomas and Hill/Woolsey fires using current price and our methodology is $4.5B embedded in shares. Like in the PCG case, we assume a base regulated utility multiple of 17x P/E on 2019 EPS of $4.53, with a 1.5x turn discount for the challenged California regulatory climate (i.e., what we could theoretically see for valuations excluding wildfire liabilities with names that have binary events/challenging regulatory constructs). **With a 15.5x all-in P/E, we arrive at a $23B theoretic market cap for EIX and the current $18B market cap represents a $4.5B discount.**

2017 Thomas fire unrecoverable liability is $0.7B

Our fundamental view of wildfire liabilities for EIX is $2.5B combined for both years. For 2017 Thomas fire liabilities we use the CA insurance commissioner's estimated insured losses of ~$1.8B and gross up by a factor of 10% for uninsured and other damages claims, or $0.2B. This results in an aggregate $2B liability for the Thomas fire ($1.9M per structure for 1,063 structures) before insurance proceeds of ~$1B and tax offset; we assume no mudslide damage claims are applicable given the speculative outcome of legal determinations and we assume no cost cap gets triggered. **This results in a $0.7B uncovered liability for 2017 Thomas Fire.**

Implied Liability Analysis	EIX	
Stock Price (12/31/18 close)	$56.77	
2019 EPS Estimate	$4.53	
Market P/E	12.5x	
Market Cap ($M)	**18,496**	
Assumptions		
Regulated P/E	17.0x	
CA Discount	1.5x	
Resolved CA P/E	**15.5x**	
Resolved Price	$70.22	
Shares (M)	327	
Market Cap ($M)	**22,960**	
Implied Wildfire Market Cap ($M)	**$4,465**	implied liability
Wildfire Liability Calcs		
Thomas 2017		
Structures Damaged / Destroyed	1,063	a
Damage Estimates Insured ($M)	1,800	b
Uninsured %	10%	c
Uninsured Gross Up ($M)	200	d - b
Thomas 2017 Estimate ($M)	**$2,000**	d = b / (1-c)
per structure ($M)	**1.88**	
Hill/Woolsey 2018		
Structures Damaged / Destroyed	1,847	e
Estimate (Pro-rated per structure) ($M)	3,475	f = d / a * e
Hill/Woolsey Gross Estimate $M	**$3,475**	h = f
per structure ($M)	**1.88**	
Insurance total (2018)	(1,000)	i
Tax Effect @28%	(693)	Tax @28%
Hill/Woolsey Net Estimate $M	**$1,782**	j = h + I + tax
Thomas Fire 2017, net of insurance	1,000	k
Tax Effect	(280)	Tax @28%
Thomas Fire 2017 Net Estimate $M	**$720**	m = k + tax
Bottom-up Net Estimate (2017+2018)	**$2,502**	L = j + m
Upside vs Implied ($M)	1,963	= implied liability - L
Upside / Share	$6.00	
Upside %	11%	

Source: CA Department of Insurance, CalFire, FactSet, Guggenheim Securities, LLC estimates

2018 wildfires unrecoverable liability is ~$1.8B

Upside to EIX from wildfire mispricing is ~11%

Hill and Woolsey Fires (2018) liability is unlikely to be significantly worse than 2017 based on the similar number of structures. Assuming $2.5M per structure and the ~1,847 structures damaged, we arrive at a $3.5B gross liability, before insurance proceeds of ~$1B and tax effects, **netting $1.8B of exposure from the 2018 Hill/Woolsey fires. The combined uncovered liability from the two EIX fire seasons in our fundamental view could be $2.5B. If we use all our assumptions mentioned above, the difference in implied liability from the current EIX stock price to a fundamental liability view is $2.7B, implying an ~<u>11% upside potential to the stock price for wildfires alone.</u>** Additionally, as a part of our thesis we believe that after resolution of the 2018 wildfire liabilities, EIX is better positioned for future growth regardless of near-term legislative outcomes.

POWER MARKETS AND THE EVOLVING POLICY LANDSCAPE

Power Market Portfolio Manager Summary

Policy considerations will continue to overhang almost all of the nation's power markets in 2019, with many of 2018's issues still unresolved – but we believe some clarity is on the way… 2019 is shaping up to be a key year for execution on many of the various markets' unresolved policy overhangs, **from the ORDC in ERCOT to the MOPR in PJM.** The list of acronyms at the federal, state, and RTO/ISO level is unfortunately not much smaller this year, as many of the 2018's biggest issues remain outstanding into 2019.

ERCOT and PJM are the key 'policy' markets to watch in 2019

Power market reforms this year remain focused on PJM and ERCOT, with LT policy considerations underway in NYISO and ISO-NE… Our refreshed outlook for power policy in 2019 includes many of the usual suspects, with **energy pricing and capacity market reform** the enduring themes for several of the nation's markets**. On the energy price formation side,** both PJM and ERCOT continue to work through their own internal stakeholder processes, with FERC and the Public Utilities Commission of Texas (PUCT) the final arbiters for each. We continue to expect decisions in the NT from FERC on fast start pricing in PJM, and from the PUCT on modifications to scarcity pricing in ERCOT. **As a reminder, we calculate a range of $1-4/MWh of energy price uplift from implementation of the proposed energy price formation enhancements, in-line with PJM's estimate of $3.5/MWh** (*model available on pp. 23-24 HERE*).

Almost all policy items appear favorable for EXC, NRG, VST and PEG

On the capacity side, all eyes remain fixed on FERC for a decision on PJM's capacity market reform proposals, with an order expected by the end of the month. Further north, ISO-NE is grappling with its own capacity reforms as it prepares for CASPR and enters its first year under Pay for Performance. In addition to energy and capacity changes, we also highlight some longer-term items investors should be aware of, including NYISO's introduction of a carbon-price adder to comply with NY's aggressive carbon reduction policies, and ISO-NE's ongoing fuel security discussion. **Overall, we emphasize that we view almost all of the policy changes slated for 2019 across the nation's markets as supportive of energy and/or capacity pricing and in turn favorable for power-exposed names under coverage – EXC, NRG, PEG, VST.**

In addition to the specific market proposals detailed above we also provide our high-level thoughts on two key state/federal policy shifts for investors with second-level read through to power markets: 1) changes at FERC and 2) new state policies for nuclear generation. Our initial impressions of the shuffle at FERC this past fall is generally benign, with McNamee and Chatterjee potentially emphasizing resilience more than their predecessors. On the state nuclear front, we dive further into the possibility for ZEC mechanisms in Pennsylvania and Ohio, with the latter still a tough lift in our view.

All indications point to a very stressful summer for the grid operator in the Lone Star state

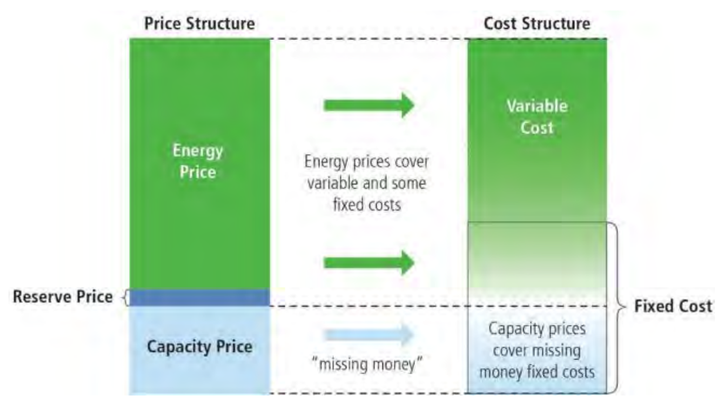
After refreshing our reserve margin outlooks, we believe ERCOT remains the sole market with attractive fundamentals through the next decade… The tightening we had predicted largely took place over the past 18 months in ERCOT, with robust load growth continuing to pressure the ISO from the demand side. The grid operator now expects a reserve margin of only 8.1% in 2019 and is examining changes to the energy market via the ORDC to potentially incent new generation. **Outside of ERCOT the story is largely the same… the other regional markets remain oversupplied despite incremental coal retirements** (see our per RTO reserve margins below)**. While some markets are exposed to locational fuel availability concerns (ISO-NE) or transmission constraints (NYISO), we believe power fundamentals overall will run heavily on energy and capacity policy moves in 2019.**

From a stock perspective: very hard to be negative power in '19 in our view, given the reforms we discuss above and below; hence, our continued support for BUY-rated EXC, PEG, VST, NRG.

What problem are markets trying to solve?

Power market reforms continue to revolve around solving the 'missing money' problem for generators… What exactly does missing money mean? While people have adopted the term to describe different revenue insufficiency phenomena in power markets over the years (more on this below), at an academic level it is a reflection of the market's inability to reflect the planning requirements placed on the markets.[1] More specifically, peaking units that run only a few hours of the year, yet bid their marginal costs, were not recovering all of their fixed costs in the early days of restructured markets, hence "missing" money. Furthermore, the revenues of units would be further subject to year to year variations in weather; running some years in heat waves/polar vortices, and then some not at all. To address these issues, power markets have pursued two distinct paths, some concurrently: **1) scarcity pricing**, also known as shortage pricing, which raises the price of electricity above marginal costs during times of tight reserves (and also eschews low price caps), and **2) capacity payments** via a centralized market for capacity as a stand-alone commodity. ERCOT has exclusively pursued the former path, while PJM, NYISO, ISO-NE, and MISO (to a degree) have followed the second. Below is a representation of how energy and capacity revenues in PJM help cover total costs for a generator:

Figure 6: How Missing Money is Mitigated in PJM



Source: U.S. Department of Energy (HERE)

No matter who you ask, money is still missing…

Fast forward to recent years and the term "missing money" has been extended outside of this purely fundamental paradigm to reflect the challenges facing entire classes of technologies in the markets: nuclear units on certain buses are 'missing' money due to negative pricing from PTC-earning wind, coal units are 'missing' money because their coal piles go uncompensated, nuclear units are 'missing' money because their lack of GHG emissions is not reflected in the markets, etc. To ameliorate many of these issues, grid operators and FERC have sought changes in both the energy and capacity markets.

So, is money still missing? Yes, but policy reforms remain on a trajectory to close the gaps across many markets in the coming years. The nation's various markets have taken different approaches to solving both the missing money problem, with the starkest difference between ERCOT and PJM/ISO-NE/NYISO. Below we detail some of

[1] The first use of this term is attributed to Roy Shanker in his 2003 testimony before FERC - William W. Hogan, Harvard University, "'Energy Only' Electricity Market Design for Resource Adequacy," September 23, 2005

the key changes to be aware of heading into the new year, with nearly every market going through some degree of change…

PJM: Policy reforms moving slowly, but endgame still positive

2019 shaping up to be a year of execution on power and capacity reforms…

A multipronged, years-long effort to improve both *energy* and *capacity* markets in PJM should come to fruition in 2019, although some changes will take time to percolate. PJM remains a region in transition in our view, with reforms underway for almost every segment of revenue generation in the RTO. We continue to see the net result of these efforts as purely positive to energy and capacity prices ***outside of any natural supply/demand dynamics***. Unfortunately, the pace of policy at both the RTO and at FERC has been slow, but we believe many of the reforms slated for 2018 will finally come to pass in 2019, with some new items in the works as well. **Below we highlight the status of the key ongoing reforms on both the energy and capacity fronts.**

ENERGY: PRICE FORMATION

In our view, minimizing uplift[2] via improving price formation are straightforward reforms for PJM and other RTOs to pursue, with less of the acrimonious policy-tinged debate that has shrouded efforts regarding capacity markets. Uplift payments in prior years were quite high (FERC Staff tallied over $5.5bn in payments from 2009-2013 – see page 5 HERE), triggering a June 2014 proceeding at the Commission on price formation at large (AD-14-14). Over a series of subsequent orders, the Commission has addressed issues ranging from shortage pricing, to the alignment of settlement and dispatch intervals (RM15-24), to a doubling of the "hard" offer cap for day-ahead and real-time markets from $1,000/MWh to $2,000/MWh (RM16-5). The endgame of all of this is to improve the price signals sent by the energy markets, thereby shrinking the missing money problem and sending accurate investment signals to the broader market. Below we provide updates on two aspects of price formation reform in PJM under consideration in the NT: 1) implementing fast-start resources into prices, and 2) a package of broader market reforms under consideration by the RTO. **Finally, we note that the integer relaxation proposal (see HERE) remains somewhat of a lower priority in our view, but it could re-emerge in the course of 2019's stakeholder processes**.

Fast Start: Minimum Pricing Requirements for Fast-Start Resources

Fast start only part of overall price reform efforts

PJM continues to work towards the implementation of fast start pricing, in which all of the costs incurred by fast-start resources (e.g., start-up) would be included in the price of electricity instead of getting paid separately via uplift. The most prevalent group of such fast-start resources is natural gas peakers. By including the total cost of supplying electricity in the marginal price, fast start pricing should go a long way towards FERC's goal of minimizing uplift payments. **As a reminder, we previously calculated a range of $1-4/MWh of energy price improvement from the implementation of the proposed energy price formation enhancements, roughly in-line with PJM's estimate of ~$2-$3.5/MWh** *For more on fast start see our overview on pp. 23-24 of last year's outlook **HERE**.*

Price Formation

Beyond fast start and integer relaxation, PJM is also pursuing several other broad price formation initiatives to improve the energy and reserve markets via its *Energy Price*

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[2] Uplift credits are payments made to resources whose commitment and dispatch by an RTO or ISO result in a shortfall between the resource's offer and the revenue earned through market clearing prices. While shortfalls can occur for many reasons, three primary reasons are: (1) a resource's operating costs and limits not being reflected in prices; (2) unmodeled system constraints; and (3) the dispatch and commitment of inflexible resources or the commitment of resources ineligible to set price – p.5 HERE

Broader price formation has strong traction, action likely in Winter '19

Formation Senior Task Force. The PJM Board of Governors recently set a January 31, 2019 deadline for the Task Force to reach a consensus on a slew of items, including the following six components:

1. *Consolidation of Tier 1 and Tier 2 Synchronized Reserve products*
2. *Improved utilization of existing capability for locational reserve needs*
3. *Alignment of market-based reserve products in Day-ahead and Real-time Energy Markets*
4. *Operating Reserve Demand Curves (ORDC) for all reserve products*
5. *Increased penalty factors to ORDCs to ensure utilization of all supply prior to a reserve shortage*
6. *Transitional mechanism to the RPM Energy and Ancillary Services (E&AS) Revenue Offset to reflect expected changes in revenues in the determination of the Net Cost of New Entry*

See HERE for the RTO's Energy Price Formation Senior Task Force Primer

In our view the net effect of these changes should be directionally positive for generators in PJM, although the reserve market remains a minor portion of total revenues. For example, changes to shortage pricing via the raising of the ORDC high point to $2,000/MWh is clearly positive, but PJM has to actually experience shortage/scarcity conditions to trigger it, which may be difficult in a market with >20% reserve margins. The RTO's own analysis (pp. 19-22 HERE) found that these reforms could boost systemwide energy and capacity revenues by up to $1.5bn:

Figure 7: PJM Analysis of Energy Price Formation Reform Impact

Net Cost Impacts			
	Scenario 1	Scenario 2	Scenario 3
Increase in Energy and Reserve Market Costs ($ millions)	1,920	1,920	1,920
Capacity Market Cost Reduction ($ millions)	440	640	1,500
Net Cost Increase ($ millions)	1,480	1,280	420
Net Cost Increase as a Percentage of 2017 PJM Billing	3.4%	3.0%	1.0%

Source: PJM. Note: This analysis does not include the fast start or integer relaxation proposals.

We expect PJM to make a 206 filing at FERC in February laying out its full suite of desired changes.

CAPACITY MARKETS

Capacity market reform likely to respect state's resource choices

Answer expected soon on reforms to the Base Residual Auction; FERC trying to walk a fine line between state policies and 'just' rates for generators… FERC is expected to rule on modifications to the PJM capacity market within the next few weeks, providing some much need clarity on an issue that dogged integrateds and IPPs for much of 2018. As a reminder, **FERC is now sitting on a large pile of initial and reply briefs from stakeholders in response to its June Order rejecting PJM's 'jump ball' proposal.** While FERC could ultimately mix and match ideas from the various briefs or even present its own unique proposal for reforming the market, **we believe PJM's own filing likely bears the largest resemblance to any final order.** We followed the PJM stakeholder process underlying the October FERC filing closely for most of 2018 - see links to our notes on this below.

PJM is committed to a middle of the road proposal that 1) accommodates state policy choices (e.g. ZECs/RECs), while 2) protects pricing in the capacity market. PJM offers up a strong MOPR to mitigate almost all subsidies, and suggests "*we believe the Commission can, if care is taken, lawfully afford states that subsidize preferred* *generation the option to have these resources recognized as capacity outside PJM's capacity market*" (p.3). To walk this line PJM has formally proposed two potential modifications to its tariff, with the latter modification containing two further options:

1. An Extended MOPR
2. FRR-Alternative
    a. Resource Carve Out (RCO)
    b. Extended RCO (ERCO)

The grid operator's preference in our view is undoubtedly for a combination of the MOPR and ERCO proposals, with its filing noting; "*the expanded MOPR, coupled with the Resource Carve-Out as proposed here, offers the Commission a defensible FPA-compliant path to accept and limit the trade-off that comes from recognizing subsidized, and hence uneconomic, resources as PJM capacity*" (p.8). **In our view the crux of the FERC process will be what happens with the RCO and ERCO options, with the MOPR less of a flash point. The ERCO (repricing) element is essential in our view to ensuring capacity pricing remains 'just and reasonable,' however it is unclear at this time whether FERC will ultimately take what PJM has proposed or put forward its own mechanism. For more on PJM's reforms and our evolving thoughts see our other research notes here (ordered from newest to oldest):**

FERC Docket (*October – Present*)

1. PJM: No Country for Common Ground; Reply Briefs Land at FERC (see HERE)
2. PJM: You May Ask Yourself, Well How Did I Get Here? Back to the Commission for the Main Show (see HERE)

PJM Stakeholder Process (*June-October*)

3. PJM Update: Capacity Market Reform Process Grinds On, Still Too Early to Make Any Calls (see HERE)
4. PJM: Initial Comments Indicate Divergent Opinions on Capacity Reforms But We Will Get to the Correct Endgame Supporting GenCos (see HERE)

ERCOT or: How I Learned to Stop Worrying and Love the Scarcity

Reforms likely supportive of pricing, but PUCT's leanings remain an unknown

ERCOT's reform efforts are entering their final innings, with the PUCT slated to vote in the NT on the fate of several price formation initiatives. The star of this narrative remains the proposed modifications to the operating reserve demand curve (ORDC), which has become bundled with a series of other proposals. As a reminder, the Public Utility Commission of Texas (PUCT) established a docket (No. 47199) to assess the price formation rules in ERCOT's energy-only market in response to a paper[3] by Harvard's Bill Hogan and FTI's Sue Pope (sponsored by NRG and CPN) that was submitted to the PUCT in May 2017. The paper suggested several major modifications to the ERCOT market, including:

- Including marginal line losses in calculations for dispatching and pricing
- Enhancements to the Operating Reserve Demand Curve
- Real-time co-optimization of energy with ancillary services
- Establishment of locational reserve requirements
- Modifying transmission planning and cost recovery towards "market reflective" policies instead of Texas' socialized planning process

[3] *Priorities for the Evolution of an Energy-Only Electricity Market Design in ERCOT*. See HERE

All of these changes are currently under consideration by the PUCT, which as of late December had twice deferred a decision as it examined the proposals further. **What direction the PUCT ultimately takes is difficult to predict in our opinion, as stakeholders have reached little consensus on what is actually needed to improve the resource adequacy outlook for the state.** For reference, Exelon has estimated (see HERE) that changing the ORDC by shifting the Loss of Load Probability (LOLP) one deviation could cost Texas consumers up to an additional $4bn/year. In a separate proceeding for the ISO, the Brattle Group found (see HERE) in October that *maintaining* the ORDC's status quo would result in a tight, yet acceptable, 10.25% reserve margin in 2022.

Finally, we note that some of the proposed recommendations are in conflict with Texan public policy – specifically the proposal to including marginal line losses would run counter to the legislature's 'postage stamp' approach to socializing transmission losses. While this approach has been credited with helping spur the development of remote resources within the state like wind and solar, it runs counter to the popular convention in every other US power market. Very much a "stay tuned" situation heading into the new year.

The other markets: ISO-NE and NYISO

ISO-NE

2019 slated to be a critical implementation year, with Pay for Performance and CASPR coming into effect

2019 will likely be more of a transitional year, in our view, dominated by 1) execution on capacity market policy changes, and 2) modifications to the market to ensure 'fuel security' on a long term basis… In contrast to PJM and ERCOT, ISO-NE got more of its policymaking agenda done in 2018, setting up 2019 to be a key execution and implementation phase of the story. As a reminder, the RTO is now seeking to implement a two-tiered capacity auction; the Competitive Two-tier Auctions with Subsidized Policy Resources (CASPR) mechanism - for a full refresh on CASPR see our overview on page 27 HERE. February's upcoming FCA 13 auction will be the first to feature the mechanism. The grid operator has already filed (see HERE) several modifications to CASPR in advance of FCA 13, including exempting offshore wind in federal waters from the MOPR after it failed to include it under the renewable technology resource exemption, and the implementation of price tests during the first stage of the auction. **Finally, we highlight that this winter is the first to feature full Pay-for-Performance requirements on generators and is the first *without* the transitional Winter Reliability Program, a transitional mechanism which had compensated generators for storing onsite fuel inventories.**

The second major agenda item outstanding in New England is a familiar one at this point: fuel security. The proposed retirement of **EXC's Mystic plant** and subsequent ST reliability contract (see FERC's approval of that contract HERE) **has touched off another round of reform consideration in the market,** with FERC directing NEPOOL and stakeholders to come up with a long term markets-based solution to ensuring fuel security in the region. This effort remains quite nascent, but investors should be on the lookout for developments as we draw further into 2019 and the process gels. Preliminary conversations at NEPOOL indicate the ISO is considering a "multi-day-ahead" market for up to several days in advance, while other mechanisms include a "Forward Inventory Reserve Mechanism" to focus on fuel inventories in advance of the winter season. **Side note: the inclusion of Mystic as a price taker in FCA 13 has been projected by Platts to lower clearing prices by "roughly $0.50-1.00/kW-month." The New England Power Generators Association (NEPGA) has asserted prices could be suppressed by up to 30%.**

NYISO

NYISO continues to focus on carbon reduction

As a single state ISO, NYISO has found itself to be an important component of the state's aggressive environmental policy goal of reducing carbon dioxide emissions 40% by 2030 and 80% by 2050, relative to 1990 levels. **The ISO's Integrating Public Policy Task Force (IPPTF) has been an instrumental part of this, with the ultimate goal of instituting a carbon adder in the state's energy markets in the early part of the next decade.** As currently envisioned (see full proposal as of December 2018 HERE), the NY PSC would set the social cost of carbon that would form the basis for the adder. In the ISO's own words:

> *"The NYISO is not proposing to change existing energy market mechanics or supplier offer procedures in order to incorporate a carbon price. Suppliers are expected to add their carbon charges into each applicable component of their energy offers (i.e., startup, minimum generation, and/or incremental cost curves). Supplier energy market payments would continue to be based on the full LBMP, which would rise due to the carbon charge when carbon-emitting resources are on the margin.*
>
> *The NYISO would calculate and publish the LBMPc for the Real-Time Market (RTC and RTD), including the "look-ahead" intervals. Publishing the LBMPc would provide carbon pricing transparency to the market. The LBMPc is also needed to determine the adjustment to the payments for import and export transactions and effectuate the recommended allocation of Carbon Residuals."*

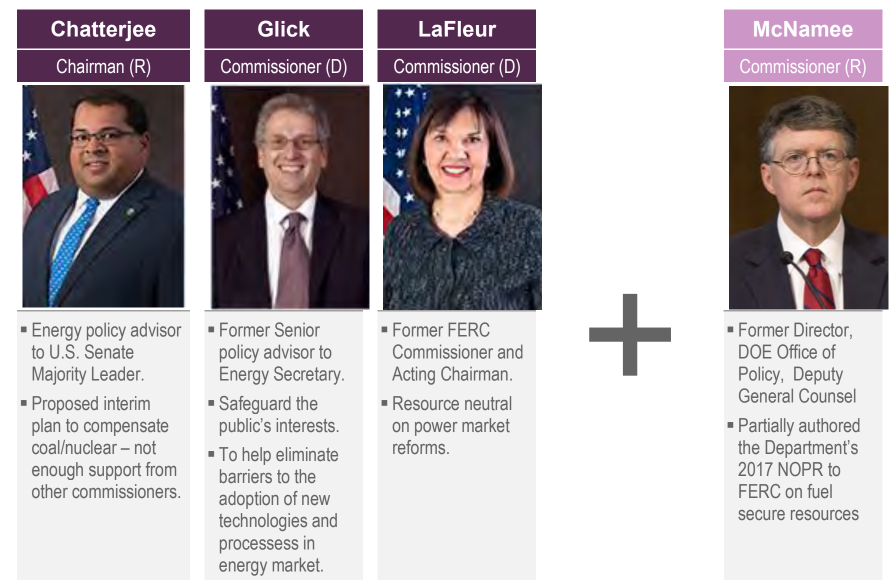
In our view, the proposed carbon adder remains a work in progress, with the ISO targeting a 2020 implementation date at the earliest. We note that the stakeholder process to date has been a bit of a tough slog in our view, largely as a result of the proposal's sheer complexity. The proposal continues to work through issues such as imports, the interaction with RECs, how the actual price is set by the PSC, and other issues. In the long run we believe the process will yield results, but we **note that the NYISO market is tertiary at best for most of the IPP names under our coverage. We continue to watch for indications from key officials and stakeholders on how a pricing phase in could/would potentially interact with a phase out of nuclear ZECs, given EXC's exposure to the market.**

> *Business as usual, but we see a new tone to the Republicans*

Shifting Sands at FERC: Powelson Departs, McNamee Enters, Chatterjee Assumes Chairmanship

Commissioners reshuffled in 2018, and while the partisan lines remain firmly in Republicans' favor, we believe the tone could change in 2019… 2018 was an eventful year for the Commission, with the departure of Robert Powelson after only a year on the job, the relinquishing of the Chairmanship by Kevin McIntyre, and the confirmation of Bernard McNamee in December. **While the *overall* slate and makeup of the commission has changed only slightly heading into 2019, we believe the replacement of Powelson with McNamee in late 2018 and the changes at the chair will inevitably change the tone of the Republican-majority as the new year unfolds.** Powelson and McNamee came from different backgrounds (more on this below), as did Chatterjee and McIntyre. In our view, these differences alone could drive a slight shift in tone at the Commission, as Powelson had been a proponent for competitive energy markets and served on the PUC in a restructured state (PA). **We believe investors should be aware that 2019 will likely bring *additional* shifts in the makeup of the Commission in our view**, **with Commissioner LaFleur's term slated to end on June 30, 2019 (she could possibly serve through the end of the congressional cycle in December), and former Chair McIntyre's unfortunate passing leaving yet another Republican vacancy. Finally, we think there is also a remote but tangible possibility that McNamee could be named Chair by the President given that we see him as the Commissioner most closely-aligned with the administration.**

Figure 8: Shifting Sands at FERC: Powelson Departs and McNamee Arrives



Source: FERC (images), Guggenheim Securities, LLC.

Below we highlight some of our high-level thoughts on Chatterjee given his new role as Chair and provide additional details on McNamee.

- **Chairman Neil Chatterjee**

  Chairman Neil Chatterjee was nominated to FERC in May 2017 and confirmed by the U.S. Senate on August 4, 2017. Prior to joining the Commission, he was energy policy advisor to U.S. Senate Majority Leader Mitch McConnell and over the years, Chatterjee has played an integral role in major energy legislations. His term expires on June 30, 2021.

Chatterjee's time at FERC has softened perceptions of a 'fossil' bias, in our view

Key comments/actions: Chatterjee's background, including time in McConnell's office and his time lobbying on behalf of the National Rural Electric Cooperative Association (NRECA), has led some groups to label him a "rubber stamp for fossil fuel and utility interest."[4] During his short stint as Chairman prior to McIntyre's arrival Chatterjee had expressed support for the Administration's comments regarding fuel secure resources and proposed an interim plan to better compensate baseload generation while FERC undertook a more thorough review of grid resilience and baseload generation. Later in the process, Chatterjee pulled back on his proposal for payments for coal and nuclear plants as interim solutions, saying that longer-term assessment of grid resilience is more important. Chatterjee subsequently spent a year as a commissioner under McIntyre, and in June 2018 he joined his fellow commissioners in unanimously testifying before the Senate Energy and Natural Resources Committee that there was no grid emergency at the time. Finally we note that on his promotion to the Chairman's position there were some plaudits that Chatterjee had proven to be more pragmatic than some had initially expected in 2017 (see HERE for an excellent synopsis):

"*I think he genuinely appreciates new technologies and innovation including renewable energy and storage*" - Rob Gramlich, Grid Strategies

"*I think he really understands the value of markets and the value ensuring that these innovative technologies have an opportunity to participate in those markets in a full and robust way*" – Former Chairman Jon Wellinghoff (D)

- **Commissioner Bernard McNamee**

McNamee a bit of an unknown, with his DOE work slanted towards resilience

Commissioner Bernard McNamee was nominated to FERC in October 2018 and confirmed by the U.S. Senate on December 6, 2018. Prior to joining the Commission, he was the Executive Director of the Office of Policy at the Department of Energy. Earlier in 2017 he served as the Deputy General Counsel for Energy Policy at the DOE. Prior to these roles he was an energy lawyer for 9 years representing utilities before PUCs and also worked as a policy advisor for various governors and senators in Texas and Virginia. His nomination biography is available HERE. **McNamee is serving the remainder of Powelson's term, which ends on June 30, 2020**.
Key comments/actions: Commissioner McNamee remains an unknown variable at this time, in our opinion. His background is firmly in utility law, and Virginia, despite its membership in PJM, remains very much a traditional regulated cost of service state. McNamee did spend time working for Texas senator Ted Cruz and on policy in the Lone Star state, but it is unclear to what degree McNamee worked on matters related to ERCOT. **By far the largest point of focus during the nomination process was McNamee's role in the DOE's 2017 NOPR to FERC**, and subsequent leaked policy document (see our note HERE) detailing a nation security threat from the retirement of fuel-secure baseload plants.

On a more technical legal note, we highlight that following McNamee's confirmation by the Senate, Harvard Law's Electricity Law group, led by Ari Peskoe, filed comments at FERC calling for McNamee to recuse himself on matters related to fuel security and his tenure at the Department of Energy:

> "*The overarching principle is that McNamee may not decide issues as a Commissioner that he worked on while serving as*

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[4] See HERE

> *an attorney at the Department of Energy. As a matter of law, he is incapable of being an impartial adjudicator on any such matter*."
>
> "*Recusal is not an admission of actual bias. Our filing does not second guess McNamee's commitment to being an impartial arbiter. But the law establishes objective tests that protect against the appearance of bias. McNamee fails those tests*."
>
> – Harvard Law's Ari Peskoe[5]

The Comments appear to be focused on the NOPR and issues of 'fuel security' – but it is unclear to us at this time if that would extend to voting on tariff modifications like Capacity Performance in PJM or Pay for Performance in ISO-NE, both of which somewhat indirectly address fuel security. As a reminder, FERC voted 3-2 on party lines in June to find PJM's existing construct unjust and set in motion the current reform process - should McNamee have to recuse himself it could open the door to a split decision, although this is all very high level at this point.

FERC to rule on PJM reforms by early January 2019

FERC's agenda continues to be dominated by power market reforms, and we expect the personnel changes highlighted above to elevate the importance of 'resilience' going forward. Our high-level take from the shuffles at FERC this fall is that the general agenda remains the same, with the partisan divide likely a larger factor on many votes than any individual personality. The commissioners have split 3-2 on several decisions for both pipeline and power orders, so a 2-2 partisan divide may slow things at the Commission until a new republican can be confirmed.

[5] Comments available HERE

STATE LEVEL: NUCLEAR LIFELINES

Nuclear operators across the eastern markets successfully argued for state support in 2018, with efforts in NJ and CT both largely across the finish line by year's end. We also note that the frontrunners of nuclear support, ZECs in IL and NY, withstood legal challenges in two different appeals courts in 2018, with an appeal to the Supreme Court a likelihood in 2019. Below we provide some key updates on two of the remaining states we see as open to nuclear lifelines: PA and OH.

PA policy support push coming in '19, outcome far from certain

Full court press expected in 1H19 by nuclear caucus in legislature

2019 shaping up to be a 'battleground' year for nuclear support in PA, with several shutdown decisions looming. In prior years we had largely ruled out the prospects for state-directed policy support for nuclear units, primarily due to the state's powerful oil and gas lobby and the presence of too many competing constituencies on the matter. **When we hosted commissioner meetings (See note HERE) with former PA commissioner, and then-FERC Commissioner Robert Powelson, he acknowledged that many in the state were aware of the challenges facing nuclear.** Fast forward a year to 2018, and the state is now looking at the announced retirements of FES' 1.8GW Beaver Valley (1,000 employees) and EXC's 800MW Three Mile Island Unit 1 (675 employees). **It was in this environment that the Bicameral Nuclear Energy Caucus sought to invigorate the debate on nuclear support in the PA legislature, with the cornerstone of that initiative the release of a report detailing potential avenues for the legislature and the industry in the state**. The report (available HERE) also outlines four key options for the state:

1. Do nothing and leave Pennsylvania's clean energy resources, including its nuclear plants, on a trajectory to early retirement – effectively allowing PJM to dictate the mix of resources serving Pennsylvania.
2. Modify AEPS (or establish a ZEC program) to put nuclear generation on equal footing with other zero-emission electric generation resources in Pennsylvania.
3. Modify AEPS (or establish a ZEC program) with a "safety valve" mechanism that (depending on the outcome of the FERC proceeding) would allow Pennsylvania to adopt a new capacity construct proposed by FERC that is designed to accommodate state programs to support preferred generation resources.
4. Establish a Pennsylvania carbon pricing program

Our impression of the report is that none of the options presented are particularly out of step with expectations. In our view, the only two 'solutions' presented are a ZEC program or a carbon pricing scheme. We do not believe a carbon pricing scheme could even be implemented in a timely manner (e.g., NYISO's is taking several years), **leaving ZECs as the only real option for staving off the retirements of TMI and Beaver Valley.** It remains to be seen how this all plays out in the legislature this spring, but we note that parties including the AARP and some generators (NRG, Calpine) have already come out against the proposal. We expect the state's powerful oil and gas lobby to do the same.

As a reminder, EXC has set a 1H19 timeframe for a final TMI decision, while Beaver Valley likely has slightly more time. Very much of a 'stay tuned' situation as the report reverberates across the political spectrum, with a vibrant debate likely, in our view, sometime this spring.

OH legislation remains possible, but far from certain in our view

We continue to view OH as a decidedly tougher environment for ZECs vs. IL/NY/NJ

A legislative fix in OH remains elusive in our view, as we believe the conversation remains framed around jobs and economic impact, in contrast to the high weight placed on environmental attributes in other jurisdictions. As a reminder, after the initial attempt at providing a state support mechanism called the Zero Emission Nuclear Resource Program (ZEN - H.B. 178/S.B. 128[6]) stalled in the OH legislature, **a new bill (H.B. 831) to subsidize at-risk nuclear generation was introduced in the state House.** The previously-proposed ZEN program would cost customers less than the prior proposals by shortening to 12 years from 16 years and requiring $2.5 per month from residential customers and lesser of $3,500 or 5% of total bill from non-residential customers. We note that the legislation has moved in fits and starts in 2018, with only a moderate degree of action between 2Q-4Q18 consisting primarily of union employees and local governments. **We note that, in our view the matter is complicated by the bankruptcy of FES, who owns the only two nuclear units that would be eligible for compensation.**

> "*The ZEN legislation (House Bill 178) that was introduced was strictly on the FirstEnergy footprint, so it was clearly not a statewide piece of legislation and therein lies a problem*" - State Rep. Steve Arndt[7]

In addition, we highlight that both of the units in OH are single unit plants, which would likely require higher compensation vs. the PEG Hope Creek/Salem nuclear complex in NJ, or even the Fitzpatrick unit in NY, which will likely see operational synergies with Nine Mile Point under EXC's ownership.

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[6] Legislation available HERE
[7] Story available HERE

REFRESHING OUR RESERVE MARGIN OUTLOOK: MARKETS OUTSIDE OF TEXAS REMIAN OVERSUPPLIED

Outside of Texas, markets remain oversupplied

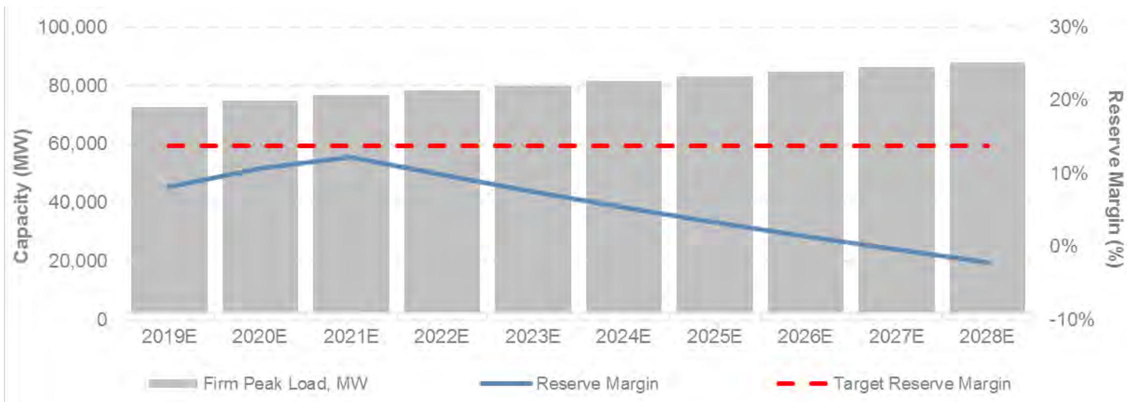
ERCOT remains the standout market for tight reserves, as newbuild gas plants and the slow pace of retirements across the NE leave margins elevated. Below we show forecasted reserve margins for the key de-regulated markets in which the IPPs operate – plotted against peak demand and total installed capacity (net of capacity additions/retirements). As a reminder, a reserve margin is excess capacity above and beyond the capacity needed to meet peak demand levels – a proxy of resource adequacy and a measure of supply/demand. While it varies among regions, planners typically target reserve margins within the 13-16% range – forecasted reserve margins below target levels equate to a tight market; forecasted reserve margins above target levels equate to a looser supply/demand balance. **See below for key regional takeaways.**

ERCOT remains the market to watch

Reserve margin remains well below target levels, in-line with our past projections

Following a very tight 2018, ERCOT enters the new year on even more precarious terms... ERCOT's reserve margin is now forecasted to be 8.1% for 2019, down from last year's forecast of 11.7% and even further from the ISO's target of 13.75%. While this decline is not a surprise for many stakeholders and industry observers, it is a very stark shift from the almost 19% reserve margin the ISO had expected in 2017 for the summer of 2018. **Much of this is in line with our prior assertions in 2017 and 2018 (e.g., see page 34 HERE) that the market was likely to see a wave of retirements.** The pendulum has now swung hard in the opposite direction, with 2017/18 coal retirements and robust load growth driving the market into much tighter conditions. **We continue to believe that the market is not yet attracting new entrants, a view also held by mgmt. at some IPPs under coverage. Absent a strong destruction of demand in Texas (e.g., a recession) we expect 2019 and 2020 to remain very tight.**

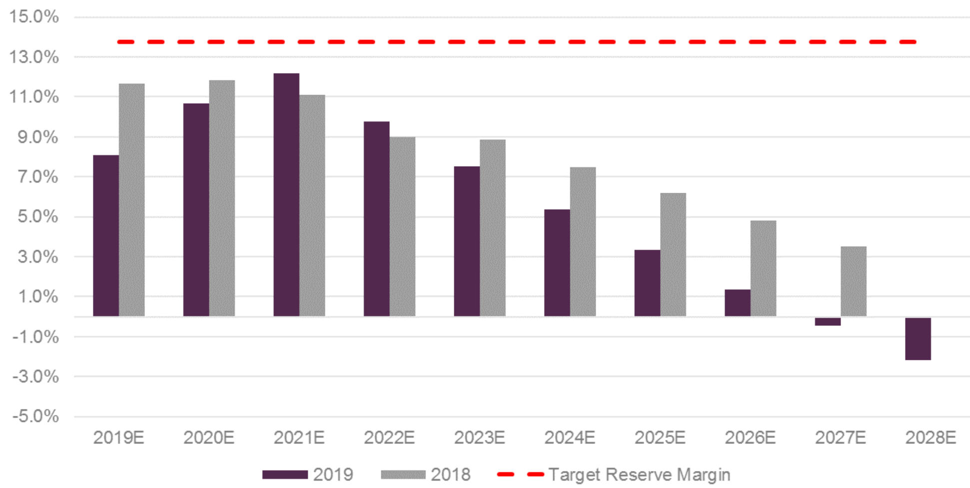
Figure 9: ERCOT Reserve Margin Forecast Indicates Supply Shortage in the LT



Source: ERCOT, SNL, Guggenheim Securities, LLC estimates

We believe ERCOT's reserve margin could fall even further below targeted levels, but much depends on the decisions of independent actors. When we ran our coal screen last year (see page 35 HERE), we had assumed certain plants like the Gibbons Creek ST would retire, but we have yet to see many of these more marginal assets retire. This includes some 3.9GW of municipally-owned coal, or approximately 27% of all coal capacity. **The variability in both retirement decisions and load growth means that read through to summer conditions is not perfect – but the trend towards tightening is still clear (see our YoY reserve margin comparison below).**

Figure 10: YoY Margin Comparisons: 2019 and 2020 are lower, while 2020 and 2021 are higher



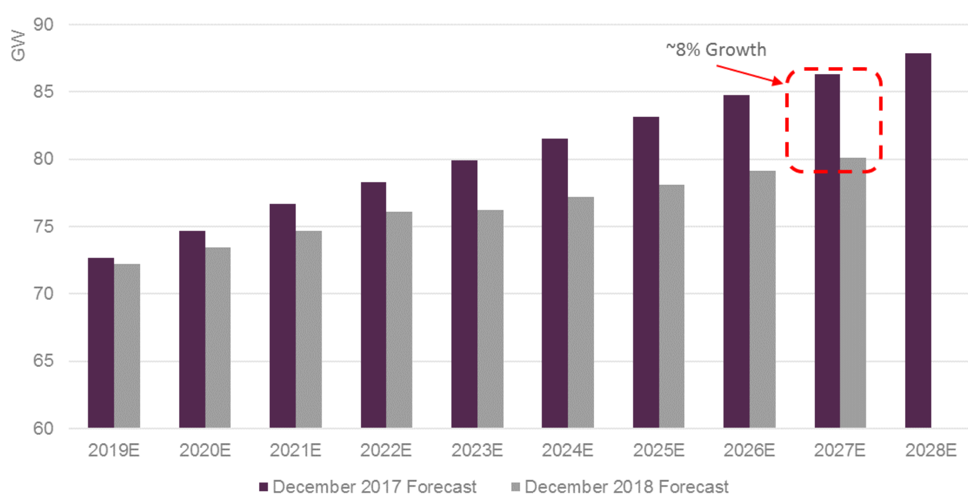
Source: ERCOT, SNL, Guggenheim Securities, LLC estimates

Where could ERCOT see relief? Lower demand or more capacity

We estimate 3GW of solar to come online by 2020

We continue to believe ERCOT will remain tight well into the next decade, so long as the lack of scarcity pricing and the forward pricing environment in its energy-only market deters new entry. Absent the reforms detailed earlier we see two pathways to relief: 1) demand destruction or 2) new capacity added outside of the merchant paradigm. On the **first item**, we note that the latest CDR reports from the ISO show no shortage of growth, with outer years of the LT projections now higher by 7-8% vs. the 2017 estimates. On the **second item**, new capacity, we specifically flag the growth of solar in the state, with installed capacity expected by the ISO to double between 2017 and 2020 from 1.1GW to 3GW, with additional incremental projects likely in our view.

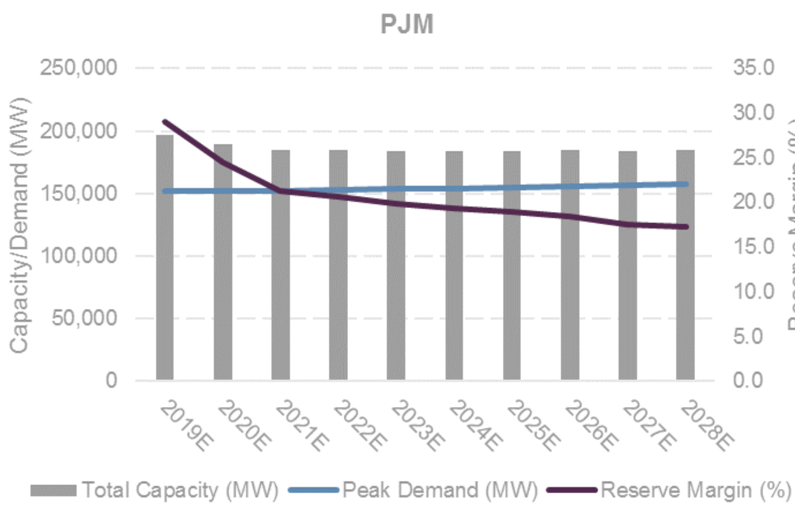
Figure 11: Current forecasts show much higher firm peak load projections



Source: ERCOT, SNL, Guggenheim Securities, LLC estimates

PJM: Excess capacity remains an overhang

Figure 12: PJM reserve margin forecast



Source: PJM, Guggenheim Securities, LLC estimates

- **PJM reserve margin forecasts remain healthy...** Reserve margins slightly contract through the forecast period, but we note stagnant demand growth (currently projected by the RTO to average 0.4% over the next decade) is expected to keep major pressure off margins.
- **Gas units remain the marginal price setters** – now on the margin 55-70% of the day as retirements and coal to gas displacement reduces coal's marginality.[8]

East/West power basis remains through forecast period.

Figure 13: Gas increasingly marginal

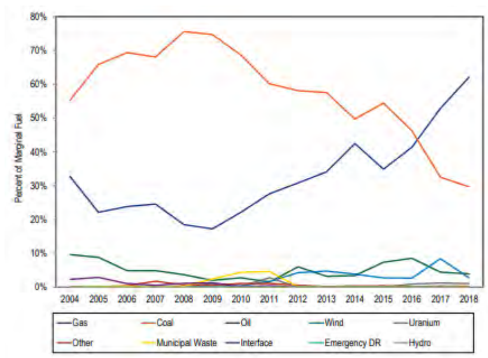


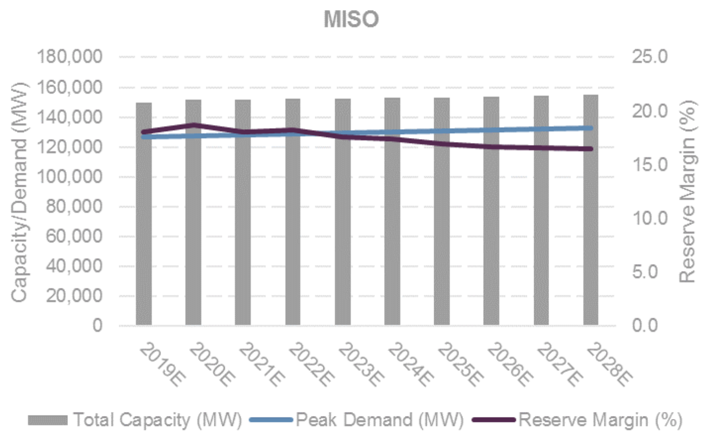
Image Source: Monitoring Analytics

- **Things to watch: 1) Policy:** Energy price formation and capacity market design changes, as well as potential nuclear subsidies in NJ, PA and OH, which we discuss in greater detail later in thus section, and **2) the erosion of basis differentials over time as Marcellus takeaway capacity increases**.

[8] See Page 113 HERE

MISO: Few concerns in this mostly regulated market

Figure 14: MISO reserve margin forecast



Source: MISO, Guggenheim Securities, LLC estimates

- **Reserve margin forecasts improve slightly with our refresh this year, remain above ~16% target.** The RTO is expected to have up to 6.6GW of excess resources heading in to the 2019 season.[9] Like other markets, we continue to see a slowing or reduction in demand growth forecasts, with MISO's latest 2019 summer peak forecast dropping some 1.5GW from the 2017 estimate. The five-year regional growth rate outlook used by the RTO has also decreased from 0.5% in the 2018 analyses, to 0.3% in the 2019 outlook.

- **Fuel mix continues to trend towards gas becoming more and more marginal as coal exits**. Key parts of the MISO are also now dominated by wind (e.g., Iowa) – with the lower resultant power prices causing negative quark spreads at certain off-peak times for nuclear units like Clinton in IL.

Key trends in MISO remain the same YoY: Wind, Zone 4, Gas, etc.

- **Zone 4 issues remain unresolved** – MISO Zone 4 in (South and Central Illinois), lies in the only restructured state in MISO. As such generators in the state (e.g., VST's predecessor Dynegy) have long raised concerns over low capacity market prices, and even sought to move the Zone into PJM via legislation. **As a reminder, ICC staff wrote a white paper detailing the Zone 4 issues**[10]. Finally, we note that MISO's efforts to reform the capacity construct (i.e., use of slope demand curve, eliminating zero bidding, longer planning period) did not have much traction in 2018.

- **Things to watch: The Zone 4 question remains the primary outstanding issue we continue to watch.** By extension we continue to monitor VST's legacy coal fleet in Southern IL, which both we and management have repeatedly highlighted are economically challenged. VST had sought changes to IL's emissions requirements to afford it more operational flexibility, but the election of a new governor in November 2018 complicated this. Finally, we remain on the lookout for additional capacity in MISO-South, given ongoing constraints in the region.

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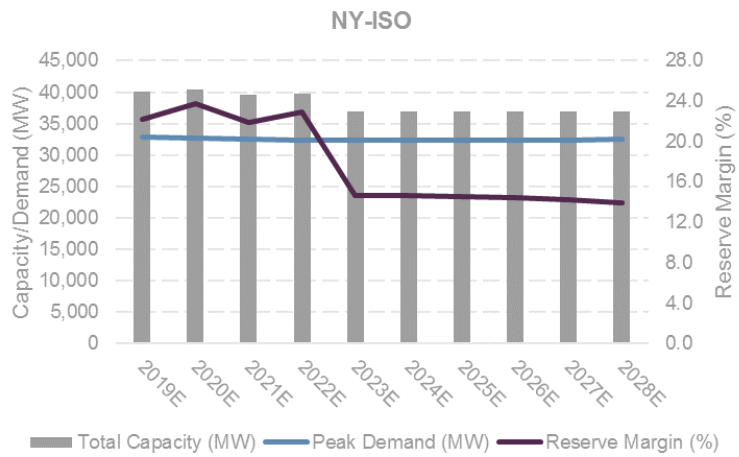
[9] 2018 OMS MISO Survey Results available HERE
[10] ICC MISO Zone 4 White Paper available HERE

NYISO: Indian Point closure looms

Figure 15: NYISO reserve margin forecast



Source: NYISO, Guggenheim Securities, LLC estimates

ISO remains bifurcated between upstate gen and downstate load

- **The ISO's reserve margin outlook continues to be dominated by the closure of Indian Point**. Current projections continue to portend a significant tightening in the ISO following the retirement of Indian Point's 2GW of generation, although new generation and transmission projects are expected to alleviate any system violations. On the demand side, peak demand remains very subdued as slow organic load growth, EE, and DER efforts continue to keep overall demand in check through our forecast period.
- **Of all the markets we cover, NYISO is arguably one of the most balkanized…** NYISO's longstanding issues around moving upstate generation to the load centered in the New York City Metropolitan Area (NYCMA) have only been heightened by the planned retirement on Indian Point and the end of the ConEd wheel through PJM. Further to the east, Zone K (Long Island) remains well supplied.
- **Merchant transmission remains unbuilt**, although the Champlain Hudson Power Express announced in early December 2018 that it now expects to begin construction of the 330-mile project in 2020. The HVDC line, largely buried below the Hudson river, would carry up to 1GW of power from Quebec to downstate New York. A 2020 construction start would put completion sometime in the 2022-2023 timeframe.

Integration of offshore wind remains an open question

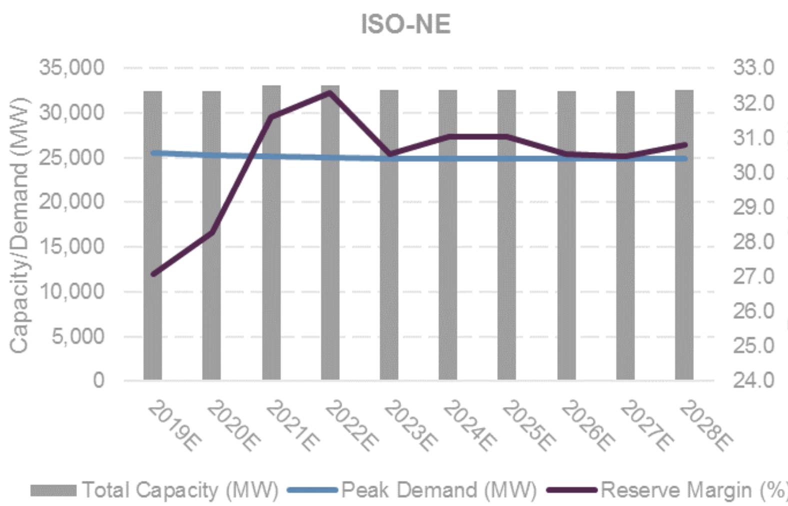
- **Offshore wind remains an unknown variable in this equation:** The state's aggressive plan[11] to deploy up to 2.4GW of offshore wind remains a nascent, but potentially potent, variable in understanding the future reserve margin picture. As this capacity will most likely be completely interconnected in Zones J and K (NYC and Long Island), it will likely improve the downstate reserves margin and, in our view, the transmission interconnections alone could provide additional reliability benefits depending on the final configurations (e.g., improving intra or inter market transfer capability).

[11] The state's Offshore Wind Master Plan is available HERE

See pages 278 - 279 for analyst certification and important disclosures.

ISO-NE: Plenty of capacity, not enough fuel

Figure 16: ISO-NE reserve margin forecast



Source: NERC, Guggenheim Securities, LLC estimates

Watch for Northern Pass and TDI projects bringing Canadian hydro

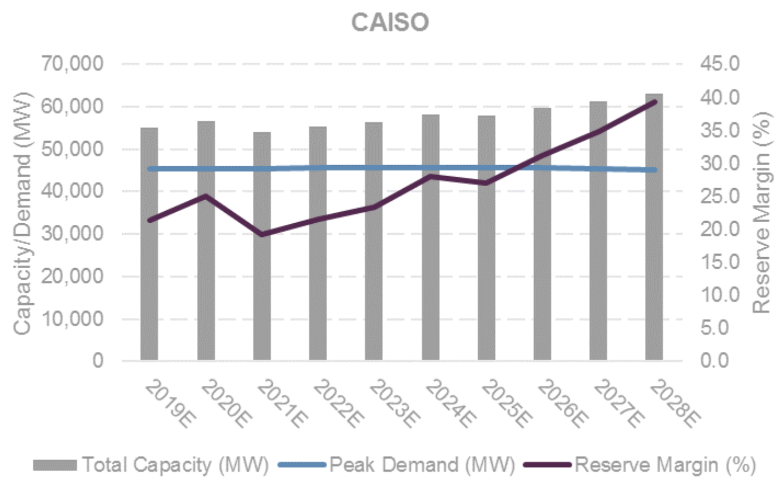
- **ISO-NE is well-supplied with capacity through our forecast period, but focus remains on fuel availability**. The RTO continues to look oversupplied well into the 2020s, as new gas capacity and flat-to-declining demand across the region keep margins around approximately 30%. This large amount of capacity does not reflect the competition for natural gas between LDC heating demand and power generation, which continues to be the single largest issue facing the RTO. The Pay for Performance rules implemented over the past few years in the RTO's capacity market are intended to incent generators to store onsite fuel, but it remains to be seen if this actually occurs (this winter will be the first without the transitional Winter Reliability Program, which provided payments to dual fuel generators for storing fuel onsite).
- **Supply-demand dynamic remains exposed to large new projects and ongoing retirements - Massachusetts and Connecticut are in the driver's seat…** The importation of Canadian hydropower and the procurement of offshore wind (more on this below) remain the two largest new supply possibilities in our forecast period, with ES' Northern Pass now supplanted by AGR's New England Clean Energy Connect (NECEC). Both were submitted as part of MA's solicitation for up to 1,200MW of clean energy. Meanwhile on the retirements front, ETR's 680MW Pilgrim nuclear power plant is slated to power down in 2Q19, while D's Millstone in CT appears slated to remain open thanks to state-driven support from ratepayers.

Offshore wind RFPs continue apace

- **Offshore wind to add several GW of capacity by the end of the next decade…** 2018 was a banner year for offshore wind in New England, with nearly every coastal state awarding RFPs and/or boosting their mandates for wind-driven power. The net impact of all of these procurements on LT reserve margins is still unclear in our view given it may not all come to fruition, although the momentum to date leads us to believe that the final MWs procured will likely be very close to the stated targets.

CAISO: Lost cause as policy-driven build stamps out merchants

Figure 17: CAISO reserve margin forecast



Source: NERC, Guggenheim Securities, LLC estimates

We do not see IPPs investing in CAISO outside of policy-driven storage builds

- **CAISO remains a challenging power market for almost all parties involved**, with volatility, low prices, environmental regulations, and unfavorable resource adequacy mechanisms driving the retirement of many IPP assets in the state. Overall, we see the policy environment in California continuing to drive the LT reserve margin outlook, which remains oversupplied at a high level. As a reminder, Diablo Canyon (~2.3GW) is slated to retire by 2025.
- **This is a very tough market to operate in for IPPs unless assets are tolled or have PPAs**. Too many renewables and cheap hydro resources mean that many merchant generators have only the summer peaks to derive energy revenues. Forward capacity procurements for resource adequacy in the state remain primary bilateral contracts, with RMRs also in use in constrained zones (e.g., the Bay Area).
- **Energy storage investments at both wholesale and distribution levels expected to dominate going forward…** The role of energy storage and its impact on LT reserve margins is a very large unknown in our view, with several large projects already underway (e.g., VST's 300MW/1200MWh project at its Moss Landing site) and the state nearing its current ~2GW mandate. The large amount of DER solar also provides a fertile opportunity for localized storage, in our view, and we expect both the state legislature and the CPUC to continue fostering a supportive environment for investment in the technology.
- **Things to watch:** The state continues to grapple with the 'duck curve,' while simultaneously losing conventional generators. We remain on the lookout for details regarding reforms to the ISO's capacity mechanisms, with FERC recently rejecting an attempt (see Docket No. EL18-177 – decision available HERE) by several generators to have the Commission impose a mandatory capacity construct on the state. In addition to this, we are also following regional developments regarding the Energy Imbalance Market (EIM), with lawmakers in California hesitant in our view to expand beyond its pure balancing function at this time.

POWER MARKET AND COMMODITY OUTLOOK

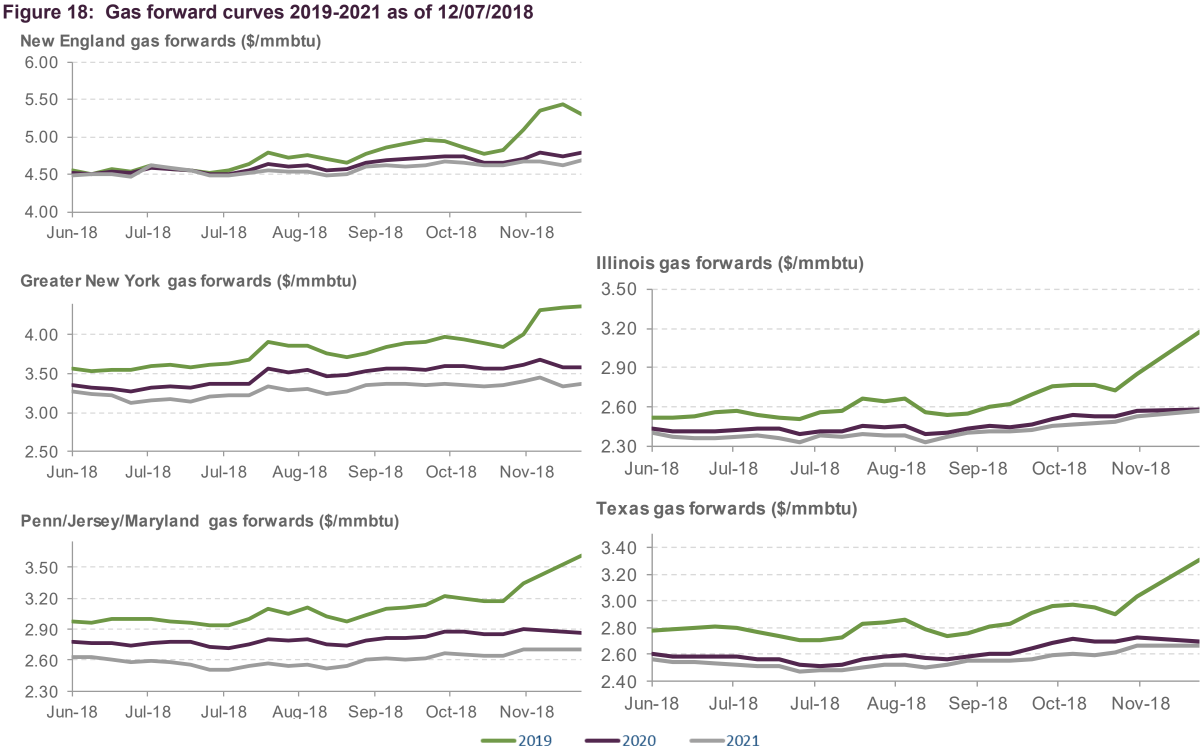
Marked our model to 12/07/18 forward curves.

Our integrated and IPP models are now marked to the 12/07/18 forward curves. Our current viewpoint continues to hold that power markets remain broadly supportive for the IPPs under our coverage, with conditions in ERCOT standing out as the most favorable. The recent rise in natural gas forwards across the eastern markets has also carried through somewhat to power prices, although these markets remain rather oversupplied and less likely to generate the kinds of very high scarcity pricing we are expecting in the Lone Star state. **Our IPPs (NRG and VST) are still trading at historically high free cash flow yields which, in our view, is not sustainable.**

Commodity price environment

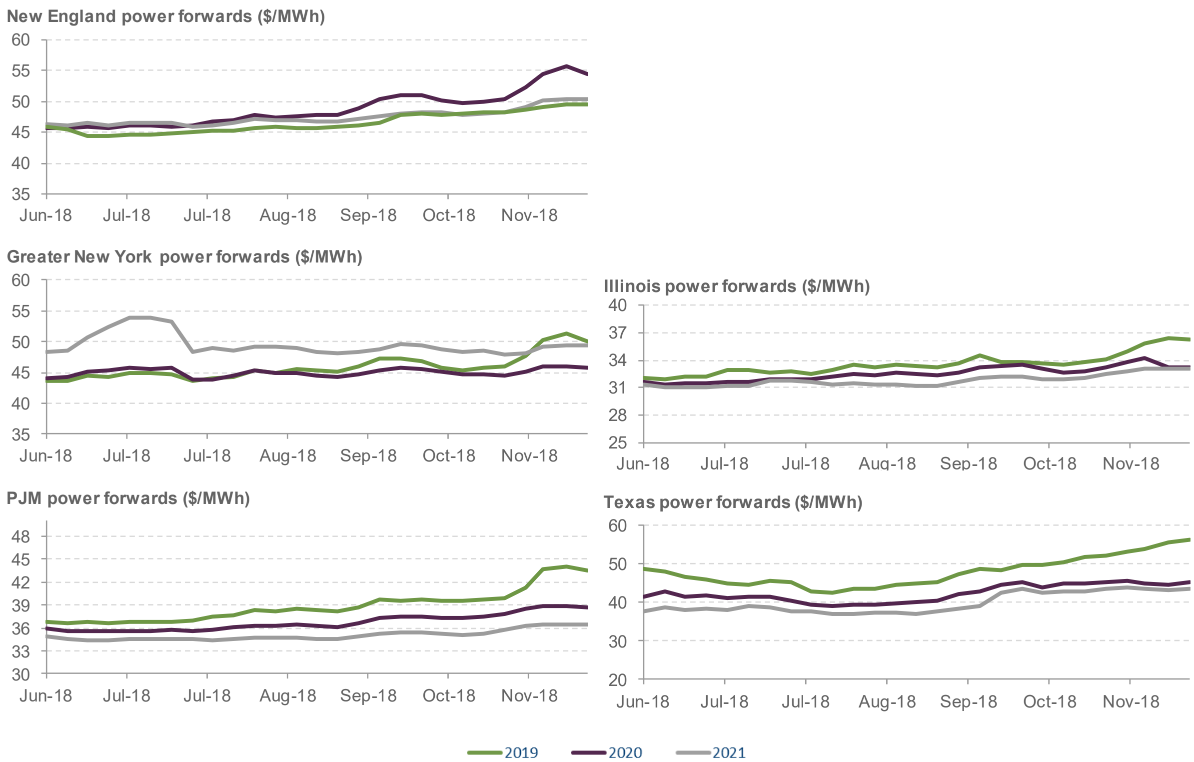
2018 experienced similar fluctuation in natural gas and power forward prices as 2017, while basis differential volatility continued driven by weather, coal retirements, midstream capacity constraints, contract relationships, storage levels, and environmental policy developments. Forward prices increased in general towards the end of the year. Below we present forward curve movements over the course of 2018 for power prices, gas prices, and spark spreads (PJM, MISO, ISO-NE, NY-ISO, and ERCOT).

Figure 18: Gas forward curves 2019-2021 as of 12/07/2018



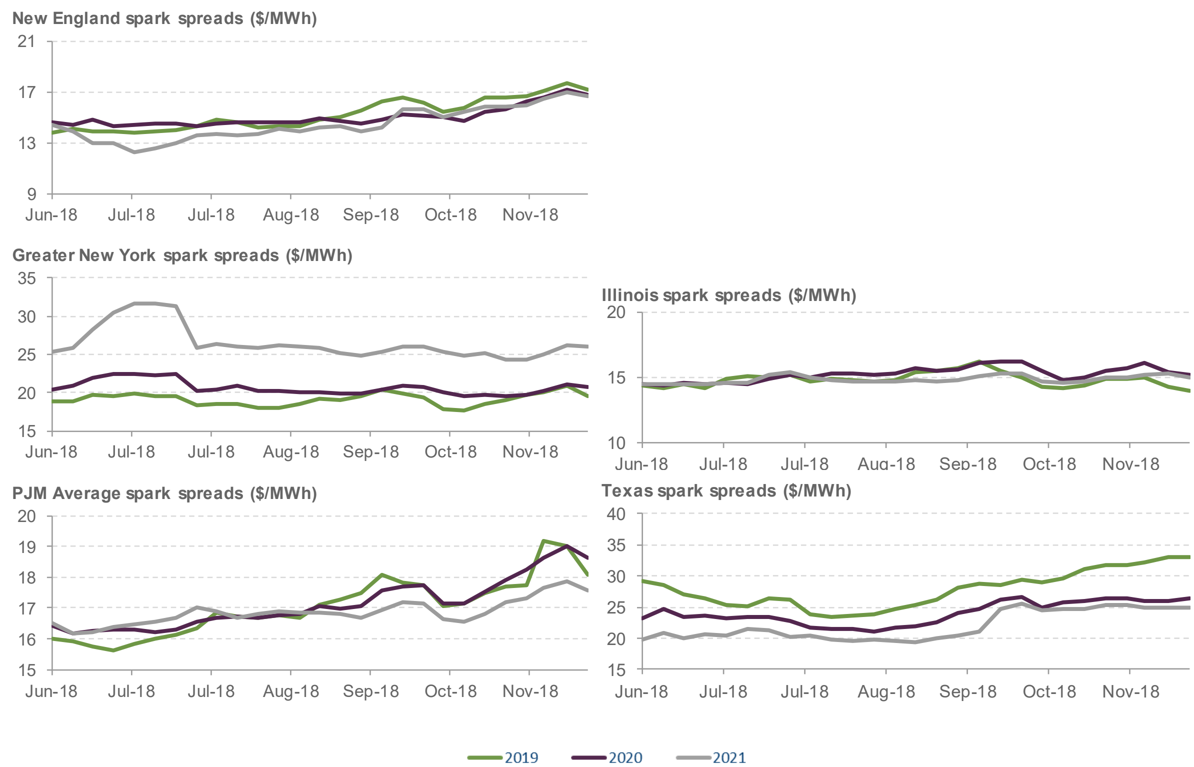
Source: ICE, Bentek, Guggenheim Securities, LLC.

Figure 19: Power forward curves 2019-2021 as of 12/07/2018



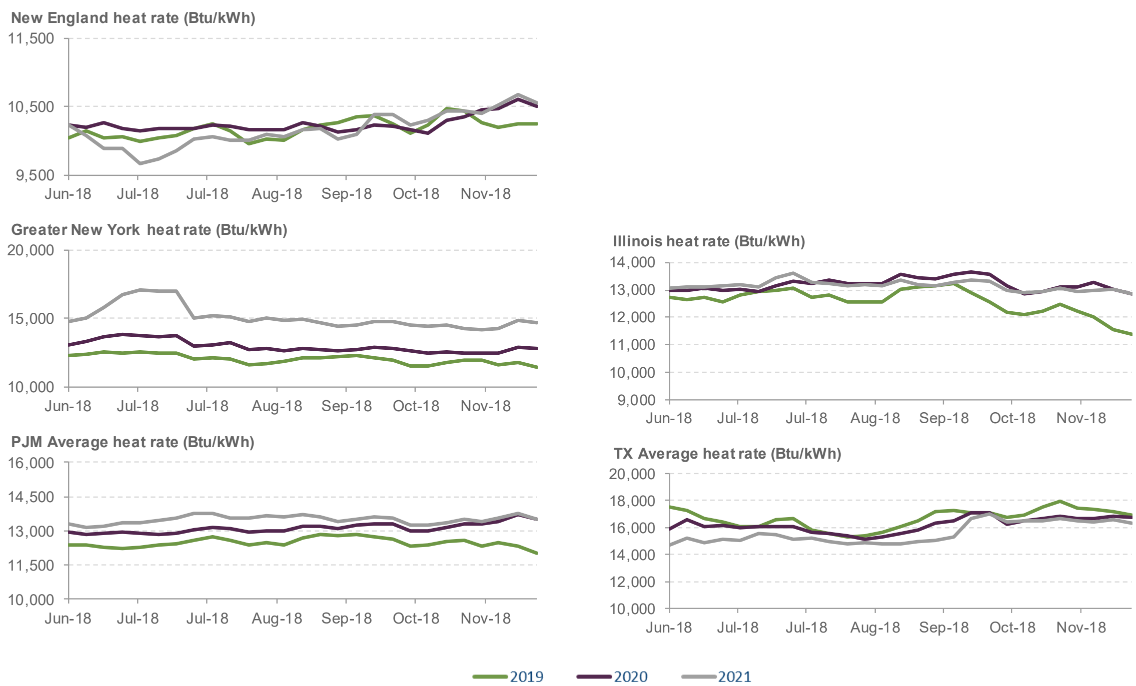
Source: ICE, Bentek, Guggenheim Securities, LLC.

Figure 20: Forward spark spreads 2019-2021 as of 12/07/2018



Source: ICE, Bentek, Guggenheim Securities, LLC.

Figure 21: Forward heat rate 2019-2021 as of 12/07/2018



Source: ICE, Bentek, Guggenheim Securities, LLC.

Forward commodity curves for natural gas, coal, and power

The charts below highlight the curves for natural gas, power, coal, heat rates, and spreads (spark, dark, and quark) that now run our GenCo models. The nature of the forward curve reflects the need of industry participants to hedge their risk even though companies may have a more optimistic view of the pricings. **Our integrated and IPP models are now driven by the 12/07/2018 forward curves presented below – generally driving estimates higher vs. our last mark on 9/28.**

Figure 22: Forward commodity curves – Guggenheim Price Deck

12/7/2018	Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022		
SPREAD SUMMARY $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
Spark Spread (Natural Gas)	20.72	7.52	14.49	24.77	7.47	16.35	21.47	6.26	14.05	20.91	6.74	13.99	19.81	6.02	13.06
Dark Spread (Coal)	16.86	4.64	10.95	7.76	-5.21	1.44	1.39	-10.51	-4.42	-1.67	-12.66	-7.05	-4.59	-15.14	-9.76
Quark Spread (Nuclear)	51.15	37.19	44.55	38.18	25.72	32.17	33.63	22.17	28.08	32.93	22.22	27.73	32.45	22.06	27.39

"Peak" prices refer to average daily peak prices, not summer seasonal peak periods.

	Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022		
POWER PRICES $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	99.30	82.50	90.90	52.39	40.72	46.55	49.72	37.69	43.70	48.76	37.20	42.98	48.59	36.82	42.70
Greater New York	70.85	55.35	63.10	49.35	36.10	42.72	45.84	31.53	38.68	48.97	35.07	42.02	54.11	37.83	45.97
Penn/Jersey/Maryland	55.08	43.18	49.13	43.01	32.16	37.59	38.80	28.37	33.58	36.59	26.28	31.43	35.45	25.77	30.61
Midwest	49.00	36.65	42.83	40.55	29.98	35.26	36.72	26.57	31.64	34.75	25.24	30.00	33.34	23.99	28.66
Illinois	43.10	29.55	36.33	35.99	25.88	30.94	33.50	23.81	28.65	33.17	23.59	28.38	32.04	23.15	27.60
Southeast/Gulf Coast	41.79	33.93	37.86	35.52	27.41	31.46	33.50	25.12	29.31	32.86	24.98	28.92	32.23	24.52	28.38
Texas	44.91	33.64	39.28	57.10	27.47	42.28	46.07	21.18	33.62	43.66	20.15	31.91	40.75	17.91	29.33
Desert Southwest *	60.00	43.00	52.69	43.35	28.62	37.02	36.53	24.08	31.18	36.27	26.32	31.99	36.68	27.99	32.94
So Cal *	86.00	58.00	73.96	52.30	38.94	46.56	44.40	33.89	39.88	43.58	34.93	39.86	43.61	35.99	40.33
North CA *	82.95	56.00	71.36	50.35	38.61	45.30	42.33	33.59	38.57	43.45	35.17	39.89	44.15	36.26	40.76
Pac Northwest *	94.12	56.32	77.87	46.24	27.77	38.30	39.64	24.65	33.19	42.40	26.75	35.67	42.98	27.91	36.50
US Average	**54.94**	**40.39**	**48.08**	**43.38**	**29.54**	**36.71**	**38.35**	**25.82**	**32.29**	**37.55**	**25.79**	**31.85**	**36.85**	**25.47**	**31.33**

* Western flat power is 57% peak, 43% off peak, due to its 6X16 bid block schedule. Other regional flat prices are 50% peak, 50% off peak due to a 5X16 bid block schedule.

	Cal-2018		Cal-2019		Cal-2020			Cal-2021			Cal-2022		
GAS PRICES $/mmbtu	Basis	$/mmbtu	Basis	$/mmbtu	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	7.35	11.80	1.86	5.07		2.05	4.75		2.01	4.65		1.99	4.67
Greater New York	2.40	6.85	1.01	4.22		0.91	3.60		0.67	3.31		0.60	3.27
Penn/Jersey/Maryland	1.27	5.72	0.36	3.57		0.18	2.87		0.03	2.67		-0.05	2.62
Midwest	0.10	4.55	-0.15	3.06		-0.21	2.48		-0.21	2.43		-0.19	2.49
Illinois	0.36	4.81	-0.14	3.08		-0.13	2.56		-0.13	2.51		-0.12	2.56
Southeast/Gulf Coast	**4.45**	**4.45**	**3.22**	**3.22**		**2.69**	**2.69**		**2.64**	**2.64**		**2.68**	**2.68**
Texas	0.07	4.52	0.07	3.29		0.02	2.72		0.02	2.66		0.00	2.67
Desert Southwest	-2.52	1.93	-1.66	1.56		-0.70	2.00		-0.47	2.17		-0.41	2.27
So Cal	1.62	6.07	0.06	3.28		-0.14	2.55		-0.12	2.52		-0.13	2.55
North CA	0.88	5.33	-0.37	2.85		-0.53	2.17		-0.52	2.12		-0.54	2.14
Pac Northwest	0.72	5.17	-0.44	2.77		-0.59	2.10		-0.58	2.06		-0.59	2.09

	Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022		
SPARK SPREADS $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	16.69	-0.11	8.29	16.89	5.22	11.05	16.48	4.46	10.47	16.22	4.66	10.44	15.92	4.15	10.03
Greater New York	22.89	7.39	15.14	19.78	6.54	13.16	20.61	6.30	13.46	25.82	11.92	18.87	31.20	14.92	23.06
Penn/Jersey/Maryland	15.03	3.13	9.08	17.99	7.14	12.56	18.68	8.25	13.46	17.93	7.62	12.77	17.09	7.41	12.25
Midwest	17.18	4.83	11.00	19.09	8.53	13.81	19.35	9.20	14.28	17.76	8.24	13.00	15.92	6.57	11.24
Illinois	9.44	-4.11	2.67	14.44	4.34	9.39	15.57	5.88	10.73	15.59	6.01	10.80	14.15	5.27	9.71
Southeast/Gulf Coast	10.63	2.77	6.70	13.00	4.89	8.95	14.65	6.27	10.46	14.40	6.52	10.46	13.50	5.79	9.64
Texas	13.28	2.01	7.65	34.10	4.47	19.29	27.04	2.15	14.60	25.07	1.56	13.32	22.05	-0.79	10.63
Desert Southwest	46.50	29.50	39.19	32.44	17.70	26.10	22.54	10.09	17.19	21.07	11.13	16.80	20.80	12.11	17.06
So Cal	43.50	15.50	31.46	29.34	15.98	23.60	26.52	16.02	22.01	25.97	17.32	22.25	25.78	18.17	22.51
North CA	45.67	18.72	34.08	30.42	18.68	25.37	27.17	18.43	23.41	28.61	20.33	25.05	29.19	21.29	25.79
Pac Northwest	57.92	20.12	41.67	26.84	8.36	18.89	24.94	9.95	18.50	28.00	12.36	21.27	28.35	13.28	21.87
	20.72	**7.52**	**14.49**	**24.77**	**7.47**	**16.35**	**21.47**	**6.26**	**14.05**	**20.91**	**6.74**	**13.99**	**19.81**	**6.02**	**13.06**

Source: ICE, Bentek, Guggenheim Securities, LLC.

Forward commodity curves – Guggenheim Price Deck *(continued…)*

	Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022		
COAL PRICES	$/Sh ton	$/mmbtu	$/MWH	$/Sh ton	$/mmbtu	$/MWH	$/Sh ton	$/mmbtu	$/MWH	$/Sh ton	$/mmbtu	$/MWH	$/Sh ton	$/mmbtu	$/MWH
Central Appalachian	77.50	3.23	32.29	81.56	3.40	33.99	85.64	3.57	35.68	89.92	3.75	37.47	94.42	3.93	39.34
Powder River Basin	12.50	0.71	7.10	13.00	0.74	7.39	13.65	0.78	7.76	14.33	0.81	8.14	15.05	0.85	8.55

CAPP DARK SPREADS $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	67.01	50.21	58.61	18.40	6.74	12.57	14.03	2.01	8.02	11.29	-0.27	5.51	9.25	-2.53	3.36
Greater New York	38.56	23.06	30.81	15.36	2.12	8.74	10.15	-4.16	3.00	11.50	-2.40	4.55	14.77	-1.51	6.63
Penn/Jersey/Maryland	22.78	10.88	16.83	9.03	-1.82	3.60	3.12	-7.32	-2.10	-0.88	-11.19	-6.04	-3.90	-13.58	-8.74
Midwest	16.71	4.36	10.53	6.56	-4.01	1.28	1.03	-9.11	-4.04	-2.71	-12.23	-7.47	-6.00	-15.35	-10.68
Illinois	10.81	-2.74	4.03	2.00	-8.10	-3.05	-2.19	-11.88	-7.03	-4.30	-13.88	-9.09	-7.30	-16.19	-11.75
Southeast/Gulf Coast	9.50	1.64	5.57	1.53	-6.58	-2.52	-2.18	-10.56	-6.37	-4.61	-12.49	-8.55	-7.11	-14.82	-10.97
Texas	12.62	1.35	6.99	23.11	-6.52	8.30	10.39	-14.51	-2.06	6.19	-17.32	-5.56	1.41	-21.43	-10.01
Desert Southwest	27.71	10.71	20.40	9.37	-5.37	3.03	0.84	-11.61	-4.51	-1.20	-11.15	-5.48	-2.67	-11.35	-6.40
So Cal	53.71	25.71	41.67	18.32	4.96	12.57	8.72	-1.79	4.20	6.11	-2.54	2.39	4.27	-3.35	0.99
North CA	50.66	23.71	39.07	16.36	4.62	11.31	6.64	-2.10	2.89	5.99	-2.30	2.42	4.81	-3.08	1.41
Pac Northwest	61.83	24.03	45.57	12.26	-6.22	4.31	3.95	-11.04	-2.49	4.93	-10.72	-1.80	3.64	-11.43	-2.84
	16.86	**4.64**	**10.95**	**7.76**	**-5.21**	**1.44**	**1.39**	**-10.51**	**-4.42**	**-1.67**	**-12.66**	**-7.05**	**-4.59**	**-15.14**	**-9.76**

	Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022		
QUARK SPREADS $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	94.65	77.85	86.25	47.74	36.07	41.90	45.07	33.04	39.05	44.11	32.55	38.33	43.94	32.17	38.05
Greater New York	66.20	50.70	58.45	44.70	31.45	38.07	41.19	26.88	34.03	44.32	30.42	37.37	49.46	33.18	41.32
Pen/Jersey/Mrylnd	50.43	38.53	44.48	38.36	27.51	32.94	34.15	23.72	28.93	31.94	21.63	26.78	30.80	21.12	25.96
Midwest	44.35	32.00	38.18	35.90	25.33	30.61	32.07	21.92	26.99	30.10	20.59	25.35	28.69	19.34	24.01
Illinois	38.45	24.90	31.68	31.34	21.23	26.29	28.85	19.16	24.00	28.52	18.94	23.73	27.39	18.50	22.95
Southeast/Gulf Coast	37.14	29.28	33.21	30.87	22.76	26.81	28.85	20.47	24.66	28.21	20.33	24.27	27.58	19.87	23.73
Texas	40.26	28.99	34.63	52.45	22.82	37.63	41.42	16.53	28.97	39.01	15.50	27.26	36.10	13.26	24.68
Desert Southwest	55.35	38.35	48.04	38.70	23.97	32.37	31.88	19.43	26.53	31.62	21.67	27.34	32.03	23.34	28.29
So Cal	81.35	53.35	69.31	47.65	34.29	41.91	39.75	29.24	35.23	38.93	30.28	35.21	38.96	31.34	35.68
North CA	78.30	51.35	66.71	45.70	33.96	40.65	37.68	28.94	33.92	38.80	30.52	35.24	39.50	31.61	36.11
Pac Northwest	89.47	51.67	73.22	41.59	23.12	33.65	34.99	20.00	28.54	37.75	22.10	31.02	38.33	23.26	31.85
	51.15	**37.19**	**44.55**	**38.18**	**25.72**	**32.17**	**33.63**	**22.17**	**28.08**	**32.93**	**22.22**	**27.73**	**32.45**	**22.06**	**27.39**

	Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022		
PEAK	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
Greater New York															
Zone G	64.25	53.00	58.63	44.78	34.47	39.62	41.19	29.82	35.50	43.13	32.56	37.85	46.97	35.02	40.99
Zone J	70.85	55.35	63.10	49.35	36.10	42.72	45.84	31.53	38.68	48.97	35.07	42.02	54.11	37.83	45.97
Zone A	52.50	37.85	45.18	43.23	26.53	34.88	38.33	22.31	30.32	38.74	23.20	30.97	41.48	24.28	32.88
Average, NY Pool	**62.53**	**48.73**	**55.63**	**45.79**	**32.37**	**39.08**	**41.79**	**27.88**	**34.84**	**43.62**	**30.28**	**36.95**	**47.52**	**32.38**	**39.95**
Zone G Heat Rate	9,378	7,736	8,557	10,604	8,162	9,383	11,431	8,276	9,853	13,043	9,847	11,445	14,350	10,698	12,524
Zone J Heat Rate	10,342	8,079	9,210	11,685	8,548	10,117	12,721	8,749	10,735	14,809	10,605	12,707	16,531	11,557	14,044
Zone A Heat Rate	7,663	5,525	6,594	10,238	6,282	8,260	10,639	6,191	8,415	11,715	7,014	9,365	12,672	7,419	10,045

Source: ICE, Bentek, Guggenheim Securities, LLC.

See pages 278 - 279 for analyst certification and important disclosures.

Forward commodity curves – Guggenheim Price Deck *(continued…)*

	Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022		
IMPLIED HEAT RATES	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**
New England	8,415	6,991	7,703	10,330	8,030	9,180	10,471	7,938	9,205	10,490	8,002	9,246	10,412	7,889	9,150
Greater New York	10,342	8,079	9,210	11,685	8,548	10,117	12,721	8,749	10,735	14,809	10,605	12,707	16,531	11,557	14,044
Penn/Jersey/Maryland	9,627	7,547	8,587	12,032	8,997	10,514	13,499	9,868	11,684	13,727	9,858	11,793	13,519	9,828	11,673
Midwest	10,779	8,062	9,420	13,229	9,782	11,505	14,799	10,710	12,755	14,312	10,394	12,353	13,397	9,638	11,518
Illinois	8,963	6,145	7,554	11,693	8,410	10,051	13,079	9,297	11,188	13,206	9,392	11,299	12,538	9,062	10,800
Southeast/Gulf Coast	9,389	7,623	8,506	11,043	8,522	9,782	12,437	9,327	10,882	12,462	9,474	10,968	12,044	9,162	10,603
Texas	9,939	7,446	8,692	17,380	8,360	12,870	16,950	7,791	12,370	16,443	7,589	12,016	15,253	6,704	10,978
Desert Southwest	31,112	22,297	27,322	27,808	18,355	23,743	18,284	12,053	15,605	16,711	12,128	14,740	16,171	12,341	14,524
So Cal	14,166	9,554	12,183	15,946	11,872	14,194	17,387	13,272	15,617	17,327	13,886	15,848	17,124	14,133	15,838
North CA	15,575	10,514	13,399	17,685	13,562	15,912	19,549	15,511	17,813	20,491	16,585	18,811	20,653	16,961	19,066
Pac Northwest	18,202	10,892	15,058	16,682	10,018	13,816	18,880	11,740	15,810	20,618	13,010	17,346	20,563	13,354	17,463
Market Heat Rate	**13,113**	**9,841**	**11,477**	**15,078**	**10,458**	**12,768**	**15,051**	**10,320**	**12,686**	**14,949**	**10,447**	**12,698**	**14,435**	**10,148**	**12,291**

	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
ERCOT															
Houston	45.29	36.47	40.88	58.11	27.92	43.01	46.74	22.33	34.53	45.17	21.68	33.42	41.43	19.00	30.22
North	44.05	32.59	38.32	56.10	26.76	41.43	45.40	20.66	33.03	42.71	19.32	31.01	40.08	17.05	28.56
South	45.81	32.19	39.00	57.54	28.06	42.80	46.37	20.71	33.54	43.48	19.78	31.63	41.03	18.04	29.54
Average, ERCOT Pool	**44.91**	**33.64**	**39.28**	**57.10**	**27.47**	**42.28**	**46.07**	**21.18**	**33.62**	**43.66**	**20.15**	**31.91**	**40.75**	**17.91**	**29.33**

PRB DARK SPREADS $/MWH	Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022		
	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	92.20	75.40	83.80	45.00	33.34	39.17	41.96	29.94	35.95	40.62	29.05	34.84	40.04	28.27	34.15
Greater New York	63.75	48.25	56.00	41.96	28.71	35.34	38.08	23.77	30.93	40.83	26.93	33.88	45.56	29.28	37.42
Penn/Jersey/Maryland	47.97	36.07	42.02	35.63	24.78	30.20	31.05	20.61	25.83	28.44	18.13	23.29	26.90	17.22	22.06
Midwest	41.90	29.55	35.72	33.16	22.59	27.88	28.96	18.82	23.89	26.61	17.10	21.86	24.79	15.44	20.11
Illinois	36.00	22.45	29.22	28.60	18.50	23.55	25.74	16.05	20.90	25.02	15.44	20.23	23.49	14.60	19.05
Southeast/Gulf Coast	34.69	26.83	30.76	28.13	20.02	24.08	25.75	17.37	21.56	24.72	16.84	20.78	23.68	15.97	19.83
Texas	37.81	26.54	32.17	49.71	20.08	34.90	38.32	13.42	25.87	35.52	12.01	23.76	32.20	9.36	20.78
Desert Southwest	52.90	35.90	45.59	35.97	21.23	29.63	28.77	16.32	23.42	28.12	18.18	23.85	28.13	19.44	24.39
So Cal	78.90	50.90	66.86	44.92	31.56	39.17	36.64	26.14	32.13	35.44	26.78	31.72	35.06	27.44	31.78
North CA	75.85	48.90	64.26	42.96	31.22	37.91	34.57	25.83	30.82	35.31	27.03	31.75	35.60	27.71	32.21
Pac Northwest	87.02	49.22	70.76	38.86	20.38	30.91	31.88	16.89	25.44	34.25	18.61	27.53	34.43	19.36	27.95
U.S. National	**42.78**	**28.45**	**35.92**	**34.79**	**20.03**	**27.58**	**29.52**	**16.29**	**23.05**	**28.41**	**15.70**	**22.19**	**26.81**	**14.62**	**20.84**

	Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022		
	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
PJM															
East	55.75	43.35	49.55	43.47	32.52	37.99	39.27	28.67	33.97	36.79	26.03	31.41	35.87	26.07	30.97
West	54.40	43.00	48.70	42.55	31.81	37.18	38.34	28.06	33.20	36.38	26.52	31.45	35.02	25.47	30.24
Average,PJM Pool	**55.08**	**43.18**	**49.13**	**43.01**	**32.16**	**37.59**	**38.80**	**28.37**	**33.58**	**36.59**	**26.28**	**31.43**	**35.45**	**25.77**	**30.61**
PJM East Heat Rate	9,745	7,577	8,661	12,160	9,096	10,628	13,660	9,974	11,817	13,803	9,766	11,784	13,681	9,942	11,812
PJM West Heat Rate	9,509	7,516	8,512	11,904	8,898	10,401	13,337	9,763	11,550	13,651	9,951	11,801	13,357	9,713	11,535

Source: Guggenheim Securities, ICE, Bentek Energy, NYMEX, ISO/RTO.

Source: ICE, Bentek, Guggenheim Securities, LLC.

VALUATION: ENTERING FINAL ROUNDS? WE DIDN'T HEAR A BELL... UTILITIES CAN STILL WIN BUT PICK YOUR WINNERS WISELY

Is it time to tap out? Not yet… utilities have some fight left in them

Sector valuation not great but utilities have some stamina remaining – getting close to latter rounds so pick your winners and losers wisely. Regulated utilities look somewhat pricey vs. forward yield expectations, although several externalities (e.g., macro/geopolitical uncertainties, broad market in and of itself trading at peak levels) continue to support the regulated group trading at a higher altitude than that stipulated solely by projected interest rates in the NT. More specifically, the regulated **group currently trades at 16.8x based on consensus 2020E EPS, which is beyond fundamentals and forward yield expectations that would imply a P/E closer to ~17x** (note – we exclude EIX, PCG, PPL, and SCG from the average given extraordinary considerations impacting their current valuation). **Given our viewpoint that we will continue to see capital flows into the US likely putting some ceiling toward the longer end of the yield curve coupled with our belief that utilities can trade beyond rate fundamentals in the NT given several other externalities, we continue to see some value with select names**, especially those with higher and more visible growth prospects, trading at less elevated levels than the sector and those levered to broader macro/energy trends including LNG and renewables.

Focus on higher growth, levered to macro/energy trends... or bargain shop

… though this remains no longer a sector call - investors will increasingly be on the hunt for ideas within the sector – stock picking will continue to matter in 2019 as was the case in 2018; the **only electric "bond surrogates" we really continue to recommend out of our 40+ utility coverage are DUK, ES, ETR, FE and WEC** – which either **trade at appealing valuations** (*i.e., DUK, ETR, FE*), have **other factors at play that could contribute to more growth than investors are giving credit for** (*i.e., DUK, ES, WEC*), and/or have **upcoming potential catalysts that could re-rate shares to the upside where investors have been slow to catch on** (*i.e., DUK, ETR, FE*); **other than these names, we continue to favor utilities more exposed to broader power/energy trends** (*i.e., SRE, NEE, D, VST, NRG, EXC, PEG, CNP*).

We see minimal upside or downside for a utility basket… some stocks can work well

How far, how long? Given the current BBB yield curve, we see the group as fairly valued (~17x fair value vs. the current 16.8x multiple implies ~1% upside; factoring in the group's average dividend yield of 3.5% implies ~4.5% total return). Although we would note that premium valuation levels could be sustained for some time as has been the case historically (i.e., as charts below display) when there have been several externalities at play: **this begs the question** – **How far, for how long? While we are in the latter rounds, utilities still have runway as several externalities** (e.g., macro/geopolitical uncertainties, thirst for yield, broad market trading at elevated levels, etc.) **should continue to support the group trading beyond fundamentals and forward-yield expectations in the NT**; Or in other words, **other factors can be attributed to the movement in utility values above and beyond interest rate fundamentals all else equal…** But, again, we are now likely in the final rounds: 2019 will likely continue to dictate a utility stock picker's market.

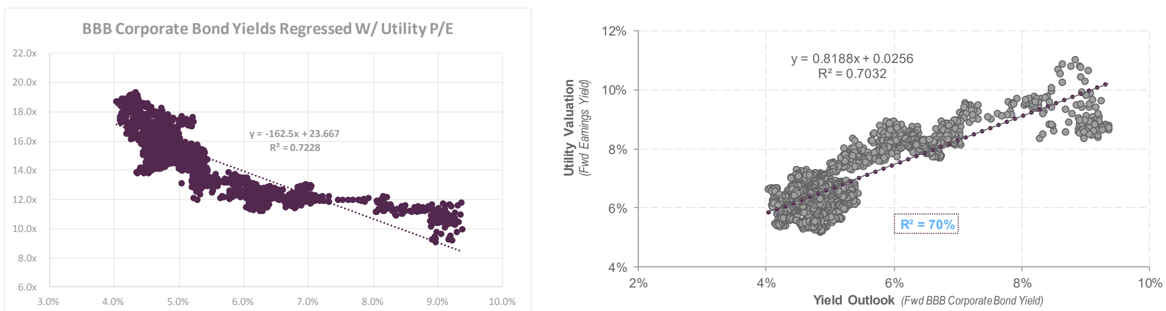
…other externalities at play that could keep sector elevated

Shifting away from pure yields in isolation, sever factors should help continue to provide a glide path for utilities at least in the NT. As a reminder, the R^2 of our regression model only captures ~73% of the movement in utility valuation (i.e., P/E multiple) being explained by forward bond yields, suggesting there are other factors/externalities that aren't accounted for in the implied valuation as mentioned above – i.e., **utilities still remain an attractive risk/reward option given mixed market sentiment.** But, this isn't a sector call for us - **Investors in 2019 are expected to increasingly begin to distinguish between names within the utility sector as**

we believe stock picking matters now more than ever… we already saw strong evidence of this pattern in 2018.

As depicted in the figures below, there is a relatively strong inverse relationship between corporate bond yields and P/E valuations and, conversely, a positive correlation between utility earnings yield and corporate bond yields over the long term. **Looking to '19 and beyond, we think investors should increasingly look for ideas within the sector – it's not a sector call anymore.**

Figure 23**: Forward P/E multiples and earnings yield vs. corporate bond yields**



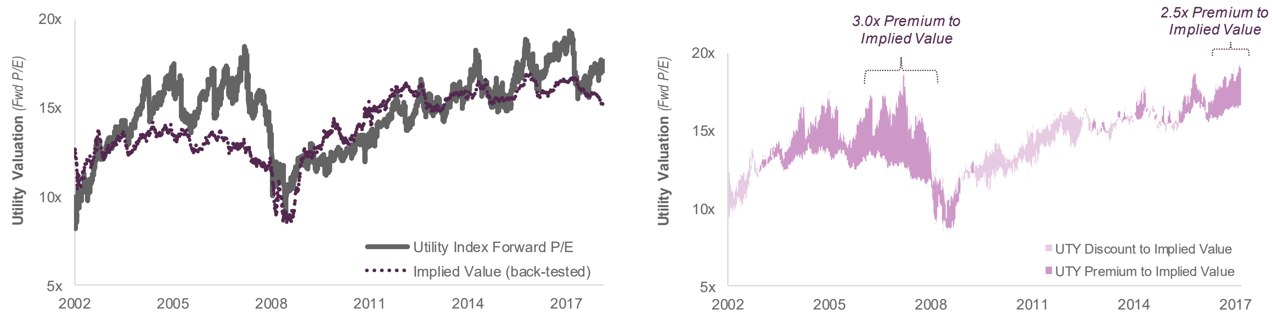
Source: Bloomberg, Guggenheim Securities, LLC.

Relationship w/BBB corp bond yields and utility values remains sound...

The relationship between forward P/E multiples, earnings yield and corporate bond yields reinforces our stance that regulated utilities should trade <u>at least</u> in line with "expected" bond yields in "normal" times. In the past, this relationship has broken down as relationships tend to do during periods of market turmoil. While past events like the tech bubble, CA power crisis, Enron, Iraq War, U.S. recession, and financial crisis have created noise, they still maintained their inverse relationship albeit weakened materially as the chart below clearly displays. **Following these periods of market turmoil, the yield-P/E relationship strengthened and mean reverted.** That said, as we mention above, the R^2 of our regression model captures ~73% of the movement in regulated utility multiples being explained by corp. bond yields, suggesting that there are several other factors that aren't accounted for in the valuation implied by forward yield expectations.

Back-testing our regression analysis supports the notion that utilities can trade at levels above what is dictated purely by yield expectations. On the charts below, we plot the historical trading multiple (i.e., two-year forward P/E) of the utility index back to 2002 (the grey line on the chart to the left) vs. the valuation that would have been implied by our regression analysis (the purple line on the chart to the left below), and isolate the spread in the chart to the right (the light purple range on the chart to the right) – Illustrating an ~three-turn premium observed and maintained historically during periods of uncertainty (i.e., macro/geopolitical risks, mixed market sentiment, U.S. political uncertainty, etc.).

Figure 24: Valuation levels and premium justified by back-testing regression

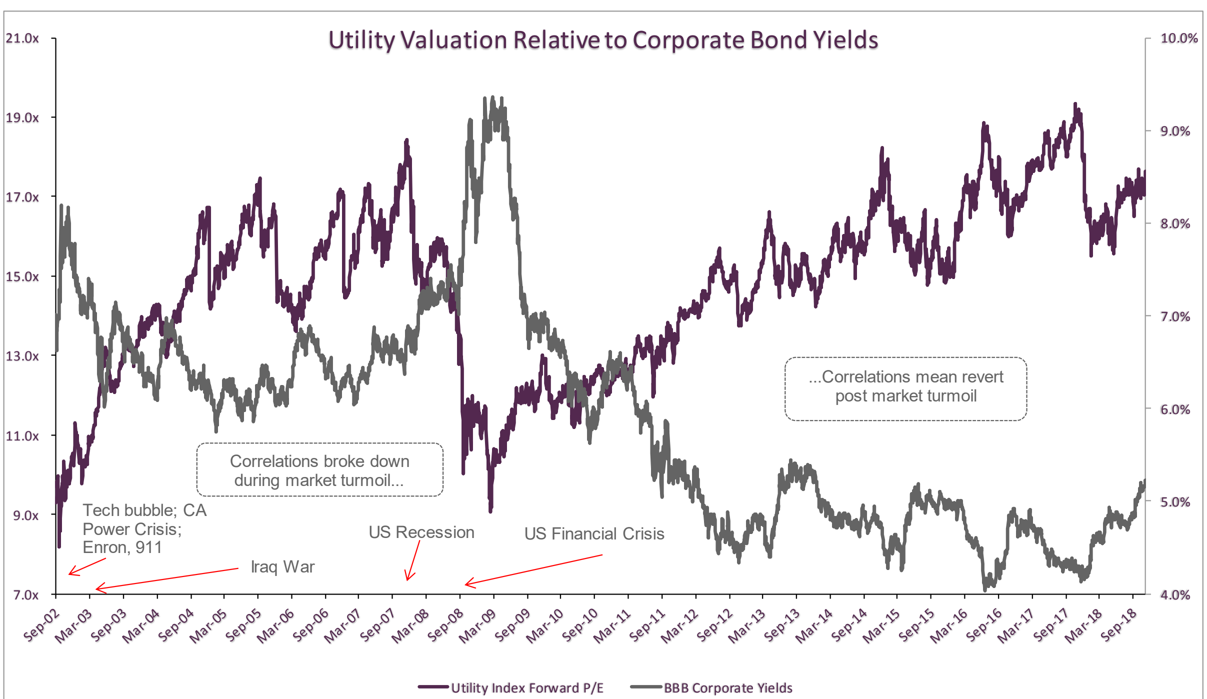


Source: Bloomberg, Guggenheim Securities, LLC.

> *...Yield/utility value relationship only breaks down during turmoil*

Historical relationship between BBB corporate bond yields and regulated utility valuations remains fundamentally intact. Our regulated P/E multiple is fundamentally based on a regression of bond yields, using the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years excluding periods of market turmoil when the relationship broke down (see Figure 25 below). Excluding these periods, regulated utilities have exhibited strong correlation, since both assets serve as defensive positions in an investment portfolio.

Figure 25: Utility valuation relative to BBB corporate bond yields



Source: Bloomberg, Guggenheim Securities, LLC.

4.2% 2020 projected BBB bond yield now embedded in our P/E multiple

How do we arrive at our target utility multiple? Incorporating the forward yield outlook for corporate bonds of 4.2% for 2020, we derive: **(1)** our target multiple for regulated utilities and **(2)** where we believe the group should fundamentally trade versus forward interest rate expectations. The current 2020E 4.2% corporate bond yield curve would imply a 2020 regulated P/E multiple of ~17x. Using the ~17x multiple derived from our regression model, in addition to company-specific discounts/premiums, we derive our 12-month price targets before applying a full year discount factor to 2019 fundamentals.

Figure 26: P/E sensitivity to bond yields

BBB Yield (%)	2020E P/E Multiple	Multiple Premium / (Discount)	Implied Upside / (Downside)
3.0%	18.8x	2.0x	-10%
3.2%	18.5x	1.6x	-9%
3.4%	18.2x	1.3x	-7%
3.6%	17.8x	1.0x	-5%
3.8%	17.5x	0.6x	-4%
4.0%	17.2x	0.3x	-2%
4.2%	**17x**		
4.4%	16.5x	-0.3x	2%
4.6%	16.2x	-0.6x	4%
4.8%	15.9x	-1.0x	6%
5.0%	15.6x	-1.3x	8%
5.2%	15.2x	-1.6x	11%
5.4%	14.9x	-2.0x	13%

Slope	(1.6)	a
Intercept	23.7	b
'20 BBB Bond Yield (%)	4.2%	c
Projected 2019 P/E Multiple	**17x**	d = (a*c) + b

Where group currently trades

Where group should trade versus forward corporate bond yield expectations

Source: Bloomberg, Guggenheim Securities, LLC estimates and analysis.

Summary takeaways from our regression analysis for regulated utilities:

- **Fair value for utilities on the current '20 BBB bond yield curve equates to 17x.**
  - Our regression incorporates a projected 2020 YE BBB corporate bond yield of 4.2%, which implies 17x fair value for regulated utilities on 2020E earnings – this is where we believe the group should trade if it were to solely reflect forward interest rate fundamentals.
  - We admit the group can trade above levels dictated solely by interest rates with several externalities at play that could continue to support the group trading beyond fundamentals and forward-yield expectations (e.g., macro/geopolitical uncertainties, thirst for yield, capital flows keeping long end of the bond yield curve low, etc.).
- **Return implication for the group, on average:**
  - Given the current outlook for rates, we see modest upside or downside risk for the group as a whole (~17x fair value vs. the current 16.8x multiple implies a ~4.5% total return; factoring in the group's average dividend yield of 3.5%, implying minimal downside from a total return perspective).
  - Also, while valuations are close to peak levels on an absolute basis, utilities have enjoyed higher premiums relative to the market, and the

See pages 278 - 279 for analyst certification and important disclosures.

broader market is trading at all-time highs in its own right and dividend yields maintain an attractive spread above Treasuries.

- **Therefore, we also incorporate a 17x regulated target P/E multiple for peer average regulated utilities.**
    - Before company-specific discounts/premiums.

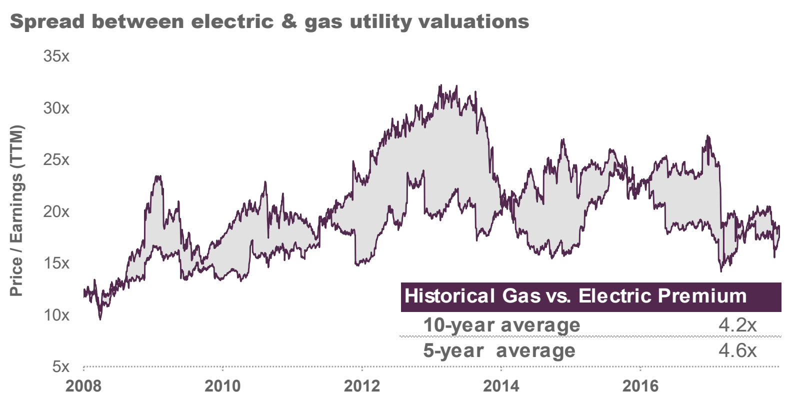
LET'S TALK GAS – A PREMIUM IN ITS OWN RIGHT

A 4.0x premium is applied for lower-risk growth, better regulated construct, M&A, etc.

Gas utility premium for lower-risk growth, better regulated construct, less lag, M&A, etc. Gas utilities trade at a premium to their electric counterparts as they typically demonstrate higher growth, lower risk with more constructive rate design to facilitate cost recovery, and have more recently reflected an M&A premium as larger electric utilities among other bidders have actively acquired gas distribution/midstream platforms in pursuit of growth.

For gas utilities, we ascribe a 4.0x premium relative to their electric counterparts – properly reflects mid-cycle despite the ebbs and flows of the spread. For companies primarily engaged in local gas distribution activities, or those with a significant portion of gas utility earnings to warrant a sum-of-the-parts valuation, we ascribe a 4.0x premium to our 17.0x regulated utility target multiple, which we derive from valuation implied by current bond yield expectations as described above. The 4.0x premium reflects the historical spread between gas and electric utilities over the past ~5 and ~10 years, as illustrated in Figure 27 below.

Figure 27: Gas-to-Electric P/E Spread



Note: Based on trailing-twelve-month P/E ratios for SNL's Gas Utility Index vs. Electric Utility Index.
Source: SNL, Guggenheim Securities, LLC.

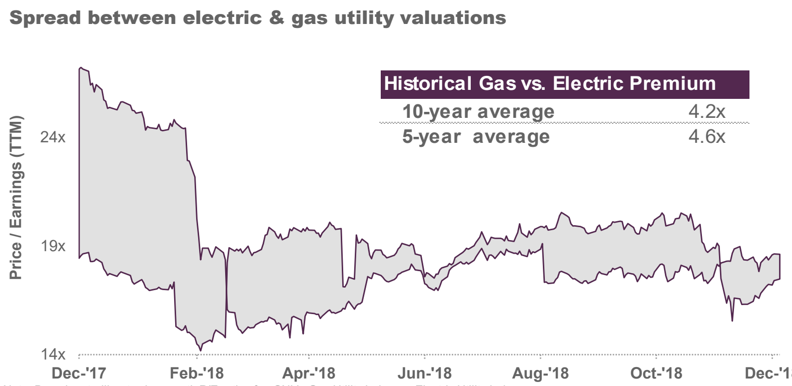
Spread between gas and electric utility valuations moves in cycles

The ebb and flow of the spread clearly stands out, but not dissipating – spreads typically mean revert. The seemingly cyclical expansion and contraction of the spread between gas and electric utility valuations is clearly pronounced in the chart above (**Error! Reference source not found.**); we've entertained some debate around the spread dissipating in recent months, which it has, although historically it has reverted every ~2 years. The contraction and expansion of the spread can be attributed to midstream components of the gas utility index with commodity exposure in earlier years, and more recently (and interestingly) to the acquisition of gas utilities in the index by their electric counterparts at relatively lofty valuations – effectively removing names that were lifting the composite index by trading with an M&A premium. In the last year, we would highlight contraction of the spread attributable to the removal of Questar (acquired by D) and

Piedmont (acquired by DUK) from the gas utility index, and our view is that the spread has merely reset as the next wave of M&A incubates – see Figure 28 below.

We believe gas utility valuations are set to expand again with the next wave of M&A – it moves in cycles; investors should continue to place valuation premiums for gas vs. their electric counterparts outside of just an M&A argument. M&A is just one of several observations.

Figure 28: Spread between electric & gas utility valuations

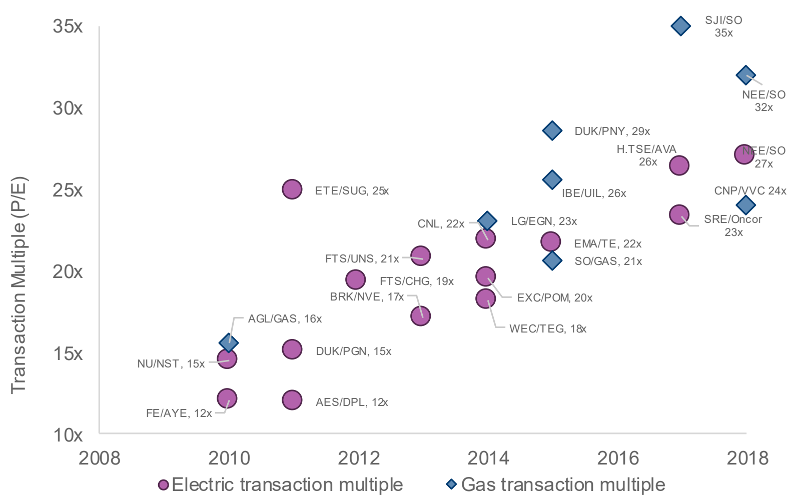


Note: Based on trailing-twelve-month P/E ratios for SNL's Gas Utility Index vs. Electric Utility Index.
Source: SNL, Guggenheim Securities, LLC.

Historical M&A transaction multiples support our 4x premium assumption

M&A transaction premiums for electric and gas utility acquisitions further support our target multiples. The average transaction multiple (P/E) for both electric and gas utilities **over the past 10 years** coincides precisely with our respective target multiples; ~+17x average for electric utility acquisitions (*note - over the past five years, the average electric utility transaction has garnered a ~22x multiple*), and 21x average for gas utility acquisitions – the same as our respective target multiples for electric and gas utilities.

Figure 29: Recent utility transaction multiples (electric vs. gas)



Note: Multiples are on 2-year forward consensus estimates at the time the transaction was announced.
Source: SNL, Guggenheim Securities, LLC.

Assuming the historical spread premium for gas utilities vs. their electric counterparts into our regression analysis, we arrive at 21x – a premium relative to the current trough we see in the gas/electric valuation spread.

See pages 278 - 279 for analyst certification and important disclosures.

Valuation Methodology Summary

For **Regulated Utilities**, our valuation analysis is based on a long-term regression of BBB corporate bond yields and P/E multiples, dating back to 1980, and encompassing various macro/policy environments (e.g., pre- and post-dividend tax rate changes).

For **Integrated Utilities**, we utilize a sum-of-the-parts methodology, applying the regulated methodology described above to regulated segments, applying an EV/open-EBITDA multiple to unregulated generation segments, and we adjust for the NPV of hedges, mid-cycle capacity payments, and future liabilities/benefits (e.g., nuclear subsidies, parent drag).

For **Independent Power Producers**, our valuation turns to unlevered free cash flows, conversion cycles, balance sheet position, and discounted cash flow analysis with a focus on asset type, tech, and age. We value IPPs using an unlevered discounted cash flow methodology before accounting for growth CapEx through 2024 terminal year, at which point we apply an asset-weighted terminal multiple. We then subtract net debt (recourse) to arrive at equity value and price targets. Our IPPs are marked to the 12/07/2018 forward curves.

M&A – POTENTIAL TRANSACTIONS

NEE - Santee Cooper?

NEE heading to SC?

Could 2019 be the year of Santee Cooper? Three options with Santee are likely in play: (1) they remain government owned, **(2)** sell to a larger public entity like NEE **(3)** have an operating management agreement like PSEG and LIPA with a larger entity like NEE - **someone would benefit from the latter two options w/ more preference for the 2nd option.** NEE mgmt. has publicly acknowledged that the RFP for Santee Cooper is out, independent consultants are evaluating bids and that answers are expected by early 2019. From there it is up to the consultants and a legislative committee to decide upon which bids will make it to the second round.

NEE looks to us like the obvious potential counterparty for Santee Cooper (see our NEE section for more detail) - only question is if Santee should be 100% acquired or if someone will come in and strike a management agreement. NEE has stated it does not have as much interest in a management contract vs outright acquiring Santee but would do either if presented the opportunity. **Competition bidding for Santee could be sparse considering it would likely take sizable balance sheet capacity to refinance all of the municipal tax-free debt on Santee's balance sheet -** $5-7bn balance sheet capacity, solid operating history and highly constructive relation with regulators, we believe NEE is very strongly positioned to be considered for acquiring Santee Cooper. As a reminder, Santee Cooper is the third largest municipal utility in the U.S. and the Governor of South Carolina has been very vocal about monetizing Santee to pay for debt incurred while constructing the abandoned VC Summer nuclear power plant.

For our prior thoughts, see HERE.

PPL - Strategic Alternatives ahead?

PPL may sell but it's all or nothing

PPL appears ripe for strategic alternatives, but we do not think it will be a 2019 story especially with Brexit uncertainty. PPL mgmt. has been very vocal that it's open to strategic alternatives. **Right now, we're in wait and see mode but a strategy could come to fruition as visibility with Brexit improves,** which could ultimately bring in a potential buyer for the entire US/UK enterprise. **Why all or none?** Selling 100% or a partial interest in just the UK business does not work, in our view, because the rating agencies give more credit to the WPD UK business model (i.e. agencies view it as having lower credit risk than an equivalent U.S. business) and this affords PPL a lower FFO/debt threshold of 12% vs the peer group, which is ~15% - i.e. if PPL sold the UK business it would not only lose this lower threshold with the agencies, it would lower their actual FFO/debt metrics and so a meaningful amount of sale proceeds would need to be utilized for debt reduction which would prove as highly dilutive to earnings. Either way, there would be a tax bill and mgmt. recognized this is also a hurdle.

What about simply diluting the UK contribution to consolidated results? Mgmt. target mix of 20-25% UK vs consolidated likely hinders a U.S. acquisition given a lack of currency (i.e. shares trade at a massive discount) and balance sheet capacity - in our view, this target mix implies a large +$10bn deal to dilute the UK. This target business mix also likely rules out any potential single state small utility acquisitions like a potential opportunity in KY.

For our prior thoughts, see HERE.

No fire sales at SO... in a much better stance

SO - More asset sales coming?

SO could potentially sell additional CCGT assets, Nicore Gas, Mississippi Power or Virginia Natural Gas to continue whittling down its $2.4bn of remaining equity needs and further "simplify" the story. However, SO has been very clear, in our view, that it can address this remaining $2.4bn equity need with internal programs such as its DRIP. SO has 12 GW of remaining fossil fuel assets which could be rationalized in the future. As a reminder, SO recently sold Mankato a 760 MW plant in 3Q for $650mm or $855/kW. **Mgmt has explained there are three items that fit into their decision-making process for a potential asset sale 1) Transaction value -** is there a better owner of the asset that is willing to pay a price which offers premium value (i.e. will someone step up for Nicore?) **2) SO stock price –** i.e. if SO is trading at a significant discount, it is less attractive to issue stock and more attractive to monetize additional assets **3) tax position –** Mgmt. now could be less prone to sell assets especially as they become more of a cash tax payer approaching ~2022 timeframe. **One item SO is conscious about when potentially monetizing gas assets is if the plant resides in the Southern Company power pool which could preclude further sales** - it is worth noting that the other two plants SO Power sold to NEE, Stanton and Oleander, were not in the power pool. At the end of the day, if SO had any unexpected incremental equity needs we do believe it has levers to pull including monetizing additional assets.

For our prior thoughts, see HERE and HERE.

PSO strategic move coming to light in '19

AEP - PSO, Third strike and you're out?

PSO rate case could be a knock-on effect for a potential strategic review; Oklahoma rate case – the one we are watching. We continue to have a view point that the 3rd strike could lead to an out in Oklahoma but some complexities need to be worked through including a separate headquarters in Tulsa that houses ~618 employees that will need to be accounted for in any strategic decision – i.e. another reason why an OGE deal could make sense, in our view. **Reminder, from our recent OK Commissioner meetings we hosted with clients in the state, we don't have a lot of confidence in this GRC (i.e. OCC suggested there was a structural problem at the utility in the NT) but the state has been known to surprise to the upside as they certainly did with OGE in the recent past – so we are slightly optimistic but more cautious overall. For our thoughts on following our Commissioner meetings, see our note HERE.**

As we have also stated in the past, blending in the TransCo's earned ROEs in the state with that of PSO does not equate to a higher earned ROE in that state – TransCo's contribution is not material enough (i.e. ~30bps) to negate PSOs under-earning. **So, while we continue to see upside potential in AEP shares if it divests underperforming assets such as PSO and reinvests the proceeds and captures a wider ROE spread despite tax leakage, as well as, the benefits of merely simplifying the story, it's not a NT catalyst to drive shares as it will take time to play out**. In our previous work we found this to be +3% accretive to AEP shares under very conservative assumptions and further note mgmt. has affirmed it would consider selling if PSO receives an unfavorable decision for its pending rate case. **What defines an "unfavorable decision"?** This includes if PSO does not get performance-based rate making or tracker for transmission. **For more on PSO see our detailed note HERE**.

ES - CT Water and/or Columbia Gas?

NI re-refiling decision at Columbia Gas of MA could signal lack of sale process…

ES mgmt. has stated it is keeping one eye open for potential acquisitions but not as a driver of growth nor as a way to backfill – opportunistic at best. Mgmt. has highlighted that it would be interested in acquiring NI's Columbia Gas of Massachusetts if it came up for sale…but caveated, there is no indication that it is up for sale. (For more see HERE and HERE.) A predictor could be if NI's Columbia Gas files (or not) for a GRC – NI's MA settlement was revoked after the September gas explosions. As a reminder, ES did bid on Columbia Gas back in the day but lost the auction process to NI. Continuing with the M&A theme, ES last summer was in a bidding war for Connecticut Water (CTWS) but was outbid by SJW Group. The tide might be turning here since SJW's acquisition of CTWS was recently deemed not in the public interest by local CT regulators…it is possible ES gets a second chance to bid for CTWS – **we do not assume this deal closes in our ES model and we consider this more as an option than a likely event in the near term.**

For our prior thoughts, see HERE.

SRE - Wind and US Midstream Assets sale, South American Utility review

Plenty of deals coming for SRE

SRE is moving steadily through the business review process, with phase 1 (asset divestiture) nearing completion in early 2019. The SRE solar assets sale to ED has closed in 4Q18 and we are now awaiting disclosure around the sale of SRE wind assets, which we estimate to be around 747MW of operating assets, plus a potential development pipeline. The wind assets vary in vintage but include projects 6-7 years old, which may have higher priced PPAs attached that may result in a higher than average transaction price based on $/kW. **The proceeds will likely go towards de-levering, offsetting equity needs and return of shareholder capital.** SRE currently does not foresee equity issuance. We note however that the solar asset sale proceeds are tentatively being used in the InfraREIT acquisition, but management has said that the timing of those events was not planned.

SRE midstream asset sale was announced Jan 2, 2019 with ArcLight capital buying both Bay Gas and Missisippi Hub assets for $332M in cash. The US Midstream assets include in the sale of Mississippi Hub and a 90.9% ownership interest in Bay Gas Storage (the transaction also includes the remaining ~9% ownership). Bay Gas is a facility located near Mobile, AL, that provides underground storage with 20 Bcf of operational storage capacity, and Mississippi Hub is an underground salt dome with 22 Bcf of operational storage capacity located near Jackson, Mississippi. **Proceeds will likely contribute to the capital rotation strategy outlined in the business review process.**

The SRE South America utilities (Luz Del Sur, Chilquinta, etc.) were highlighted as next on the list of businesses under review, which management expects to make a decision on in early 2019 (~1Q). South America utilities were announced as a potential for divestiture at the May 2018 investor day. **Tax basis is a critical consideration for the SA utilities, with the SA utilities having a combined tax basis of $561M** (335M Chile, $226M Peru) vs a potential $3-4B transaction value (**as we noted in our analyst day note HERE**). Local taxes apply to gains for transactions of 50% or more of a Peruvian entity and 10% of more for Chilean entities – meaning significant tax leakage is almost guaranteed, but in our view **a sale could become palatable at elevated (greater than ~25x P/E) multiples to offset the tax leakage.**

AWK/NWN – More Small Water Acquisitions ahead

Only bolt-on's for NWN and AWK

AWK, and to a lesser extent, NWN, spent much of 2018 acquiring small municipal water systems in their respective territories – we see this continuing in 2019. AWK remains committed to expanding its regulated footprint, with bolt-on acquisitions likely in CA and MO thanks to favorable legislation in both states that allows for simple-majority votes for municipalities to sell their systems. For NWN, the water utility story remains in its very early innings with only ~20 thousand customers – **we do not currently account for it in our estimates.** Mgmt. has identified a robust opportunity set of both municipal and privately-owned water and wastewater systems within the PNW, however we do not see a major acceleration of the current acquisition pace at this time. As a reminder, the recently announced Sunriver transaction will bring the segment's total customer count to 42k across ~17k connections in 3 states.

WEC – Energy Infrastructure Investments remain in focus

No game changer deals for WEC… growth around organic opportunities

Asset-level acquisitions in the energy infrastructure space remain a focus for mgmt., with some $1.7bn devoted to the segment out of a 2019-2023 capital spend plan of $14.1bn. Given WEC's relatively healthy balance sheet (no need for equity), we believe the company **can continue to take advantage of asset-level opportunities**, with contracted renewables, contracted pipelines, and gas storage assets likely to be the preferred targets, in our view. We still expect, which mgmt. reinforcing on the 3Q18 call and at EEI, that **WEC will seek assets with a similar risk-adjusted return profile to fully-regulated assets, with the assets comprising as much as 10% of the overall business mix overtime.** WEC's recent acquisitions of the 130MW Bishop Hill III and 80% of the 200MW Upstream project reflect these criteria very well.

For our prior thoughts, see HERE and HERE.

ALE – Wind asset transactions possible, regulated mix in focus

ALE could eventually look to dilute strong non-regulated growing segments

Growth in ALLETE's Clean Energy (ACE) business could prompt some degree of NT M&A in our view, both as the company seeks projects for its safe harbored turbines and to dilute the nonregulated growth. We see a low level possibility, but a possibility nonetheless, that ALE looks to acquire additional wind assets at ACE – although we note that our focus at the moment is on whether ALE is allowed to take a 49% stake in the recently-approved Nobles II project under development by Tenaska. **More broadly, as growth at both ACE and US Water continue, we see the need for either a divestiture or regulated acquisition in order to keep the business mix predominantly regulated.** As a reminder, we model the regulated business declining to ~77% in 2022 as a result of nonregulated growth. **Finally – although ALE may screen as an acquisition target given its size, we are not making a broader M&A call at this time on the name.**

For our prior thoughts, see HERE.

AVA – Acquisition by Hydro One

AVA deal dead… question is whether someone else steps in or AVA standalone in NT

The Hydro One (H.CA) acquisition of AVA for $3.4bn in cash, or $53/share has been blocked by WA regulators. With the blockage of the acquisition path, the joint applicants have requested a reconsideration in WA, but the reconsideration does not provide material new evidence or exhibits, in our view. If the merger is ultimately abandoned, the question remains whether AVA will now have to play catch up in regulatory processes that were deferred due to the pending merger (i.e. file rate cases) or seek other offers from a regulator-friendly counterparty (i.e. US domiciled). The former scenario would likely take 9-18 months to play out the regulatory proceedings necessary to secure rate increases and get the company on closer to earning its allowed ROE and aligning capital plans with regulators. **This would push off any potential M&A considerations into the 2020 timeframe.** We do see potential for a willing party to step up and make an offer for AVA, as the key regulatory approval risk is now well briefed in the acquisition dockets across 5 states (i.e. foreign government control and corporate governance issues). In our view there is no clear fit at this time for an acquirer, as the transaction would need to make sense from geographic and synergy standpoints, as well as matching the size of the acquiring entity (a merger-of-equals is not as likely of an option at this time).

M&A – CURRENTLY PENDING TRANSACTIONS

SRE – Acquisition of InfraREIT, good fit for TX, upside option on transmission development.

SRE/HIFR moving through the regulatory approval process

SRE announced the acquisition of InfraREIT (HIFR) and 50% interest in Sharyland Utilities on October 18, 2018 and is currently working through the necessary approvals to finalized and close the deal. The transaction is based on Oncor (80% SRE ownership) taking 100% ownership of InfraREIT and SRE taking a 50% interest in Sharyland. The Sempra share of the transaction is valued at $1.12B, or a range of 16x-17.2x P/E multiple based on the early 2019 guidance ($65-70M) and our calculations. **Using the disclosed information, InfraREIT rate base math implies a $54M earnings contribution to SRE that results in 19.7x P/E transaction multiple ($1.53B rate base, 45% Equity ratio, 9.7% ROE), which is less favorable than headline economics, but still a discount to recent acquisition multiples north of 23x P/E.**

Sempra expectations imply a 2019 over-earning of about $5-10M, which is ~250bp above the authorized ROE for InfraREIT assets, implying some potential for retained synergies being a part of the deal approval with the PUCT. While that may be a challenging scenario to work through the PUCT, a mitigating factor is rate setting for the combined Oncor and InfraREIT assets, that will in fact be consolidated as a part of the deal. The Oncor assets are currently under-earning their allowed 9.8% ROE by an estimated 40-50bp largely due to regulatory lag and Oncor capital expansions rolling into rate base slower than the associated recovery. With a 50bp ROE lag equating to under-earning ~$25M based on our $11.5B rate base estimate for 2018, **the combined asset base would easily absorb the $5-10M over-earning from InfraREIT implied by the deal estimates.**

We like this deal as it highlights Sempra's ability to fill the earnings divot from the renewable sale and strategically reshape its business mix through capital rotation as announced at the June 28 Analyst Conference. Beyond the immediate effect of recycling capital into a regulated utility investment, this acquisition partners Sempra with

Hunt on a 50/50 JV on Sharyland utilities with potential participation in future transmission development and long-term upside in capital deployment inside and outside of TX.

Go Shop is leading to No Shop: We view this deal positively due to the geographic proximity of Oncor and InfraREIT assets, strategic fit between Sempra, Hunt and Oncor, as well as the history and the 'dry powder' left for Sempra given the low acquisition multiple. Despite infraREIT announcing a potentially competing offer, after review the InfraREIT board dismissed the competing offer and clarified that the SRE offer is currently in the best interest of HIFR. In terms of additional M&A opportunities in Texas, SRE management has stressed that TTI (Oncor co-owner) is not looking to sell its 19.75% share of Oncor at this time, while the remaining Sempra wind assets are in a sale process with a potential deal announcement before year end.

For our prior thoughts, see HERE.

NEE - Gulf Power closed well ahead of schedule

FL playbook should prove accretion guide conservative

We see strong capex and O&M improvement opportunities at Gulf Power, which NEE closed on Jan. 1, 2019, well ahead of the original targeted closing of 1H19. (See HERE.) We continue to view the $0.15-$0.20/share in accretion mgmt. disclosed as a place holder until the full FP&L playbook can be unleashed at Gulf Power. With O&M multiple times that of FP&Ls and old high heat rate plants in service including very high purchase power costs, Gulf Power appears ripe for optimization. Example, Gulf Power O&M is ~$31/MWh, which is more than double FP&L's $12.44/MWh and this alone should provide ample headroom in rates to invest in modern infrastructure opportunities. **So what's the likely strategy with Gulf Power in the NT?** NEE will likely increase Capital spend and manage to stay out of a rate case for several years with O&M and fuel/purchase power synergies subsidizing the spending. At some point in the future when NEE files a Gulf Power GRC, we see further upside potential as they true-up the regulatory construct (i.e. ROE band, equity layer) to emulate FP&L.

For our prior thoughts, see HERE.

DUK - Partially monetizing Commercial renewables moving along

Commercial sales should show strong public mark but not as high as SRE deal w/ED

DUK is also close to partially monetizing its commercial renewables portfolio – a well-subscribed process. A data room was opened for the potential partial monetization of 3,000 MW of commercial renewables and a resolution on this could be reached by 1Q19. DUK noted that the % sell down could vary by project but views this monetization as a solid financing tool. We wouldn't be surprised if proceeds were reinvested as well as some de-levering opportunities – former seems more likely. Incremental renewables opportunities for DUK are underappreciated - HB 589 continues to present a substantial opportunity to DUK. There are 2.7 GW of total renewable opportunities that the bill unleashes and 30% of this DUK can self-build and with no cap on what DUK could acquire from developers (potentially the remaining 70%). **The total opportunity could be over ~$2.0bn assuming ~$1-1.50/watt**. We believe it is likely DUK would use at least some of the proceeds from its commercial renewable monetization to fund an incremental build out of more renewables under HB 589.

For our prior thoughts, see HERE.

M&A – INTEGRATED MODEL

ETR – Exiting the EWC with cash flow neutral position with the sale of NDT moving along

Progress expected in '19 for ETR's NDT sale process (IP2-3).

The NDT sales process is moving along – ETR has gained robust interest from potential buyers according to the company and continues to build a market to sell. On EWC, the NDT sales process is moving slightly slower than anticipated (i.e., for Pilgrim, Palisades, Indian Point) given first-in-kind transactions, although we would note here that it is not necessarily negative. The company is working on creating a market for this type of transaction and it could take a while to get potential buyers up-to-speed with information about the projects. A positive data point is the recent Vermont Yankee (VY) transaction approval from the Vermont PUC, which creates a path for a similar process elsewhere. **Management reiterated that they have gained robust interest from multiple buyers and we should see some progress in 2019 at least on the Indian Point assets, given the ~12-18 month window to complete the deal for the first IP unit scheduled retirement in 2020.**

ETR continues to target exiting the EWC with slightly positive cash flow. ETR sees upside in cash flow savings from some level of lower capital, improved capacity factors from better outage times and O&M, in addition to deals structured similar to VY with the other merchant nuclear plants that will include the sale of the nuclear sites and associated decommissioning activities. Any incremental cash could be available to pay down parent debt or support utility growth – no equity issuance needed as a side note.

EXC – Integrated model remains, for now

ExGen not going anywhere for now…

EXC mgmt. remains faithful to the integrated business model in the NT as ExGen remains core. Strong FCF at ExGen continues to support regulated growth and deleveraging at the GenCo. Management has reiterated several times to us in the past few months that ExGen will remain core as growth at the regulated utilities continues to dilute ExGen exposure and power market reforms continue to yield constructive outcomes for nuclear plants. As the PHI utilities begin to self-fund/earn higher ROEs and ExGen de-levers, we believe there may be additional opportunities for M&A activity at EXC, but this remains mid 2020s likelihood vs. the NT. Finally, **we recently asked mgmt. (see HERE) about the potential for an acquisition of SO's Nicor Gas** given that company's ongoing asset sales to improve its balance – they did not give a clear answer affirming or deny interest. We note that there have been no indications that Nicor is even for sale at this time, but in our view the geographic overlap with EXC's electric utilities would make it a natural fit.

PEG – If it ain't broke, don't fix it

…neither is PEG Power

Power remains very strategic for PSEG – Growth projects on pace, healthy free cash flow generation remains core to fund PSE&G; not actively looking to grow or divest. The prospective spend at Power remains very modest post Keys, Sewaren and final completion of Bridgeport Harbor. The key notable from our past meetings was mgmt. was relatively comfortable with the size of power: not looking to grow through new projects/or asset acquisition nor looking to divest. **From a buyer perspective**, growth at Power through generation projects ends with Bridgeport in mid-2019. That said, mgmt. in prior meetings has noted they have looked and will continue to look at everything but their more tepid viewpoint around market pricing and the forwards has yielded their historical bids below market – i.e., they have underpriced most assets they have looked at by simply reverse engineering the forward curves. So, we do not expect PSEG to be an obvious buyer of generation assets given their conservative stance and view on the forward curves.

Well… if they aren't looking to grow, why not divest? Answer: Power is more synergistic to the enterprise than ever before. Coming off the meetings, the take we see here is a strategic move with Power is a few years away even with the enhanced scale as the three remaining gas projects come online. **Tax reform coupled with growth capital opportunities at PSE&G, which continue to remain very healthy, bring to light the importance of Power's cash flow contributions** – in other words, Power helps fund the utility's growth and eliminates any forward equity needs despite some balance sheet pressure post tax reform. So if anything, PSE&G needs the cash support from Power, especially now post tax reform.

NRG/VST – Only M&A here is retail, if at all

NRG and VST continue to prioritize returning cash over M&A

Both of these names remain focused on captial allocation, although some retail M&A may come to pass in 2019 if the right book presents itself… Our conversations in 2018 with mgmt. at both NRG and VST support our ongoing view that **M&A is not a priority** for either of the IPPs under coverage given their ongoing focus on capital discipline and return. **The *sole* potential M&A activity we see in this space is regarding retail, however we caution that targets like XOOM are not particularly commonplace.** In addition, we note that VST mgmt. has stated a desire to organically expand its book it the northeastern markets vs. inorganic acquisitions. Beyond retail we remain on the lookout for the potential sale of VST's Independence CCGT in NYISO, although we note this has not been widely discussed by the company since some low-level comments at the analyst day in June (see HERE for additional details.

FE/EXC – NEW JERSEY NOT FOR SALE, YET

FE and EXC staying in Jersey, for now

After repeatedly asking mgmt. at both EXC and FE throughout 2018 about their thoughts regarding their New Jersey subsidiaries, we now believe that neither Jersey Central Power & Light (JCP&L) nor Atlantic City Electric (ACE) are likely to be sold in the NT. We view both JCP&L and ACE as interesting utilities to watch over the next two years as the unfolding policy shift in New Jersey begins to take hold. In 2018, we saw PSE&G cut a very wide path for grid mod and policy-driven spend, with $3-4bn in investment proposed in its territory. Conversely, we have heard relatively little from JCP&L (a $400mm infrastructure investment program was announced in June) or ACE (general rate case currently pending). **We asked both mgmt. teams recently whether these utilities were really 'core' to their relative portfolios, and while both companies answered in the affirmative,** we still believe ACE is a relatively minor part of EXC. Both utilities have had slightly tougher interactions with the NJ BPU versus PSE&G, in our view, and their service territories are more rate sensitive than those to the northeast. **EXC** mgmt. has noted to us in the past that they see broader value in ACE's exposure to the progressive policies underway at the BPU as it helps it prepare for the spread of those policies to other adjacent jurisdictions. **FE** for its part still sees value in JCPL given its size, and the improvements it has seen in its relationship with the BPU since hitting a post-Sandy low. **Very much a stay-tuned situation, but we don't see any movement for these utilities in the NT.**

For our prior thoughts, see HERE.

COMPANY-SPECIFIC CATALYSTS

MAJOR INFRASTRUCTURE PROJECTS

Several regulated utilities within our coverage are developing major infrastructure projects with key milestones to look out for in 2019 and beyond. We highlight projects being developed by D, DUK, NEE, ED, SO, NJR, and SRE in this section as well as **our assumptions on each**.

Atlantic Coast Pipeline (D / DUK / SO)

ACP 1 contributes ~$0.16/share to D in 1st full yr of service...

...before extensions and upsizing through laterals and compressors

Project overview: The Atlantic Coast Pipeline is a 600-mile ~$6.5bn to $7.0bn, 1.5Bcf/day project with potential to upsize to 2Bcf/day and extend further down from South Carolina and into the Southeast. **The project has recently had permitting setbacks but D and DUK have some contingencies built into the project –** i.e., some cost contingencies are built into the current cost estimate (but no number has been provided at this time). **DUK also has a significant amount of unprotected ADIT, which could be refunded faster, driving rate base growth higher, which could be used as an offset to fill any potential divots if ACP gets delayed further. D does not have access to such a large amount of unprotected ADIT but believes the issue could be addressed in the courts over the next few weeks.** On Thursday, December 13th, 2018, the U.S. 4th Circuit Court of Appeals vacated ACP's existing U.S. National Park permit, which included a right-of-way to cross the Appalachian Trail in a national forest. Roughly 20 miles of ACP's 600-mile pipeline cut through national forest land. ACP's owners/developers disagree with the **Court's decision and note the decision has broader implications for all oil and gas pipelines that cross the Appalachian Trail along its 2,200-mile course from Maine to Georgia (roughly 50 pipelines do so according to the owners)**. ACP's owners have requested an "en banc" review by the full 4th Circuit Court and additional next steps are expected to be announced in the future. In 3Q18 the FERC stop work order combined with delays in obtaining certain permits caused the cost estimate to increase from $6.0bn-$6.5bn to now $6.5bn-$7.0bn and pushed out the in-service date to mid-2020 from YE 2019 (for more detail see our D note HERE).

On their 3Q18 earnings calls D and DUK mgmt. affirmed that returns on ACP will be commensurate with existing regulated returns despite delay and cost increase but these delays are items we should monitor (see 3Q DUK note HERE). We continue to model ACP with $0.16/shr of accretion for D in its first full year of service. As a reminder, the pipeline is being developed by D, the majority owner with a 48% stake (30% levered) – Last year D's ownership interest was recalibrated to 48% from 45% in order to retain majority control following DUK's acquisition of PNY and SO's acquisition of AGL. DUK has a 47% interest following the acquisition of PNY (re-calibrated from 40%), and SO inherited its 5% interest in the pipeline by acquiring AGL.

Offshore Wind (D)

D opening the door to offshore wind in VA w/$300mm pilot project

Dominion is testing out an offshore wind pilot program in Virginia. In November the Virginia State Corporation Commission approved a $300mm project for two 6 MW offshore wind turbines. The project is funded through existing base rates and is enabled by the Grid Transformation and Security Act of 2018. The project is expected to be in-service by the end of 2020. Virginia's 10-year energy plan, which was debuted in October 2018, sets a target of 2 GW of offshore wind by 2028. The initial pilot project may sound expensive, but the expectation is that a larger scale project would be more cost effective if the pilot project proves operationally successful. **For more background see our recent conversation with senior mgmt. HERE.**

Mountain Valley Pipeline (NEE / ED)

Project overview: As a reminder, the Mountain Valley Pipeline (MVP) is a 301-mile ~$4.6bn JV between NEE (35% stake), ED (12.5% stake), WGL Midstream (TSX: ALA, NC, $14.44CAD), Vega Midstream, RGC Midstream (RGCO, NC, $29.75), and EQT (EQM, NC, $19.52) to transport ~2Bcf/day of Marcellus and Utica gas to markets in Mid/South Atlantic regions.

MVP project included in our estimates.

The project is moving in fits and starts after receiving its certificate from FERC with an in-service date slated for 4Q19 – project included in our estimates. The in-service date for MVP was delayed from 1Q19 to 4Q19 but **we don't expect the in-service date to be pushed out further given 1)** construction continuing on most of the pipe with the FERC stay order lifted; **2)** WV will likely issue new regulations to allow more than 72 hours for stream crossings, which could take 4-6 weeks to complete; **3)** The Governor is on board and has been calling for expedited construction. **Regarding economics, the project owners continue to earn AFUDC and construction continues on most of the pipe in 2018 and 2019. Similar to ACP the construction cost overruns are somewhat mitigated by tax reform since the projects were negotiated when the corporate tax rate was 35%.** In a post-tax reform world with a 21% tax rate project owners retain the tax savings, which is a tailwind for returns. Given the small contribution to earnings, we don't see the in-service delay impacting ED (for more detail see our 3Q ED note HERE) or even NEE – i.e., MVP is a less pronounced growth engine for NEE, which has no shortage of growth opportunities, in our view, but opportunities such as these have been somewhat of an aspiration for ED.

Vogtle Units 3&4 (SO)

Project overview: As a reminder, Southern Company is leading the construction effort on Vogtle Units 3 & 4: two 1,100 MW new nuclear reactors in Georgia. Increasing staffing will be a key input into maintaining productivity levels and driving increased man hours. SO is on the hunt to hire another ~350 electricians and pipefitters. **In order to attract this labor force SO implemented a plan approved by regulators to offer top decile pay, these compensation increases are consistent with the current revised cost estimate - without using any of the contingencies.** It is also working with the U.S. department of labor to secure visas for Canadian electricians and might **also pick up 75-100 electricians from the DOE's MOX project, which was recently repurposed.** If SO does get the Canadian visas it is expected these workers would arrive at the site in March. **The regulatory picture in Georgia should continue to be constructive for SO.** All of the incumbent Republican Georgia Public Service Commissioners (PSC) that were up for re-election in 2018 won their seats, with Chuck Eaton winning a run-off shortly after the regular November election. As a reminder, these commissioners unanimously voted for the revised cost estimate and construction schedule.

We remain in a 'show me' phase on Vogtle, though mgmt. disclosing more than ever…

The current expected in-service date is November 2021 for Unit 3 and November 2022 for Unit 4. In 2Q18 Georgia Power, which owns 45.7% of Vogtle Units 3 &4, revised its base cost forecast and estimated contingency to $8.0bn and $0.4bn for a total project capital cost forecast of $8.4bn (net of $1.7bn from the Toshiba (TYO: 6502) parental guarantee and ~188mm for customer refunds). The Georgia PSC did state in the 17th VCM proceedings that the $7.3bn cost estimate did not represent a cost cap and Georgia Power did not seek rate recovery for the $0.7bn increase in costs included in the revised base capital forecast for the 19th VCM report filed with the Georgia PSC in August 2018. In 2Q18 Georgia Power took a total pre-tax charge of $1.1bn ($0.8bn after tax).

Vogtle will be a significant driver of earnings once it comes online in 2021/22 but investors have been skeptical after the latest round of cost overruns. Southern recently held a "stand down" and locked the construction site down for a day and a half to have conversations with employees on safety and productivity…150 employees did not return after the stand down, but **productivity has increased since** – i.e., **Pre-stand down the site was hitting ~80,000 man hours per week but after the workforce reductions productivity improved to 120,000 man hours with fewer people.** Mgmt believes they **need to hire more construction workers to hit a target of 140,000 to 150,000 man hours per week, which gets them to the accelerated April schedule vs. the November schedule regulators are using.**

Adelphia Gateway Pipeline (NJR)

We estimate 13% ROE, $0.09 of EPS for Adelphia

The Adelphia Gateway pipeline expected to contribute to earnings in 2020 following completion in late 2019 and help offset earnings impact from PennEast delays. As a reminder in 2017 NJR agreed to acquire the Adelphia Gateway pipeline system from Talen Generation for ~$170mm. The current oil pipeline will be repurposed to natural gas in order to meet a supply-constrained market in PA. **Total CapEx is expected to be roughly $80mm-130mm for the repurposing efforts, with the pipeline expected to be in-service by late 2019 and contributing to earnings in 2020. As a reminder, we model ~13% ROE and estimate Adelphia contributes $0.09/share in its first full-year of operations.** In our view, Adelphia will likely face much less pushback than PennEast given the brownfield nature of the project, and has flown largely under the radar versus more controversial projects like PennEast and the SRL (see below for more).

Southern Reliability Link (NJR)

The Southern Reliability Link (SRL) finally began construction in December 2018 after a very long permitting process – though appeals remain outstanding. The company finally began initial construction activities on the line in Ocean County as it awaits the road cut permit in Burlington County. The project will add resiliency through a second feed to NJNG's system (currently 85% of supply is transported on a single interstate pipeline system), **with an estimated cost of $180mm**. Assuming NJR gets the final approvals for the project, it **will file for recovery in a separate filing before its Nov. 2019 GRC filing**, which could occur prior to the project's in-service date Finally, we highlight that the construction is starting at NJR's own risk, as the threat of a court rejection remains. The BPU's 2016 approval has been appealed by several towns and counties (including Burlington) along the route and environmental groups. As of early December, no hearing dates have been set for the appeals. The company expects to have the project in service in 2019. **As a reminder, the project is assumed in our estimates**.

PennEast (NJR / SJI / SO)

PennEast advancing, but at a slow pace

The PennEast pipeline intends to provide the East Coast with access to cheaper Marcellus shale gas. NJR/SJI/SO each own a 20% equity interest in the 120-mile, 1Bcf/d pipeline project that would extend from northeast PA to western NJ. The project received its final EIS from FERC back in April 2017, and its final Certificate of Necessity from the Commission in January 2018. Subsequently, the project spent much of the year mired in courts over survey access, **with the company only receiving a favorable ruling from New Jersey District Court in December. While the project's consortium maintains that the pipe will come online in 2019, NJR (20%) now expects it to enter service in 2020.** The project is still awaiting a permit from the Delaware River Basin Commission and is lacking a water crossing permit from the NJ DEP following a denial in February over insufficient information. The delays have prompted some to draw comparisons to the unbuilt Constitution Pipeline. **As a reminder, we model PennEast contributing $0.11/share to NJR in its first full year of operation.**

Cameron LNG (SRE)

SRE has a number of potential LNG expansion opportunities on the horizon.

Project overview: As a reminder, SRE holds a 50.2% equity interest in Cameron LNG JV Facility (Unit 1-2-3) with obligations under the financing agreements for a maximum of \$3.9bn from SRE. Total nameplate capacity is 13.9Mtpa and export capability of 12Mtpa of LNG, backed by 20-year tolling capacity agreements. All 3 liquefaction trains are expected to come online by end of 2019, contributing full year to our model in 2020.

We assume one train online in 2019 and all three trains in-service in 2020.

SRE is optimistic that Cameron Trains 1-3 will hit its updated in-service dates with commissioning already in progress, and commercial operations on the first train expected to start 1Q19. McDermott Industries (MDU) took 3Q losses on project delays at Cameron, which caused some concern with investors (as MDU market cap is smaller than the project), but the delay which may move commercial in-service dates from one quarter to the next is believed to be a delay of weeks, not months, according to SRE management; with **SRE's return on investment protected against delays and cost overruns**. SRE management intends to hold contractors to the contingencies in place designed to mitigate construction risk. **We continue to point out the two safeguards in place designed to protect the economics of the project: (1)** The lump-sum, turn-key contract, designed to transfer cost overruns and construction/scheduling risk to contractors; and **(2)** A tariff adjustment mechanism designed to preserve the project's IRR against cost overruns and schedule changes. At the end of the day, SRE never intended to take on construction risks, and their interest in Cameron was structured to preserve the IRR of the project. **SRE updated expectations for \$365-425M in run rate annual earnings contribution from Cameron**, with the expectation that the 3 trains will go in service before year-end 2019, with full year annual contribution achieved in 2020.

Expansion opportunities on the horizon? Total SA (TOT) has purchased Engie's (ENGI) LNG business including a 16.6% stake in Cameron LNG, which may be incrementally constructive to the Cameron Expansion investment decision, given SRE and Total have signed an MOU for LNG infrastructure development (Nov 5, 2018). Total is independently looking to have 40 MTPA of LNG supply in their portfolio by 2020 with 5% annual growth afterwards. Cameron expansion FERC permits and DOE licenses are completed. **Total highlighted that this cooperation agreement will constructively impact investment decisions for Cameron expansion and the ECA West Coast facility.** Having Total on board is also supportive of an investment decision for Port Arthur, another contemplated facility with 12 MTPA capacity.

Energia Costa Azul LNG (SRE)

ECA Phase 1 nearly a done-deal; Phase 2 looks to be demand competitive.

Project overview: Energia Costa Azul (ECA) is the only brownfield LNG export facility on the West Coast with a planned capacity of 2.5 MTPA. Most recently in 4Q of 2018 the full capacity of the planned ECA project is under Heads of Agreements (HOAs) with Total (NYSE: TOT), Mitsui (TYO: 8031) and KOGAS (KRX: 036460) split equally, which are semi-firm arrangements that stop short of fully priced purchase agreements. Along with the signing of the HOAs, **SRE management disclosed that the West Coast project had significant competition from the demand side and expects similar competition for a larger scale ECA project.** ECA phase 2 is being considered for development as firm regas contracts for the ECA regas plant come to term in 2028. The Phase 2 expansion would expand the facility to 11 MTPA of capacity. This project is incremental to our valuation and estimates for SRE.

Port Arthur LNG (SRE)

SRE has several potential LNG expansion opportunities on the horizon.

Project overview: Port Arthur is an SRE proposed LNG export facility with aggregate capacity of 11 MTPA. There has not been a commercial investment decision yet as SRE is shopping the LNG capacity across Europe and Asia. LT contracting appetite seemingly stalled at this time, potentially due to political tensions, the easing of which could be a catalyst to more open supply/demand dialogue. SRE management notes that at current forward gas prices, US Gulf Coast liquefaction is among the most price-competitive potential LNG supply in the world.

The current status of Port Arthur stops short of the investment decision. Bechtel is already selected as EPC contractor, with a project development MOU signed by Sempra LNG & Midstream, Woodside Petroleum Ltd. (ASX: WPL) and Korea Gas Corporation signed in 2017 that provides a framework for cooperation and joint discussion by the parties on project development and sourcing (with KOGAS a potential offtake). **Additionally, a 2 MTPA supply agreement with Polish Oil & Gas Company was signed in Dec 2018, which is a bullish indicator for filling the capacity and enabling the investment decision; a potential for 2019.** Port Arthur LNG is incremental to our estimates and valuation for SRE.

MAJOR RATE CASES PENDING OR UPCOMING

Below we highlight some of the major rate cases pending before state commissions, and also those that we see as likely in the coming year based upon our conversations with management

AEP – PSO Rate Case, Third Strike and you're out?

It's coming to a head in OK for AEP – either strike out or home run

PSO rate case could be a knock-on effect for a potential strategic review; Oklahoma rate case – the one we are watching. The near-term catalyst in 2019 for AEP really centers on making a call in OK – either a constructive call on the General Rate Case or a strategic review and future sale of the PSO utility; we bend toward the latter as we can't envision a constructive enough outcome to stay vested in OK and also see an "accretive angle" with a deal as well as a benefit from just simplifying the AEP story. We continue to have a view point that the third strike could lead to an out in Oklahoma but some complexities need to be worked through including a separate headquarters in Tulsa that houses ~618 employees, which will need to be accounted for in any strategic decision – i.e., another reason why an OGE deal could make sense in our view, given their presence in the state.

Reminder, from our recent OK Commissioner meetings we hosted with clients in the state, we don't have a lot of confidence in this GRC (i.e. OCC suggested there was a structural problem at the utility in the near term) but the state has been known to surprise to the upside as it certainly did with OGE – so we are slightly optimistic but more cautious overall. For our thoughts on following our Commissioner meetings, see our note HERE. As we have also stated in the past, blending in the TransCo's earned ROEs in the state with that of PSO does not equate to a higher earned ROE in that state – TransCo's contribution is not material enough (i.e. ~30bps) to negate PSOs under-earning. **So, while we continue to see upside potential in AEP shares if it divests underperforming assets such as PSO and reinvests the proceeds and captures a wider ROE spread despite tax leakage, as well as, the benefits of merely simplifying the story, in our view it's not a near term catalyst to drive shares as it will take time to play out**. In our previous research we found this to be +3% accretive to AEP shares under very conservative assumptions and further note management has affirmed it would consider selling if PSO receives an unfavorable decision for its pending rate case. **What defines an "unfavorable decision"?** This includes if PSO does not get performance-based rate making or tracker for transmission. **For more on PSO see our detailed note** HERE.

We model approx. 300bps of under-earning at PSO w/current rate construct

As a reminder we view the significant ROE lag at PSO as structural (we model PSO at ~6.5 to ~7.0% ROE or ~300bps of lag) and believe our case for a sale of PSO to maybe a potential player such as OGE on the buying end would be a win-win for both parties involved if something leads to a transaction – accretion all around: over +3-6% for OGE, +1-2% for AEP under modest 50% capital redeployment assumption. There are certainly several complexities that need to be worked out if the Oklahoma commission fails to deliver this third time around, including the relocation of employees, tax leakage as well as the redeployment of proceeds (i.e. how quickly). For a full drilldown on this thesis see our note HERE - our estimates in the analysis assume full tax leakage and a quick redeployment of proceeds. **As a reminder and for historical context, when AEP exited merchant generation a couple of years ago, it had an earnings divot that took several months to backfill following the GenCo sale. That said, shifting to today, we believe capital growth opportunities seem to be more fruitful than in the past especially around wires and renewables.**

FE – Potomac Edison Base Case in MD; IIP in NJ

Mgmt. watching NJ filing for potential read through to appetite for additional investment

FirstEnergy is working its way through several major filings at the moment, with proceedings open in both MD and NJ. In MD FE subsidiary Potomac Edison has filed for its first rate case in over 20 years, seeking a $20mm increase in rates (15.00%), to support a $470mm rate base and a 10.80% ROE (52.82% of cap structure). In late November MD PSC Staff reccomended a $12mm increase supporting a $463mm rate base and 9.25% ROE. Hearings on the case are scheduled for January 22, with a final order expected by March 23.

NJ filing could be harbinger of filings to come…. In New Jersey JCP&L continues to await a decision from the BPU on its $400mm “Reliability Plus” infrastructure investment program (IIP). The four year program would spend on improving outages via enhanced undergrounding, improved overhead wires, and additional vegetation management. **We currently model JCP&L getting the full ask – as the program follows similar initiatives we have seen from NJ utilities, like PSE&G and its Energy Strong programs**. The filing is also important given the strong change in policy we saw in 2018 under the new Governor, Phil Murphy. Our conversations with FE management (including with CEO Chuck Jones at EEI – see HERE) indicate that the utility stands ready to support the state’s policy efforts on clean energy and resilience. We see additional EE spend as a logical first step and low-hanging fruit, but having said that, we note that management indicated that it would prefer policymakers/the BPU ‘pull’ it into the process vs. JCP&L blindly proposing spend. **Very much a stay tuned situation.**

EXC – Momentum continues as PHI moves to close ROE gap

9-10% earned ROEs at the legacy PHI utilities still within sight… which we model

EXC continues to navigate through several rate cases in 2019 and beyond, with its target of 9-10% at the PHI utilities almost within reach, in our view. EXC maintains good traction in achieving ~9% ROE at legacy Pepco utilities through our forecast period, with a successful series of cases filed and approved over the course of 2018 **we model lower lag through 2021 at PHI consistent with plan.** In 2019 we will be looking for traction on Atlantic City Electric’s (ACE) base rate filing, which was filed this past August. As a reminder, ACE is seeking a ~$110mm annual rate increase to support a $1.6bn rate base with a 10.10% ROE (50.22% equity ratio). The ROE ask is the same as the 2017 case, in which it was authorized a 9.6% ROE on a ~$1.3bn rate base. We currently model an improvement in ROEs at ACE consistent with management’s plan – with returns improving from ~5% in 2017 to 7% in 2019. We note that a multiyear filing by Pepco in DC also remains a distinct possibility in 2019 after management highlighted it during our 2018 EEI meetings. Finally, BG&E remains in in process on its gas base rate case, where a decision by the MD PSC is expected within weeks. It has asked for a $94mm increase supporting a $1.7bn rate base and 10.5% ROE. MPSC Staff and the People’s Counsel have both recommended lower amounts across the board, with Staff proposing a ~$42mm increase supporting a $1.5bn rate base and 9.65% ROE.

LNT – Iowa electric rate case to be filed in 2019

LNT’s Iowa subsidiary Interstate Power & Light (IPL) will be filing in 2019, with the process likely to feature a dual-case structure. Investors should be on the lookout for IPL to make two rate case filings sometime in the first half of 2019.with management putting forward test years to its first use. We believe will likely be two simultaneous filings: the first would be utilize a 2018 test year to seek rate recovery of the first 500MW of wind, in addition to other investments, while the second would utilize a forward looking 2020 test year to seek rate recovery for the remaining ~500MW, in addition to other investments. Such an approach should, according to management, minimize regulatory lag. Finally we note that management has indicated it will likely seek a higher equity ratio (up to 51.00% vs. the current 49.02%), as it did successfully during the recently-approved gas base rate case where it was authorized a 51% layer (up from 45%, and vs. a request of 53%) – we currently model up to $150mm in additional equity for LNT in 2020 given its ongoing capital program (vs. management's 2019 target of ~$375mm). Management indicated on the 3Q18 call a filing could come as early as 1Q19.

NWN – General Rate Case in Washington

NWN closed out 2018 with a filing for a general rate increase in Washington – no surprise after it had a successful filing cycle in Oregon and management had recently indicated a filing was under consideration. NWN filed for an $8.3mm rate increase in Washington on December 31, its first rate case in the state in over 10 years. The ask features an ROE of 10.3% (vs. current 10.65%), supporting a rate base of $187mm. As a reminder, we currently model NWN under-earning in WA by ~1.5-2.0% through our forecast period. **Overall WA remains a relatively minor part of NWN's overall portfolio – accounting for ~11% of customers and ~10% of revenues.**

ED – O&R utilities electric and gas rate case filed in 2018; CECONY expects to file a multi-year plan in early 2019

ConEd regulatory calendar busy but supportive of our model

ED's O&R utilities are getting close to final rates in a joint electric and gas rate cases (C-18-E-0067 / C-18-G-0068) filed in early 2018 with a joint proposal currently in front of the commission that is awaiting rebuttal/approval. The joint proposal filed on November 9, 2018 recommends a $13.4M electric and -$7.5M gas rate increase and is premised on a 9.75% proposed ROE (vs 9.00% in current rates), 48% equity ratio (same as currently authorized) and $0.87B rate base E + $0.45B rate base G. **We expect a modified proposal or amended PSC approval in early 2019, but no change in ROE.**

We expect a CECONY electric and gas rate case to be filed in early 2019 as this year will be the last year of the multi-year plan and we expect the filing to support ~6% rate base growth currently forecast by ED management. The filing is not expected to be controversial by any measure, with NYSPC generally formulaic in setting ROE (~9% not expected to change in our view), with decoupling already in place and minimal regulatory lag.

EIX – Still waiting for a 2017 vintage GRC decision 1/3 of the way into the multi-year rate plan; FERC Formula rates under review (no ROE change); Cost of Capital filing due in April 2019.

The EIX general rate case (GRC 2018) for rates starting in 2018 has not received approval despite thorough briefing and hearings in 2017 and even the inclusion of tax reform in early 2018. The 2018-2020 multi-year plan as proposed supports grid modernization projects and a 9.8% rate base growth from a 2017 base, which was slightly depressed due to deferral of grid mod to be included in a GRC instead of a standalone proceeding; the first of a kind filing requested by CPUC. The major disagreement in the proceeding (while it was active) was the level of grid modernization spending, which many ratepayer advocates opposed in hearings, with TURN and ORA recommending near zero spending levels for grid mod. There is currently no timeline for approval, with the statutory deadline ordered to be extended until at least June 2019. We note that EIX also filed for an augmented risk mitigation program outside of the GRC mainly focused on emergent wildfire risks for 2018-2020 years.

EIX FERC formula rates are also currently under review (in closed door settlement hearing stage). The main focus of the application are adjustments to cost recovery timing and methodology, but the case does not seek a base ROE increase, as the case was filed before the most recent set of wildfires and peer cases asking for 10.7%-12.0% ROE (base rates exclude RTO and projects incentives).

Wildfires having initial impact on cost of capital in CA

All California utilities are also due to file an updated CPUC cost of capital filing in April 2019, based on the settlement requirements from 2017. The current read through from transmission rate requests place base ROE requirements before incentives from 10.7% (SDG&E) to 12.0% (PCG); although the CPUC requests may be even higher due to the commission's stance on the CA courts' interpretation of Inverse Condemnation. **We currently model no change to allowed ROE for EIX in 2019-2022, assuming 10.3% throughout the forecast period.**

CMS – Electric rate settlement filed in Dec 2018; Gas rates filed in late 2018 to be discussed in detail during 2019.

Base filings inline, not ready for trackers/IRMs but regulatory construct suffice

CMS reached a settlement in the MI PSC electric rate case (C-U-20134) on December 12, 2018 resolving most outstanding issues in proceeding and found a revenue sufficiency of $24M inclusive of tax reform (ex-tax refund a $79.4M deficiency). The settlement does not include trackers/IRMs (which were a potential constructive catalyst for MI) but opens workshops for future discussion in 2019. **The settlement allows smoother cost deferral between years, retains 2019 cost savings and includes a stay out provision, meaning no filing by CMS in 2019 (defers filing for 1 year)**. The settlement includes a 10% ROE with a black box equity ratio (~40-41% based on past formulaic decisions) and ~$10.6B rate base. Request inclusive of Tax refunds (ex-refund ~79.4M increase in revenues for investments and cost tracking). We anticipate approval as soon as January 2019. We assume the base ROE remains ~10%, with some potential to over-earn based on energy efficiency and other incentives.

November 11, 2018, CMS requested an increase in retail natural gas rates of $229M (C-U-20322). The rate case is in early stages at this point and will likely take the majority of 2019 to reach a settlement or litigated outcome. The request is based on 10.75% ROE, 42.17% equity (vs. 10.00% ROE and 40.91% ER in current rates) and on $6.5B rate base. We assume no change to the allowed 10% ROE in the future forecast periods 2019-2022.

DTE – DTE electric rate case on track for 2019 settled/litigated outcome; DTE Gas likely filer in early 2019 for serial rate case.

DTE should remain serial filer

In the DTE Electric rate case (C-U-20162) the MPSC Staff recommended a $159.8M rate increase on November 11, 2018. The Staff rate increase is based on a 9.8% ROE and 38.72% equity ratio, 17B rate base (vs. 10.0% ROE in current rates and 36.82% Equity ratio). Given the read through from CMS settlement, litigation would likely lead to a conventional outcome – standard 10% ROE, formulaic equity ratio, no incremental IRM tacking. DTE indicated that it would remain a serial filer in the absence of constructive recovery mechanisms and we model the base ROE at ~10% in the forecast period 2019-2022.

DTE Gas has received approval for 2019 rates in September 2018 and based on past timelines we expect 2020 rates to be filed in early 2019. We do not expect any

See pages 278 - 279 for analyst certification and important disclosures.

controversial "asks" to materialize as the MPSC has been consistent with gas rate case criteria and has already approved program specific IRMs.

OGE – AR formula rate review requested and to be deliberated in early 2019; OK rate case to be filed by the end of 2018 for scrubber and natural gas conversions

We model earned ROE in ARK in-line with Allowed returns post rate order

OGE has filed for adjustments in AR formula rates (D-18-046-FR) in 2018 and requested an order from order from the PSC by March 12, 2019. OGE earned ROEs are expected to be 7.43% for the projected test year, which is below the company's target 9.5% ROE. **The proposed increase would bridge the ROE gap to 9.5%, and we model the company earning near allowed ROE levels in the long term.**

OK Rate Case was filed 4Q 2018 (PUD201800140) which includes recovery of Sooner scrubbers and Muskogee natural gas conversions with scrubber investments of ~$534M, including AFUDC and ~$75M for the gas conversions. **The rate case application also seeks to align the costs profile to get the company earned ROE closer to the allowed ROE, as well as raise the allowed ROE to closer to the industry average, with 9.9% proposed vs. 9.5% currently authorized.** The cost of capital as proposed will remain nearly identical as long term debt costs have decreased ~40bp. The company intends to have a test year ending September 2018 with pro forma adjustments to March 2019 and rates implemented mid-2019. **We note the company also recently reached an agreement to buy out AES generation assets** that were under expensive PPAs running through 2019. The purchase as proposed would reduce customer rates by $40-50M, allow for operational synergies with the existing OGE fleet, shore up capacity requirements at ~$10/kW and provide economic development support to the region.

ETR – New Orleans last rate case outstanding after TX, AR approval in 2018

After constructive outcomes in TX and AR in 2018, ETR has one rate case outstanding for rates at New Orleans electric and gas (D-UD-18-07). The rate request was filed on September 21, 2018 for an electric increase of $135.1M and a modest gas base rate decrease of $0.9M, or $0.1M after rider impacts. The electric request is based on 10.5% ROE, 52.2% ER on 0.77B rate base; vs. 11.1% ROE in current rates, with a black box ER. After consideration of certain riders, ratepayers would experience a roughly $20.2 million net rate reduction. The gas request is based on 10.75% ROE, 52.20% ER on 0.12B rate base; vs. 10.75 % ROE in current rates, with a black box ER.

PCG – Gas transmission and storage rate case in progress; FERC formula rate application; CPUC GRC to be litigated in 2019; Cost of capital filing due in April 2019.

PCG filed the generation and distribution general rate case (GRC) for gas and electric rates (GRC A-18-12-009) on December 13, 2018 asking for a $1.1B rate increase in 2020 over currently adopted revenues for 2019 ($8.506B for 2019 to $9.6B in 2020). More than half of the proposed increase is directly related to wildfire prevention and risk. The electric base rate increase requested by company is based on 10.25% ROE (existing) and a $22.5B rate base and the gas rate increase is based on 10.25% ROE (existing) and $7.5B rate base. PCG also requested adjustments for the 2021 and 2022 attrition years. **The 2020 increase represents a 6-7% rate increase for customers and**

we see rising concerns that California's already high retail electric rates may be squeezed for bill headroom for future investment.

PCG has also made an application with FERC to go to formula rates (instead of annual litigated rate cases), with a base ROE of 12.00%, and increase from the currently authorized 10.25% based on increase operations and wildfire risks of California.

Cost of capital filings key item we are watching with wildfire impact

All California utilities are also due to file an updated CPUC cost of capital filing in April 2019, based on the settlement requirements from 2017. The current read through from transmission rate requests place base ROE requirements before incentives from 10.7% (SDG&E) to 12.0% (PCG); although the CPUC requests may be even higher due to the commission's stance on the CA courts' interpretation of Inverse Condemnation. **We currently model no change to allowed ROE for PCG in 2019-2022, assuming 10.25% throughout the forecast period, but include ROE lag for timely approval of cost and rate base adjustments based on the current delays at the CPUC.**

PCG is in progress of the gas transmission and storage (GT&S) rate case (A-17-11-009). The company updated testimony on March 30, 2018 reflecting the December 2017 tax law and now requests a $265M rate increase in the first year. In addition to the above rate increase, which would take effect in 2019, PCG requested incremental "attrition" rate increases of $131M for 2020 and $188M for 2021. A third attrition year would authorize a $26 million increase for 2022, but the CPUC has historically shied away from 4-year rate plans. The rate bases associated with the request are $6.1B for 2020, $6.6B for 2021, and $7.2B for 2022.

SRE – General rate cases for SDG&E and SoCalGas; FERC formula rate filing; CPUC cost of capital filing due in April 2019

We currently model no change to allowed ROE for SDG&E/SocalGas in 2019-2022...

...could prove conservative

SRE requested rate increases through the CPUC general rate case for SDG&E and SoCalGas (A-17-10-007 SDGE Elec/Gas, A-17-10-008 SoCalGas) in 2018 with most recent (April 13, 2018) rate changes recommended by PUC's Office of Ratepayer Advocates of -$123.7M for SDG&E electric, $60M for SDG&E gas and $238.6M for SoCalGas in 2019. The SRE proposals support projected rate base growth of ~6% for SDG&E and up to 9% for SoCalGas.

For SDG&E (elec/gas) GRC increases, SRE noted in updated April 6, 2018 testimony that the December 2017 tax law reduced the electric and gas revenue requirement by $58M, but SDG&E is not proposing to reduce the requested revenue requirement because it is examining options for securing the use of a high-capacity, quick-strike firefighting helicopter on a year-round basis and because of anticipated increases in insurance premiums due to 2017 wildfires. **The April 6, 2018 testimony reflects an electric rate base of $5.4B** and requests revised electric and gas attrition rate increases of $151.5M in 2020, $120M in 2021 and $122.2M in 2022. The ORA, in its April 13, 2018 testimony recommended lower combined electric and gas rate increases; $78M in 2020, $80M in 2021, and an incremental $83 million in 2022. The ORA's April 13, 2018 testimony reflects the impact of the new tax law enacted in December 2017. **For SoCalGas GRC increases, SRE requested a $480M rate increase for 2019 (Dec 2017 testimony), based on a $6.8B rate base** and in the updated testimony filed on 4/6/18, requested attrition rate increases of $236.9M in 2020, $192.9M in 2021, and $202.6M in 2022. The ORA recommended attrition rate increases of $121M in 2020, $145M in 2021, and $157M in 2022 in 4/13/18 testimony inclusive of the impact of the new tax law enacted in December 2017.

SDG&E additionally requested adjustments to the FERC formula rates to adjust cost calculation methodology and to reflect a base 10.7% ROE (excluding 50bp ISO

See pages 278 - 279 for analyst certification and important disclosures.

incentive adder) based on increased operational and wildfire risks in California. FERC has currently ordered settlement discussion and is in the process of appointing a settlement judge. If an impasse is reached the judge will order a prehearing conference and establish a procedural schedule.

All California utilities are also due to file an updated CPUC cost of capital filing in April 2019, based on the settlement requirements from 2017. The current read through from transmission rate requests place base ROE requirements before incentives from 10.7% (SDG&E) to 12.0% (PCG); although the CPUC requests may be even higher due to the commission's stance on the CA courts' interpretation of Inverse Condemnation. **We currently model no change to allowed ROE for SDG&E/SocalGas in 2019-2022, assuming 10.20%/10.05% for the two operating companies respectively throughout the forecast period.**

PPL – KY rate case extends green tariffs and UK RIIO2 ahead

We forecast a healthy ROE of ~9.5% in our PPL model for KY through 2022.

PPL is requesting a $112mm increase in base electric rates in KY and expanding its renewables program in the state. PPL's Louisville Gas and Electric and Kentucky Utilities filed for base rate increases. LG&E requested a $34.9mm or 3.4% increase for its electric business and a $24.9mm or 13.1% increase for its gas business. The electric increase is predicated on a 10.4% ROE (52.84% equity layer) with $2.5bn rate base on a test year starting April 2020. The gas business is requesting a 10.42% ROE (52.84% equity layer) with $788.4mm rate base. New rates are expected to go into effect May 1 of 2019. **We forecast a healthy ROE of ~9.5% in our PPL model for KY through 2022.** The KY rate case has a green tariff embedded in it and this will combine some existing tariffs into one for retention as well as expanding the green offerings in the state. PPL announced in 2018 a goal to reduce its carbon emission footprint by 70% by 2050. The company anticipates for this plan will predominately be driven by 8,000 MW of generation (mostly coal) in KY, about 70% is coal based. This coal will eventually be replaced with a combination of natural gas and renewables over the long term.

UK process is going to weigh on the shares... indirect read to EDCs

We spoke with company, and we remain cautiously optimistic but on guard

The market is penalizing PPL for a recent proposed UK regulatory decision regarding gas and transmission utilities. Ofgem sent a shot heard around the world when it cut the cost of capital in half for gas and transmission utilities (i.e. the cost of capital was cut to a base line rate of return of 4% for gas distribution and electric transmission businesses). **Investors immediately extrapolated this to PPL's UK electric distribution business even though the proposed ruling's scope did not extend to electric distribution businesses.** PPL shares fell 6% the day Ofgem announced this proposal vs the UTY only down 0.46% (for more see HERE). Ofgem's executive director for systems and networks explained, "We want to cut the cost to consumers for accommodating electric vehicles, renewables and electricity storage, and make sure that all consumers benefit from these technologies." Given the market reaction, Ofgem's proposed cost of capital was on the much lower end of investor's expectations. **Although we agree that the current rate cut was not directly related to electric distribution companies like WPD, investors will draw correlations indirectly – though Management has stopped short of revising guidance on this. At a minimum, this places a major overhang on shares, in our view, which we will continue to monitor for the time being.** As a reminder PPL won't have its cost of capital proposal until mid 2020 (with a final decision in 2022) so we believe there is ample lead time until PPL's cost of capital is actually impacted.

We caught up with PPL after the Ofgem decision which lowered the cost of capital for gas and transmission utilities to compare notes – we think this is better but remain on guard given the indirect read. PPL explained that nothing in the Ofgem decision was causing them to change previously announced guidance for RIIO2. As a reminder PPL's UK business is only electric distribution and they have no exposure to gas distribution or electric transmission. It is possible that the market's reaction was premature but only time will tell. PPL maintains a stance that gas/transmission and electric distribution are two very distinct businesses and if the UK wants to achieve its goals for carbon reduction – **bill headroom for renewables (i.e., DG investments, electric vehicles) clearly a reason why it cut returns for gas and electric transmission – then it will likely require investment in the electric distribution systems, which we believe would be severely curtailed if returns are cut in half.** Regardless of the company's messaging U.S. infrastructure investors view the Ofgem's regulatory proposals for gas/transmission as contentious.

DUK – Carolinas Rate Decision due March '19; Renewables RFP opportunity continues

We assume an ~10-11%% ROE for DEC and ~10-11% ROE for DEP through 2022.

DUK is expected to receive a decision on its Duke Energy Carolina's and Duke Energy Progress rate cases by May 2019. DUK requested a $168 million base rate increase at Duke Energy Carolinas (DEC) and $59 million increase at Duke Energy Progress (DEP). DEC is requesting a 10% increase in retail rates with a 10.5% ROE on 53% equity layer with a rate base of $5.6 billion. DEP is requesting a 10.3% increase for retail revenues with a 10.5% ROE on 53% equity layer for $1.5 billion of rate base. In our model **we assume an ~10-11%% ROE for DEC and ~10-11% ROE for DEP through 2022.** The last time DEC filed a rate increase in was 2013 and DEP filed in 2016. The rate increases will be used modernize power plants, manage coal ash, and improve reliability. Both plans are for grid mod and have step-ups in base rates to recover grid investments.

Renewables opportunity underappreciated - HB 589 continues to present a substantial opportunity to DUK; we watch this process very closely. There are 2.7 GW of total renewable opportunities that the bill unleashes and 30% of this DUK can self-build and with no cap on what DUK could acquire from developers (potentially the remaining 70%). **The total opportunity could be over ~$2.0bn assuming ~$1.00-1.50/watt**. In July 2018 the RFP was launched for 680 MW which are projected to be in-service by 2020, Oct 9 bids were submitted and over the next several months bids will be evaluated by an independent administrator. In 1H19 the winning bids are expected to be announced and in 2H19 the new project construction is anticipated to begin for the 2020 in service dates. **For more background see our recent NDR with management HERE.**

NI – NIPSCO and VA Gas Rate Cases pending, still waiting on MA re-filing

We model NIPSCO with robust ROEs of 9.8-10.3% through 2022

NI has a pending rate case at Northern Indiana Public Service Co. (NIPSCO) in which it requests a two step $21.4mm electric base rate increase (Cause No. 45159). The first step rate change is a $90mm reduction based on a 10.8% ROE (47.28% equity layer) and would be effective Sep 1 2019. The second step rate change would be a $11.4mm increase on a 10.8% ROE (47.86% equity layer) with $4.1bn of rate base. **We model NIPSCO with robust ROEs of 9.8-10.3% through 2022 and estimate ~$3.6bn of rate base for 2018.** Part of the driver behind the rate case is to reset deprecation rates for coal assets that will retire sooner than their originally expected useful lives. NI previously announced it will retire four units at RM Schahfer by 2023 and Michigan City by 2028 but NIPSCO has been previously assuming a 2030 retirement date for these units. The company's long term plan is to replace these coal fired units with solar, wind combined with battery storage.

COMPANY SECTIONS

AMERICAN ELECTRIC POWER (AEP, NEUTRAL, $78 PT)

Downgrading to NEUTRAL on valuation, solid performance and general cautiousness around pure bond surrogates – we have become very selective in that space and prefer other regulated electrics with higher growth, lower valuation. AEP worked in '18 as best as it could, has good growth prospects but at this stage, fully priced in, in our view - NT potential catalyst is PSO rate case or strategic move in the state.

- **Downgrading to NEUTRAL and raising our price target to $78 (from $77) as we roll forward our valuation to 2020 earnings.** In summary, our downgrade is predominately a valuation call despite sound fundamentals, driven by a lack of NT catalysts outside of making a call in OK – we believe solid growth prospects are priced in with shares outperforming UTY ~300 bps and now essentially trading at a slight premium to peers. **As we also noted in the earlier part of this note, we are very selective on bond surrogates and see better re-rating opportunities with other fully regulated electric peers like ETR, FE** that trade cheaper and have higher growth prospects (albeit with somewhat higher leverage); **we also prefer DUK** at this stage. **The NT catalyst in 2019 for AEP really centers on making a call in OK – either a constructive call on GRC or a strategic review and future sale of the PSO utility; we bend towards the latter as we can't envision a constructive enough outcome to stay vested in OK and also see an "accretive angle" with a deal as well as a benefit from just simplifying the AEP story.** Overall, we like fundamentals, we like mgmt., and see somewhat higher capex but we believe this is already reflected in performance.
- **Introducing our 2022 estimate of $4.93 which equates to a 6% CAGR off an '18 base.** Mgmt affirmed a 5-7% guide after increasing its capex plan to $33bn from $24bn through 2023. Our 2019/2020/2021 estimates of $4.17/$4.44/$4.71 exhibit ~6% YoY growth based on strong ROEs of ~9-12% at APCo, I&M and OPCo but continued lag at PSO and SWEPCo of 200 to 300 bps. Through 2022, we model ~$6Bn/year in regulated CapEx and similar dynamics at the utilities in 2022.
- **PSO rate case could be a knock-on effect for a potential strategic review; Oklahoma rate case – the one we are watching.** We continue to have a view point that the 3rd strike could lead to an out in Oklahoma, but some complexities need to be worked through including a separate headquarters in Tulsa that houses ~618 employees that will need to be accounted for in any strategic decision – i.e., another reason why an OGE deal could make sense. **Reminder, from our recent OK Commissioner meetings we hosted with clients in the state, we don't have a lot of confidence in this GRC (i.e., OCC suggested there was a structural problem at the utility in the NT) but the state has been known to surprise to the upside as it did with OGE – so we are slightly optimistic but more cautious overall. For our thoughts following our Commissioner meetings, see our note HERE.** As we have also stated in the past, blending in the TransCo's earned ROEs in the state with that of PSO does not equate to a higher earned ROE in that state – TransCo's contribution is not material enough (i.e., ~30bps) to negate PSOs under-earning. **So, while we continue to see upside in AEP shares if it divests underperforming assets such as PSO and reinvests the proceeds and captures a wider ROE spread despite tax leakage, as well as, the benefits of merely simplifying the story, we do not see it as a NT catalyst to drive shares as it will take time to play out**. In our previous work, we found this to be +3% accretive to AEP shares under very conservative assumptions and further note that mgmt. has affirmed it

would consider selling if PSO receives an unfavorable decision for its pending rate case. **What defines an "unfavorable decision"?** This includes if PSO does not get performance-based rate making or tracker for transmission. **For more on PSO see our detailed note HERE**.

- **As a reminder, we view the significant ROE lag at PSO as structural and believe our case for a sale of PSO to maybe a player like OGE on the buying end would be a potential win-win for both parties involved if something leads to a transaction – accretion all around:** over +3-6% for OGE, 1-2% for AEP under modest 50% capital redeployment assumption. There are several complexities that need to be worked out if the Oklahoma commission fails to deliver this a 3rd time around, including the relocation of employees, tax leakage as well as the redeployment of proceeds (i.e., how quickly). For a full drilldown on this thesis see our note HERE - our estimates in the analysis assume full tax leakage and a quick redeployment of proceeds. **As a reminder and for historical context, when AEP exited merchant generation a couple of years ago, it did have an earnings divot that took several months to backfill following the GenCo sale. That said, shifting to today, capital growth opportunities seem to be more fruitful than in the past, especially around wires and renewables.**

Guggenheim's AEP EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2018E	0.96A	1.01A	1.25A	0.70E	**3.93E**	*3.94E*
Prior	*0.96E*	*1.01E*	*1.26E*	*0.76E*	*3.98E*	
2019E	0.99E	0.96E	1.04E	1.18E	**4.17E**	*4.12E*
Prior	*0.99E*	*0.92E*	*1.26E*	*1.00E*	*4.17E*	
2020E	1.06E	1.03E	1.10E	1.24E	**4.44E**	*4.39E*
Prior	*1.05E*	*0.98E*	*1.30E*	*1.04E*	*4.36E*	
2021E	1.14E	1.11E	1.17E	1.29E	**4.71E**	*4.63E*
Prior	*1.11E*	*1.04E*	*1.34E*	*1.08E*	*4.58E*	
2022E	1.20E	1.16E	1.22E	1.35E	**4.93E**	*4.90E*
Prior	*1.23E*	*1.20E*	*1.25E*	*1.36E*	*5.04E*	

Source: Guggenheim Securities, LLC.

- **Valuation:** Our new $78 price target is derived from our 2020 EPS estimate of $4.44 (previously 2019E of $4.17) for AEP's regulated utility subsidiaries and applying a target multiple of 18x (our regulated utility multiple of 17x plus a one turn premium) gets us to an $79 valuation; we subtract ~$2/share for Holding Company drag, amongst some other items, and discount our valuation back one year to arrive at our 12-month price target of $78.

- **Risks: Upside risks:** AEP could breach our estimates/valuation if capital investments exceed our modeling assumptions, or with interest rate changes below those reflected in our regression model. **Downside risks:** as a fully regulated name, AEP is exposed to rate case risk, and potential rising interest rate risk.

GUGGENHEIM
AMERICAN ELECTRIC POWER
CONSOLIDATED FINANCIALS

INCOME STATEMENT ($mm, unless otherwise noted)	1Q19E	2Q19E	3Q19E	4Q19E	2018E	2019E	2020E	2021E	2022E
Total operating revenue	**4,125**	**4,165**	**4,235**	**4,244**	**15,633**	**16,770**	**17,551**	**18,168**	**18,611**
Fuel for generation									
Purchased power									
Purchases from AEP affiliates									
Fuel and purchased power	**1,443**	**1,459**	**1,496**	**1,485**	**5,599**	**5,883**	**6,142**	**6,291**	**6,364**
Gross margin	**2,682**	**2,706**	**2,740**	**2,759**	**10,034**	**10,887**	**11,408**	**11,877**	**12,247**
Other operation	841	867	841	793	2,974	3,342	3,410	3,454	3,468
Maintenance	298	301	302	270	1,151	1,171	1,199	1,206	1,200
D&A	430	433	437	440	2,041	1,740	1,841	1,933	2,020
Taxes other than income	253	256	258	260	1,092	1,027	1,062	1,089	1,104
EBIT	**859**	**850**	**902**	**997**	**2,776**	**3,608**	**3,897**	**4,196**	**4,454**
Interest and non-operating income	9	9	9	9	(29)	38	38	38	38
Carrying costs income	-	-	-	-	7	-	-	-	-
AFUDC equity	21	21	21	21	146	82	82	82	82
Interest expense	(271)	(275)	(279)	(283)	(941)	(1,108)	(1,193)	(1,263)	(1,321)
Earnings before taxes	**618**	**605**	**653**	**744**	**1,958**	**2,620**	**2,824**	**3,053**	**3,254**
Tax rate	21%	21%	21%	21%	10%	21%	21%	21%	21%
Income tax expense/(benefit)	130	127	137	156	194	550	593	641	683
Earnings from unconsolidated affiliates	-	-	-	-	55	-	-	-	-
Disc ops					-	-	-	-	-
Extraordinary items net of tax	-	-	-	-	95	-	-	-	-
Income from non-controlling interests	-	-	-	-	6	-	-	-	-
Preferred dividend	-	-	-	-	-	-	-	-	-
Net income	**488**	**478**	**516**	**588**	**1,909**	**2,070**	**2,231**	**2,412**	**2,570**
Diluted shares	495	496	496	497	494	496	502	512	521
EPS	**$0.99**	**$0.96**	**$1.04**	**$1.18**	**$3.87**	**$4.17**	**$4.44**	**$4.71**	**$4.93**
Non-recurring items net of tax	0	0	0	0	(30)	0	0	0	0
Recurring net income	**488**	**478**	**516**	**588**	**1,939**	**2,070**	**2,231**	**2,412**	**2,570**
Recurring EPS	**$0.99**	**$0.96**	**$1.04**	**$1.18**	**$3.93**	**$4.17**	**$4.44**	**$4.71**	**$4.93**

Source: Company reports; Guggenheim Securities, LLC estimates

GUGGENHEIM

AMERICAN ELECTRIC POWER

CONSOLIDATED FINANCIALS

BALANCE SHEET ($mm, unless otherwise noted)	1Q19E	2Q19E	3Q19E	4Q19E	2018E	2019E	2020E	2021E	2022E
Assets									
Cash and equivalents	37	94	193	351	73	351	112	156	244
Other	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904
Total current assets	**3,941**	**3,998**	**4,097**	**4,255**	**3,977**	**4,255**	**4,016**	**4,060**	**4,148**
CWIP	4,996	4,996	4,996	4,996	4,996	4,996	4,996	4,996	4,996
Gross PP&E	74,189	75,763	77,338	78,913	72,614	78,913	84,759	90,050	95,341
Accumulated depreciation	18,617	19,050	19,487	19,927	18,187	19,927	21,768	23,701	25,722
Net PP&E	**55,572**	**56,713**	**57,851**	**58,986**	**54,427**	**58,986**	**62,990**	**66,349**	**69,619**
Other assets	9,569	9,569	9,569	9,569	9,569	9,569	9,569	9,569	9,569
Total assets	**69,082**	**70,281**	**71,517**	**72,810**	**67,973**	**72,810**	**76,576**	**79,978**	**83,337**
Liabilities									
ST debt	3,043	3,543	4,043	4,543	2,643	4,543	6,293	6,593	6,893
Currently maturing LT debt	1,904	1,904	1,904	1,904	1,904	1,904	1,904	1,904	1,904
Other	4,279	4,279	4,279	4,279	4,279	4,279	4,279	4,279	4,279
Total current liabilities	**9,226**	**9,726**	**10,226**	**10,726**	**8,826**	**10,726**	**12,476**	**12,776**	**13,076**
LT debt	21,493	22,118	22,743	23,368	20,868	23,368	24,468	26,568	28,568
Other	18,961	18,854	18,747	18,641	19,067	18,641	18,214	17,787	17,360
Total LT liabilities	**40,453**	**40,972**	**41,490**	**42,008**	**39,935**	**42,008**	**42,681**	**44,355**	**45,928**
Total liabilities	**49,680**	**50,698**	**51,716**	**52,734**	**48,761**	**52,734**	**55,158**	**57,131**	**59,004**
Preferred stock	31	31	31	31	31	31	31	31	31
Noncontrolling interests	100	100	100	100	100	100	100	100	100
Common stock	3,337	3,337	3,337	3,337	3,337	3,337	3,337	3,337	3,337
Paid in capital	6,535	6,560	6,585	6,610	6,510	6,610	7,110	7,610	8,110
Retained earnings	9,487	9,642	9,835	10,084	9,320	10,084	10,927	11,856	12,842
ACI	(86)	(86)	(86)	(86)	(86)	(86)	(86)	(86)	(86)
Total shareholder equity	**19,272**	**19,453**	**19,671**	**19,945**	**19,081**	**19,945**	**21,288**	**22,717**	**24,202**
Total liabilities and equity	**69,082**	**70,281**	**71,517**	**72,810**	**67,973**	**72,810**	**76,576**	**79,978**	**83,337**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
AMERICAN ELECTRIC POWER
CONSOLIDATED FINANCIALS

STATEMENT OF CASH FLOWS ($mm, unless otherwise noted)	1Q19E	2Q19E	3Q19E	4Q19E	2018E	2019E	2020E	2021E	2022E
Cash flow from operations									
Net income	488	478	516	588	1,915	2,070	2,231	2,412	2,570
D&A	430	433	437	440	2,041	1,740	1,841	1,933	2,020
Deferred income taxes	(107)	(107)	(107)	(107)	(64)	(427)	(427)	(427)	(427)
Other	-	-	-	-	628	-	-	-	-
Cash flow from operations	**811**	**804**	**846**	**922**	**4,520**	**3,383**	**3,645**	**3,918**	**4,164**
					5,100	5,100	5,100	5,100	5,100
Cash flow from investing									
Capex	(1,575)	(1,575)	(1,575)	(1,575)	(6,105)	(6,299)	(5,846)	(5,291)	(5,291)
Acquisitions of assets	-	-	-	-	-	-	-	-	-
Divestitures of assets	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	(0)	-	-	-	-
Cash flow from investing	**(1,575)**	**(1,575)**	**(1,575)**	**(1,575)**	**(6,105)**	**(6,299)**	**(5,846)**	**(5,291)**	**(5,291)**
Cash flow from financing									
Net change in ST debt	400	500	500	500	1,004	1,900	1,750	300	300
Net change in LT debt	625	625	625	625	1,600	2,500	1,100	2,100	2,000
Cash to parent (common stock dividends)	(322)	(322)	(323)	(339)	(1,244)	(1,306)	(1,388)	(1,483)	(1,585)
Issuance of common stock	25	25	25	25	100	100	500	500	500
Other	-	-	-	-	(65)	-	-	-	-
Cash flow from financing	**728**	**828**	**827**	**811**	**1,395**	**3,194**	**1,962**	**1,417**	**1,215**
Net Cash Flows from (Used for) Discontinued Activities					-	-	-	-	-
Increase/(decrease) in cash	(35)	57	99	158	(340)	278	(239)	44	88
Cash at beginning of period	73	37	94	193	413	73	351	112	156
Cash at end of period	**37**	**94**	**193**	**351**	**73**	**351**	**112**	**156**	**244**

Source: Company reports; Guggenheim Securities, LLC estimates.

ALLETE (ALE, NEUTRAL, $74 PT)

ALE continues to trade at a premium valuation – NT focus remains on ROE improvement at MN Power and execution at ACE and US Water, LT business mix continues to shift, albeit slowly.

- **We are maintaining our NEUTRAL rating and raising our price target to $74 from $71 as we roll forward our valuation.** We view ALE as somewhat of a unique story within our coverage universe – it has grown at a relatively in line 5-7% growth rate, but underneath this is an operating mix that is slowly shifting towards a higher contribution from its unregulated subsidiaries. This is a result of very different growth profiles in each business; ALE's regulated segment is for all intents and purposes a single-state utility (SWP&L in WI has a ratebase <$70mm) with ratebase growth of only 1-3%, while the Clean Energy and US Water businesses are projected by mgmt. to grow significantly faster (we model ~9% 2018-2022 CAGR). This differential will take the regulated business from approximately ~84% of earnings in our 2019 estimates down to ~77% in our 2022 estimates. Valuation and the potential need to do a regulated deal keeps us on the sidelines for now; fundamentals remain sound.
- **We are launching our 2022 EPS estimate of $4.46 and updating our 2018-2020 outlook to $3.34/$3.71/$4.01 from $3.39/$3.79/$3.98**. Our 2021 estimate of $4.20 remains unchanged. Our 6% consolidated earnings growth outlook (through our new 2022 trajectory), which is in line with management guidance of >5%, is comprised of ~7% regulated earnings growth accounts for ~84% of total earnings in 2019, and our 9% non-regulated growth outlook. The latter is driven primarily by incremental renewable investments at Clean Energy and to a very small degree by U.S. Water. We arrive at ~2-4% YoY earnings growth at the utilities based on modeling ~2% rate base growth and ~9.25% earned returns (with some further drag in 2019 from the Husky refinery outage), with ~$160mm in CAPEX/year, generally a balanced cap structure, 2% volume growth and consistent growth at ATC, etc. We also assume minimum idled taconite production with customers through 2021 and continued contribution from equity investment in ATC. We assume modest growth at the non-regulated segment driven by continued wind expansion at ACE as well as steady customer growth at U.S. Water. **Our newly-introduced 2022 EPS estimate implies a CAGR above the LT growth guidance midpoint of 6%, but within the 7% top end guide. As a reminder, additional industrial customers like Mercuria (detailed more below) could be incremental catalysts to growth.**
- **2019 potential catalysts aplenty, there are key items for investors to be aware of in the new year…** On the regulatory front, ALE continues its efforts to trim costs at MN Power and earn its allowed ROE of 9.25%. This has been impacted somewhat by the Husky refinery outage – we remain on the lookout for any details regarding the restart schedule. For rates themselves, **mgmt. has indicated that they could pursue a rate case potentially in November 2019 for a 2020 test year.** It remains to be seen whether this will include the previously-proposed ARRM mechanism, or a change in the ROE (mgmt. has recently pointed to a 10% allowed decision in a competitor's MN gas rate case). ALE is also applying for approval of its investment in Tenaska's Nobles 2 wind project after it faltered post-tax reform. As a reminder, MN Power is the 250MW project's offtaker. Mgmt. has indicated that its proposed 49% stake in the project would not require additional equity. On the unregulated side, we continue to look out for additional wind opportunities at ACE, as the subsidiary has seen some steady traction in putting its safe-harbored turbines to use. US Water remains a relatively smaller part of the business through 2022, and we note that mgmt. has not made secret its desire to see the segment exceed its cost of capital.

- **Taconite customers continue to operate at full capacity – prospects for additional load remain positive, albeit somewhat elusive…** ALE's major taconite customers continue to operate at full production capacity, and we model as such through our forecast period. More importantly, two key customers are progressing well: **(1) Polymet:** the copper and nickel mine for which almost all of the major permits are in hand and **(2) Mesabi Metallics (former Essar Steel):** an unfinished taconite project that had been in and out of bankruptcy prior to receiving a ~$650mm investment from Swiss commodity house Mercuria. As a reminder, **PolyMet's 50MW of load are included in ALE's planning, while Mesabi's potential 110MW would be incremental.**

Guggenheim's ALE EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	0.99A	0.61A	0.59A	1.14E	**3.34E**	3.38E
Prior			*0.59E*	*1.20E*	*3.39E*	
2019E	1.03E	0.77E	0.90E	1.01E	**3.71E**	3.63E
Prior	*1.03E*	*0.80E*	*0.92E*	*1.05E*	*3.79E*	
2020E	1.13E	0.85E	0.95E	1.08E	**4.01E**	3.92E
Prior	*1.09E*	*0.86E*	*0.95E*	*1.08E*	*3.98E*	
2021E	1.17E	0.86E	0.97E	1.20E	**4.20E**	4.10E
Prior	*1.15E*	*0.89E*	*0.97E*	*1.19E*	*4.20E*	
2022E	1.24E	0.91E	1.02E	1.29E	**4.46E**	

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Valuation:** We value ALE as a regulated utility, as the non-regulated businesses are a relatively small part of the business mix, and focus on utility-related infrastructure or services, arriving at our $78 price target using our regulated group multiple of 17x, which is based on our regression model using the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years, and now ascribe a two-turn premium to reflect M&A premium this market cap range tends to trade at and incremental growth opportunities not embedded in our multiple or EPS, which is applied to our 2020 EPS estimate of $4.01.
- **Risk:** Outside of the smaller base of large industrial customers and weak industrial demand, risks to achieving our fair value/share for ALE mainly encompass traditional risk factors inherent with regulated utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

  Upside risks to our fair value estimate include: (1) favorable regulatory settlements; (2) acceleration in taconite production; and (3) higher CapEx outlook.

 See pages 278 - 279 for analyst certification and important disclosures.

GUGGENHEIM

ALLETE Energy
Consolidated Financials

INCOME STATEMENT ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating Revenue	1,481	413	395	424	409	1,641	1,728	1,786	1,877
Total Operating Revenues	**1,481**	413	395	424	409	**1,641**	**1,728**	**1,786**	**1,877**
Fuel and Purchased Power	393	92	102	117	91	402	411	416	425
Total Cost of sales	**393**	92	102	117	91	**402**	**411**	**416**	**425**
Gross Margin	**1,088**	320	294	307	318	**1,239**	**1,317**	**1,370**	**1,452**
% of Gross Margin	*73%*	*78%*	*74%*	*72%*	*78%*	*76%*	*76%*	*77%*	*77%*
Transmission Services	72	19	17	18	19	73	74	76	77
Cost of Sales	138	48	48	50	50	196	212	220	239
Other operation and maintenance expenses	345	88	85	84	90	346	348	340	339
Taxes, other than income taxes	109	34	29	31	36	130	156	185	218
Impairment of Real Estate	-	-	-	-	-	-	-	-	-
Total Operating Expenses	**664**	189	179	184	195	**746**	**790**	**821**	**874**
EBITDA	**424**	132	115	123	124	**493**	**527**	**549**	**578**
Depreciation and amortization	210	54	54	54	48	210	224	235	249
Operating Income	**215**	78	61	69	76	**284**	**303**	**314**	**330**
Equity Earnings in ATC	19	6	7	7	8	28	32	38	46
Other	3	1	1	1	1	3	3	3	3
Interest Expense	73	17	18	18	18	70	72	73	75
Interest Rate	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
Total Other Expense	**50**	10	10	10	9	**40**	**37**	**32**	**27**
Income Before Non-Controlling Interest and Income Taxes	**165**	67	50	59	66	**244**	**266**	**282**	**303**
Income Tax Expense	(8)	14	10	12	13	50	54	57	61
Tax Rate	*-5%*	*21%*	*21%*	*21%*	*21%*	*21%*	*20%*	*20%*	*20%*
Net income	**172**	54	40	47	53	**194**	**212**	**225**	**242**
Less: Non-Controlling Interest in Subsidiaries									
Net Income Attributable to ALLETE	**172**	54	40	47	53	**194**	**212**	**225**	**242**
Weighted-average Number of Common Shares Outstanding-Diluted	52	52	52	52	52	52	53	54	54
Earnings Per Common Share, Diluted	**$3.34**	$1.03	$0.77	$0.90	$1.01	**$3.71**	**$4.01**	**$4.20**	**$4.46**
Non-GAAP Items	-	-	-	-	-	-	-	-	-
Net income (Non-GAAP)	**172**	54	40	47	53	**194**	**212**	**225**	**242**
Earnings Per Common Share, Diluted (Non-GAAP)	**$3.34**	$1.03	$0.77	$0.90	$1.01	**$3.71**	**$4.01**	**$4.20**	**$4.46**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

GUGGENHEIM

ALLETE Energy

Consolidated Financials

BALANCE SHEET ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash and cash equivalents	152	168	165	149	169	169	277	437	612
Accounts receivable	160	153	147	158	152	152	160	166	174
Inventories	139	139	152	176	136	136	140	141	144
Prepayments and other	24	24	27	31	24	24	25	25	25
Deferred Income Taxes	-	-	-	-	-	-	-	-	-
Total Current Assets	**476**	484	491	514	482	**482**	**601**	**768**	**955**
Property, plant and equipment									
Property, Plant and Equipment – Net	**3,860**	3,884	3,908	3,931	3,960	**3,960**	**3,961**	**3,916**	**3,857**
Net utility plant	**3,860**	3,884	3,908	3,931	3,960	**3,960**	**3,961**	**3,916**	**3,857**
Regulatory Assets	371	371	371	371	371	371	371	371	371
Investment in ATC	126	126	126	126	126	126	126	126	126
Other Investments	52	52	52	52	52	52	52	52	52
Goodwill and Intangible Assets – Net	225	225	225	225	225	225	225	225	225
Other Non-Current Assets	104	104	104	104	104	104	104	104	104
Total Non-current assets	**877**	877	877	877	877	**877**	**877**	**877**	**877**
Total Assets	**5,214**	5,246	5,276	5,322	5,320	**5,320**	**5,440**	**5,561**	**5,690**
Accounts Payable	119	118	130	150	116	116	119	120	122
Accrued Taxes	54	54	54	54	54	54	54	54	54
Accrued Interest	16	16	16	16	16	16	16	16	16
Long-Term Debt Due Within One Year	57	57	57	57	57	57	57	57	57
Notes Payable	-	-	-	-	-	-	-	-	-
Other	145	145	145	145	145	145	145	145	145
Total Current Liabilities	**389**	389	401	421	387	**387**	**390**	**391**	**393**
Long-Term Debt	1,487	1,487	1,487	1,487	1,487	1,487	1,487	1,487	1,487
Deferred Income Taxes	231	231	231	231	231	231	231	231	231
Regulatory Liabilities	512	512	512	512	512	512	512	512	512
Defined Benefit Pension and Other Postretirement Benefit Plans	174	174	174	174	174	174	174	174	174
Other Non-Current Liabilities	266	266	266	266	266	266	266	266	266
Total Other Liabilities	**2,670**	2,670	2,670	2,670	2,670	**2,670**	**2,670**	**2,670**	**2,670**
Total Liabilities	**3,059**	3,058	3,070	3,090	3,056	**3,056**	**3,059**	**3,060**	**3,063**
Capitalization									
ALLETE's Equity									
Common stock	1,431	1,441.10	1,451.10	1,461.10	1,471.10	1,471	1,511	1,551	1,591
Unearned ESOP Shares	-	-	-	-	-	-	-	-	-
Accumulated Other Comprehensive Loss	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)
Retained earnings	751	773	782	798	819	819	896	977	1,064
Total ALLETE Equity	**2,155**	2,187	2,206	2,232	2,263	**2,263**	**2,380**	**2,501**	**2,627**
Non-Controlling Interest in Subsidiaries	-	-	-	-	-	-	-	-	-
Total Equity	**2,155**	2,187	2,206	2,232	2,263	**2,263**	**2,380**	**2,501**	**2,627**
Total Liabilities and Equity	**5,214**	5,245.6	5,276.1	5,322.0	5,319.5	**5,320**	**5,440**	**5,561**	**5,690**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

ALLETE Energy

Consolidated Financials

CASH FLOW STATEMENT ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Net income	**172**	54	40	47	53	**194**	**212**	**225**	**242**
Adjustments to reconcile net income to net cash provided by operating activities:									
Allowance for Funds Used During Construction – Equity	(1)	-	-	-	-	-	-	-	-
Income from Equity Investments – Net of Dividends	(1)					-	-	-	-
Impairment of Real Estate	-	-	-	-	-	-	-	-	-
Impairment of Goodwill	-	-	-	-	-	-	-	-	-
Change in Fair Value of Contingent Consideration	-	-	-	-	-	-	-	-	-
Gain on Sales of Investments	-	-	-	-	-	-	-	-	-
Depreciation Expense	228	54	54	54	48	210	224	235	249
Amortization of Power Purchase Agreements	(18)	-	-	-	-	-	-	-	-
Amortization of Other Intangible Assets and Other Assets	8	-	-	-	-	-	-	-	-
Changes in Operating Assets and Liabilities									
Accounts Receivable	(27)	7	7	(11)	6	8	(8)	(6)	(9)
Inventories	3	1	(14)	(24)	40	3	(4)	(1)	(3)
Prepayments and Other	8	0	(2)	(4)	7	1	(1)	(0)	(1)
Accounts Payable	(3)	(1)	12	20	(34)	(3)	3	1	3
Net Cash Provided by Operating Activities	**388**	114	96	83	120	**413**	**427**	**454**	**481**
Cash Flow from Investing Activities:									
Proceeds from Sale of Available-for-sale Securities	9	-	-	-	-	-	-	-	-
Payments for Purchase of Available-for-sale Securities	(13)	-	-	-	-	-	-	-	-
Acquisitions of Subsidiaries – Net of Cash Acquired	-	-	-	-	-	-	-	-	-
Investment in ATC	(5)					-	-	-	-
Changes to Other Investments	1	-	-	-	-	-	-	-	-
Additions to Property, Plant and Equipment	(271)	(78)	(78)	(78)	(78)	(310)	(225)	(190)	(190)
Construction Costs for Development Project	-	-	-	-	-	-	-	-	-
Cash in Escrow for Acquisition	-	-	-	-	-	-	-	-	-
Proceeds from Sale of Property, Plant and Equipment	-	-	-	-	-	-	-	-	-
Changes in Restricted Cash	-	-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	**(278)**	(78)	(78)	(78)	(78)	**(310)**	**(225)**	**(190)**	**(190)**
Cash Flow from Financing Activities:									
Proceeds from Issuance of Common Stock	25	10	10	10	10	40	40	40	40
Proceeds from Issuance of Long-Term Debt	98					-	-	-	-
Changes in Restricted Cash	-	-	-	-	-	-	-	-	-
Changes in Notes Payable	-	-	-	-	-	-	-	-	-
Repayments of Long-Term Debt	(60)					-	-	-	-
Acquisition of Non-Controlling Interest	(1)	-	-	-	-	-	-	-	-
Debt Issuance Costs	-	-	-	-	-	-	-	-	-
Dividends on Common Stock	(117)	(31)	(31)	(31)	(32)	(126)	(135)	(145)	(155)
Net Cash (Used in) Provided by Financing Activities	**(54)**	(21)	(21)	(21)	(22)	**(86)**	**(95)**	**(105)**	**(115)**
Net (Decrease) Increase in Cash and Cash Equivalents	**53**	16	(3)	(16)	21	**17**	**108**	**159**	**176**
Cash and Cash Equivalents, Beginning of Period	99	152	168	165	149	152	169	277	437
Cash and Cash Equivalents, End of Period	**152**	168	165	149	169	**169**	**277**	**437**	**612**

Source: Company reports; Guggenheim Securities, LLC estimates.

AVISTA CORPORATION (AVA, NEUTRAL, $42 PT)

After getting the Hydro One acquisition of AVA blocked in WA, we believe AVA is likely to become a high price, low growth utility stock, buoyed by future M&A expectation.

- **We are maintaining our NEUTRAL rating and $42 PT.** The AVA-Hydro One (H.TSE) merger story of last year fell apart with the WA UTC rejecting the merger application on the grounds of public interest according to state statute as it relates to foreign government control. With major breaking points being the contradiction to Hydro One's (H.TSE) testimony that the province of Ontario would remain a passive investor as evidenced by the board and CEO removal due to political outcomes, we do not see a pathway for this deal to resume, especially as the Oregon PUC has vacated the December 14, 2018 decision date to consider the denial posted in WA. ID PUC is another challenging jurisdiction that has seen staff remain in opposition alongside intervenors after the November technical hearing and does not currently have a deadline set for a decision. For our most recent thoughts on merger, see HERE.
- **For 2019, we see the company either moving back to core operations, as regulatory backlogs (i.e. rate adjustments) need to be filed, or seeking another acquiring party to step in as soon as possible – latter not a likely factor in the NT.** We see it unlikely for another party to step up on short notice since it would have to be a domestic utility operator with reasonable scale and have a plan for the benefit of AVA customers that would pass approval in 5 states. In our view, some of the Pacific Northwest utilities could be potential suitors, but we envision that much of 2019 could be focused on trueing up rates for AVA and any strategic opportunities likely a 2020+ story.
- **Maintaining our 2018 EPS estimate, updating 2019-2021 EPS estimates ($2.19, $2.31, $2.38 respectively) and introducing our 2022 EPS estimate of $2.45.** Our estimates are based on a 4-6% regulated utility rate base growth from 2018-2022 with a 49.1% equity ratio and 9.9% allowed ROE, while earned ROE reflects 150-200bp ROE regulatory lag. On a consolidated basis, our outlook implies a ~5% EPS CAGR though 2022, excluding acquisition costs and breakup fees, which may offset some equity needs in the future.
- **There are no major rate cases currently in progress and some potential exists for near-term underearning due to regulatory lag and expenses not covered in current rates.**

Guggenheim's AVA EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	0.83A	0.39A	0.15E	0.67E	**2.05E**	2.07E
Prior		0.39A	*0.18E*	*0.65E*	*2.05E*	
2019E	0.90E	0.41E	0.19E	0.69E	**2.19E**	2.19E
Prior	*0.91E*	*0.42E*	*0.20E*	*0.70E*	*2.23E*	
2020E	0.94E	0.44E	0.19E	0.74E	**2.31E**	2.34E
Prior	*0.94E*	*0.44E*	*0.20E*	*0.75E*	*2.34E*	
2021E	0.97E	0.45E	0.20E	0.77E	**2.38E**	2.40E
Prior	*0.97E*	*0.45E*	*0.21E*	*0.77E*	*2.40E*	
2022E	1.00E	0.46E	0.20E	0.79E	**2.45E**	
Prior						

Source: Guggenheim Securities, LLC; FactSet consensus estimates.

- **Valuation:** Our $42 PT is based on an 18x multiple applied to our 2020 EPS estimate of $2.31. We use a 1x premium to our baseline regulated multiple of 17x to adjust for an acquisition premium for AVA going forward.
- **Risks:** The primary risks on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower/higher capex outlook, and (3) interest rate changes above/below what we account for in our regression model. M&A risks: Failure to approve the pending acquisition of AVA by Hydro One could impact the valuation of AVA.

GUGGENHEIM
AVA
Consolidated Financials

INCOME STATEMENT ($ thousands)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Total Operating Revenues	1,429,932	414,663	326,041	315,785	412,018	1,468,506	1,510,495	1,551,537	1,625,289
Utility Resource costs	515,544	147,388	97,506	106,628	144,481	496,003	474,560	457,207	475,696
Total Cost of sales	515,544	147,388	97,506	106,628	144,481	496,003	474,560	457,207	475,696
Gross Margin	914,388	267,275	228,535	209,156	267,537	972,503	1,035,935	1,094,330	1,149,593
Utility operating expenses									
Other operating expenses	332,853	79,671	83,863	81,097	95,508	340,139	347,615	355,287	363,163
Taxes other than income taxes	107,861	30,829	25,596	25,101	26,623	108,149	110,959	113,926	116,808
Other operating expenses	28,914	10,795	10,795	10,795	10,795	43,179	47,452	53,452	59,452
Total Operating Expenses	469,628	121,295	120,254	116,993	132,926	491,467	506,025	522,664	539,422
EBITDA	444,760	145,980	108,282	92,163	134,611	481,036	529,910	571,666	610,171
Utility Depreciation and amortization	183,345	47,602	48,318	49,024	49,722	194,666	205,684	216,151	226,094
Non-utility Depreciation and amortization	845	181	199	207	258	845	845	845	845
Total Depreciation and amortization	184,190	47,783	48,517	49,231	49,980	195,511	206,529	216,996	226,939
Operating Income	260,570	98,197	59,765	42,932	84,631	285,525	323,380	354,669	383,232
Net other income	3,113	1,785	2,612	2,863	3,752	11,012	11,308	11,597	11,875
Interest Expense									
Interest expense	100,320	27,631	29,083	30,516	31,930	119,160	141,512	162,746	182,917
Interest expense to affiliated trusts	1,205	325	325	325	325	1,300	1,300	1,300	1,300
Total Interest Expense	101,525	27,956	29,408	30,841	32,255	120,460	142,812	164,046	184,217
Income from continuing operations before income taxes	162,158	72,026	32,969	14,954	56,128	176,078	191,876	202,220	210,889
Income Taxes	27,075	12,505	5,556	2,337	9,571	29,969	32,860	34,574	35,991
Net income from continuing operations	135,083	59,521	27,414	12,617	46,557	146,109	159,016	167,646	174,898
Net income from discontinued operations		-	-	-	-				
Net income	135,083	59,521	27,414	12,617	46,557	146,109	159,016	167,646	174,898
Less: Net income attributable to noncontrolling interests	202	20	72	12	62	167	182	192	200
Net income attributable to Avista Corp. shareholders	134,880	59,501	27,342	12,605	46,494	145,942	158,834	167,454	174,698
Earnings Per Common Share, Diluted	2.05	0.90	0.41	0.19	0.69	2.19	2.31	2.38	2.45
Non-operating items	-	-	-	-	-	-	-	-	-
Net Income	134,880	59,501	27,342	12,605	46,494	145,942	158,834	167,454	174,698
Operating EPS	2.05	0.90	0.41	0.19	0.69	2.19	2.31	2.38	2.45

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM
AVA
Consolidated Financials

CASH FLOW STATEMENT ($ thousands)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Net income	135,023	59,501	27,342	12,605	46,494	145,942	158,834	167,454	174,698
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation and amortization	186,922	47,783	48,517	49,231	49,980	195,511	206,529	216,996	226,939
Deferred income tax provision and investment tax credits	10,575	-	-	-	-	-	-	-	-
Power and natural gas cost amortizations, net	6,315	-	-	-	-	-	-	-	-
Amortization of debt expense	2,327	-	-	-	-	-	-	-	-
Amortization of investment in exchange power	1,838	-	-	-	-	-	-	-	-
Stock-based compensation expense	5,215	-	-	-	-	-	-	-	-
Equity-related AFUDC	(4,406)	-	-	-	-	-	-	-	-
Pension and other postretirement benefit expense	23,980	-	-	-	-	-	-	-	-
Decoupling regulatory deferral	5,436	-	-	-	-	-	-	-	-
Other	30,509	-	-	-	-	-	-	-	-
Cash paid for settlement of interest rate swap agreements	(32,174)								
Contributions to defined benefit pension plan	(22,000)	-	-	-	-	-	-	-	-
Changes in current operating assets and liabilities:									
Accounts and notes receivable	73,928	(1,384)	(2,286)	(7,381)	(1,966)	(13,017)	(14,403)	(15,234)	(30,581)
Materials and supplies, fuel stock and stored natural gas	(4,691)	-	-	-	-	-	-	-	-
Increase in collateral posted for derivative instruments	47,150	-	-	-	-	-	-	-	-
Income taxes receivable	(5,994)	-	-	-	-	-	-	-	-
Other current assets	2,123	-	-	-	-	-	-	-	-
Accounts payable	(13,227)	(3,931)	(6,399)	3,711	(4,520)	(11,140)	(11,836)	(8,634)	9,005
Income taxes payable	-	-	-	-	-	-	-	-	-
Other current liabilities	9,639	-	-	-	-	-	-	-	-
Net Cash Provided by Operating Activities	**458,488**	101,970	67,174	58,165	89,988	**317,297**	**339,124**	**360,582**	**380,062**
Cash Flow from Investing Activities:									
Utility property capital expenditures	(395,547)	(103,750)	(103,750)	(103,750)	(103,750)	(415,000)	(415,000)	(415,000)	(415,000)
Other	(11,471)	-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	**(407,018)**	(103,750)	(103,750)	(103,750)	(103,750)	**(415,000)**	**(415,000)**	**(415,000)**	**(415,000)**
Cash Flow from Financing Activities:									
Net increase (decrease) in short-term borrowings	(35,398)	-	-	-	-	-	-	-	-
Proceeds from issuance of long-term debt	375,000	50,000	50,000	50,000	50,000	200,000	150,000	150,000	150,000
Redemption and maturity of long-term debt	(273,000)	(22,500)	(22,500)	(22,500)	(22,500)	(90,000)	(52,000)	(52,000)	(52,000)
Issuance of common stock, net of issuance costs	**2,000**	27,500	27,500	27,500	27,500	**110,000**	**110,000**	**50,000**	**50,000**
Repurchase of common stock	-	-	-	-	-	-	-	-	-
Cash dividends paid	(98,112)	(25,679)	(25,885)	(26,091)	(26,374)	(104,029)	(112,160)	(119,829)	(126,933)
Other	(8,184)	-	-	-	-	-	-	-	-
Net Cash (Used in) Provided by Financing Activities	**(37,694)**	29,321	29,115	28,909	28,626	**115,971**	**95,840**	**28,171**	**21,067**
Net (Decrease) Increase in Cash and Cash Equivalents	**13,776**	27,541	(7,461)	(16,676)	14,864	**18,268**	**19,964**	**(26,247)**	**(13,871)**
Cash and Cash Equivalents, Beginning of Period	16,172	29,948	57,489	50,028	33,352	29,948	48,215	68,180	41,933
Cash and Cash Equivalents, End of Period	**29,948**	57,489	50,028	33,352	48,215	**48,215**	**68,180**	**41,933**	**28,061**

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

AVA

Consolidated Financials

BALANCE SHEET ($ thousands)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash and cash equivalents	29,948	57,489	50,028	33,352	48,215	48,215	68,180	41,933	28,061
Accounts and notes receivable	106,842	108,226	110,512	117,893	119,859	119,859	134,262	149,496	180,077
Regulatory asset for utility derivatives	21,525	21,525	21,525	21,525	21,525	21,525	21,525	21,525	21,525
Materials and supplies, fuel stock and stored natural gas	62,766	62,766	62,766	62,766	62,766	62,766	62,766	62,766	62,766
Other current assets	35,159	35,159	35,159	35,159	35,159	35,159	35,159	35,159	35,159
Total Current Assets	**256,240**	285,165	279,989	270,695	287,525	**287,525**	**321,891**	**310,879**	**327,588**
Property, plant and equipment, at cost									
In service	6,159,704	6,263,454	6,367,204	6,470,954	6,574,704	6,574,704	6,989,704	7,404,704	7,819,704
Construction work in progress	180,237	180,237	180,237	180,237	180,237	180,237	180,237	180,237	180,237
Total Property, Plant and Equipment	**6,339,941**	6,443,691	6,547,441	6,651,191	6,754,941	**6,754,941**	**7,169,941**	**7,584,941**	**7,999,941**
Less: accumulated depreciation	1,732,354	1,780,137	1,828,654	1,877,885	1,927,865	1,927,865	2,134,395	2,351,391	2,578,330
Net Property, Plant and Equipment in Service	**4,607,587**	4,663,554	4,718,787	4,773,306	4,827,076	**4,827,076**	**5,035,546**	**5,233,550**	**5,421,611**
Other Non-current Assets									
Goodwill	57,672	57,672	57,672	57,672	57,672	57,672	57,672	57,672	57,672
Other property and investments-net and other non-current assets	121,911	121,911	121,911	121,911	121,911	121,911	121,911	121,911	121,911
Total other non-current assets	**179,583**	179,583	179,583	179,583	179,583	**179,583**	**179,583**	**179,583**	**179,583**
DEFERRED CHARGES									
Total DEFERRED CHARGES	**576,863**	576,863	576,863	576,863	576,863	**576,863**	**576,863**	**576,863**	**576,863**
Total Assets	**5,620,273**	5,705,164	5,755,222	5,800,446	5,871,046	**5,871,046**	**6,113,884**	**6,300,875**	**6,505,645**
BALANCE SHEET ($ thousands)	**2018E**	**1QE**	**2QE**	**3QE**	**4QE**	**2019E**	**2020E**	**2021E**	**2022E**
Accounts payable	84,057	80,126	73,727	77,437	72,917	72,917	61,081	52,447	61,452
Current portion of long-term debt and capital leases	2,629	2,629	2,629	2,629	2,629	2,629	2,629	2,629	2,629
Short-term borrowings	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000
Other current liabilities	228,382	228,382	228,382	228,382	228,382	228,382	228,382	228,382	228,382
Total Current Liabilities	**385,068**	381,137	374,738	378,448	373,928	**373,928**	**362,092**	**353,458**	**362,463**
Long-term debt and capital leases	1,865,127	1,892,627	1,920,127	1,947,627	1,975,127	1,975,127	2,073,127	2,171,127	2,269,127
Nonrecourse long-term debt of Spokane Energy	-	-	-	-	-	-	-	-	-
Long-term debt to affiliated trusts	51,547	51,547	51,547	51,547	51,547	51,547	51,547	51,547	51,547
Total LONG-TERM DEBT	**1,916,674**	1,944,174	1,971,674	1,999,174	2,026,674	**2,026,674**	**2,124,674**	**2,222,674**	**2,320,674**
OTHER LIABILITIES									
Pensions and other postretirement benefits	191,021	191,021	191,021	191,021	191,021	191,021	191,021	191,021	191,021
Deferred income taxes	488,767	488,767	488,767	488,767	488,767	488,767	488,767	488,767	488,767
Other non-current liabilities and deferred credits	867,865	867,865	867,865	867,865	867,865	867,865	867,865	867,865	867,865
TotalOTHER LIABILITIES	**1,547,653**	1,547,653	1,547,653	1,547,653	1,547,653	**1,547,653**	**1,547,653**	**1,547,653**	**1,547,653**
Total Liabilities	**3,849,395**	3,872,964	3,894,065	3,925,275	3,948,255	**3,948,255**	**4,034,419**	**4,123,785**	**4,230,790**
Stockholders' Equity:									
Common stockholders' equity	1,136,319	1,163,819	1,191,319	1,218,819	1,246,319	1,246,319	1,356,319	1,406,319	1,456,319
Accumulated other comprehensive loss	(9,220)	(9,220)	(9,220)	(9,220)	(9,220)	(9,220)	(9,220)	(9,220)	(9,220)
Retained earnings	642,921	676,723	678,108	664,609	684,667	684,667	731,159	778,592	826,157
Total Stockholders' Equity	**1,770,020**	1,831,322	1,860,207	1,874,208	1,921,766	**1,921,766**	**2,078,258**	**2,175,691**	**2,273,256**
Non-controlling interests	858	879	950	963	1,025	1,025	1,207	1,399	1,599
Total Equity	**1,770,878**	1,832,200	1,861,157	1,875,171	1,922,791	**1,922,791**	**2,079,465**	**2,177,090**	**2,274,855**
Total Liabilities and Equity	**5,620,273**	5,705,164	5,755,222	5,800,446	5,871,046	**5,871,046**	**6,113,884**	**6,300,875**	**6,505,645**

Source: Company reports, Guggenheim Securities, LLC estimates.

AMERICAN WATER WORKS (AWK, NEUTRAL, $96 PT)

We remain neutral on valuation as AWK continues to trade at a premium valuation above historical spread vs. gas LDCs. The underlying fundamentals of AWK's regulated business remain sound in our view, and growth remains in the top quartile so we look for a better entry point.

- **We remain NEUTRAL rated based on AWK's relative valuation**, with the stock now trading at a three-turn premium vs. gas utilities and a six-turn spread vs. electric utility counterparts. While we recognize that water utilities are ascribed a higher premium compared to electric/gas utilities given higher growth prospects, less risk around rate cases and perpetual capital deployment opportunities, AWK's relative valuation has remained near an all-time peak for much of 2018**. We continue to look for a better entry point, as AWK's strong growth and underlying fundamentals remain attractive and mgmt. team remains top tier, in our view.**
- **AWK's 7-10% growth profile remains above-average in our universe, with the overall structure retaining its emphasis on the regulated segment; at the aforementioned premiums we believe the valuation already reflects this outlook.** AWK's large spreads vs. gas and electric utilities reinforce our thesis that AWK is fairly-to-slightly overvalued at current levels, while on an absolute basis AWK remains outside of our ETR threshold - based on our $96 PT. **At this juncture, we don't see further NT catalysts that would drive earnings growth higher to warrant a higher multiple re-rating, although overall we remain positive on the fundamentals of the story; growth, strong management, inorganic opportunities, etc. so we seek a better entry point.**
- **Regulated business' focus remains on bolt-on expansion and rate case execution.** Mgmt. continues to target small municipal utilities for acquisition and integration into its system, with ~56k customers to be added across 20 acquisitions in 8 states. Organic growth added another ~9k customers as of 3Q18. Supporting this strategy, legislation has now been passed in CA and MO that allows for simple majority votes for municipalities exploring the sale of their systems. This slow roll-up strategy mirrors the one we've seen at NWN, which is also looking to expand its water segment via municipal acquisitions. On the regulatory front, AWK closed out several rate cases in 2018, including in one of its largest jurisdictions, New Jersey ($2.95bn rate base, 9.6% ROE, 54% equity). **We expect additional cases to be filed in other jurisdictions in 2019 as the capex program continues apace amid ample modernization opportunities.**
- **Market-based segment trimmed slightly in 3Q18, to remain below 15% of earnings through 2023 as Pivotal integration continues…** In a sign of mgmt.'s commitment to earnings strength in the market-based business, it recently trimmed the Keystone business' construction operations and sold a majority of Veolia's Contract Services Group. Both operations were in fairly competitive market environments, per management. **We do not foresee major adjustments to the market-based segment in 2019 given the ongoing Pivotal integration, however mgmt. has also shown it is ready to cut when needed.**
- **Refreshing our annual EPS estimates through 2021 and introducing our 2022 estimate of $4.60.** Our 2018-2021 EPS estimates move to $3.30/$3.61/$3.96/$4.27 from $3.31/$3.52/$3.81/$4.10 as we refresh and update our assumptions. Through our forecast period, we now model earned ROEs of ~9.9% for the regulated utility compared to authorized ROEs of ~10%, as we expect minimal lag given regulatory mechanisms in place. The market-based business grows at a ~14% CAGR, through 2022 consistent with management's guidance. Additionally, we model ~$1.6bn in annual capital spend through our forecast period, in line with guidance of ~$8bn-

See pages 278 - 279 for analyst certification and important disclosures.

$8.6bn through 2023. Our 2022 estimate of $4.60 represents ~9% CAGR based on 2017 actuals and much of the same dynamics in prior years.

Guggenheim's AWK EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	FC Cons
2018E	0.59A	0.83A	1.19A	0.69E	**3.30E**	3.29E
Prior			*1.20E*	*0.70E*	*3.31E*	
2019E	0.46E	1.02E	1.38E	0.75E	**3.61E**	3.55E
Prior	*0.48E*	*1.06E*	*1.24E*	*0.74E*	*3.52E*	
2020E	0.51E	1.14E	1.52E	0.79E	**3.96E**	3.87E
Prior	*0.52E*	*1.14E*	*1.35E*	*0.79E*	*3.81E*	
2021E	0.56E	1.23E	1.64E	0.85E	**4.27E**	4.18E
Prior	*0.56E*	*1.23E*	*1.46E*	*0.85E*	*4.10E*	
2022E	0.60E	1.32E	1.76E	0.92E	**4.60E**	4.58E
Prior						

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** Water utilities continue to be ascribed higher multiples versus electric/gas utility counterparts given higher growth prospects and less risk around CapEx, which haven't slowed and are not expected to anytime soon, and lower perceived risk vs. electric/gas peers. Our $96 PT for AWK is predicated on our 2020 EPS estimate of $3.96 applied to an effective 25x P/E multiple, which we believe fairly captures the spread at which water utilities should trade vs. gas counterparts.
- **Risks:** Risks to achieving our price target for AWK mainly encompass traditional risk factors inherent with regulated utilities including: (1) rate case risk, (2) lower/increased capex outlook, and (3) interest rate changes above or below what we account for in our regression model. Decline in allowed ROE. A lower/higher allowed ROE can impact our earned return assumptions.

GUGGENHEIM

AMERICAN WATER WORKS

CONSOLIDATED FINANCIALS

Income Statement ($MM)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating Revenues	3,425	767	914	1,030	880	3,590	3,789	3,982	4,181
Operating expenses									
O&M	1,454	356	365	374	376	1,472	1,502	1,532	1,564
Depreciation and amortization	544	142	144	147	149	582	616	652	690
General taxes	277	61	63	83	71	277	293	308	324
Loss (gain) on sale of assets/Other	37	-	-	-	-	-	-	-	-
Total operating expenses	2,312	559	573	604	596	2,332	2,411	2,493	2,577
Operating income	**1,113**	**208**	**341**	**426**	**284**	**1,259**	**1,378**	**1,489**	**1,603**
Utility	1,112	194	328	408	262	1,192	1,300	1,399	1,502
Non-Regulated	42	16	18	21	29	85	96	107	120
Other	(70)	(2)	(5)	(3)	(8)	(18)	(18)	(18)	(18)
Total	1,084	208	341	426	284	1,259	1,378	1,489	1,603
Other income (expense)									
Interest	(357)	(101)	(103)	(105)	(107)	(416)	(450)	(487)	(523)
Revolver									
Allowance for other funds used during construction	-	-	-	-	-	-	-	-	-
Allowance for borrowed funds used during construction	-	-	-	-	-	-	-	-	-
Amortization of debt expense	(4)	(2)	(2)	(2)	(2)	(8)	(8)	(8)	(8)
Preferred dividends of subsidiaries	-	-	-	-	-	-	-	-	-
Other, net	24	-	-	-	-	-	-	-	-
Total other income (expense)	**(337)**	**(103)**	**(105)**	**(107)**	**(109)**	**(424)**	**(458)**	**(495)**	**(531)**
Income before income taxes	776	105	236	319	175	835	920	994	1,072
Provision for income taxes	197	22	50	67	37	175	193	209	225
Beginning NOL Balance		-	-	-	-				
Section 382 Limitations/CIRA assumed utilization		-	-	-	-				
Annual NOL capacity		-	-	-	-				
NOL Usage (assumption)		-	-	-	-				
Manual Override		30	30	30	30				
NOL Usage (drives model)		20	20	20	20				
Δ DTA		(4)	(4)	(4)	(4)				
Ending NOL Balance		-	-	-	-				
Tax rate	25%	21%	21%	21%	21%	21%	21%	21%	21%
Discontinued operations	-	-	-	-	-	-	-	-	-
Extraordinary items	-	-	-	-	-	-	-	-	-
Reported Net Income	**579**	**83**	**186**	**252**	**138**	**659**	**727**	**785**	**847**
Adjustments	17	-	-	-	-	-	-	-	-
Adjusted Earnings	**595**	**83**	**186**	**252**	**138**	**659**	**727**	**785**	**847**
Assumed Issuance Price Growth		2%	2%	2%	2%				
Assumed Issuance Price		83.64	84.06	84.47	84.89				
Basic Shares Outstanding	180	183	183	183	183	183	183	184	184
Diluted Shares Outstanding	180	183	183	183	183	183	183	184	184
Earnings per share									
Reported EPS	$ 3.21	$ 0.46	$ 1.02	$ 1.38	$ 0.75	$ 3.61	$ 3.96	$ 4.27	$ 4.60
Adjusted EPS	**$ 3.30**	**$ 0.46**	**$ 1.02**	**$ 1.38**	**$ 0.75**	**$ 3.61**	**$ 3.96**	**$ 4.27**	**$ 4.60**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
AMERICAN WATER WORKS
CONSOLIDATED FINANCIALS

Balance Sheet ($MM)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Property, plant and equipment									
Utility plant	23,109	23,559	24,009	24,459	24,909	24,909	26,609	28,509	30,409
Accumulated Depreciation	(5,811)	(5,953)	(6,097)	(6,244)	(6,393)	(6,393)	(7,009)	(7,661)	(8,351)
Nonutility property, net	-	-	-	-	-	-	-	-	-
Total property plant and equipment	**17,298**	**17,606**	**17,912**	**18,215**	**18,516**	**18,516**	**19,600**	**20,848**	**22,058**
Current Assets									
Cash and cash equivalents	123	81	87	161	73	73	84	54	84
Restricted funds	29	29	29	29	29	29	29	29	29
Customer accounts receivable	347	347	347	347	347	347	347	347	347
Allowance for uncollectible accounts	-	-	-	-	-	-	-	-	-
Unbilled revenues	203	203	203	203	203	203	203	203	203
Unregulated trade and other receivables, net	-	-	-	-	-	-	-	-	-
Taxes receivable	-	-	-	-	-	-	-	-	-
Materials and supplies	42	42	42	42	42	42	42	42	42
Assets of discontinued operations	-	-	-	-	-	-	-	-	-
Other	93	93	93	93	93	93	93	93	93
Total Current Assets	**837**	**795**	**801**	**875**	**787**	**787**	**798**	**768**	**798**
Regulatory and other long-term assets									
Regulatory assets	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086
Restricted funds	-	-	-	-	-	-	-	-	-
Goodwill	1,571	1,571	1,571	1,571	1,571	1,571	1,571	1,571	1,571
Other	360	360	360	360	360	360	360	360	360
Total regulatory and other long-term assets	**3,017**	**3,017**	**3,017**	**3,017**	**3,017**	**3,017**	**3,017**	**3,017**	**3,017**
Total Assets	**21,152**	**21,418**	**21,730**	**22,107**	**22,320**	**22,320**	**23,415**	**24,633**	**25,873**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
AMERICAN WATER WORKS
CONSOLIDATED FINANCIALS

Balance Sheet ($MM)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
CAPITALIZATION AND LIABILITIES									
Capitalization									
Common stockholders' equity	6,028	6,040	6,147	6,320	6,379	6,379	6,757	7,158	7,582
Pref stocks of subs w/o mandatory redemption req's	-	-	-	-	-	-	-	-	-
Long-Term Debt									
Long-term debt	7,670	7,920	8,120	8,320	8,470	8,470	9,170	9,970	10,770
Redeemable preferred stock at redemption value	7	7	7	7	7	7	7	7	7
Total capitalization	**13,705**	**13,967**	**14,274**	**14,647**	**14,856**	**14,856**	**15,934**	**17,135**	**18,359**
Current liabilities									
Short-term debt	564	564	564	564	564	564	564	564	564
Current maturities of long-term debt	263	263	263	263	263	263	263	263	263
Revolver	-	-	-	-	-	-	-	-	-
Accounts Payable	141	141	141	141	141	141	141	141	141
Taxes accrued, including federal income	67	67	67	67	67	67	67	67	67
Interest accrued	73	73	73	73	73	73	73	73	73
Liabilities of discontinued operations	-	-	-	-	-	-	-	-	-
Other	640	640	640	640	640	640	640	640	640
Total Current Liabilities	**1,748**	**1,748**	**1,748**	**1,748**	**1,748**	**1,748**	**1,748**	**1,748**	**1,748**
Regulatory and other long-term liabilities									
Advances for construction	259	259	259	259	259	259	259	259	259
Deferred income taxes	1,674	1,678	1,683	1,687	1,691	1,691	1,708	1,725	1,741
Deferred investment tax credits	21	21	21	21	21	21	21	21	21
Regulatory liability-cost of removal	1,962	1,962	1,962	1,962	1,962	1,962	1,962	1,962	1,962
Accrued pension expense	393	393	393	393	393	393	393	393	393
Accrued postretirement benefit expense	-	-	-	-	-	-	-	-	-
Other	78	78	78	78	78	78	78	78	78
Total regulatory and other long-term liabilities	**4,387**	**4,391**	**4,396**	**4,400**	**4,404**	**4,404**	**4,421**	**4,438**	**4,454**
Contributions in aid of construction	1,312	1,312	1,312	1,312	1,312	1,312	1,312	1,312	1,312
Total Capitalization and Liabilities	**21,152**	**21,418**	**21,730**	**22,107**	**22,320**	**22,320**	**23,415**	**24,633**	**25,873**

Source: Company reports; Guggenheim Securities, LLC estimates.

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AMERICAN WATER WORKS

CONSOLIDATED FINANCIALS

Cash Flow Statement ($MM)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Net Income	579	83	186	252	138	659	727	785	847
Adjustments:									
(Gain) loss on sale of business	-	-	-	-	-	-	-	-	-
Depreciation and amortization	544	142	144	147	149	582	616	652	690
Impairment charges	-	-	-	-	-	-	-	-	-
Removal costs net of salvage	-	-	-	-	-	-	-	-	-
Provision for deferred income taxes	20	4	4	4	4	17	17	17	17
Changes in assets and liab, net of effects from acq									
Accounts receivable & Unbilled utility revenue	(70)	-	-	-	-	-	-	-	-
Other current assets	-	-	-	-	-	-	-	-	-
Accounts payable	(23)	-	-	-	-	-	-	-	-
Taxes accrued, including federal income	-	-	-	-	-	-	-	-	-
Interest accrued	-	-	-	-	-	-	-	-	-
Other current liabilities	212	-	-	-	-	-	-	-	-
Net cash from operating activities	**1,262**	**229**	**335**	**403**	**291**	**1,258**	**1,359**	**1,454**	**1,553**
Cash Flows from Investing Activities									
Capital expenditures	(1,511)	(450)	(450)	(450)	(450)	(1,800)	(1,700)	(1,900)	(1,900)
Allowance for other funds used during constructio	-	-	-	-	-	-	-	-	-
Acquisitions	(381)	-	-	-	-	-	-	-	-
Proceeds from the sale of regulated assets	33	-	-	-	-	-	-	-	-
Proceeds from sale of discontinued operations	-	-	-	-	-	-	-	-	-
Removal costs from property, plant and equipmer	(61)	-	-	-	-	-	-	-	-
Receivable from affiliates	-	-	-	-	-	-	-	-	-
Restricted funds	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(1,920)**	**(450)**	**(450)**	**(450)**	**(450)**	**(1,800)**	**(1,700)**	**(1,900)**	**(1,900)**
Cash Flows from Financing Activities									
Equity Offering	140	12	12	12	12	47	40	40	40
Equity Infusion / Capital Contribution	183	-	-	-	-	-	-	-	-
Proceeds from long-term debt	1,455	250	200	200	150	800	700	800	800
Net borrowings (repayments) under S-T debt agre	(341)	-	-	-	-	-	-	-	-
Advances and contributions for construction, net (	15	-	-	-	-	-	-	-	-
Debt/Equity issuance costs	(12)	-	-	-	-	-	-	-	-
Repayment of long-term debt	(330)	-	-	-	-	-	-	-	-
Redemption of preferred stocks	-	-	-	-	-	-	-	-	-
Dividends paid	(320)	(83)	(91)	(91)	(91)	(355)	(388)	(424)	(464)
Purchase of common stock for treasury	(45)	-	-	-	-	-	-	-	-
Other financing activities	(17)								
Net cash used in financing activities	**728**	**179**	**121**	**121**	**71**	**491**	**352**	**416**	**376**
Net increase in cash and cash equivalents	68	(42)	6	74	(88)	(50)	11	(30)	30
Cash and cash equivalents at beginning of period	55	123	81	87	161	123	73	84	54
Cash and cash equivalents at end of period	**123**	**81**	**87**	**161**	**73**	**73**	**84**	**54**	**84**

Source: Company reports; Guggenheim Securities, LLC estimates.

CMS ENERGY (CMS, NEUTRAL, $53 PT)

No frills story advances with above-average growth and no unexpected changes to complicate the picture – reflected in current valuation.

- **We are maintaining our NEUTRAL rating and raising our PT to $53 from $48 as we roll forward our valuation incorporating our 2020 EPS estimates.** CMS remains one of the few top quartile utility growth names in our coverage with consistent execution, good regulatory relationships and sustainable strategy. The valuation is currently at ~10% premium to fully regulated peers, which in our view adequately reflects the consistent top of the range performance and Mgmt. premium. We remain comfortable with its current growth trajectory and don't see the value in mgmt. revising growth higher despite having the levers to do so. **Our Neutral stance remains a valuation call but we do highlight CMS as one of our "upside" bias names earlier in the report.**
- **Maintaining our 2018 EPS estimate of $2.35, adjusting our 2019-2021 EPS estimates ($2.50, $2.69 and $2.88, respectively) and introducing our 2022 EPS estimate of $3.08.** We model a +7% EPS CAGR from 2018-2022, with our estimates incorporating average earned ROEs of ~10.3% for Consumers Energy utilities (vs. ~10% authorized) and we are including the ~20-40bps over-earning for energy efficiency incentives and renewables adder. **We continue to expect CMS to deploy capital expenditures of ~$1.8-1.9B annually through 2022, translating into total rate base growth of ~6% (Gas/Electric combined).** We expect the Gas segment to grow at a faster clip with rate base growth of ~10% vs ~4% for Electric, with CMS previously acknowledging that lower commodity prices for gas is creating the opportunity to retrofit aging gas infrastructure on the grounds of safety and risk mitigation.
- **On the question of bill headroom in 2019 and beyond**, CMS detailed in our EEI meeting that with current bills below national avg for electric and slightly above for gas (due to large heating loads), using the competency of reducing bills through efficient operations, efficient capital, and O&M reductions, it should be able to manage increases to a minimum (~2%, inflation level) and expects to continue to do so as expensive PPAs roll off and become replaced with modular, low-priced alternatives.
- **Gas rate case filed in November and the ongoing Electric rate case not overly contentious; we continue to model in-line assumptions in rates.** For the electric rate case we expect no change to the current settlement with an allowed ROE of 10% and an equity layer ~41%. The settlement does not have IRM approval, but opens the dialog around the investment recovery mechanisms (such as distribution programs) to be discussed in 2019 workshops. CMS will stay out of electric rate cases in 2019, but will remain whole in terms of earned ROE due to existing tracking mechanisms, cost deferral and retained cost savings through the next rate case in 2020. CMS also filed the Gas rate case for 2019 rates in late November 2018, again with no financial parameters that were beyond expectation, with a 10.75% ROE, 42.17% equity layer, decoupling, IRMs, etc. – similar to the previous year's proposed application, which was later settled with a 10% ROE.
- **The IRP and 5yr distribution plan filing should provide LT visibility and allow for more transparency with the commission on the supply portion of the CMS growth plan** while allowing for less contested rate cases (latter point is key advantage of IRP). CMS expects coal retirements and LT generation spending to the tune of $10B in base 5-year plan with $1B in renewables with no concentration on any one project. The IRP also includes a potential upside of $3B in the 10-year

 See pages 278 - 279 for analyst certification and important disclosures.

timeframe for more modular renewables and supply projects, and includes energy efficiency incentives ~$45M/yr on a pretax basis.

Guggenheim's CMS EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	0.86A	0.48A	0.60A	0.42E	**2.35E**	*2.34E*
Prior	*0.86E*	*0.48E*	*0.59E*	*0.44E*	*2.35E*	
2019E	0.82E	0.46E	0.76E	0.47E	**2.50E**	*2.50E*
Prior	*0.79E*	*0.50E*	*0.70E*	*0.53E*	*2.52E*	
2020E	0.86E	0.51E	0.81E	0.51E	**2.69E**	*2.68E*
Prior	*0.83E*	*0.55E*	*0.76E*	*0.56E*	*2.70E*	
2021E	0.90E	0.55E	0.86E	0.57E	**2.88E**	*2.86E*
	0.87E	*0.60E*	*0.82E*	*0.62E*	*2.90E*	
2022E	0.94E	0.60E	0.92E	0.62E	**3.08E**	*3.05E*

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** We arrive at our valuation utilizing a sum-of-the-parts analysis, comprised of: (1) ~$35/share (up from $32/share) for the electric segment; (2) ~$19/share (up from $17/share) for the regulated gas segment utilizing our regulated electric P/E multiple plus a premium to account for the historical gas LDC spread above electric counterparts; and (3) (-$1)/share for the Enterprises segment (merchant generation) and Corp. & Other segment. We then discount our valuation back to the PV to arrive at our $53 PT.
- **Risks:** CMS risks mainly encompass traditional risk factors inherent with all electric utilities, including: 1) rate case risk, 2) lower/higher capex outlook, and 3) interest rate changes above/below what we account for in our regression model. Additional risk factors include: Executing and implementing the Michigan Energy law and commodity risk exposure through CMS' Enterprises segment - a decrease/increase in power prices and spark spreads can negatively/positively impact the merchant generation business.

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CMS Energy

Consolidated Financials

Income Statement ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Electric Utility	4,509.3	1093.7	1104.0	1386.0	1044.1	4,627.8	4,712.7	4,798.4	4,885.0
Gas Utility	1,862.1	777.5	305.8	201.5	588.8	1,873.6	1,985.2	2,099.0	2,214.9
Enterprises and other revenue	389.2	84.1	85.5	90.0	85.7	345.2	388.4	385.8	385.8
Operating Revenue	**6,761**	**1,955.4**	**1,495.3**	**1,677.5**	**1,718.6**	**6,847**	**7,086**	**7,283**	**7,486**
Fuel for electric generation	509.3	121.9	105.7	142.3	104.4	474.3	520.7	530.8	540.9
Purchased and interchange power	1,596.5	383.1	394.1	448.4	375.6	1,601.2	1,621.0	1,637.1	1,653.5
Purchased power – related parties	82.2	20.1	19.1	22.1	23.3	84.6	85.5	86.4	87.3
Cost of gas sold	794.1	380.4	111.2	50.6	251.5	793.7	840.1	884.3	929.5
Total Cost of Sales	**2,982.1**	**905.5**	**630.0**	**663.4**	**754.9**	**2,953.8**	**3,067.3**	**3,138.5**	**3,211.2**
Gross Margin	**3,778.5**	**1049.9**	**865.2**	**1014.0**	**963.7**	**3,892.9**	**4,019.0**	**4,144.7**	**4,274.5**
O&M expenses	1,374.5	306.4	321.4	360.1	367.7	1,355.7	1,333.7	1,308.1	1,283.1
General taxes	289.9	68.7	69.2	70.2	70.9	279.0	293.4	309.4	324.6
Total operating expenses	**1,664.3**	**375.1**	**390.7**	**430.3**	**438.6**	**1,634.7**	**1,627.2**	**1,617.5**	**1,607.7**
EBITDA	**2,114.1**	**674.8**	**474.6**	**583.7**	**525.1**	**2,258.2**	**2,391.8**	**2,527.2**	**2,666.7**
Depreciation and amortization	928.2	294.2	214.5	216.2	249.9	974.7	1,019.0	1,069.1	1,116.5
Operating Income	**1,185.9**	**380.6**	**260.1**	**367.6**	**275.2**	**1,283.4**	**1,372.8**	**1,458.1**	**1,550.3**
Other Income - net	40.0	11.3	0.2	1.0	(12.1)	0.4	0.4	6.2	11.7
Income from equity method investees	12.7	4.0	5.3	5.3	8.9	23.6	31.4	41.9	55.8
Interest Expense	442.6	107.0	107.0	107.0	110.2	431.2	460.8	493.5	530.5
Income Before Taxes	**796.0**	**288.8**	**158.7**	**266.9**	**161.7**	**876.2**	**943.9**	**1,012.7**	**1,087.4**
Income Tax Expense	128.1	56.1	28.7	52.3	28.8	166.0	180.5	195.5	212.4
Tax rate	*16%*	*19%*	*18%*	*20%*	*18%*	*19%*	*19%*	*19%*	*20%*
Net Income	**667.9**	**232.7**	**130.0**	**214.6**	**132.9**	**710.2**	**763.4**	**817.2**	**875.0**
Less income from Noncontrolling Interests	1.0	-	-	-	-	0.0	0.0	0.0	0.0
Net Income Available to Common Stockholders	**666.9**	232.699	130.0	214.6	132.9	**710.2**	**763.4**	**817.2**	**875.0**
Average shares outstanding (diluted)	283	284	284	284	284	284	284	284	284
Earnings Per Average Share, diluted	$2.35	$0.82	$0.46	$0.76	$0.47	$2.50	$2.69	$2.88	$3.08
Non-GAAP items	-2.00	-	-	-	-	0.00	0.00	0.00	0.00
Net Income (Non-GAAP)	664.9	232.7	130.0	214.6	132.9	710.2	763.4	817.2	875.0
EPS from Continuing Operations	**$2.35**	**$0.82**	**$0.46**	**$0.76**	**$0.47**	**$2.50**	**$2.69**	**$2.88**	**$3.08**

Source: Company reports; Guggenheim Securities, LLC estimates.

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CMS Energy

Consolidated Financials

Cash Flow Statement ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Net income	**667.9**	**232.7**	**130.0**	**214.6**	**132.9**	**710.2**	**763.4**	**817.2**	**875.0**
Depreciation and amortization	928.2	294.2	214.5	216.2	249.9	974.7	1,019.0	1,069.1	1,116.5
Deferred income taxes and investment tax credit	90.0	-	-	-	-	-	-	-	-
Other non-cash operating activities	47.0	-	-	-	-	-	-	-	-
Changes in working capital accounts:	-					-	-	-	-
Accounts receivable, notes receivable, and accrued revenue	226.3	(147.5)	284.3	(112.6)	(25.4)	(1.2)	(37.9)	(31.3)	(32.2)
Inventories	24.5	(166.6)	400.4	53.0	(286.6)	0.3	(29.6)	(29.1)	(29.7)
Accounts payable and accrued refunds	5.7	105.0	(202.3)	80.1	18.1	0.9	27.0	22.3	22.9
Other current and non-current assets and liabilities	26.0	28.4	(54.7)	21.7	4.9	0.2	7.3	6.0	6.2
Net cash provided by operating activities	**2,015.5**	**346.1**	**772.2**	**473.0**	**93.8**	**1,685.1**	**1,749.2**	**1,854.2**	**1,958.7**
Cash Flows from Investing									
Capital expenditures (excludes assets placed under capital lease)	(1,785.3)	(461.5)	(461.5)	(461.5)	(461.5)	(1,846.0)	(1,914.0)	(1,914.0)	(1,914.0)
Decrease (Increase) in EnerBank notes receivable	(200.0)	-	-	-	-	-	-	-	-
Proceeds from the sale of EnerBank notes receivable	(87.0)	-	-	-	-	-	-	-	-
Cost to retire property	(132.0)	-	-	-	-	-	-	-	-
Other investing activities	146.0	-	-	-	-	-	-	-	-
Other net	(273.0)	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(2,058.3)**	**(461.5)**	**(461.5)**	**(461.5)**	**(461.5)**	**(1,846.0)**	**(1,914.0)**	**(1,914.0)**	**(1,914.0)**
Cash Flows from Financing									
Proceeds from issuance of debt	1,244.0	350.0	0.0	0.0	300.0	650.0	700.0	650.0	650.0
Issuance of common stock	70	0.0	0.0	0.0	0.0	0	0	0	0
EnerBank notes, net	288.0	0.0	0.0	0.0	0.0	-	-	-	-
Payment of dividends on common stock	(406.1)	(108.3)	(108.3)	(108.3)	(108.3)	(433.2)	(463.6)	(463.6)	(463.6)
Debt Prepayment cost	-	0.0	0.0	0.0	0.0	-	-	-	-
Retirement of long-term debt	(705.0)	0.0	0.0	0.0	0.0	-	(200.0)	(200.0)	(200.0)
Increase (Decrease) in notes payable	210.0	0.0	0.0	0.0	0.0	-	100.0	-	-
Payment of capital lease obligations and other financing costs	(59.0)	0.0	0.0	0.0	0.0	-	-	-	-
Net cash provided by (used in) financing activities	**641.9**	**241.7**	**(108.3)**	**(108.3)**	**191.7**	**216.8**	**136.4**	**(13.6)**	**(13.6)**
Net Increase in Cash and Cash Equivalents	**578.2**	**126.3**	**202.4**	**(96.8)**	**(176.0)**	**55.9**	**(28.4)**	**(73.4)**	**31.2**
Cash and Cash Equivalents, Beginning of Period	182.0	760.2	886.5	1088.9	992.1	760.2	816.1	787.7	714.4
Cash and Cash Equivalents, End of Period	**760.2**	**886.5**	**1,088.9**	**992.1**	**816.1**	**816.1**	**787.7**	**714.4**	**745.5**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

GUGGENHEIM

CMS Energy

Consolidated Financials

Balance Sheet ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash and cash equivalents	760	887	1,089	992	816	816	788	714	746
Restricted cash and cash equivalents	42	42	42	42	42	42	42	42	42
Accounts receivable and accrued revenue, less allowances	762	868	664	745	763	763	790	813	836
Notes receivable	254	290	222	249	255	255	264	271	279
Notes receivable held for sale	28	32	24	27	28	28	29	30	31
Accounts receivable – related parties	16	18	14	16	16	16	17	17	18
Accrued gas revenue	-	-	-	-	-	-	-	-	-
Inventories at average cost:									
Gas in underground storage	451	594	234	154	450	450	473	497	522
Materials and supplies	150	171	131	147	150	150	156	160	165
Generating plant fuel stock	39	42	42	53	40	40	41	41	42
Deferred income taxes	-	-	-	-	-	-	-	-	-
Deferred property taxes	167	167	167	167	167	167	167	167	167
Regulatory assets	10	10	10	10	10	10	10	10	10
Prepayments and other current assets	103	103	103	103	103	103	103	103	103
Total current assets	**2,783**	**3,224**	**2,741**	**2,704**	**2,840**	**2,840**	**2,879**	**2,866**	**2,959**
Plant, Property, and Equipment									
Plant, property, and equipment, gross	23,964	24,426	24,887	25,349	25,810	25,810	27,724	29,638	31,552
Less accumulated depreciation and amortization	7,148	7,442	7,657	7,873	8,123	8,123	9,142	10,211	11,327
Plant, property, and equipment, net	**16,816**	**16,983**	**17,230**	**17,476**	**17,687**	**17,687**	**18,582**	**19,427**	**20,225**
CWIP	948	948	948	948	948	948	948	948	948
NET PP&E	**17,764**	**17,931**	**18,178**	**18,424**	**18,635**	**18,635**	**19,530**	**20,375**	**21,173**
Total other non-current assets	3,749	3,749	3,749	3,749	3,749	3,749	3,749	3,749	3,749
Total Assets	**24,296**	**24,904**	**24,669**	**24,877**	**25,225**	**25,225**	**26,159**	**26,991**	**27,881**
Total current liabilities	**3,508**	**3,641**	**3,384**	**3,486**	**3,509**	**3,509**	**3,543**	**3,571**	**3,600**
Non-current Liabilities									
Long-term debt	9,169	9,519	9,519	9,519	9,819	9,819	10,419	10,869	11,319
Non-current portion of capital leases and financing obligation	75	75	75	75	75	75	75	75	75
Regulatory liabilities	3,745	3,745	3,745	3,745	3,745	3,745	3,745	3,745	3,745
Postretirement benefits	797	797	797	797	797	797	797	797	797
Asset retirement obligations	421	421	421	421	421	421	421	421	421
Deferred investment tax credit	101	101	101	101	101	101	101	101	101
Deferred income taxes	1,352	1,352	1,352	1,352	1,352	1,352	1,352	1,352	1,352
Other non-current liabilities	295	295	295	295	295	295	295	295	295
Total non-current liabilities	**15,955**	**16,305**	**16,305**	**16,305**	**16,605**	**16,605**	**17,205**	**17,655**	**18,105**
Capitalization									
Common stock	3	3	3	3	3	3	3	3	3
Other paid-in capital	5,114	5,114	5,114	5,114	5,114	5,114	5,114	5,114	5,114
Accumulated other comprehensive loss	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)
Accumulated deficit	(261)	(137)	(115)	(9)	16	16	316	669	1,081
Total common stockholders' equity	4,797	4,921	4,943	5,049	5,074	5,074	5,374	5,727	6,139
Noncontrolling interests	37	37	37	37	37	37	37	37	37
Total equity	**4,834**	**4,958**	**4,980**	**5,086**	**5,111**	**5,111**	**5,411**	**5,764**	**6,176**
Total Liabilities and Equity	**24,296**	**24,904**	**24,669**	**24,877**	**25,225**	**25,225**	**26,159**	**26,991**	**27,881**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

CENTERPOINT ENERGY (CNP, BUY, $33 PT)

Market valuation for CNP now lags fundamental value of a utility with solid growth, favorable geography, solid regulatory construct and upside to capex especially as we move through VVC deal – Upgrade to BUY and adding to Best Idea list on valuation disconnect and NT potential catalysts. We recommend owning CNP heading into the VVC deal.

- **We are upgrading CNP to a BUY rating (from NEUTRAL) and our $33 PT (from $29) as we roll forward our valuation incorporating our 2020 EPS estimates.** Our valuation call is based on 2018's relative underperformance of ~100bp vs. the S&P Utilities (as we stayed NEUTRAL rated), while the fundamental value drivers remain in place and are actually improving for 2019 – solid growth, constructive regulatory environment and potential upside catalysts. **We view CNP as a solid utility performer with some midstream exposure similar to NEUTRAL-rated OGE, but we favor CNP at this time due to valuation. CNP, BUY, $33 PT.**

- **We are maintaining our 2018 EPS estimates of $1.58, updating our 2019-2021 estimates ($1.72, $1.82, $1.92, respectively) for strong YTD performance and introducing our 2022 EPS estimate of $2.02.** We model a ~6% CAGR through 2022, with regulated utilities earnings ROEs of ~10-11% for the regulated electric and gas businesses, as we continue to expect minimal ROE drag given the regulatory mechanisms in place (i.e. DCRF, TCOS, GRIP, decoupling, and other riders/trackers). **Our estimates assume electric rate base growth of ~8% and gas rate base growth ~9%, as we model capex consistent with the high-level updates given on the 3Q call, with a detailed update expected on the 4Q call (March 2019).** See below for VVC accretion.

- **Our 2022 EPS estimate of $2.02 consists of earned ROEs near ~10% with some potential to temporarily earn above authorized levels before resetting rates**. We expect the company to earn near the top of the guidance range based on strong economic growth in existing service territories and constructive regulatory environment. We continue to model ENBL representing ~25% of the consolidated pie and contributing $0.51/share in 2022, consistent with YTD 2018 results and 2019 guidance extended to 2022 with no fundamental changes in the business. **We do not include the potential earnings accretion from the VVC merger as the deal is expected to close 1Q of 2019 but model upside under very conservative assumptions.**

- **Outside of a large premium for the ENBL shares, we aren't sold that CNP is a willing seller as history has shown –** we believe it will likely take a significant amount of time, perhaps 7-10yrs, before management can effectively sell down a material stake in ENBL given the capital market limitations of the MLP and thus, ENBL price has benefited from the removal of the technical overhang from a faster sell down process or other strategic moves – i.e., limited public float and minimum trading volumes of ENBL should continue to warrant a slow sell down in time. The midstream segment contribution will however become diluted once the VVC acquisition closes in the first quarter of 2019 and only remains pure upside for our valuation/estimates.

- **How much incremental regulated growth can we expect from capital updates at CNP utilities, near-term synergies from the VVC merger and LT upside to VVC capex?** We expect management to revisit its capital plan on the YE18 call, as they **have openly discussed having an upward slanted bias in spending through transmission, grid modernization, storm hardening, and gas pipeline replacement projects.** The preliminary update called out 5-10% upside for the entire 5 year plan, which includes a roll off of 2018 and 2022 introduced. Some of the project call-outs like Freeport and natural gas cast iron replacements may be the majority of the 5-10%, and we see potential for other increases to emerge on or after the initial detailed plan is unveiled on the 4Q call. **The VVC synergies point to a ~2.5% EPS accretion, based on our 2Q accretion analysis,** with management remaining light on the details of the integration plan until a full review of VVC financial plans, which is expected to be kicked off in 1Q of 2019 (as soon as the deal closes) with potential to get at least some incremental updates by the 4Q call (expected to be held in March 2019). Another element that could potentially emerge is a **higher or longer capex runway for VVC given the deferred organic capital spending** during the M&A process. **Overall, we remain confident in CNP's ability to achieve the top-end of growth over the next several years, making the BUY call on favorable valuation and our view that the fundamentals of the company have not changed, they have gotten better – this valuation-growth discount put CNP as our Best Idea.**

Guggenheim's CNP EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	0.55A	0.29A	0.39A	0.35E	**1.58E**	1.58E
Prior	*0.55A*	*0.30A*	*0.39A*	*0.33E*	*1.58E*	
2019E	0.54E	0.30E	0.37E	0.52E	**1.72E**	1.69E
Prior	*0.55E*	*0.32E*	*0.42E*	*0.38E*	*1.67E*	
2020E	0.57E	0.33E	0.40E	0.53E	**1.82E**	1.81E
Prior	*0.57E*	*0.35E*	*0.45E*	*0.40E*	*1.77E*	
2021E	0.60E	0.36E	0.44E	0.54E	**1.92E**	1.90E
Prior	*0.59E*	*0.37E*	*0.47E*	*0.42E*	*1.85E*	
2022E	0.63E	0.38E	0.46E	0.56E	**2.02E**	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** We arrive at valuation utilizing a sum-of-the-parts analysis comprised of: (1) ~$13/share (up from $12/share) for the regulated electric utility when we apply our target multiple to our electric EPS estimate of $0.79; (2) ~$10/share (up from $8/share) for the Gas utility, ascribing our historical LDC premium spread to the group average electric utility multiple on our gas EPS estimate of $0.48; (3) ~$1/share for Energy Services; (4) ~$11/share (up from $10/share) for CNP's ~54% ownership of ENBL's LP units, based on cash distributions of $1.32 per unit and applying an ~7% target yield; and, (5) (~$2)/share for Corporate & Other. We then discount our valuation back to the PV to arrive at our $33 PT.
- **Risks:** Outside of potential midstream volatility, risks for CNP mainly encompass traditional risk factors inherent with regulated utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

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CNP MODEL

CONSOLIDATED FINANCIALS

Income Statement ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating Revenues									
Electric utility	3,307	778	827	924	829	3,358	3,460	3,599	3,744
Gas Utility	2,926	1,211	520	431	929	3,091	3,231	3,395	3,549
Non-utility	4,140	1,311	877	938	1,154	4,280	4,366	4,454	4,543
Total Operating Revenues	**10,373**	3,300	2,224	2,293	2,912	**10,729**	**11,057**	**11,448**	**11,836**
Natural gas	5,349	1,942	1,031	1,041	1,506	5,520	5,669	5,830	5,988
Operation and maintenance	2,544	742	707	733	824	3,006	3,009	3,063	3,130
Depreciation and amortization	1,166	179	183	187	191	739	806	873	938
Transition and system restoration bond companies	-	-	-	-	-	-	-	-	-
Taxes other than income taxes	454	115	117	120	122	473	513	552	590
Other	-					-	-	-	-
Operating Income	**860**	322	187	213	269	**991**	**1,060**	**1,130**	**1,191**
Interest and other finance charges	**321**	64	65	67	68	**264**	**281**	**287**	**291**
Interest on securitization bonds	**61**	15	15	15	15	**59**	**59**	**59**	**59**
Equity in earnings of unconsolidated affiliate, net	**279**	58	64	70	96	**288**	**289**	**283**	**283**
Other, net	**16**	(3)	(3)	-	5	**(1)**	**(1)**	**(1)**	**(1)**
Earnings before tax	**523**	299	168	201	287	**955**	**1,008**	**1,067**	**1,123**
Income taxes	**126**	63	35	42	60	**201**	**212**	**224**	**236**
Net Income	**397**	237	132	159	227	**755**	**796**	**843**	**887**
Average Number of Shares Outstanding (Diluted)	**437**	435	435	435	435	**439**	**439**	**439**	**439**
Reported EPS diluted	**0.91**	0.54	0.30	0.37	0.52	**1.72**	**1.82**	**1.92**	**2.02**
Non Operating Items	294					-	-	-	-
Net Income (Non-GAAP)	**691**	237	132	159	227	**755**	**796**	**843**	**887**
Operating EPS	**$1.58**	0.54	0.30	0.37	0.52	**$1.72**	**$1.82**	**$1.92**	**$2.02**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

GUGGENHEIM

CNP MODEL

CONSOLIDATED FINANCIALS

Balance Sheet ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Property, Plant and Equipment									
Property, plant and equipment	20,174	20,596	21,018	21,440	21,862	21,862	23,626	25,371	27,115
Less: Accumulated depreciation	6,392	6,570	6,753	6,940	7,131	7,131	7,938	8,811	9,748
Property, plant and equipment, net	**13,782**	14,026	14,265	14,500	14,731	**14,731**	**15,688**	**16,560**	**17,367**
		32%	*32%*	*32%*	*33%*				
Current Assets									
Cash and cash equivalents	268	420	602	554	375	375	205	163	205
Investment in marketable securities	627	627	627	627	627	627	627	627	627
Accounts receivable	918	918	918	918	918	918	918	918	918
Accrued unbilled revenues	212	212	212	212	212	212	212	212	212
Natural gas inventory	207	275	146	147	213	213	219	225	232
Materials and supplies	198	263	139	141	204	204	209	216	222
Non-trading derivative assets	76	76	76	76	76	76	76	76	76
Taxes receivable	38	38	38	38	38	38	38	38	38
Prepaid expenses and other current assets	157	157	157	157	157	157	157	157	157
Total current assets	**2,701**	2,986	2,915	2,870	2,820	**2,820**	**2,662**	**2,632**	**2,687**
Other Assets									
Goodwill	867	867	867	867	867	867	867	867	867
Regulatory assets	1,934	1934	1934	1934	1934	1,934	1,934	1,934	1,934
Notes receivable – unconsolidated affiliate	-	0	0	0	0	-	-	-	-
Non-trading derivative assets	38	38	38	38	38	38	38	38	38
Investment in unconsolidated affiliate	2,383	2364	2351	2343	2362	2,362	2,328	2,273	2,218
Preferred units – unconsolidated affiliate	363	363	363	363	363	363	363	363	363
Other	190	190	190	190	190	190	190	190	190
Total	**5,775**	5,756	5,743	5,735	5,754	**5,754**	**5,720**	**5,665**	**5,610**
Total Assets	**22,258**	22,768	22,923	23,105	23,304	**23,304**	**24,070**	**24,857**	**25,664**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

CNP MODEL

CONSOLIDATED FINANCIALS

Balance Sheet ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Liabilities	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Shareholders' Equity									
Common stock	4	4	4	4	4	4	4	4	4
Additional paid-in capital	5,011	5011	5011	5011	5011	5,011	5,011	5,011	5,011
Accumulated deficit	581	691	696	728	827	827	1,093	1,380	1,687
Accumulated other comprehensive loss	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)
Total Shareholders' Equity	**5,538**	5,648	5,653	5,685	5,784	**5,784**	**6,050**	**6,337**	**6,644**
Long-term Debt									
VIE securitization bonds	1,045	1045	1045	1045	1045	1,045	1,045	1,045	1,045
Other long-term debt	6,207	6,607	6,757	6,907	7,007	7,007	7,507	8,007	8,507
Total noncurrent liabilities	**7,252**	7,652	7,802	7,952	8,052	**8,052**	**8,552**	**9,052**	**9,552**
Current Liabilities									
Short-term borrowings	-	-	-	-	-	-	-	-	-
Current portion of VIE securitization bonds long-term	456	456	456	456	456	456	456	456	456
Indexed debt	25	25	25	25	25	25	25	25	25
Current portion of other long-term debt	50	50	50	50	50	50	50	50	50
Indexed debt securities derivative	685	685	685	685	685	685	685	685	685
Accounts payable	708	708	708	708	708	708	708	708	708
Taxes accrued	152	152	152	152	152	152	152	152	152
Interest accrued	80	80	80	80	80	80	80	80	80
Non-trading derivative liabilities	33	33	33	33	33	33	33	33	33
Deferred income taxes, net	-	0	0	0	0	-	-	-	-
Other	392	392	392	392	392	392	392	392	392
Total Current Liabilities	**2,581**	2,581	2,581	2,581	2,581	**2,581**	**2,581**	**2,581**	**2,581**
Other Liabilities									
Deferred income taxes, net	3,220	3220	3220	3220	3220	3,220	3,220	3,220	3,220
Non-trading derivative liabilities	6	6	6	6	6	6	6	6	6
Benefit obligations	722	722	722	722	722	722	722	722	722
Regulatory liabilities	2,506	2506	2506	2506	2506	2,506	2,506	2,506	2,506
Other	433	433	433	433	433	433	433	433	433
Total Other Liabilities	**6,887**	6,887	6,887	6,887	6,887	**6,887**	**6,887**	**6,887**	**6,887**
Total Liabilities and Shareholders' Equity	**22,258**	22,768	22,923	23,105	23,304	**23,304**	**24,070**	**24,857**	**25,664**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

CNP MODEL

CONSOLIDATED FINANCIALS

Cash Flow Statement ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating Activities									
Net income	402	237	132	159	227	755	796	843	887
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation and amortization	1166	179	183	187	191	739	806	873	938
Equity in (earnings) losses of unconsolidated affiliat	(15)	(58)	(64)	(70)	(96)	(288)	(289)	(283)	(283)
Other adjustments	**252**	-	-	-	-	**0**	**0**	**0**	**0**
Changes in Assets and Liabilities									
Accounts receivable and unbilled revenues, net	355	-	-	-	-	0	0	0	0
Inventory	(10)	(132)	252	(3)	(129)	(12)	(12)	(13)	(12)
Accounts payable	(262)	-	-	-	-	0	0	0	0
Other, net	129	-	-	-	-	0	0	0	0
Net Cash Flows from Operating Activities	**2,017**	224	503	273	193	**1,194**	**1,302**	**1,420**	**1,529**
Investing Activities									
Capital expenditures	(1,434)	(422)	(422)	(422)	(422)	(1,688)	(1,764)	(1,745)	(1,745)
Decrease in notes receivable – unconsolidated affili	0	-	-	-	-	0	0	0	0
Acquisitions, net of cash acquired	0	-	-	-	-	0	0	0	0
Investment in preferred units – unconsolidated affilia	0	-	-	-	-	0	0	0	0
Distributions from unconsolidated affiliate in excess	104	77	77	77	77	309	323	337	337
Decrease (increase) in restricted cash of Bond Com	0	-	-	-	-	0	0	0	0
Proceeds from sale of marketable securities	398	-	-	-	-	0	0	0	0
Other, net	19	-	-	-	-	0	0	0	0
Net Cash Flows Used in Investing Activities	**(913)**	(345)	(345)	(345)	(345)	**(1,379)**	**(1,441)**	**(1,407)**	**(1,407)**
Financing Activities									
Decrease in short-term borrowings, net	(39)	-	-	-	-	0	0	0	0
Payments of commercial paper, net	(1551)	-	-	-	-	0	0	0	0
Proceeds from long-term debt	997	400	150	150	100	800	800	1000	1000
Payments of long-term debt	(368)	-	-	-	-	0	(300)	(500)	(500)
Long-term revolving credit facility	0	-	-	-	-	0	0	0	0
Debt issuance costs	(36)	-	-	-	-	0	0	0	0
Payment of common stock dividends	(484)	(127)	(127)	(127)	(127)	(508)	(531)	(555)	(580)
Distribution to ZENS holders	(398)	-	-	-	-	0	0	0	0
Other, net	(5)	-	-	-	-	0	0	0	0
Net Cash Flows from (used in) Financing Activities	**(1,094)**	273	23	23	(27)	**292**	**(31)**	**(55)**	**(80)**
Net change in cash	10	152	182	(49)	(178)	107	(170)	(42)	42
Beginning cash balance	258	268	420	602	554	268	375	205	163
Ending cash balance	**268**	420	602	554	375	**375**	**205**	**163**	**205**

Source: Company reports; Guggenheim Securities, LLC estimates.

CLEARWAY ENERGY (CWEN, NEUTRAL, $17 PT)

Downgrading to NEUTRAL, NT growth opportunities support mid to low end of DPS guide; we need more time to get comfortable with new sponsor, pipeline and contract quality - lower growth vs. peers a NT headwind in a very selective YieldCo investor base… we think CWEN will work but it will take time to play out.

- **Downgrading CWEN to NEUTRAL from BUY and lowering our PT to $17 from $22 - we continue to maintain modest expectations for growth while continuing to build confidence in the new sponsor, assets and contract quality.** CWEN's growth opportunities continue to support mid to lower end of 5-8% DPS guidance. At least for the start of '19, we see very limited appetite for yieldcos and continue to prefer NEP over CWEN, despite the former's valuation, given higher and more visible growth trajectory, familiarity with the assets and sponsor. We think CWEN will work but more time is needed.
- **Our 2022 DPS estimate of $1.53 equates to a 5% CAGR off a 2018 base.** We are lowering our 2019 DPS expectation to 5% YoY growth and this brings down our 2020/2021/2022 estimates to reflect modest dropdowns with the underlying portfolio. We see the new sponsor taking time to grow the asset base and for this reason we do not assume any large (1GW+) dropdowns in the NT. We are still trying to get comfortable with the new PE-backed sponsor. Our assumptions assume payout of ~80% range, '18/19 CAFD of $285/$321mm growing to $362mm by 2022 among other items.
- **As a new company with a new sponsor it will take time for CWEN to fire on all cylinders.** Mgmt is very clear that 5-8% is a LT target and further believes this is a fair growth guide when compared to a variety of income producing industries like MLPs, REITs, etc. – not sure we are fully onboard, but we get the rationale. Structurally the idea is to not set expectations too high and/or create too much of a reliance on equity especially given the current trading yield. We note, one positive is with the DevCo constructing/acquiring assets CWEN should continue to have a younger age for its portfolio over time vs. peers with pre-built pipelines. Mgmt has mentioned they see 3rd party opportunities in the market and presumably with the capital of a PE sponsor CWEN is potentially better positioned vs. its former sponsor – we take a wait and see approach.
- **We continue to prefer NEP over CWEN in the NT with higher growth and a trusted, investment grade sponsor - we see NEP outperforming its yieldco peers despite the lower yield.** NEP remains the best option in a highly selective investor base, in our view. While CWEN trades at a higher yield than NEP, NEP remains our preferred name to own given sponsor strength and material distribution growth prospects with very little need to access the public equity markets. Unless capital is provided by its PE sponsor, CWEN will likely need to continually access external capital markets at attractive levels to fund large dropdowns and drive above-average distribution growth – hence why DPS growth is materially below NEP. In other words, NEP has changed the yieldco game by side-stepping public markets and raising capital privately (i.e., $750mm BlackRock [BLK] transaction).
- **Over the long term, SPWR 4.7 GW acquisition should drive growth higher, but assets will take time to de-risk**. These assets are sitting above CWEN at the DevCo – note some do not have PPAs yet. Mgmt has noted it could take 24 to 30 months before all of these assets are constructed, de-risked and secure signed PPAs. The lead time slows NT organic growth opportunities and factors into our lower DPS assumption. CWEN's sponsor Global Infrastructure partners has set up a 9.5 GW project pipeline controlled by Clearway Group. As of 3Q CWEN had 832 MW of committed + ROFO projects.

Guggenheim's CWEN EBITDA & DPS Estimates

EBITDA *($mm)*	1Q	2Q	3Q	4Q	FY	*Cons*
2018E	189E	303A	289A	258E	**1,039E**	*992E*
Prior				*258E*	*1,040E*	
2019E	280E	286E	259E	245E	**1,069E**	*1,079E*
Prior	*280E*	*286E*	*259E*	*245E*	*1,069E*	
2020E	285E	307E	271E	253E	**1,116E**	*1,118E*
Prior	*313E*	*322E*	*284E*	*263E*	*1,182E*	
2021E	308E	318E	278E	255E	**1,159E**	*1,078E*
Prior	*320E*	*331E*	*288E*	*264E*	*1,203E*	
2022E	325E	338E	294E	267E	**1,224E**	
Prior						

DPS	1Q	2Q	3Q	4Q	FY	*Cons*
2018E	0.30E	0.31E	0.32E	0.33E	**1.26E**	*1.26E*
Prior				*258E*	*1,040E*	
2019E	0.33E	0.33E	0.33E	0.33E	**1.32E**	*1.35E*
Prior	*280E*	*286E*	*259E*	*245E*	*1,069E*	
2020E	0.33E	0.34E	0.34E	0.35E	**1.39E**	*1.40E*
Prior	*313E*	*322E*	*284E*	*263E*	*1,182E*	
2021E	0.35E	0.36E	0.36E	0.36E	**1.46E**	*1.42E*
Prior	*320E*	*331E*	*288E*	*264E*	*1,203E*	
2022E	0.37E	0.37E	0.38E	0.38E	**1.53E**	*NA*

- **Valuation:** We apply a 7.5% target yield to our estimated distribution of $1.39 in 2020, and discount back one-year to arrive at our $17 12-month price target.
- **Risks: Downside risks are:** CWEN is exposed to interest rates as it is an investment vehicle marketed to yield-oriented investors; as well as some construction, operating, and re-contracting risk, there is the risk of unfavorable weather. In our view, the largest risk to valuation is CWEN's ability to access capital markets, as the entity's growth could be challenged if it cannot issue equity on constructive terms. **Upside risks are:** CWEN delivering higher growth than expected, potentially with CWEN's development arm completing projects faster than expected and dropping down assets quicker than expected.

GUGGENHEIM
CLEARWAY ENERGY
FINANCIALS

INCOME STATEMENT *($MM)*	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Revenue	**1,147**	348	348	328	326	**1,350**	**1,408**	**1,461**	**1,542**
Margin	**808**	249	252	229	219	**949**	**996**	**1,038**	**1,103**
Depreciation & amortization	336	87	87	89	89	351	366	382	430
General & administrative (NRG fee)	20	3	3	3	3	12	12	12	12
Transaction integration									
	53.3%					35.4%	5.5%		
Operating income	**432**	159	162	137	127	**585**	**617**	**644**	**661**
Operating margin	***38%***	*46%*	*46%*	*42%*	*39%*	***43%***	***44%***	***44%***	***43%***
Other income/expense	**(210)**	(78)	(77)	(81)	(82)	**(318)**	**(334)**	**(347)**	**(375)**
Earnings from unconsolidated affiliates	75	12	13	12	10	48	48	48	48
Other income	3	-	-	-	-	-	-	-	-
Interest expense	(288)	(90)	(90)	(93)	(93)	(365)	(382)	(395)	(422)
Income before taxes	**222**	81	85	57	45	**268**	**283**	**297**	**286**
Income taxes	30	17	18	12	9	56	59	62	60
Book tax rate	13%	21%	21%	21%	21%	21%	21%	21%	21%
						9.8%	5.8%		
Net income	**193**	64	67	45	35	**211**	**224**	**234**	**226**
Net income to NRG	70	29	30	20	16	95	100	105	101
Net income (loss) of Drop Downs									
Net income to public shareholders	**122**	35	37	25	19	**117**	**123**	**129**	**125**
Actuals	*0.82*								
						(4.6%)	*5.8%*		
Wtd. Avg. Class A shares	**35**	35	35	35	35	**35**	**35**	**35**	**35**
Wtd. Avg. Class C shares	**69**	72	73	73	73	**73**	**73**	**73**	**73**
Earnings per Share (Class A + C)	**$1.18**	$0.33	$0.34	$0.23	$0.18	**$1.09**	**$1.15**	**$1.20**	**$1.16**

Source: Company reports; Guggenheim Securities, LLC estimates.

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CLEARWAY ENERGY FINANCIALS

CASH FLOW STATEMENT ($ MM)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating activities									
Net income	**193**	64	67	45	35	**211**	**224**	**234**	**226**
D&A	336	87	87	89	89	351	366	382	430
Earnings from unconsolidated	3	31	34	31	27	123	111	111	111
Deferred taxes	30	17	18	12	9	56	59	62	60
Other	38	-	-	-	-	-	-	-	-
Change in working capital	20	(4)	5	21	(3)	19	(0)	0	1
NET CASH FROM OPERATING	**620**	196	211	197	157	**761**	**760**	**790**	**829**
Capital expenditures (including ROFO)	(193)	(131)	(131)	(131)	(131)	(524)	(524)	(407)	(1,001)
Increase in restricted cash	-		-	-	-	-	-	-	-
Decrease/increase in notes receivable	10					-	-	-	-
Investment in unconsolidated affiliates	6	-	-	(131)	-	(131)	(410)	-	-
Acquisition of Drop Down Assets									
Other	(3)					-	-	-	-
NET CASH FROM INVESTING	**(306)**	(131)	(131)	(262)	(131)	**(655)**	**(934)**	**(407)**	**(1,001)**
Capital contributions from NRG	-	-	-	-	-	-	-	-	-
Net change in debt	464	51	(9)	239	(9)	272	270	197	554
Common equity issuance	151					-	-	-	-
Dividends	(238)	(64)	(64)	(64)	(64)	(255)	(263)	(277)	(291)
Other	3	-	-	-	-	-	-	-	-
NET CASH FROM FINANCING	**380**	(13)	(73)	175	(73)	**16**	**7**	**(79)**	**263**
Net increase/decrease in cash	**694**	52	7	110	(47)	**122**	**(167)**	**304**	**91**
Opening cash balance	316	1,010	1,062	1,069	1,179	1,010	1,132	965	1,269
Ending cash balance	**1,010**	1,062	1,069	1,179	1,132	**1,132**	**965**	**1,269**	**1,360**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
CLEARWAY ENERGY
FINANCIALS

BALANCE SHEET ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash	853	905	912	1,022	975	975	808	1,112	1,203
Restricted cash	157	157	157	157	157	157	157	157	157
Accounts receivable	71	76	69	61	72	72	74	75	78
Inventory	14	15	15	11	14	14	15	15	16
Deferred income taxes - current	13	17	18	12	9	9	9	9	7
Other current assets	34	34	34	34	34	34	34	34	34
Total current assets	**1,142**	1,205	1,205	1,297	1,262	**1,262**	**1,097**	**1,402**	**1,495**
Property plant and equipment									
Net PP&E	5,348	5,392	5,436	5,478	5,520	5,520	5,678	5,703	6,273
Deferred income taxes	3	3	1	5	12	12	17	19	23
Other assets	2,695	2,802	2,915	3,031	3,152	3,152	3,688	4,314	5,047
TOTAL ASSETS	**9,188**	9,401	9,556	9,811	9,946	**9,946**	**10,480**	**11,437**	**12,838**
Current liabilities									
Current debt	293	296	295	307	307	307	320	330	358
Accounts payable	38	41	40	41	45	45	46	46	48
Accounts payable - affiliates	55	59	58	60	65	65	66	67	69
Derivatives	5	5	5	5	5	5	5	5	5
Accrued expenses	96	96	96	96	96	96	96	96	96
Total current liabilities	**487**	497	494	509	517	**517**	**533**	**544**	**575**
Other liabilities									
Long term debt	5,570	5,618	5,610	5,836	5,828	5,828	6,084	6,272	6,798
Convertible and other debt	603	603	603	603	603	603	603	603	603
Deferred income taxes	13	30	48	59	69	69	128	191	251
Derivatives	9	9	9	9	9	9	9	9	9
Other	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)
Total other liabilities	**5,694**	5,760	5,769	6,008	6,009	**6,009**	**6,324**	**6,574**	**7,160**
Total liabilities	**6,182**	6,257	6,264	6,517	6,526	**6,526**	**6,857**	**7,118**	**7,736**
Stockholder's equity									
Non-controlling interest	440	440	440	440	440	440	440	440	440
Additional paid-in capital	2,583	2,721	2,866	2,886	3,041	3,041	3,283	4,022	4,870
Retained earnings	(3)	(3)	0	(19)	(47)	(47)	(87)	(129)	(194)
Other comprehensive loss	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)
Common stock									
Total stockholder's equity	**3,006**	3,144	3,292	3,294	3,420	**3,420**	**3,622**	**4,319**	**5,102**
TOTAL LIABILITIES & EQUITY	**9,188**	9,401	9,556	9,811	9,946	**9,946**	**10,480**	**11,437**	**12,838**

Source: Company reports; Guggenheim Securities, LLC estimates.

DOMINION RESOURCES (D, BUY, $82 PT)

Transformative year in '18 should transpire well in '19, in our view, with above average growth likely supported beyond current guide, stabilized B/S with incremental capital growth opportunities not within plan, Millstone upside potential among other NT catalysts – Bellwether position, in our opinion, to own in '19.

- **Reaffirming our BUY rating and raising our PT from $77 to $82 – we continue to see solid value especially post '18 being a transformative year coupled with our positive bend toward higher growth, and more cyclical energy names.** 2018 was a transformative year for Dominion and this sets it up nicely for 2019, in our view, with sustainable 6-8% growth, stabilized balance sheet and recent key wins – i.e., **led by full ownership of Cove Point, SCG upside, Millstone incentives, Virginia legislation among other items key drivers.** Our view: valuation continues to discount shareholder friendly actions and 2018 being a transformative year will have a positive effect on 2019. We see the recently closed acquisition of SCANA being +3% accretive under modest synergy assumptions; we believe there could be more room for upside potential on SCG deal given that Capex was held back during nuclear cost recovery phases – ample opportunity for renewables, conventional generation, wires, gas infrastructure and potential expansion of Atlantic Coast Pipeline into South Carolina among other items.
- **Introducing our 2022 estimate of $5.18 which equates to a ~7% CAGR through our extended trajectory.** Our estimates for 2019/2020/2021 of $4.27/$4.49/$4.76 are driven by strong ROEs at VEPCO (~12% on average through 2022), regulated electric CAPEX of ~$3Bn/year, balanced cap structure and modest amount of customer growth in addition to the various regulated generation projects in riders. Additionally, we assume modest growth at D's gas distribution and gas transmission businesses. We model ~3% accretion for Scana/year, which we deem as conservative. VA legislation, Millstone incentives offer pure upside potential to our estimates, in our view. Note: Fairless and Manchester no longer contribute to our estimates given recent sale.
- **D's Atlantic Coast Pipeline continues to have speed bumps related to permitting but we continue to see the pipeline getting built in time – continues to earn AFUDC.** ACP should contribute ~$0.16 cents per share to D's earnings in the first full year of service, in our opinion. **Currently ACP is dealing with two major permitting issues that are creating hurdles for the project. 1)** A biological opinion regarding endangered species which impacts all 600 miles of the pipeline and this caused the owners of the pipe to go shovels down. In theory, the endangered species are only located on certain areas of the pipeline and this legal argument could enable work to be completed on other section of the pipe. D is taking steps to accelerate the court schedule for actual hearings on the merits – looking for end of June earnings vs. late March schedule. **2)** US forest service permit issue which covers 21 miles of the pipe. This permitting issue was heard by a small panel of judges and for this reason D has requested an "en banc" review which will cause a review by the full panel of 15 judges – a panel of judges appointed by various political parties with a more diverse background could opine on the issue; could lead to a more judicious opinion.
- **DEEP awarded Millstone significant capacity in its zero carbon RFP – overall, we view this as a mixed bagged so far with more negotiations and dialogue needed. On the positive side: Millstone was awarded a large amount of capacity and a longer tenure in the RFP which is incremental to our estimates; On the not-so-positive side: price and thus, returns might be lower than initially expected so more negotiations with intervenors are needed to abate this.** The Connecticut Department of Energy and Environmental Protection (DEEP) awarded

Millstone ~9mm MWh/year which equates to over half of Millstone's output and was awarded a 10-year term: **DEEP separated the 10 year contract into two buckets: 1)** Mid 2019 to mid-2022 (pre at risk time period) for the first three years Millstone will be awarded energy only component of the bid which could imply a lower return than expected; **2)** Mid 2022 to mid 2029 (post at risk time period) DEEP directed the utilities (Eversource and United Illuminating) to negotiate a contract price at a lower ROE than D's original bid which could also imply a lower return than we expected. DEEP noted a normal utility rate of return on equity is 9% but DEEP would consider 12-15% reasonable for a merchant power plant with a long-term contract. As this currently stands, the viability of the plant remains uncertain.

- **We see upside potential to our +3% accretion math for D's acquisition of SCG given modest synergy assumptions and incremental growth opportunities with base capital spend being held back for years with VC Summer being built.** We view the merger stipulation as very supportive of D guidance and our ~3% prior accretion estimates – reminder deal economics remain unchanged despite changes to the "plan" since first announced so we believe our prior accretion estimates should still remain representative but likely still very conservative. The final incarnation of the D/SCG deal remains positive for Dominion and in our view providing additional support to D's 6-8% growth story and helping to extend the runway for above average growth post our current trajectory (i.e., potential upside could include more room to invest in renewables, grid mod, generation, wires, gas infrastructure).
- **Let's remember D, at a core, is an above average regulated electric utility in VA with healthy returns, constructive regulatory mechanisms including the use of Riders among other items** – **Virginia legislation opens the door for further CAPEX opportunities.** Recent legislation enabled a pilot offshore wind program of 12 MW but management recognizes the Commission wrote a very reluctant opinion when approving the program and further highlights that legislation makes the program in the public interest, not economics. While the economics don't look impressive, operating the pilot program and eventual scale could drive better economics in the future especially given the location of where the utility is located in VA. More specifically, when we asked management in prior meetings about offshore vs. onshore, it was explained that due to zoning issues, and population density on the east coast, it's nearly impossible to get onshore wind done in Virginia – offshore is more of a reality. **We continue to view the recent Virginia legislation promoting investment carrots rather than sticks, i.e., while there is no mandatory Renewable Portfolio Standard (RPS) in the Legislation, it could enable offshore wind, grid modifications, solar and energy efficiency programs which are incremental opportunities for D.**

Guggenheim's D EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	1.14A	0.86A	1.16A	0.88E	**4.02E**	4.09E
Prior	*1.14E*	*0.86E*	*1.15E*	*0.99E*	*4.14E*	
2019E	1.12E	1.01E	1.21E	0.93E	**4.27E**	4.28E
Prior	*1.13E*	*0.85E*	*1.17E*	*1.09E*	*4.24E*	
2020E	1.19E	1.07E	1.26E	0.97E	**4.49E**	4.49E
Prior	*1.20E*	*0.91E*	*1.23E*	*1.11E*	*4.45E*	
2021E	1.28E	1.14E	1.33E	1.00E	**4.76E**	4.64E
Prior	*1.26E*	*0.96E*	*1.29E*	*1.18E*	*4.69E*	
2022E	1.41E	1.25E	1.43E	1.08E	**5.18E**	4.78E
Prior						

Source: FactSet, Guggenheim Securities, LLC.

- **Valuation:** We derive our regulated utility group target multiple of 17x from our regression model, which uses the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years. Our valuation is based on our sum-of-the-parts analysis comprised of (1) ~ $45/share from VEPCO; (2) ~$13/share from gas distribution using a 4x historical gas premium to regulated electric target multiple; (3) ~ $38/share from gas transmission using a 4x premium to our 17x regulated target multiple; (4) ~$1/share from generation using a 6x EV/EBITDA multiple; and, (5) (~$15)/share from Corp & Other. We then discount our valuation one year back to arrive at our $82 PT.

- **Risks:** Commodity risk: A drop in gas price below what we model can equate to a contraction in quarks for D's unregulated fleet (nuclear), although we would note that nuclear support in CT would mitigate some of that risk. Dropdown risk: Unfavorable drop-down economics can impact our cash flow centric metrics. Outside of the above-mentioned items, risks to achieving our price target for D mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

See pages 278 - 279 for analyst certification and important disclosures.

GUGGENHEIM

DOMINION RESOURCES
CONSOLIDATED FINANCIALS
$ in millions, unless otherwise noted

INCOME STATEMENT ($ millions)	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E	2020E	2021E	2022E
Total Operating Revenue	**13,330**	3,750	3,376	3,503	3,432	**14,061**	**14,209**	**14,780**	**15,427**
Operating Expenses:									
Commodity purchases (Electric fuel and purchased gas	3,507	975	677	667	929	3,248	3,043	3,157	3,279
Purchased electric capacity	102	11	16	38	14	79	79	81	84
Other operations and maintenance	3,229	776	813	746	642	2,977	2,905	2,967	3,017
Depreciation, depletion and amortization	2,025	546	554	561	569	2,230	2,374	2,510	2,848
Net other expense / (income) incl. TOTI	(75)	64	37	35	36	172	169	168	163
Total Operating Expenses	**8,787**	2,372	2,096	2,048	2,190	**8,706**	**8,571**	**8,883**	**9,390**
EBITDA	**6,567**	1,924	1,834	2,016	1,811	**7,585**	**8,012**	**8,407**	**8,885**
EBIT	**4,543**	1,378	1,280	1,455	1,242	**5,355**	**5,638**	**5,897**	**6,037**
Guidance low									
Guidance high									
Interest and related charges	1,373	368	368	370	372	1,480	1,503	1,497	1,507
Pretax income	3,169	1,009	912	1,084	870	3,875	4,135	4,401	4,530
Effective tax rate	21%	21%	21%	21%	21%	21%	21%	21%	21%
Income tax expense (benefit)	652	212	191	228	183	814	868	924	951
Income including noncontrolling interests	2,517	797	720	857	687	3,061	3,267	3,477	3,579
Noncontrolling interests	119	40	37	38	51	166	204	208	-
Extraordinary items included in operating (after tax)	-	-	-	-	-	-	-	-	-
Reported GAAP Earnings	**2,398**	758	683	819	636	**2,895**	**3,063**	**3,268**	**3,579**
Income (loss) from disc ops	-	-	-	-	-	-	-	-	-
Items excluded from operating earnings	253	-	-	-	-	-	-	-	-
Operating Earnings	**2,651**	758	683	819	636	**2,895**	**3,063**	**3,268**	**3,579**
Reported GAAP EPS	**$3.64**	$1.12	$1.01	$1.21	$0.93	**$4.27**	**$4.49**	**$4.76**	**$5.18**
Operating EPS	**$4.02**	$1.12	$1.01	$1.21	$0.93	**$4.27**	**$4.49**	**$4.76**	**$5.18**
SCANA Accretion EPS						**$0.10**	**$0.13**	**$0.15**	**$0.15**
Pro Forma D/SCG						**$4.37**	**$4.62**	**$4.91**	**$5.33**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
DOMINION RESOURCES
CONSOLIDATED FINANCIALS
$ in millions, unless otherwise noted

BALANCE SHEET ($ millions)	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E	2020E	2021E	2022E
ASSETS									
Current Assets:									
Cash and cash equivalents	1,865	1,833	1,716	1,740	1,600	1,600	1,464	2,158	7,987
Accounts receivable:									
Customers	1,539	1,539	1,539	1,539	1,539	1,539	1,539	1,539	1,539
Other receivables	132	132	132	132	132	132	132	132	132
Inventories:	-					-	-	-	-
Materials and supplies	1,455	1,455	1,455	1,455	1,455	1,455	1,455	1,455	1,455
Derivative assets	-	-	-	-	-	-	-	-	-
Assets held for sale	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029
Other	1,237	1,237	1,237	1,237	1,237	1,237	1,237	1,237	1,237
Total current assets	**7,257**	7,225	7,108	7,132	6,992	**6,992**	**6,856**	**7,550**	**13,379**
Total investments	**7,627**	7,627	7,627	7,627	7,627	**7,627**	**7,627**	**7,627**	**7,627**
Property, Plant and Equipment									
Property, Plant and Equipment	77,803	78,914	80,025	81,135	82,246	82,246	86,951	91,443	91,443
Accumulated depreciation, depletion and amortization	(22,621)	(23,220)	(23,826)	(24,440)	(25,062)	(25,062)	(27,759)	(31,370)	(35,316)
Total property, plant and equipment, net	**55,182**	55,694	56,198	56,695	57,184	**57,184**	**59,192**	**60,073**	**56,128**
Deferred Charges and Other Assets									
Goodwill	6,410	6,410	6,410	6,410	6,410	6,410	6,410	6,410	6,410
Regulatory assets	2,316	2,316	2,316	2,316	2,316	2,316	2,316	2,316	2,316
Other	2,842	2,842	2,842	2,842	2,842	2,842	2,842	2,842	2,842
Total deferred charges and other assets	**11,568**	11,568	11,568	11,568	11,568	**11,568**	**11,568**	**11,568**	**11,568**
TOTAL ASSETS	**81,634**	82,114	82,501	83,022	83,371	**83,371**	**85,243**	**86,817**	**88,702**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
DOMINION RESOURCES
CONSOLIDATED FINANCIALS
$ in millions, unless otherwise noted

BALANCE SHEET ($ millions)	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E	2020E	2021E	2022E
LIABILITIES AND SHAREHOLDERS' EQUITY									
Current Liabilities:									
Short-term debt	6,036	6,036	6,036	6,036	6,036	6,036	6,036	6,036	6,036
Accounts Payable	587	587	587	587	587	587	587	587	587
Accrued interest, payroll and taxes	-	-	-	-	-	-	-	-	-
Other	2,589	2,589	2,589	2,589	2,589	2,589	2,589	2,589	2,589
Total current liabilities	**9,212**	9,212	9,212	9,212	9,212	**9,212**	**9,212**	**9,212**	**9,212**
Long-Term Debt									
Long-term debt	28,320	28,560	28,785	29,008	29,231	29,231	30,236	30,909	31,978
Other	4,815	4,815	4,815	4,815	4,815	4,815	4,815	4,815	4,815
Total long-term debt	**33,135**	33,375	33,600	33,823	34,046	**34,046**	**35,051**	**35,724**	**36,793**
Deferred Credits and Other Liabilities									
Deferred income taxes and investment tax credits	5,079	5,079	5,079	5,079	5,079	5,079	5,079	5,079	5,079
Regulatory liabilities	7,146	7,146	7,146	7,146	7,146	7,146	7,146	7,146	7,146
Other	5,031	5,031	5,031	5,031	5,031	5,031	5,031	5,031	5,031
Total deferred credits and other liabilities	**17,256**	17,256	17,256	17,256	17,256	**17,256**	**17,256**	**17,256**	**17,256**
Total liabilities	**59,603**	59,843	60,068	60,291	60,514	**60,514**	**61,519**	**62,192**	**63,261**
Noncontrolling Interest	1,956	1,956	1,956	1,956	1,956	1,956	1,956	1,956	1,956
Subsidiary Preferred Stock	-	-	-	-	-	-	-	-	-
Common Shareholders' Equity									
Common stock-no par	12,412	12,487	12,562	12,637	12,712	12,712	13,012	13,312	13,612
Other paid-in capital	-	-	-	-	-	-	-	-	-
Retained earnings	9,183	9,348	9,435	9,657	9,709	9,709	10,276	10,877	11,393
Accumulated other comprehensive income (loss)	(1,520)	(1,520)	(1,520)	(1,520)	(1,520)	(1,520)	(1,520)	(1,520)	(1,520)
Total common shareholders' equity	**20,075**	20,315	20,477	20,774	20,901	**20,901**	**21,768**	**22,669**	**23,485**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**81,634**	82,114	82,501	83,022	83,371	**83,371**	**85,243**	**86,817**	**88,702**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
DOMINION RESOURCES
CONSOLIDATED FINANCIALS
$ in millions, unless otherwise noted

STATEMENT OF CASH FLOWS ($ millions)	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E	2020E	2021E	2022E
Cash Flows From Operating Activities									
Net income	2,517	797	720	857	687	3,061	3,267	3,477	3,579
Depreciation, depletion and amortization	2,322	599	606	614	622	2,441	2,697	3,612	3,945
Deferred income taxes and investment tax credits, net	486	-	-	-	-	-	-	-	-
Other	89	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities:									
Accounts receivable	129	-	-	-	-	-	-	-	-
Inventories	(37)	-	-	-	-	-	-	-	-
Deferred fuel and purchased gas costs, net	(226)	-	-	-	-	-	-	-	-
Prepayments	(81)	-	-	-	-	-	-	-	-
Accounts payable	(167)	-	-	-	-	-	-	-	-
Accrued interest, payroll and taxes	(14)	-	-	-	-	-	-	-	-
Deferred revenues	-	-	-	-	-	-	-	-	-
Margin deposit assets and liabilities	(5)	-	-	-	-	-	-	-	-
Other operating assets and liabilities	140	-	-	-	-	-	-	-	-
Net cash provided by operating activities	**4,957**	1,396	1,327	1,471	1,309	**5,503**	**5,964**	**7,088**	**7,524**
Cash Flows From Investing Activities									
Plant construction and other property additions (CAPEX	(4,724)	(1,111)	(1,111)	(1,111)	(1,111)	(4,443)	(4,705)	(4,492)	-
Additions to gas and oil properties, including acquisition	-	-	-	-	-	-	-	-	-
Proceeds from sale of gas and oil properties	-	-	-	-	-	-	-	-	-
Acquisition of businesses/Purchase of Securities	(108)	-	-	-	-	-	-	-	-
Proceeds from sale of securities	1,301	-	-	-	-	-	-	-	-
Purchases of securities	(1,364)	-	-	-	-	-	-	-	-
Other	(87)	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(4,982)**	(1,111)	(1,111)	(1,111)	(1,111)	**(4,443)**	**(4,705)**	**(4,492)**	**0**
Cash Flows From Financing Activities									
Issuance (repayment) of short-term debt, net	(363)	-	-	-	-	-	-	-	-
Net change in long-term debt	5,420	240	225	224	222	911	1,005	674	1,069
Issuance of common stock	2,287	75	75	75	75	300	300	300	300
Repurchase of common stock	-	-	-	-	-	-	-	-	-
Common dividend payments	(2,210)	(632)	(633)	(634)	(635)	(2,535)	(2,700)	(2,876)	(3,063)
Other	(198)	-	-	-	-	-	-	-	-
Net cash used in financing activities	**1,782**	(317)	(334)	(336)	(338)	**(1,324)**	**(1,395)**	**(1,902)**	**(1,695)**
Net change in cash and cash equivalents	1,745	(32)	(118)	24	(140)	(265)	(136)	694	5,829
Cash and cash equivalents at Beginning of period	120	1,865	1,833	1,716	1,740	1,865	1,600	1,464	2,158
Cash and cash equivalents at the end of period	**1,865**	1,833	1,716	1,740	1,600	**1,600**	**1,464**	**2,158**	**7,987**

Source: Company reports; Guggenheim Securities, LLC estimates.

DTE ENERGY (DTE, BUY, $129 PT)

Strong regulated utility growth and a well performing midstream business are generating significant value; DTE remains a selective BUY among our utility coverage.

- **We are maintaining our BUY rating on DTE and raising our PT to $129 from $119 as we roll forward our valuation to 2020 estimates.** DTE ended 2018trading at a ~16.6x P/E multiple, which is a slight discount to our midstream exposed (multi-industry) utility and fully regulated peer groups (16.8x, 16.9x P/E respectively). We still think the DTE businesses have sound fundamentals, with DTE utilities having above-average growth prospects, a gas LDC business which trades inherently at a premium, a constructive regulatory backdrop, and an ever-growing midstream presence in the right basins. **With our selective view of utilities in 2019, DTE continues to show potential for growth in the regulated and GSP businesses above current expectations and therefore we maintain our BUY rating. Outside of extraordinary events or fundamental deterioration we remain constructive on DTE.**
- **Refreshing our 2018 EPS estimate to $6.40 for YTD results, updating 2019-2021 estimates ($6.32, $6.84, $7.34, respectively) and introducing our 2022 estimate of $7.70.** Our 2018-2021 EPS estimates are based on 6% growth at DTE electric (with ~10.1% ROE going forward), 8% growth at DTE gas (with 10.1% ROE going forward), a flat to slightly declining contribution from P&I, continued growth from the GS&P segments reflecting business development activities and the latest increases to capex (to fund expansions and incremental gathering connection). Energy Trading would also nearly double to $30-40M in contribution by 2020.
- **DTE's midstream segment (GS&P) continues to be a growth engine with GSP operations and opportunities on Link and Nexus pipes expected to have favorable performance and provide potential for upside.** DTE 5 year, 15B capital plan is a 17% increase over the previous iteration and is partially levered to opportunities in GSP expansions. While the $1.2-1.6B GSP expansion does not have firm projects associated with the capital, management has been having constructive conversations with producers and counterparties as to the probability of such investments over the next 5 years. We expect the GSP segment to grow near the LT guidance level of 12% CAGR from 2017 levels.
- **Regulated segment remains strong as DTE has no shortage of organic growth opportunities while rate cases are not expected to be contentious and now include investment tracking mechanisms (IRMs),** which if approved would streamline multiyear program approvals and reduce regulatory lag. We model capital expenditures of ~$1.9bn annually for DTE Electric, translating into total rate base growth of ~7%; and for DTE Gas ~$415mm of capital deployment with 6% rate base growth through 2022. While DTE is still expected to be a serial case filer, the company targets maintaining rate increases around inflation or less and has the O&M levers to do so through productivity, natural attrition of the workforce, and the transformation of its generation fleet.
- **Doing a consolidation of the business assumptions at a high level results in growth figures at or above the high end of the 5-7% long term target set by DTE**, despite some investor skepticism around earnings quality dilution from non-regulated sources (including increased Energy Trading contribution). **Overall, we get a sense that the new guidance is constructive for the value of DTE with expected LT results comfortably within the 5-7% guidance**.

See pages 278 - 279 for analyst certification and important disclosures.

Guggenheim's DTE EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	1.90A	1.36A	2.13A	1.02E	**6.40E**	6.30E
Prior	*1.93A*	*1.09E*	*1.56E*	*1.27E*	*5.86E*	
2019E	2.36E	1.17E	1.83E	0.97E	**6.32E**	6.24E
Prior	*1.92E*	*1.12E*	*1.66E*	*1.28E*	*5.98E*	
2020E	2.52E	1.30E	1.95E	1.07E	**6.84E**	6.56E
Prior	*2.08E*	*1.21E*	*1.79E*	*1.41E*	*6.49E*	
2021E	2.69E	1.38E	2.12E	1.14E	**7.34E**	6.98E
Prior	*2.20E*	*1.27E*	*1.92E*	*1.48E*	*6.87E*	
2022E	2.82E	1.44E	2.28E	1.15E	**7.70E**	7.34E

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** We arrive at our valuation utilizing a sum-of-the-parts analysis comprised of: (1) ~$76 (up from $68) for DTE Electric utilizing our target 17x multiple, 1x P/E premium and $4.25 estimate; (2) ~$22 (up from $20) for DTE Gas utilizing our target multiple, 4x Gas LDC spread plus 1x premium for above-average growth and EPS estimate of $1.01; (3) ~$12 for Power & Industrial Projects; (4) ~$31 (up from $30) for Gas Storage and Pipelines; (5) less than ~$1 (up from $0) value for Energy Trading; and (6) ~($10) (down from -$9) for corporate drag. We then discount our valuation back to the PV to arrive at our $129 PT (up from $119).
- **Risks:** DTE risks mainly encompass traditional risk factors inherent with all electric utilities, including: 1) rate case risk, 2) lower capex outlook, and 3) interest rate changes above what we account for in our regression model.

See pages 278 - 279 for analyst certification and important disclosures.

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DTE MODEL

CONSOLIDATED FINANCIALS

INCOME STATEMENT ($M)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Total Operating Revenues	**13,692**	**3,518**	**3,241**	**3,726**	**3,324**	**13,809**	**14,039**	**14,329**	**14,604**
Operating Expenses									
Fuel & Purchased Power	8,263	1,885	1,839	2,163	1,934	7,821	7,854	7,887	7,921
Operation & Maintenance	2,545	582	631	651	693	2,557	2,549	2,545	2,546
Depreciation & Amortization	1,116	295	303	308	315	1,221	1,319	1,418	1,517
Taxes Other than Income	387	114	94	99	82	389	403	421	438
Asset (Gains) / Losses, net	8	-	-	-	-	-	-	-	-
Total Operating Expenses	**12,134**	**2,838**	**2,831**	**3,182**	**2,985**	**11,836**	**11,957**	**12,102**	**12,246**
Gross Margin	5,429	1,633	1,402	1,563	1,390	5,988	6,186	6,442	6,683
Operating Income	**1,558**	**679**	**411**	**545**	**339**	**1,973**	**2,082**	**2,227**	**2,359**
EBITDA	2,674	974	714	853	654	3,194	3,402	3,646	3,876
Other (Income) / Deductions									
Interest Expense	550	147	150	155	152	603	650	697	745
Interest Expense (Securitization)	2	1	1	0	0	2	1	1	0
Interest Income	(13)	(3)	(4)	(4)	(4)	(15)	(15)	(15)	(15)
Other Income	(326)	(23)	(24)	(27)	(51)	(123)	(193)	(213)	(213)
Other Expenses	62	5	10	(10)	10	15	22	22	22
Total Other (Income) / Deductions	**275**	**127**	**133**	**115**	**108**	**482**	**465**	**492**	**539**
Weighted Interest Rate (%)	4.1%	3.9%	3.9%	3.9%	3.7%	3.9%	3.8%	3.7%	3.6%
Minority Interests	(5)	7	8	7	7	29	29	29	29
Income Before Income Taxes	1,288	545	270	423	224	1,463	1,588	1,706	1,790
Effective Tax Rate (%)	13.5%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Income Tax Provision	173	115	57	89	47	307	333	358	376
Other/Tax Credits	-	-	-	-	-	-	-	-	-
Net Income Tax Provision	173	115	57	89	47	307	333	358	376
Income Before Accounting Change	**1,114**	**431**	**213**	**334**	**177**	**1,155**	**1,254**	**1,348**	**1,414**
Discontinued Operations	-	-	-	-	-	-	-	-	-
Cum. Effect of Accounting Change	-	-	-	-	-	-	-	-	-
Reported Earnings	**1,114**	**431**	**213**	**334**	**177**	**1,155**	**1,254**	**1,348**	**1,414**
Adjustments	48	-	-	-	-	-	-	-	-
Operating Earnings	**1,162**	**431**	**213**	**334**	**177**	**1,155**	**1,254**	**1,348**	**1,414**
Reported EPS	**$6.14**	**$2.36**	**$1.17**	**$1.83**	**$0.97**	**$6.32**	**$6.84**	**$7.34**	**$7.70**
Adjustments	$0.26	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Operating EPS	**$6.40**	**$2.36**	**$1.17**	**$1.83**	**$0.97**	**$6.32**	**$6.84**	**$7.34**	**$7.70**

Source: Company reports; Guggenheim Securities, LLC estimates.

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DTE MODEL
CONSOLIDATED FINANCIALS

BALANCE SHEET ($M)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Current Assets									
Cash & Equivalents	124	305	256	331	257	257	463	421	580
Restricted cash	20	20	20	20	20	20	20	20	20
Accounts Receivable		-	-	-	-				
Customer	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690
Other	83	83	83	83	83	83	83	83	83
Inventories		-	-	-	-				
Fuel & Gas	390	390	390	390	390	390	390	390	390
Materials & Supplies	377	377	377	377	377	377	377	377	377
Deferred Income Taxes	-	-	-	-	-	-	-	-	-
Assets from RM&T Activities	97	97	97	97	97	97	97	97	97
Other	87	86	84	83	82	82	77	72	67
Total Current Assets	**2,868**	**3,048**	**2,997**	**3,071**	**2,996**	**2,996**	**3,197**	**3,150**	**3,304**
Investments									
Nuclear Decom Trust Funds	1,525	1,525	1,525	1,525	1,525	1,525	1,525	1,525	1,525
Other	1,911	1,911	1,911	1,911	1,911	1,911	1,911	1,911	1,911
Total Investments	**3,436**	**3,436**	**3,436**	**3,436**	**3,436**	**3,436**	**3,436**	**3,436**	**3,436**
Property									
Property, Plant & Equipment	34,176	35,101	36,026	36,951	37,876	37,876	41,576	45,276	48,976
Less Accumulated DD&A	(11,277)	(11,580)	(11,892)	(12,207)	(12,529)	(12,529)	(13,865)	(15,297)	(16,821)
Net PP&E	**22,899**	**23,521**	**24,134**	**24,744**	**25,347**	**25,347**	**27,711**	**29,979**	**32,155**
Other Assets									
Goodwill	2,293	2,293	2,293	2,293	2,293	2,293	2,293	2,293	2,293
Regulatory Assets	3,689	3,689	3,689	3,689	3,689	3,689	3,689	3,689	3,689
Securitized Regulatory Assets	-	-	-	-	-	-	-	-	-
Intangible Assets	864	864	864	864	864	864	864	864	864
Derivative Assets	31	31	31	31	31	31	31	31	31
Prepaid Pension Assets	45	45	45	45	45	45	45	45	45
Other	219	219	219	219	219	219	219	219	219
Total Other Assets	**7,141**	**7,141**	**7,141**	**7,141**	**7,141**	**7,141**	**7,141**	**7,141**	**7,141**
Total Assets	**36,344**	**37,146**	**37,708**	**38,392**	**38,920**	**38,920**	**41,485**	**43,705**	**46,035**

Source: Company reports; Guggenheim Securities, LLC estimates.

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DTE MODEL
CONSOLIDATED FINANCIALS

BALANCE SHEET ($M)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Consolidated Liabilities and Equity									
Current Liabilities									
Accounts Payable	1,160	1,160	1,160	1,160	1,160	1,160	1,160	1,160	1,160
Accrued Interest	143	143	143	143	143	143	143	143	143
Dividends Payable	161	161	161	161	161	161	161	161	161
Cur. Port. of LTD, incl. Cap. Leases	1	1	1	1	1	1	1	1	1
Derivative Liabilities	79	79	79	79	79	79	79	79	79
Other	496	496	496	496	496	496	496	496	496
Total Current Liabilities	**2,117**	**2,117**	**2,117**	**2,117**	**2,117**	**2,117**	**2,117**	**2,117**	**2,117**
Other Liabilities									
Deferred Income Taxes	2,011	2,063	2,100	2,145	2,178	2,178	2,290	2,370	2,450
Regulatory Liabilities	3,029	3,029	3,029	3,029	3,029	3,029	3,029	3,029	3,029
Asset Retirement Obligations	2,428	2,428	2,428	2,428	2,428	2,428	2,428	2,428	2,428
Accrued Pension Liability	719	719	719	719	719	719	719	719	719
Minority Interest	483	483	483	483	483	483	483	483	483
Nuclear Decom	224	224	224	224	224	224	224	224	224
Other	285	285	285	285	285	285	285	285	285
Total Other Liabilities	**9,385**	**9,437**	**9,474**	**9,519**	**9,552**	**9,552**	**9,664**	**9,744**	**9,824**
Long-Term Debt, net of current									
Mortgage Bonds, Notes & Other	13,350	13,775	14,200	14,625	15,050	15,050	16,750	18,450	20,250
Securitization Bonds	36	36	36	27	27	27	16	12	7
Trust Preferred-Linked Securities	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145
Capital Lease Obligations	-	-	-	-	-	-	-	-	-
Total Long-Term Debt	**14,531**	**14,956**	**15,381**	**15,797**	**16,222**	**16,222**	**17,911**	**19,607**	**21,402**
Shareholders' Equity									
Common Stock	4,312	4,377	4,437	4,497	4,562	4,562	4,812	4,812	4,812
Retained Earnings	6,118	6,377	6,418	6,580	6,584	6,584	7,100	7,543	7,998
Accumulated Other Comp. Loss	(118)	(118)	(118)	(118)	(118)	(118)	(118)	(118)	(118)
Total Shareholders' Equity	**10,312**	**10,636**	**10,737**	**10,959**	**11,028**	**11,028**	**11,794**	**12,237**	**12,692**
Total Liabilities and Equity	**36,344**	**37,146**	**37,708**	**38,392**	**38,920**	**38,920**	**41,485**	**43,705**	**46,035**

Source: Company reports; Guggenheim Securities, LLC estimates.

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CASH FLOW STATEMENT ($M)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Net Income	1,107	431	213	334	177	1,155	1,254	1,348	1,414
Depreciation, Depl. & Amort.	1,115	304	312	315	322	1,252	1,336	1,432	1,524
Deferred Income Taxes	155	53	36	45	33	168	111	80	80
Other Changes in Assets & Liab.	456	1	1	1	1	5	5	5	5
Net Cash from Operating	**2,833**	**788**	**563**	**696**	**534**	**2,580**	**2,706**	**2,865**	**3,024**
Investing Activities									
PP&E Expenditures – Utility	(2,355)	(675)	(675)	(675)	(675)	(2,700)	(2,700)	(2,700)	(2,700)
PP&E Expenditures – Non-Utility	(1,000)	(250)	(250)	(250)	(250)	(1,000)	(1,000)	(1,000)	(1,000)
Proceeds from Nuclear Decom	810	-	-	-	-	-	-	-	-
Investments in Nuclear Decom	(810)	-	-	-	-	-	-	-	-
Other Investments	(557)	-	-	-	-	-	-	-	-
Net Cash Used for Investing	**(3,912)**	**(925)**	**(925)**	**(925)**	**(925)**	**(3,700)**	**(3,700)**	**(3,700)**	**(3,700)**
Capital Contribution by Parent	-	-	-	-	-	-	-	-	-
Dividends on Common Stock	(619)	(172)	(172)	(172)	(172)	(689)	(739)	(904)	(959)
Free Cash Flow After Dividends	(1,698)	(309)	(535)	(402)	(564)	(1,809)	(1,733)	(1,739)	(1,636)
Pay-Out Ratio (%)	55.9%	39.9%	80.7%	51.6%	97.4%	59.6%	58.9%	67.1%	67.8%
Financing Activities									
Issuance of Long-Term Debt	2,308	425	425	425	425	1,700	1,700	1,700	1,800
Redemption of Long-Term Debt	(105)	-	-	-	-	-	-	-	-
Redemption of Securitized Debt	36	-	-	(8)	-	(8)	(11)	(4)	(5)
Short-Term Borrowings, net	(544)	-	-	-	-	-	-	-	-
Issuance of Common Stock	87	65	60	60	65	250	250	-	-
Repurchase of Common Stock	-	-	-	-	-	-	-	-	-
Other	(28)	-	-	-	-	-	-	-	-
Net Cash Used for Financing	**1,754**	**490**	**485**	**477**	**490**	**1,942**	**1,939**	**1,696**	**1,795**
Cash and Equivalents Beginning of Period	89	144	325	276	351	144	277	483	441
Net Increase in Cash & Equivalents	55	181	(50)	75	(74)	133	206	(42)	159
Cash and Equivalents End of Period	**144**	**325**	**276**	**351**	**277**	**277**	**483**	**441**	**600**

Source: Company reports; Guggenheim Securities, LLC estimates.

DUKE ENERGY (DUK, BUY, $94 PT)

Duke is one of our few remaining bond surrogate calls. We believe it is undervalued vs fully valued sector, with manageable expectations, good regulatory construct, and potential upside to capital plan including renewables. Value remains on the sidelines, hence our continued support for shares.

- **We are maintaining our BUY rating on DUK and raising our price target to $94** from $86, as we roll our regulated utility valuations forward to base off 2020 earnings, and apply a one-turn premium to our target multiple for regulated utilities. DUK is a solid name to own for investors concerned about broader market volatility, potential recession risk and/or looking for upside to growth from renewable investments among other items. **Couple these with an attractive valuation level (vs a fully valued electric utility sector) and manageable expectations vs Street and DUK's own internal growth parameters, shares should still point to further rerating vs peers.** Reiterate BUY.
- **Introducing our 2022 estimate of $5.91 which incorporates a 5.2% CAGR off the $4.60 2017 original mid-point mgmt. guides from.** Our forecasts for 2019/2020/2021 of $5.00/$5.26/$5.57 trend to the top end of mgmt's 4-6% growth guide but are mindful of mgmt's caveat to expect low end (~4%) in 2019 and mid to high end (5-6%) for 2020 and beyond. **We see upside potential to DUK's growth (or at least a potential acceleration) if it executes successfully on its renewable initiatives in the Carolinas, which could amount to over $2bn in incremental spend among other spending items.** We see balance sheet strains in the review mirror (close to industry average now), and we expect no more equity needs beyond DRIP/ATM even if DUK wins NC solar RFPs. **We continue to see ACP getting completed but permitting issues will be a speed bump in the NT. That said, Duke has levers to pull to fill any NT growth gaps from a project delay, if need be, including a faster refund of unprotected ADIT (See more thoughts HERE) which could help drive rate base growth higher depending on the timing of the refunds** (i.e., any growth divots from project delays could be partially/fully mitigated by deferred tax refunds). As a reminder, deferred taxes were agreed to be held by DUK in SC and NC until the next GRC which, ironically have been filed in both DEC and DEP so will be addressed during these proceedings. On the M&A front we don't see DUK looking to acquire especially now that Scana is closed. We believe we could see a potential sale of KY if price is right and further balance sheet strengthening is needed.
- **DUK is also close to partially monetizing its commercial renewables portfolio – a well subscribed process.** A data room was opened for the potential partial monetization of 3,000 MW of commercial renewables and a resolution on this could be reached by 1Q19. DUK noted that the percentage sell down could vary by project but views this monetization as a solid financing tool. We wouldn't be surprised if proceeds were reinvested as well as some de-levering opportunities – former seems more likely to us.
- **Renewables opportunity underappreciated, in our view, HB 589 continues to present a substantial opportunity to DUK.** There are 2.7 GW of total renewable opportunities that the bill unleashes and 30% of this DUK can self-build and with no cap on what DUK could acquire from developers (potentially the remaining 70%). **We believe the total opportunity could be over ~$2.0bn assuming ~$1-1.50/watt**. In July 2018 the RFP was launched for 680 MW which are projected to be in-service by

2020, Oct 9 bids were submitted and over the next several months bids will be evaluated by an independent administrator. In 1H19 the winning bids are expected to be announced and in 2H19 the new project construction is anticipated to begin for the 2020 in service dates. **For more background see our recent NDR with mgmt. HERE.**

- **Permitting issues continue at ACP (i.e. court vacated permits) but DUK will earn AFUDC and the winter construction schedule could provide some cushion.** On Thursday December 13 the U.S. 4th Circuit Court of Appeals vacated ACP's existing U.S. National Park permit, which included a right-of-way to cross the Appalachian Trail in a national forest. Roughly 20 miles of ACP's 600 mile pipeline cut through national forest land. ACP's owners/developers disagree with the Court's decision and note the decision has boarder implications for all oil and gas pipelines that cross the Appalachian Trail along its 2,200 mile course from Maine to Georgia (roughly 50 pipelines do so according to the owners). ACP owners have requested an "en banc" review by the full 4th Circuit and additional next steps are expected to be announced in the future. **As a reminder, in the 3Q some delays for Atlantic Coast Pipeline pushed the in service date from YE19 to mid-2020 and caused a $500mm cost increase from $6.0-6.5bn to now $6.5-$7.0bn.** On its 3Q18 call DUK mgmt. affirmed that returns on ACP will be commensurate with existing regulated returns (see 3Q DUK note HERE) and noted they will continue to earn AFUDC. The 600 mile 1.5Bcf/day pipe has potential to upsize to 2Bcf/day and extensions into South Carolina and beyond.

Guggenheim's DUK EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2018E	1.28A	0.94E	1.65E	0.92E	**4.78E**	*4.75E*
Prior	*1.28E*	*0.90E*	*1.65E*	*1.02E*	*4.85E*	
2019E	1.05E	0.62E	1.82E	1.50E	**5.00E**	*4.97E*
Prior	*1.08E*	*0.99E*	*1.72E*	*1.20E*	*4.99E*	
2020E	1.14E	0.68E	1.89E	1.55E	**5.26E**	*5.24E*
Prior	*1.18E*	*1.02E*	*1.77E*	*1.25E*	*5.22E*	
2021E	1.27E	0.77E	1.96E	1.57E	**5.57E**	*5.53E*
Prior	*1.36E*	*1.08E*	*1.82E*	*1.28E*	*5.53E*	
2022E	1.37E	0.83E	2.02E	1.69E	**5.91E**	*5.75E*
Prior						

Source: Guggenheim Securities, LLC.

- **Valuation:** We derive our regulated utility group target multiple of 17x from our regression model, which uses the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years, and now ascribe a one-turn premium to reflect several externalities (e.g., macro/geopolitical uncertainties) that continue to support the group trading beyond fundamentals and forward-yield expectations; we apply the 18x multiple to our 2020 EPS estimate of $5.26 and discount back one-year to arrive at our $94 12-month price target.

- **Risks:** Risks to our rating and to achieving our price target for DUK mainly encompass traditional risk factors inherent with all electric utilities including: 1) rate case risk, 2) lower capex outlook, and 3) interest rate changes above what we account for in our regression model.

GUGGENHEIM
DUKE ENERGY MODEL
CONSOLIDATED FINANCIALS

INCOME STATEMENT ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Revenues:	**23,914**	5,725	5,139	6,512	5,793	**23,170**	**23,139**	**23,479**	**23,808**
Natural Gas Purchased	**544**	291	54	50	83	**479**	**478**	**477**	**475**
Fuel & Purchased Power	**6,839**	1,768	1,628	2,095	1,642	**7,132**	**7,264**	**7,438**	**7,681**
D&A	**3,902**	930	941	951	960	**3,782**	**3,924**	**4,383**	**4,566**
Operating & Maintenance	**6,150**	1,476	1,700	1,550	1,611	**6,339**	**6,340**	**6,342**	**6,344**
Property Taxes & Other	**1,249**	203	201	215	162	**781**	**785**	**679**	**688**
Other Operating Income	-	-	-	-	-	-	-	-	-
Gains on Sale of Assets	**(87)**	-	-	-	-	-	-	-	-
Operating Income	**4,804**	1,056	615	1,651	1,335	**4,657**	**4,348**	**4,161**	**4,055**
Equity in Unconsolidated Affiliates	-	-	-	-	-	-	-	-	-
Other Income & Expenses	**775**	496	554	617	646	**2,312**	**3,120**	**3,805**	**4,430**
Interest Expense	**2,104**	571	592	609	624	**2,397**	**2,628**	**2,803**	**2,973**
EBT	**3,475**	980	577	1,659	1,356	**4,572**	**4,840**	**5,162**	**5,513**
Tax	**(611)**	(218)	(125)	(341)	(265)	**(949)**	**(1,006)**	**(1,074)**	**(1,148)**
Income from Continuing Ops	**2,865**	**763**	**452**	**1,318**	**1,091**	**3,623**	**3,833**	**4,088**	**4,365**
Non GAAP Adjustments	**532**					-	-	-	-
Preferred	-	-	-	-	-	-	-	-	-
Adjusted Net Income	**3,397**	**763**	**452**	**1,318**	**1,091**	**3,623**	**3,833**	**4,088**	**4,365**
Discontinued operations	**(1)**					-	-	-	-
Net Income	**3,396**	**763**	**452**	**1,318**	**1,091**	**3,623**	**3,833**	**4,088**	**4,365**
							4.5%		
Ongoing EPS	**$4.78**	$1.05	$0.62	$1.82	$1.50	**$5.00**	**$5.26**	**$5.57**	**$5.91**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
DUKE ENERGY MODEL
CONSOLIDATED FINANCIALS

BALANCE SHEET ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Assets									
Cash	384	262	88	412	404	404	572	547	599
Accounts Receivable	3,079	3,079	3,079	3,079	3,079	3,079	3,079	3,079	3,079
Inventory	3,140	3,140	3,140	3,140	3,140	3,140	3,140	3,140	3,140
Other Current Asset	2,892	2,782	2,724	2,558	2,407	2,407	1,896	1,367	811
Investments	1,328	1,328	1,328	1,328	1,328	1,328	1,328	1,328	1,328
Goodwill	19,303	19,303	19,303	19,303	19,303	19,303	19,303	19,303	19,303
Other Non Current	12,616	12,616	12,616	12,616	12,616	12,616	12,616	12,616	12,616
Gross PPE	136,564	139,663	142,786	145,932	149,100	149,100	160,064	170,699	182,017
Accumulated Depreciation	(43,915)	(44,637)	(45,370)	(46,113)	(46,865)	(46,865)	(49,957)	(53,508)	(57,242)
Other LT Assets	10,921	10,921	10,921	10,921	10,921	10,921	10,921	10,921	10,921
Total Assets	146,312	148,458	150,615	153,176	155,433	155,433	162,962	169,492	176,572
Liabilities:									
Accounts payable	3,234	3,234	3,234	3,234	3,234	3,234	3,234	3,234	3,234
Short Term Maturities	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,891
Other Current Liabilities	7,797	7,797	7,797	7,797	7,797	7,797	7,797	7,797	7,797
Other Non Current Liabilities	35,723	35,723	35,723	35,723	35,723	35,723	35,723	35,723	35,723
Long Term Debt	53,011	54,976	57,264	59,119	60,897	60,897	67,108	72,226	77,788
Minority Interest	18	18	18	18	18	18	18	18	18
Total Liabilities	102,674	104,639	106,927	108,782	110,560	110,560	116,771	121,889	127,451
Preferred Stock of Subsidiaries	-	-	-	-	-	-	-	-	-
Shareholders' Equity	43,638	43,819	43,689	44,394	44,873	44,873	46,191	47,603	49,121
Total Liabilities & Equity	146,312	148,458	150,615	153,176	155,433	155,433	162,962	169,492	176,572
Estimated Rate Base	$69,466	$70,822	$72,101	$72,977	$74,358	$74,358	$79,209	$80,826	$84,373

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
DUKE ENERGY MODEL
CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Net Income	3,396	763	452	1,318	1,091	3,623	3,833	4,088	4,365
D&A	3,902	930	941	951	960	3,782	3,924	4,383	4,566
Nuclear fuel amortization	(278)	(208)	(208)	(208)	(208)	(832)	(832)	(832)	(832)
AFUDC & other adjustments	(423)	(355)	(379)	(402)	(424)	(1,561)	(1,914)	(2,235)	(2,543)
Other working capital	215	110	58	167	151	485	511	529	556
CFO	6,812	1,239	864	1,825	1,570	5,497	5,522	5,933	6,111
Capex	(10,785)	(2,744)	(2,744)	(2,744)	(2,744)	(10,975)	(9,050)	(8,400)	(8,775)
Asset Sales	-	-	-	-	-	-	-	-	-
Other Investing Activities	(35)	-	-	-	-	-	-	-	-
Parent	-	-	-	-	-	-	-	-	-
CFI	(10,820)	(2,744)	(2,744)	(2,744)	(2,744)	(10,975)	(9,050)	(8,400)	(8,775)
Change in LTD	5,636	1,965	2,288	1,855	1,778	7,886	6,211	5,118	5,562
Dividends Paid to Shareholders	(2,580)	(669)	(670)	(700)	(699)	(2,738)	(2,865)	(3,026)	(3,197)
Common Stock issuance	1,950	88	88	88	88	350	350	350	350
Share repurchase	-	-	-	-	-	-	-	-	-
Other financing activities	(974)	-	-	-	-	-	-	-	-
CFF	4,032	1,383	1,706	1,243	1,166	5,498	3,696	2,442	2,715
Beginning Cash Balance	358	384	262	88	412	384	404	572	547
Change in Cash Flows	26	(121)	(174)	324	(8)	20	168	(25)	52
Ending Cash Balance	384	262	88	412	404	404	572	547	599

Source: Company reports; Guggenheim Securities, LLC estimates.

CONSOLIDATED EDISON (ED, NEUTRAL, $82PT)

Maintaining our NEUTRAL view on the moderate growth potential at the utilities, current yield cycle and no significant upside from the competitive business platforms in the NT despite sound fundamentals, regulatory construct... though '18 underperformance has made shares more attractive.

- **Raising our price target to $82 as we roll forward to a 2020 valuation year but maintaining our NEUTRAL stance.** ED remains a regulated utility with bond proxy characteristics and it remains expensive in our view of utility sector valuations. We expect ED utilities to grow rate base at ~6% through 2021 and we expect earnings to track closely with the exception of share dilution and regulatory risk as the next rate case is yet to be filed. ED utilities contribute over 90% of earnings, with the remainder coming from contracted renewable, transmission, and gas pipeline and storage assets. ED has been acquisitive with renewables in 2018, but management has stated it will likely pivot back to the "develop, build and operate" strategy in the near term, with an opportunistic approach to asset acquisition and conservative view on contracted gas assets. **With our current view of remaining selective on the utility sector and an absence of catalysts for ED, we remain NEUTRAL rated on the stock, with an $82 PT.**
- **We are updating our EPS estimates for 2018-2021 to $4.25, $4.36, $4.61 and $4.79, respectively.** We expect the ED utilities to earn close to its authorized ~9% ROE throughout our forecast period and do not foresee an upside on regulatory outcomes (9% for CECONY ex-steam, 9.5% O&R). On the CET (transmission) front Mountain Valley Pipeline is expected to be in service early 2020. Our model for CEB currently does not include the earnings contribution from the pending renewable asset acquisition. **Per the company, while the earnings contribution is expected to be to be in the $34-38M range in the post 2021 timeframe, the cash return profile is expected to be front skewed with 90% of the return expected in the first decade of ownership.** The self-delivering capital structure should also help create headroom for further investment or reduce overall capital needs. **We would also note ED is naturally hedged against rising rates to some extent with formulaic ROEs, and an allowed ROE increase coming out of multi-year rate plans after 2019 is a possibility in a rising rate environment.**
- **We are rolling out our 2022 EPS estimate of $4.95.** 2022 estimates are based on the ~6% rate base growth and ability to earned allowed ROEs for ED utilities, with a modest EPS growth contribution from CEB and CET business lines as no major projects are expected to enter service at that time. Projects on the horizon for ED are the placeholder $400M of renewable development and the MVP expansion (6.375% ownership for ED; much smaller 73-mile/0.3 Bcf/d expansion vs. $4.6B MVP line, 301 miles, 2Bcf/d). Neither the projects listed nor the pending acquisition of SRE renewable assets are currently in our numbers.
- **Con Edison will be filing a CECONY electric and gas rate case in early 2019 for rates starting in 2020.** CECONY typically files (and receives approval/settlement) for multi-year rate plans, with the previous rate plan set for 2017-2019. The ROE and equity ratio are formulaic, so we generally would not expect that to be a highly contested issue, with the previous rate negotiations mainly focused on O&M cost structure. **We expect the filing to be supportive of the 6% rate base CAGR and associated capital program as presented by the company on the 3Q call.** Overall we view the case to some degree a deciding factor for the earnings outlook and it will likely be an input to confirm the 6% rate base CAGR for the core utility business.

 See pages 278 - 279 for analyst certification and important disclosures.

Guggenheim's ED EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2018E	1.38A	0.61A	1.57A	0.71E	**4.25E**	*4.28E*
Prior	*1.38A*	*0.61A*	*1.57A*	*0.77E*	*4.31E*	
2019E	1.18E	0.60E	1.80E	0.78E	**4.36E**	*4.33E*
Prior	*1.43E*	*0.72E*	*1.39E*	*1.00E*	*4.54E*	
2020E	1.24E	0.64E	1.88E	0.84E	**4.61E**	*4.54E*
Prior	*1.45E*	*0.72E*	*1.42E*	*1.06E*	*4.65E*	
2021E	1.30E	0.67E	1.94E	0.88E	**4.79E**	*4.74E*
Prior	*1.45E*	*0.72E*	*1.43E*	*1.10E*	*4.70E*	
2022E	1.35E	0.69E	2.00E	0.92E	**4.95E**	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** We derive our regulated utility group target multiple of 17x from our regression model, which uses the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years; and now ascribe a one-turn premium to reflect ED's stable regulatory jurisdiction and contemporaneous return of capital, as well as several externalities (e.g., macro/geopolitical uncertainties) that continue to support the group trading beyond fundamentals and forward-yield expectations; we apply this multiple to our 2020 EPS estimate of $4.61, and discount back to arrive at our $82 12-month price target.
- **Risks:** Downside risks to our rating and valuation mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

  Upside risks to our rating and valuation: If forward bond yield expectations fall, if ED achieves a better-than expected performance vs. our model (i.e., achieving a higher ROE), or if any of the above-mentioned items turn out to be more favorable versus our model, shares could breach our price target.

See pages 278 - 279 for analyst certification and important disclosures.

GUGGENHEIM
CON EDISON MODEL
CONSOLIDATED FINANCIALS

INCOME STATEMENT *($MM)*	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating Revenues									
Electric	8,616	1,926	2,000	2,854	2,056	8,836	9,040	9,236	9,437
Gas	2,286	963	502	306	575	2,346	2,388	2,431	2,475
Steam	615	196	67	61	149	473	492	512	531
Non-utilty	777	252	199	265	202	918	972	1,010	1,041
Total Operating Revenues	**12,294**	3,337	2,769	3,485	2,982	**12,573**	**12,893**	**13,190**	**13,484**
Purchased power	1,756	538	492	673	475	2,178	2,201	2,225	2,249
Fuel	249	124	38	39	48	249	249	249	249
Gas purchased for resale	897	302	137	78	161	679	679	680	680
Other O&M	3,190	750	728	776	809	3,063	3,096	3,128	3,161
Depreciation	1,427	379	386	392	396	1,553	1,634	1,715	1,795
Taxes, other than income	2,268	568	537	596	567	2,267	2,290	2,312	2,335
Income taxes	390	100	52	153	67	372	397	415	432
Operating Income	**2,118**	576	398	779	459	**2,212**	**2,348**	**2,466**	**2,581**
Total other income	**(34)**	(5)	(5)	(5)	(5)	**(19)**	**(19)**	**(19)**	**(19)**
Net Interest Expense	**811**	199	202	205	208	**813**	**855**	**905**	**957**
Net Income	**1,273**	372	191	569	247	**1,380**	**1,474**	**1,542**	**1,606**
Non-GAAP Adjustments	55					-	-	-	-
Net Income *(Non-GAAP)*	**1,328**	372	191	569	247	**1,380**	**1,474**	**1,542**	**1,606**
Avg. Share count *(diluted)*	**312**	316	316	316	318	**317**	**320**	**322**	**324**
Reported EPS	4.25	1.18	0.60	1.80	0.78	4.36	4.61	4.79	4.95
EPS from discontinued operations	-	-	-	-	-	-	-	-	-
EPS from cumulative effect of changes in acct. pr	-	-	-	-	-	-	-	-	-
Regulatory adjustments and impairments	-	-	-	-	-	-	-	-	-
On-going EPS *(diluted)*	**$4.25**	1.18	0.60	1.80	0.78	**$4.36**	**$4.61**	**$4.79**	**$4.95**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
CON EDISON MODEL
CONSOLIDATED FINANCIALS

BALANCE SHEET ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Assets									
Utility Plant at original cost									
Electric	30,829	31,613	32,397	33,180	33,964	33,964	37,150	40,336	43,522
Gas	8,877	8,877	8,877	8,877	8,877	8,877	8,877	8,877	8,877
Steam	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
General	3,205	3,205	3,205	3,205	3,205	3,205	3,205	3,205	3,205
Total	**45,411**	46,195	46,979	47,762	48,546	**48,546**	**51,732**	**54,918**	**58,104**
Less: Accumulated depreciation	9,945	10,324	10,710	11,102	11,498	11,498	13,132	14,846	16,641
Plant in service, net	**35,466**	35,871	36,269	36,660	37,048	**37,048**	**38,600**	**40,072**	**41,463**
Construction work in progress	1,901	1,901	1,901	1,901	1,901	1,901	1,901	1,901	1,901
Net Utility Plant	**37,367**	37,772	38,170	38,561	38,949	**38,949**	**40,501**	**41,973**	**43,364**
Non-utility plant									
Unregulated generating assets	190	294	397	501	604	604	1,004	1,404	1,804
Non-utility property	1,837	1,837	1,837	1,837	1,837	1,837	1,837	1,837	1,837
Construction work in progress	566	566	566	566	566	566	566	566	566
Net Non-utility plant	2,593	2,697	2,800	2,904	3,007	3,007	3,407	3,807	4,207
Net Plant	**39,960**	40,468	40,970	41,465	41,956	**41,956**	**43,908**	**45,780**	**47,571**
Current Assets									
Cash and temporary cash investments	441	371	226	366	406	406	286	643	873
Restricted cash	-	-	-	-	-	-	-	-	-
Accounts receivable	950	950	950	950	950	950	950	950	950
Accrued unbilled revenues	350	350	350	350	350	350	350	350	350
Other receivables	263	263	263	263	263	263	263	263	263
Fuel oil, at average cost	338	338	338	338	338	338	338	338	338
Prepayments	665	665	665	665	665	665	665	665	665
Other current assets	191	191	191	191	191	191	191	191	191
Total current assets	**3,198**	3,128	2,983	3,123	3,163	**3,163**	**3,043**	**3,400**	**3,630**
Investments	**2,131**	2,131	2,131	2,131	2,131	**2,131**	**2,131**	**2,131**	**2,131**
Deferred Charges Regulateory and Noncurrent Assets									
Goodwill	439	439	439	439	439	439	439	439	439
Intangible assets	132	132	132	132	132	132	132	132	132
Regulatory assets	3,932	3,914	3,897	3,879	3,861	3,861	3,790	3,719	3,648
Other deferred charges and noncurrent assts	153	153	153	153	153	153	153	153	153
Total	**4,656**	4,638	4,621	4,603	4,585	**4,585**	**4,514**	**4,443**	**4,372**
Total Assets	**49,945**	50,366	50,705	51,322	51,835	**51,835**	**53,596**	**55,754**	**57,704**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

CON EDISON MODEL

CONSOLIDATED FINANCIALS

BALANCE SHEET ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Liabilities									
Capitalization									
Common shareholders' equity	16,273	16,431	16,409	16,764	17,016	17,016	17,717	18,454	19,222
Preferred stock of subsidiary	-	-	-	-	-	-	-	-	-
Long-term debt	15,083	15,271	15,458	15,646	15,833	15,833	16,583	17,583	18,333
Total capitalization	**31,356**	31,702	31,867	32,409	32,849	**32,849**	**34,300**	**36,037**	**37,555**
Minority interests	11	11	11	11	11	11	11	11	11
Noncurrent liabilities									
Obligations under capital leases	-	-	-	-	-	-	-	-	-
Provision for injuries and damages	158	158	158	158	158	158	158	158	158
Pension and retiree benefits	854	854	854	854	854	854	854	854	854
Superfund and other environmental costs	720	720	720	720	720	720	720	720	720
Noncurrent liabilities held for sale	320	320	320	320	320	320	320	320	320
Other noncurrent liabilities	13	13	13	13	13	13	13	13	13
Total noncurrent liabilities	**2,065**	2,065	2,065	2,065	2,065	**2,065**	**2,065**	**2,065**	**2,065**
Current Liabilities									
Long-term debt payable with one year	1,128	1,128	1,128	1,128	1,128	1,128	1,128	1,128	1,128
Notes payable	1,352	1,352	1,452	1,452	1,452	1,452	1,452	1,552	1,652
Accounts payable	1,173	1,173	1,173	1,173	1,173	1,173	1,173	1,173	1,173
Customer deposits	351	351	351	351	351	351	351	351	351
Accrued taxes	48	48	48	48	48	48	48	48	48
Accrued interest	210	210	210	210	210	210	210	210	210
Accrued wages	109	109	109	109	109	109	109	109	109
Current liabilities held for sale	-	-	-	-	-	-	-	-	-
Other current liabilities	1,330	1,330	1,330	1,330	1,330	1,330	1,330	1,330	1,330
Total Current Liabilities	**5,701**	5,701	5,801	5,801	5,801	**5,801**	**5,801**	**5,901**	**6,001**
Deferred Credits and Regulatory Liabilities									
Deferred income taxes and investment tax credits	5,883	5,944	6,004	6,065	6,125	6,125	6,380	6,645	6,922
Regulatory liabilities	4,638	4,652	4,665	4,679	4,693	4,693	4,748	4,803	4,858
Other deferred credits	292	292	292	292	292	292	292	292	292
Total Deferred Credits and Regulatory Liabilitie	**10,813**	10,887	10,961	11,036	11,110	**11,110**	**11,420**	**11,740**	**12,072**
Total Capitalization and Liabilities	**49,945**	50,366	50,705	51,322	51,835	**51,835**	**53,596**	**55,754**	**57,704**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
CON EDISON MODEL
CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating Activities									
Net Income	1,328	372	191	569	247	1,380	1,474	1,542	1,606
Depreciation and amortization	1,427	379	386	392	396	1,553	1,634	1,715	1,795
Deferred income taxes	357	61	61	61	61	242	255	266	277
Common equity component of AFUDC	(11)	-	-	-	-	-	-	-	-
Other non-cash items	(44)	-	-	-	-	-	-	-	-
Accounts receivable	(146)	-	-	-	-	-	-	-	-
Materials and supplies	(4)	-	-	-	-	-	-	-	-
Prepayments	300	-	-	-	-	-	-	-	-
Other receivables	(31)					-	-	-	-
Accounts payable	(8)	-	-	-	-	-	-	-	-
Pension and retiree benefits	(161)	-	-	-	-	-	-	-	-
Accrued taxes	(60)	-	-	-	-	-	-	-	-
Accrued interest	(67)	-	-	-	-	-	-	-	-
Deferred charges and other regulatory assets	(205)	18	18	18	18	71	71	71	71
Deferred credits and other regulatory liabilities	396	14	14	14	14	55	55	55	55
Other liabilities	(53)	-	-	-	-	-	-	-	-
Net Cash Flows from Operating Activities	**3,017**	843	669	1,054	735	**3,301**	**3,489**	**3,648**	**3,804**
Investing Activities									
Utlilty construction expenditures	**(3,209)**	(784)	(784)	(784)	(784)	**(3,135)**	**(3,186)**	**(3,186)**	**(3,186)**
Cost of removal less salvage	(188)	-	-	-	-	-	-	-	-
Non-utility construction expenditures	(383)	(104)	(104)	(104)	(104)	(414)	(400)	(400)	(400)
Net Cash Flows Used in Investing Activities	**(3,889)**	(887)	(887)	(887)	(887)	**(3,549)**	**(3,586)**	**(3,586)**	**(3,586)**
Financing Activities									
Net payments of short-term debt	775	-	100	-	-	100	-	100	100
Retirement of long-term debt	(1,276)	-	-	-	-	-	-	-	-
Sub Issuance of long-term debt	1,465	188	188	188	188	750	750	1,000	750
Issuance of common stock	429	20	20	20	240	300	200	200	200
Debt issuance costs/other	(21)	-	-	-	-	-	-	-	-
Common stock dividends	(857)	(234)	(234)	(234)	(235)	(937)	(972)	(1,005)	(1,037)
Net Cash Flows from (used in) Financing Activit	**515**	(26)	74	(27)	192	**213**	**(22)**	**295**	**13**
Net change in cash	(356)	(70)	(145)	140	40	(35)	(120)	357	230
Beginning cash balance	797	441	371	226	366	441	406	286	643
Ending cash balance	**441**	371	226	366	406	**406**	**286**	**643**	**873**

Source: Company reports; Guggenheim Securities, LLC estimates.

EDISON INTERNATIONAL (EIX, BUY, $69 PT)

EIX continues to be our preferred California re-rating story. Due to potential wildfire liabilities and strained regulatory environment, PCG and EIX have become special situation relative calls, with EIX having a cleaner growth path and fewer long-term overhangs, in our view.

- **Maintaining our BUY rating, $69 PT (up from $63), based on our 2020 EPS estimate of $4.93,** while our view on **potential liabilities and future resolution to wildfire exposure provides significant upside potential to EIX's stock price** with a high yielding dividend and a less binary risk scenario than PCG. We view the potential liability related to wildfires as manageable (pending CalFire finding of fault/negligence) and **simultaneously over-discounted in the current stock price on the order of ~11%** (see our California section). Outside of wildfire liabilities, EIX core rate base growth is expected to be in the 8-9% range at the current capex and General Rate Case (GRC) requested levels. Despite the long delay in GRC approval and the strained regulatory process, we expect **EIX to be well positioned for a "return to basics" regulatory re-rating once regulatory processes catch up, without compromising the utility's financial or operational integrity.**

- **Adjusting our 2018-2021 EPS estimates to account for probable recovery of wildfire insurance costs and an eventual outcome to the long delayed 2017 GRC.** Our 2018-2021 estimates are now $4.15, $4.57, $4.93 and $5.37 for the respective years. We expect EIX to earn the allowed 10.30% ROE in the period, with rate base growth closely tracking the current GRC proposed level through 2019, and growing consistently after 2019 (inclusive of placeholder growth for Transportation Electrification, RAMP and other non-GRC projects); rate base growth in aggregate is ~8.7% through 2022. We model EIX parent and energy services (EEG) earnings contribution remaining flat at -$0.26 after EEG reaches an EPS neutral run rate by the end of 2019 (in line with company guidance). **We are not including potential outcomes of ROE adjustments at the CPUC or FERC level; with the CPUC filing due in April 2019 and ongoing at FERC through the Formula Rate filing.**

- **We are introducing our 2022 EPS estimate of $5.70 based on a return to timely regulatory approvals for general rate case cost recovery, cost of capital proceedings and non-GRC projects recovery.** The underlying rate base growth is ~8% in 2022 and includes the base trend for reliability and safety spending, grid modernization (extended from current GRC) and other projects such as energy storage and transportation electrification. We do not expect the competitive energy services (EEG) business to be a major contributor to earnings in our estimates as the business strategy is yet to be proven out in 2019. **We expect an 8.3% aggregate EPS CAGR over 2018-2022, but we note that 2018 base year may be considered lagging due to delays of the 2017 GRC (2018-2020 rates), and it is important to note that we do not include any drag or dilution for unrecoverable wildfire costs in our EPS estimates.**

- **A significant amount of regulatory activity in California - EIX still has an outstanding rate case for 2018-2020, and will be filing a cost of capital proceeding in April of 2019,** which is likely to be a contentious process, with early indications pointing to an ROE increase based on the risk factors the utility faces and the need for capital flows for an ambitious clean energy agenda in the state of CA.

- **On the related regulatory note – the regulatory backstop in working through the wildfire issues is potential for recovery through a CPUC process.** In 2017, the CPUC partially deferred cost recovery decision making to the legislature, seeking

See pages 278 - 279 for analyst certification and important disclosures.

to clarify the capacity and framework for recovery. The CPUC was later given some framework for consideration and allocation of costs through the passage of Senate bill 901. At this point management expressed that under the utilities code, the CPUC has a responsibility to provide cost recovery for prudently incurred expenses and has the power to allocate costs, with SB901 giving specific factors for consideration that the CPUC "may" use ("may" vs. "shall" language was under debate in the legislative process). EIX also believes that wildfire contingency plans that were filed with the CPUC better enable the commission to take decision making into their own hands. **Overall, EIX management is understanding of the investor frustrations with the lack of progress on wildfire resolution, acknowledges that the volatility of the stock in the range of $4-5B of market cap over several days (Nov 7- Nov 15) and negative credit rating changes demonstrate that the wildfire liability framework is incomplete.**

- **The circumstances for recovery of wildfire costs beyond insured coverage continue to be fundamentally broken in CA.** The cause of the major 2017 wildfires (i.e., Tubbs, Thomas) is still under investigation and could include multiple ignition sources given the overall size of the fires, with 2018 fire investigations being in the very early stages. After cause is established, which may subject EIX to claims under inverse condemnation in the litigation process (i.e., strict liability under premise of cost socialization), the probability of recovery of those court claims will be at first dependent on the finding of negligence on the part of the utility, which may involve the CalFire reporting, CPUC safety division (SED) reports and the company's own rebuttal in the process. **If there is no negligence found, and the utility is found prudent in its operations, the CPUC may allow for allocation and recovery of wildfire liabilities.** Outside of a regulatory process that is not well established by precedent, PCG's Butte fire case has become a battleground for determination of IC application to private/publicly traded utilities, with the CA Supreme Court currently reviewing the application of IC.
- **At the end of the day regulators recognize the disconnect between their responsibility to review prudency vs. the court's interpretation of inverse condemnation as it applies to regulated utilities**, effectively holding them liable for damages irrespective of cause, and without commensurate rate relief. We do not currently ascribe an allocation of the liabilities nor a probability of recovery through the regulatory process, rather we take a view of the potential aggregate liabilities. **Despite what seems like a lengthy resolution timeline, we believe this presents an interesting opportunity for investors that can weather the multi-year volatility we describe above, with eyes on a longer-term resolution.**

Guggenheim's EIX EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	0.80A	0.84A	1.56A	0.95E	**4.15E**	*4.14E*
Prior	*0.80A*	*0.85A*	*1.56A*	*0.79E*	*4.00E*	
2019E	1.02E	1.04E	1.64E	0.87E	**4.57E**	*4.52E*
Prior	*0.99E*	*1.00E*	*1.59E*	*0.95E*	*4.53E*	
2020E	1.09E	1.12E	1.79E	0.92E	**4.93E**	*4.82E*
Prior	*1.06E*	*1.08E*	*1.75E*	*1.04E*	*4.93E*	
2021E	1.21E	1.23E	1.94E	0.99E	**5.37E**	*5.06E*
2021E	*1.15E*	*1.17E*	*1.87E*	*1.02E*	*5.21E*	
2022E	1.30E	1.32E	2.08E	1.01E	**5.70E**	*5.65E*

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

Valuation: We apply a 2x discount vs. the 17x multiple we employ for the regulated utility group, as we currently view Inverse Condemnation and the California regulatory environment as headwinds for EIX valuation relative to peers. We apply the 15x P/E multiple to our 2020 EPS estimate of $4.93 and discount 50% of our ~$2.5B wildfire liability as unrecoverable (or incremental ~0.75x P/E discount) to arrive at our new $69 price target.

Risks: Outside of exposure to the wildfires discussed above, downside risks to our valuation mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk; (2) lower CapEx outlook; and (3) interest rate changes above what we account for in our regression model.

GUGGENHEIM
EDISON INTERNATIONAL MODEL
CONSOLIDATED FINANCIALS

INCOME STATEMENT *($ in millions)*	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating revenue	**12,622**	**2,926**	**3,170**	**4,580**	**3,032**	**13,709**	**14,179**	**14,698**	**15,177**
Purchased power	5,304	935	1,123	2,329	969	5,357	5,410	5,464	5,519
Other operations and maintenance	2,847	680	724	678	792	2,874	2,902	2,930	2,958
Depreciation and amortization	1,938	556	567	577	588	2,287	2,454	2,623	2,798
Property and taxes	386	106	98	97	86	387	391	394	398
Operating income	**2,089**	**648**	**659**	**909**	**598**	**2,814**	**3,033**	**3,296**	**3,514**
Other non operating income	199	23	23	23	23	92	92	92	92
Interest expense	(734)	(201)	(205)	(209)	(213)	(828)	(900)	(981)	(1,063)
Other non operating deductions	-	(15)	(15)	(15)	(15)	(60)	(60)	(60)	(60)
Dividends on utility preferreds	(121)	(30)	(30)	(31)	(30)	(121)	(121)	(121)	(121)
EBT	**1,433**	**426**	**432**	**677**	**363**	**1,897**	**2,044**	**2,227**	**2,362**
Tax rate	9%	21%	21%	21%	22%	21%	21%	21%	21%
Income tax expense	128	91	92	142	79	404	433	470	497
Minority interest									
Income from continuing operations	**1,319**	**334**	**339**	**535**	**284**	**1,494**	**1,611**	**1,757**	**1,865**
Discontinued ops.	-	-	-	-	-	-	-	-	-
Net income	**1,319**	**334**	**339**	**535**	**284**	**1,494**	**1,611**	**1,757**	**1,865**
Discontinued ops.	-	-	-	-	-	-	-	-	-
Other adjustments (after tax)	39	-	-	-	-	-	-	-	-
Core Net Income - Non GAAP	**1,358**	**334**	**339**	**535**	**284**	**1,494**	**1,611**	**1,757**	**1,865**
Core EPS	**$ 4.15**	**$ 1.02**	**$ 1.04**	**$ 1.64**	**$ 0.87**	**$ 4.57**	**$ 4.93**	**$ 5.37**	**$ 5.70**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

EDISON INTERNATIONAL MODEL

CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating Cash Flows									
Net income	1,358	334	339	535	284	1,494	1,611	1,757	1,865
Depreciation	1,938	556	567	577	588	2,287	2,454	2,623	2,798
Cash tax adjustment	-	-	-	-	-	-	-	-	-
Other operating cash flow	182	30	30	31	30	121	121	121	121
Net change in working capital	(104)	-	-	-	-	-	-	-	-
CFO	**3,659**	**921**	**936**	**1,143**	**902**	**3,902**	**4,186**	**4,501**	**4,784**
Investing Cash Flows									
Capital expenditures, excl acquisitions	(4,218)	(1,200)	(1,200)	(1,200)	(1,200)	(4,800)	(4,700)	(5,000)	(5,000)
Net disposals (acquisitions)	86	-	-	-	-	-	-	-	-
Other investing cash flows	142	-	-	-	-	-	-	-	-
CFI	**(3,990)**	**(1,200)**	**(1,200)**	**(1,200)**	**(1,200)**	**(4,800)**	**(4,700)**	**(5,000)**	**(5,000)**
Financing Cash Flows									
Change in borrowings	655	300	300	300	300	1,200	1,300	1,500	1,500
Equity raised (buyback)	-	-	-	-	-	-	-	-	-
Dividends issued	(789)	(206)	(206)	(206)	(206)	(824)	(889)	(955)	(1,020)
Other financing cash flows	(78)	-	-	-	-	-	-	-	-
CFF	**(212)**	**94**	**94**	**94**	**94**	**376**	**411**	**545**	**480**
Foreign currency & other cash flow effects	39	-	-	-	-	-	-	-	-
Beg Cash	**1,132**	**629**	**443**	**273**	**310**	**629**	**106**	**3**	**49**
Change in cash	(503)	(185)	(170)	37	(204)	(522)	(104)	47	264
Discontinued Ops	-	-				-	-	-	-
Ending cash	**629**	**443**	**273**	**310**	**106**	**106**	**3**	**49**	**314**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
EDISON INTERNATIONAL MODEL
CONSOLIDATED FINANCIALS

BALANCE SHEET	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash	629	443	273	310	106	106	3	49	314
AR	505	505	505	505	505	505	505	505	505
Inventory	261	261	261	261	261	261	261	261	261
Other current assets	2,469	2,439	2,409	2,378	2,348	2,348	2,227	2,106	1,985
Net tangible fixed assets	40,842	41,486	42,120	42,743	43,355	43,355	45,601	47,978	50,180
Financial assets	4,389	4,389	4,389	4,389	4,389	4,389	4,389	4,389	4,389
Net goodwill	-	-	-	-	-	-	-	-	-
Other non current assets	4,879	4,879	4,879	4,879	4,879	4,879	4,879	4,879	4,879
Total assets	**53,974**	**54,402**	**54,836**	**55,465**	**55,843**	**55,843**	**57,865**	**60,168**	**62,512**
Accounts payable	1,288	1,288	1,288	1,288	1,288	1,288	1,288	1,288	1,288
STD, incl curr. portion of LTD	182	182	182	182	182	182	182	182	182
Other current liabilities	3,249	3,249	3,249	3,249	3,249	3,249	3,249	3,249	3,249
LTD, excl curr portion of LTD	14,929	15,229	15,529	15,829	16,129	16,129	17,429	18,929	20,429
Non current provisions	-	-	-	-	-	-	-	-	-
Other non current liabilities	19,923	19,923	19,923	19,923	19,923	19,923	19,923	19,923	19,923
Minority interest	-	-	-	-	-	-	-	-	-
Preferred equity	2,193	2,193	2,193	2,193	2,193	2,193	2,193	2,193	2,193
Common equity	12,210	12,338	12,472	12,801	12,879	12,879	13,601	14,404	15,248
Total liabilities and SE	**53,974**	**54,402**	**54,836**	**55,465**	**55,843**	**55,843**	**57,865**	**60,168**	**62,512**

Source: Company reports; Guggenheim Securities, LLC estimates.

EVERSOURCE (ES, BUY, $72 PT)

Welcome to reemerging as a bond surrogate but with solid growth opportunities: Core regulated utility businesses drive above-average, block-and-tackle 5-7% growth, look for capex upside on Feb call.

- **Reaffirming our BUY rating on ES and raising our PT to $72/shr, up from $63 as we shift valuation forward on 2020 fundamentals.** ES offers premium growth backed by fully regulated businesses. Mgmt. continues to maintain a constructive relationship with regulators in New England, which offers investors a level of regulatory clarity commanded by very few peers – **not the cheapest "bond surrogate" we recommend but NT catalysts and incremental growth opportunities should still translate into further multiple re-rating especially in this sector with very few ideas not inundated by binary events as we move through 2019.** Following Yankee Gas settlement, a majority of ES' spend has minimal to no lag (i.e., recovered in less than 12 months) with earned returns mirroring allowed through our forecast period.
- **Introducing our 2022 estimate of $4.17, which results in a 6% CAGR off of a 2017A base of $3.11**. Our estimates are driven by NSTAR electric earning its allowed ROE of ~11% by 2022, CL&P and PSNH earning healthy ~10% returns. We continue to exclude Northern Pass from our estimates but remind investors that ES has not written down its investment in the project yet – free option. Our 6% CAGR through 2022 falls in the middle of mgmt's 5-7% CAGR but we will look for updates to its capex plan on the 4Q call in February – we continue to model CapEx of ~$2.2Bn/year from 2019-22 combined for the regulated entities, ~$23Bn in rate base ex Northern Pass. ES typically updates its capex on the 4Q call and could look to extrapolate battery investments in MA to CT and other areas of its service territory among other spending opportunities including grid mod. The overall focus is on the core utilities with little discussion of binary projects, i.e., NPT, Access Northeast (officially written off this year). Our estimates continue to give no credit for Northern Pass Transmission even though ES hasn't written off its investment in the project yet. The recent Yankee Gas settlement was a positive for ES (including healthy ROE, decoupling) and is one recent example of the strong regulatory construct in NE region.
- **ES raised capex in 2018 by $600mm - an increase that could foreshadow other opportunities.** The main driver of the $600mm capex increase was grid mod in Massachusetts. This capex in MA was partially driven by battery investments at the distribution level. It's possible CT could enable battery investments too, which could unlock more capex spend. There is also a potential for incremental capex related to the gas distribution system. Reminder, an independent safety evaluator was recently hired to make recommendations after the September gas explosions in NI's service territory. It's possible that recommendations from the independent safety evaluator could be an impetus for incremental gas safety capex for ES's LDCs. NI has already said it is investing an incremental $150mm capex across its PA and OH gas distributions to fund safety improvements such as automatic shutoff valves.
- **ES mgmt. has stated it is keeping one eye open for potential acquisitions but not as a driver of growth nor as a way to backfill – opportunistic at best.** Mgmt. has highlighted that it would be interested in acquiring NI's Columbia Gas of Massachusetts if it came up for sale…but caveated, there is no indication that it is up for sale. (For more see HERE and HERE.) A predictor could be if NI's Columbia Gas files (or not) for a GRC – NI's MA settlement was revoked after the September gas explosions. As a reminder, ES did bid on Columbia Gas back in the day but lost the auction process to NI. Continuing with the M&A theme, ES last summer was in a bidding war for Connecticut Water (CTWS) but was outbid by SJW Group. The tide

might be turning here since SJW's acquisition of CTWS was recently deemed not in the public interest by local CT regulators…it is possible ES gets a second chance to bid for CTWS – **we do not assume this deal closes in our ES model and we consider this more as an option than a likely event in the near term.**

- **ES wrote off its investment in Access Northeast this year but didn't write off Northern Pass yet.** We and likely most of the Street do not include Northern Pass in any of our estimates going forward but by not writing off NPT, mgmt. implies under accounting rules there is some line of sight into recovery. It's key for investors to note that the Governor of New Hampshire made several public statements in support of Northern Pass shortly after the New Hampshire Site Evaluation Committee (SEC) denied the project. Governor Chris Sununu was recently re-elected for a second two-year term. The Chairman of the New Hampshire Public Service Commission serves a six-year term that will expire this summer. The Chair of the NH Public Utilities Commission is also the Chair of the New Hampshire Site Evaluation Committee and also runs the SEC's Northern Pass Committee. It's expected that NH's Governor (R) will replace the head of the NH PUC, which could shift sentiment at the SEC for Northern Pass. It's possible there could be a shift in the NH PUC and SEC's leadership by the time the NH Supreme court remands the NPT decision back to the SEC.

Guggenheim's ES EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	FC Cons
2018E	0.85A	0.76A	0.91A	0.74E	**3.27E**	3.27E
Prior	0.85A	0.76A	0.91A	*0.74E*	*3.26E*	
2019E	1.06E	0.82E	0.92E	0.71E	**3.51E**	3.49E
Prior	*0.95E*	*0.83E*	*0.91E*	*0.80E*	*3.49E*	
2020E	1.20E	0.84E	0.92E	0.75E	**3.71E**	3.69E
Prior	*1.09E*	*0.87E*	*0.90E*	*0.84E*	*3.71E*	
2021E	1.27E	0.93E	0.98E	0.75E	**3.94E**	3.92E
Prior	*1.16E*	*0.98E*	*0.95E*	*0.83E*	*3.91E*	
2022E	1.30E	0.97E	1.03E	0.87E	**4.17E**	4.17E
Prior						

Source: Company reports, Guggenheim Securities, LLC, Factset

- **Valuation**: We derive our regulated utility group target multiple of 17x from our regression model, which uses the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years, and now ascribe a three-turn premium, which accounts for ES's above-average regulatory construct/ mechanisms, certain growth items not imbedded in our EPS projections as well as to account for the reality that bond surrogates without binary risk could trade above what is dictated by yield expectations for a prolonged period of time given several externalities taking place. We apply this 20x multiple to our 2020 EPS estimate of $3.71 and discount back one-year to arrive at our $72 12-month price target (previously $63).
- **Risks:** Risks to our valuation mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

See pages 278 - 279 for analyst certification and important disclosures.

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($ in millions unless stated otherwise)

INCOME STATEMENT *($MM)*	**2018E**	1QE	2QE	3QE	4QE	**2019E**	**2020E**	**2021E**	**2022E**
Operating Revenues									
Total Operating Revenues									
Fuel & Purchase Power									
Gross Margin	**5,403**	**1,534**	**1,311**	**1,514**	**1,458**	**5,818**	**6,118**	**6,465**	**6,704**
O&M	**1,467**	381	337	384	532	**1,634**	**1,751**	**1,889**	**1,946**
Other OPEX	**496**	133	98	129	117	**477**	**469**	**457**	**457**
Taxes Other Than Income	**754**	216	196	202	217	**830**	**867**	**907**	**938**
EBITDA	**2,686**	**804**	**681**	**799**	**592**	**2,876**	**3,032**	**3,212**	**3,363**
Depreciation	**782**	209	213	217	177	**816**	**874**	**950**	**991**
Amortization	**206**	36	36	98	32	**202**	**202**	**202**	**202**
Operating Income	**1,698**	**559**	**432**	**485**	**383**	**1,859**	**1,956**	**2,060**	**2,170**
Interest Expense, Net	**471**	116	129	129	104	**478**	**498**	**516**	**533**
Other Income, Net	**101**	(1)	24	(22)	0	**2**	**2**	**2**	**2**
Income Before Taxes	**1,328**	**442**	**327**	**334**	**280**	**1,383**	**1,460**	**1,546**	**1,639**
Income Taxes	**282**	103	64	41	53	**261**	**274**	**287**	**306**
Efffective Tax Rate	***21%***	*23%*	*19%*	*12%*	*19%*	***19%***	***19%***	***19%***	***19%***
Perferreds & Minority	**8**	2	2	2	2	**8**	**8**	**8**	**8**
Net Income (Operating)	**1,039**	**337**	**261**	**291**	**225**	**1,115**	**1,179**	**1,252**	**1,325**
Non Operating Items	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Net Income (GAAP)	**1,039**	337	261	291	225	**1,115**	**1,179**	**1,252**	**1,325**
Operating EPS	**$3.27**	**$1.06**	**$0.82**	**$0.92**	**$0.71**	**$3.51**	**$3.71**	**$3.94**	**$4.17**

Source: Company reports; Guggenheim Securities, LLC estimates.

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($ in millions unless stated otherwise)

BALANCE SHEET *($MM)*	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash & Equiv	22	65	31	129	22	22	32	138	83
Receivables, Net	1,092	1,092	1,092	1,092	1,092	1,092	1,092	1,092	1,092
Unbilled Revenues	170	170	170	170	170	170	170	170	170
Fuel, Materials and Supplies	193	193	193	193	193	193	193	193	193
Regulatory Asset	437	437	437	437	437	437	437	437	437
Marketable Securities	-	-	-	-	-	-	-	-	-
Other	203	203	203	203	203	203	203	203	203
Current Assets	2,116	2,159	2,125	2,223	2,116	2,116	2,126	2,232	2,177
Gross PP&E	31,248	31,890	32,531	33,173	33,814	33,814	35,906	37,998	40,090
Accumulated Depreciation	7,561	7,770	7,982	8,199	8,376	8,376	9,250	10,200	11,191
Net PP&E	23,688	24,120	24,549	24,973	25,438	25,438	26,656	27,798	28,899
CWIP	1,996	1,996	1,996	1,996	1,996	1,996	1,996	1,996	1,996
Other	-	-	-	-	-	-	-	-	-
Net PP&E	25,684	26,116	26,545	26,969	27,434	27,434	28,653	29,795	30,895
Regulatory Assets	4,717	4,717	4,717	4,717	4,717	4,717	4,717	4,717	4,717
Goodwill	4,427	4,427	4,427	4,427	4,427	4,427	4,427	4,427	4,427
Marketable Securities	586	586	586	586	586	586	586	586	586
Derivative Assets	73	73	73	73	73	73	73	73	73
Other Long-Term Assets	592	592	592	592	592	592	592	592	592
Total Assets	38,195	38,670	39,065	39,588	39,945	39,945	41,173	42,421	43,467
Notes Payable	1,067	1,067	1,067	1,067	1,067	1,067	1,067	1,067	1,067
Current Portion of LT Debt	387	387	387	387	387	387	387	387	387
Accounts Payable	962	962	962	962	962	962	962	962	962
Regulatory Liabilities	345	345	345	345	345	345	345	345	345
Derivative Liabilities	51	51	51	51	51	51	51	51	51
Other Current Liabilities	818	818	818	818	818	818	818	818	818
Current Liabilities	3,630	3,630	3,630	3,630	3,630	3,630	3,630	3,630	3,630
Deferred Income Taxes	3,392	3,403	3,409	3,413	3,419	3,419	3,446	3,475	3,505
Regulatory Liabilities	3,707	3,707	3,707	3,707	3,707	3,707	3,707	3,707	3,707
Derivative Liabilities	386	386	386	386	386	386	386	386	386
Accrued Pension	1,013	1,013	1,013	1,013	1,013	1,013	1,013	1,013	1,013
Long-Term Debt	12,752	13,052	13,352	13,752	14,052	14,052	14,802	15,537	16,037
Other Liabilities	1,677	1,677	1,677	1,677	1,677	1,677	1,677	1,677	1,677
Total Liabilities	26,557	26,868	27,174	27,578	27,884	27,884	28,661	29,425	29,955
Noncontrolling Interest - Pref S	156	156	156	156	156	156	156	156	156
Common Shareholders' Equit	11,482	11,646	11,735	11,854	11,906	11,906	12,357	12,841	13,356
Total Equity	11,482	11,646	11,735	11,854	11,906	11,906	12,357	12,841	13,356
Total Liabilities & Equity	38,195	38,670	39,065	39,588	39,945	39,945	41,173	42,421	43,467

Source: Company reports; Guggenheim Securities, LLC estimates.

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($ in millions unless stated otherwise)

CF STATEMENT *($MM)*	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Net Income	1,044	337	261	291	225	1,115	1,179	1,252	1,325
D&A	782	209	213	217	177	816	874	950	991
Deferred Taxes	77	10	6	4	5	26	27	29	31
Pension Expense	5	-	-	-	-	-	-	-	-
Pension Contributions	(189)	-	-	-	-	-	-	-	-
Change in Working Capital	(184)	-	-	-	-	-	-	-	-
Other	285	-	-	-	-	-	-	-	-
Operating Cash Flow	1,820	557	480	512	407	1,956	2,080	2,230	2,347
Investment in PP&E	(2,771)	(642)	(642)	(642)	(642)	(2,566)	(2,092)	(2,092)	(2,092)
Asset Purchases	-	-	-	-	-	-	-	-	-
Asset Sales	-	-	-	-	-	-	-	-	-
Other	180	-	-	-	-	-	-	-	-
Investing Cash Flows	(2,591)	(642)	(642)	(642)	(642)	(2,566)	(2,092)	(2,092)	(2,092)
Change in Short-term Debt	(222)	-	-	-	-	-	-	-	-
Change in Long-term Debt	1,900	300	300	400	300	1,300	750	735	500
Net Common Issued	-	-	-	-	-	-	-	-	-
Preferred Dividends	(8)	(2)	(2)	(2)	(2)	(8)	(8)	(8)	(8)
Common Dividends	(642)	(171)	(171)	(171)	(171)	(683)	(721)	(760)	(802)
Other	(246)	-	-	-	-	-	-	-	-
Financing Cash Flows	783	127	127	227	127	609	22	(33)	(310)
Change in Cash	(16)	42	(34)	98	(107)	(0)	10	106	(55)
Beginning Cash	38	22	65	31	129	22	22	32	138
Ending Cash	22	65	31	129	22	22	32	138	83

Source: Company reports; Guggenheim Securities, LLC estimates.

ENTERGY CORP (ETR, BUY, $96 PT)

Getting simpler… good traction in '18 with more to follow in 2019 – shares beginning to reflect transformation. Market was slow to align with our thesis but we think significant value upside still remains for ETR stock. Focus on Nuclear De-Risking with NDT sales, AR FRP Heading to the Finish Line and LA Following Suit. ETR could "enhance" their reporting disclosures beginning with YE results.

- **Reiterate BUY rating on ETR and raising our price target to $96 from $94 as we roll forward our valuation – once again we turn investors' attention to regulated utility growth and the nuclear de-risking plan at an attractive valuation.** The company is working to finalize regulated utility settlements in AK and TX, with a minor case outstanding in New Orleans (<$1B rate base). As regulatory outcomes continue to decrease the earned-allowed ROE gap, we expect to see a valuation improvement as the market starts to price in a mostly regulated utility with ~7% growth at the mid-point of guidance, with capacity for future rate base investment through traditional capital as well as grid modernization and renewables-oriented investments.
- **We are updating our 2018-2021 EPS estimates for recent performance, regulatory outcomes and regulated growth expectations and rolling out a 2022 estimate.** We are updating our 2018-2021 estimates to $7.02, $5.94, $5.66 and $5.92, with our 2022 estimate of **$6.33. our 2022 EPS estimate represents ~7% growth at the Utility Parent and Other segment, while we expect a wind down of EWC to reduce earnings contribution to ~$0.02 by 2022**, but we note the EWC segment remains cash positive (vs. company guidance for -$5M EBITDA in 2022). Our estimates embed ~$3.5Bn in regulated Capex/year through 2022 with earned returns commensurate with current rate plans in place.
- **Our ~6.7% regulated utility earnings growth (off 2019 normalized estimate) is in-line with management guidance of 5-7%** and is premised upon ~$18bn of capex spread among transmission, distribution and generation through 2018-2022 (~$3.5B/yr), with rate base reaching over $31B by 2022. 2022 rate base levels represent ~8% CAGR, or the top of the ETR 2018-2021 guidance range extended to 2022 as we believe the company has ample organic opportunities to deploy capital into grid mod and renewable driven programs. **Utility earnings in aggregate represent earning an ROE in the 9-9.5% range on an approximately 50% equity ratio** (earned ROEs and equity ratios vary slightly with time across jurisdictions). We estimate ~1.5% sales growth through 2022, which is driven by higher commercial and industrial customer usage and numbers, especially with ethane crackers and LNG terminals in the gulf service territory
- **On the nuclear side, the timely decommissioning of EWC nuclear operations is on track,** with key NRC requirements met for VY, and ETR stated it has generated robust interest from potential buyers, which will likely lead to a cash positive transaction. ETR management sees a conservative window of ~1 year for plants where they would need to start the sale process for the plants with near term shutdown (i.e., IP2 shutdown in 2022, IP3 in 2023). The progress to be made in the **EWC wind down and NDT sales is something to watch in 2019 as that would signal a successful transition to a fully regulated utility and create a case for further valuation multiple re-rating – we now simply wait for an Indian Point NDT announcement.**

Guggenheim's ETR EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	1.16A	1.79A	3.77A	0.29E	**7.02E**	7.10E
Prior	*1.16A*	*1.79A*	*3.77A*	*0.39E*	*7.10E*	
2019E	1.01E	1.26E	3.17E	0.49E	**5.94E**	5.95E
Prior	*1.05E*	*1.40E*	*2.54E*	*0.95E*	*5.95E*	
2020E	0.97E	1.19E	3.08E	0.42E	**5.66E**	5.67E
Prior	*1.00E*	*1.34E*	*2.46E*	*0.88E*	*5.67E*	
2021E	1.02E	1.23E	3.13E	0.54E	**5.92E**	5.70E
Prior	*1.02E*	*1.36E*	*2.50E*	*0.92E*	*5.80E*	
2022E	1.02E	1.36E	2.50E	0.92E	**6.33E**	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** Our price target of $96 is based on a SOTP analysis and includes (1) ~$116/share (up from $108) for the regulated utilities based on our 2020E EPS of $6.80 and our group average regulated target multiple of 17.0x, (2) parent drag (normalized for interest) of ~($21)/ share (down from -$20), and (3) EWC, which has an enterprise value of $0.5bn when applying a 2x EV/EBITDA multiple to our '20 open EBITDA estimate of $255mm (2x EBITDA for near-term discontinuation) or ~$3/share (down from $9). We discount our 2020-based SOTP estimate to arrive at our 12-month $96/share price target (up from $94).
- **Risks:** Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. ETR is still inherently a long natural gas call, with gas the marginal price setter in New England and New York.

  The remaining risks center around the regulated utilities, particularly the uncertainty around nuclear costs and recovery, in addition to traditional risks inherent with all utilities, including: 1) rate case risk; 2) lower capex outlook; and 3) interest rate changes above what we account for in our regression model.

See pages 278 - 279 for analyst certification and important disclosures.

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Income Statement ($ millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Revenues	11,568	2,761	2,809	3,449	3,070	12,089	12,039	12,091	12,293
Utility	2,857	856	844	1,193	722	3,615	3,870	4,137	4,415
Competitive	387	92	119	138	79	428	241	167	53
Parent, other & elimination	(191)	(50)	(50)	(50)	(47)	(197)	(197)	(197)	(197)
EBITDA	**3,053**	**898**	**913**	**1,281**	**754**	**3,845**	**3,914**	**4,107**	**4,271**
Utility	1,580	526	511	888	336	2,262	2,443	2,639	2,847
Competitive	(416)	(30)	(2)	28	(30)	(34)	(183)	(213)	(213)
Parent, other & elimination	(193)	(50)	(51)	(50)	(48)	(199)	(199)	(199)	(199)
EBIT	**970**	**447**	**458**	**866**	**258**	**2,029**	**2,061**	**2,228**	**2,435**
Utility	1,246	286	271	566	126	1,249	1,338	1,443	1,557
Competitive	(15)	(34)	35	113	31	145	27	4	4
Parent, other & elimination	(267)	(63)	(63)	(63)	(61)	(250)	(250)	(250)	(250)
Net income, reported	**964**	**190**	**242**	**616**	**96**	**1,144**	**1,115**	**1,196**	**1,310**
Recurring net income	1,283	190	242	616	96	1,141	1,115	1,196	1,310
Utility	$6.81	$1.53	$1.41	$2.92	$0.65	$6.50	$6.80	$7.15	$7.52
Competitive	$1.67	($0.18)	$0.18	$0.58	$0.16	$0.74	$0.13	$0.01	$0.01
Parent, other & elimination	($1.46)	($0.33)	($0.33)	($0.33)	($0.31)	($1.30)	($1.27)	($1.24)	($1.21)
Recurring EPS	**$7.02**	**$1.01**	**$1.26**	**$3.17**	**$0.49**	**$5.94**	**$5.66**	**$5.92**	**$6.33**

Source: Company reports; Guggenheim Securities, LLC estimates.

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Cash Flow Statement ($ millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Net income + preferred dividend requirements	979	190	242	616	96	1,144	1,115	1,196	1,310
Depreciation	1,928	377	380	340	421	1,518	1,571	1,591	1,602
Changes in working capital	(1)	-	-	-	-	-	-	250	300
Other significant operating activities	(481)	-	-	-	-	-	-	-	-
Operating cash flows	**2,424**	**567**	**622**	**956**	**517**	**2,662**	**2,686**	**3,037**	**3,213**
Capital expenditures - Utility	(3,540)	(938)	(938)	(938)	(938)	(3,750)	(3,750)	(3,500)	(3,500)
Capital expenditures - Other	(200)	(30)	(30)	(30)	(30)	(120)	(45)	(25)	-
Other significant investing activities	(117)	-	-	-	-	-	-	-	-
Investing cash flows	**(3,857)**	**(968)**	**(968)**	**(968)**	**(968)**	**(3,870)**	**(3,795)**	**(3,525)**	**(3,500)**
Changes in LTD:	1,422					-	-	-	-
LTD - Utility	398	422	422	422	422	1,688	1,688	1,575	1,575
LTD - Competitive	-		-	-	-	-	-	-	-
LTD - Parent	68	(170)	(170)	(170)	(170)	(680)	(450)	-	(650)
Changes in STD	368		-	-	-	-	-	(750)	(300)
Changes in preferred & minority	-	-	-	-	-	-	-	-	-
Changes in common stock	312	288	288	-	-	575	320	320	320
Dividends, preferred and common	(657)	(178)	(182)	(184)	(185)	(729)	(748)	(767)	(786)
Other financing activity	26	-	-	-	-	-	-	-	-
Financing cash flows	**1,938**	**361**	**357**	**68**	**67**	**853**	**809**	**378**	**159**
Beginning cash	781	1,145	1,106	1,118	1,174	1,145	790	490	380
Changes in cash	364	(40)	12	56	(384)	(355)	(300)	(110)	(129)
Ending cash	**1,145**	**1,106**	**1,118**	**1,174**	**790**	**790**	**490**	**380**	**251**

Source: Company reports; Guggenheim Securities, LLC estimates.

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ENTERGY CORP
CONSOLIDATED FINANCIALS

BALANCE SHEET ($ millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
ASSETS									
Total cash and cash equivalents	1,145	1,106	1,118	1,174	790	790	490	380	251
Inventory	881	881	881	881	881	881	881	881	881
Decommissioning trust funds	7,444	7,444	7,444	7,444	7,444	7,444	7,444	7,444	7,444
PP&E	31,680	32,270	32,858	33,485	34,032	34,032	36,256	38,190	40,088
Goodwill	377	377	377	377	377	377	377	377	377
Accumulated deferred income taxes	21	21	21	21	21	21	21	21	21
Other	7,667	7,667	7,667	7,667	7,667	7,667	7,667	7,667	7,667
Total assets	**49,216**	**49,766**	**50,366**	**51,049**	**51,212**	**51,212**	**53,137**	**54,961**	**56,730**
LIABILITIES AND EQUITY									
Currently maturing long-term debt	735	735	735	735	735	735	735	735	735
Notes payable and commercial paper	1,947	1,947	1,947	1,947	1,947	1,947	1,947	1,197	897
Deferred taxes and ITCs	4,641	4,641	4,641	4,641	4,641	4,641	4,641	4,641	4,641
Decommissioning and asset retirement cost liat	6,556	6,556	6,556	6,556	6,556	6,556	6,556	6,556	6,556
Pension and other postretirement liabilities	2,579	2,579	2,579	2,579	2,579	2,579	2,579	2,579	2,579
Long-term debt (includes securitization bonds)	16,247	16,499	16,751	17,003	17,255	17,255	18,492	20,067	20,992
Other	7,622	7,622	7,622	7,622	7,622	7,622	7,622	7,622	7,622
Total liabilities	**40,327**	**40,579**	**40,831**	**41,083**	**41,335**	**41,335**	**42,572**	**43,397**	**44,022**
Subsidiaries' preferred stock without sinking fun	198	198	198	198	198	198	198	198	198
EQUITY									
Common stock	5,732	6,019	6,307	6,307	6,307	6,307	6,627	6,947	7,267
Retained earnings	8,844	8,855	8,915	9,347	9,258	9,258	9,625	10,054	10,578
Accumulated other comprehensive loss	(632)	(632)	(632)	(632)	(632)	(632)	(632)	(632)	(632)
Less - treasury stock	5,353	5,353	5,353	5,353	5,353	5,353	5,353	5,353	5,353
Total common shareholders' equity	**8,591**	**8,890**	**9,237**	**9,669**	**9,580**	**9,580**	**10,267**	**11,016**	**11,860**
Subsidiaries' preferred stock without sinking fun	0	0	0	0	0	0	0	0	0
Total equity	**8,591**	**8,890**	**9,237**	**9,669**	**9,580**	**9,580**	**10,267**	**11,016**	**11,860**

Source: Company reports; Guggenheim Securities, LLC estimates.

EVERGY ENERGY (EVRG, BUY, $63 PT)

Maintaining BUY: Remains Buyback story driving 6-8% growth; Buybacks ratable through mid-2020 then we expect utility growth to pick up slack; solid story driven by synergies, capital opportunities.

- **Maintaining our BUY on EVRG with PT of $63/shr, up from $60/shr, and watching closely for any signs of a potential acceleration of the 60mm share buyback.** Increased market volatility and any potential pullback in shares could trigger a decision to accelerate the share repurchases, not something we or mgmt. is calling for but a potential possibility we are watching closely for – story remains sound on above-average growth that is maintained systematically through buyback program in NT, capital opportunities in the LT – we believe **EVRG remains a stable investment in this somewhat jittery market and a utility sector that has very few ideas remaining without binary events and/or elevated multiples.**
- **Introducing our 2022 estimate of $3.58/shr, which implies a CAGR of 6.7% on a $2.43 base from 2016 per mgmt. guide. Our 2019/2020/2021 estimates of $2.93/$3.27/$3.42** imply 7-8% YoY growth at the high end of mgmt's 6-8% growth guide. We model the utilities at 3-4% net income growth inline with mgmt's projections and get to the higher consolidated CAGR by implementing the 60mm share repurchase program: ~$2.1Bn in 2019 or ~34m shares, ~$1.1Bn in 2020 or ~17m shares. We model ~$1.4Bn/year in CapEx from 2019-22, rate base growth of ~3% per annum at combined utilities: Westar 5%/year, KCP&L 3%/year and GMO 4%/year – combined rate base of ~$16Bn by 2022.
- **2019 is a simple year of execution for EVRG – no surprises.** We continue to view this name as a simple buyback story with modest rate base growth due to rate freezes. We model the utilities with ROE earning their allowed with WR at a 9.5% ROE, KCP&L getting to ~10% ROE and GMO hitting its 9.75% allowed ROE. As a reminder roughly **40-50% of merger synergies were from labor and supply chain given that a larger company should give EVRG more negotiating leverage and economies of scale over suppliers so we could see further upside here**.
- **We see upside to our/mgmt's estimates if coal plant retirements are accelerated, merger synergies prove to be larger than expected or regulators enable more renewables spending than expected.** Mgmt. notes they see very favorable wind economics in their service territory and have customers asking to go direct – renewables could be a very key driver of EVRG growth post buyback period, rate stipulations among grid mod, etc.

Guggenheim's EVRG EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Street
2018E	0.42A	0.56A	1.32A	0.32E	**2.63E**	2.56
Prior				*0.31E*	*2.63E*	
2019E	0.38E	0.67E	1.42E	0.45E	**2.93E**	2.95
Prior	*0.30E*	*0.76E*	*1.48E*	*0.37E*	*2.91E*	
2020E	0.42E	0.77E	1.57E	0.50E	**3.27E**	3.29
Prior	*0.33E*	*0.85E*	*1.67E*	*0.44E*	*3.28E*	
2021E	0.46E	0.86E	1.60E	0.50E	**3.42E**	3.43
Prior	*0.39E*	*0.87E*	*1.69E*	*0.45E*	*3.41E*	
2022E	0.48E	0.88E	1.65E	0.57E	**3.58E**	NA

Source: Company reports, Guggenheim Securities, LLC, Factset

- **Valuation:** Our $63 PT is derived from a higher multiple that we ascribe to shares (19.5x) vs. the regulated utility group target multiple (17x) to account for premium growth on a risk-adjusted basis. We apply this multiple to our 2021 estimated EPS of $3.42, and discount back to the present value to arrive at our $63 PT. We value EVRG based off 2021 fundamentals to capture the company's capital allocation plan of share repurchases and believe that 2021 reflects the normalization of earnings. Under our prior PT of $60 we assumed a target multiple of 18x, only a one turn premium to the group multiple (17x).

- **Risks:** The primary risks encompass traditional risk factors inherent with all utilities including: (1) rate case risk, (2) capex outlook, and (3) interest rate changes above what we account for in our regression model. Company-specific risks include failure to execute on its share repurchase strategy and/or failure to realize merger synergies.

See pages 278 - 279 for analyst certification and important disclosures.

GUGGENHEIM
EVERGY, Inc
CONSOLIDATED FINANCIALS

Consolidated Financial Statements	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
INCOME STATEMENT ($ Millions)									
Operating Revenues									
Electric revenues	4,269	1,180	1,373	1,609	1,237	5,400	5,371	5,393	5,446
Operating Expenses									
Fuel	679	221	263	293	217	994	997	1,001	1,013
Purchased power	391	72	84	109	93	359	366	368	388
Transmission of electricity by others	178	25	19	20	25	89	89	89	89
Gross Margin	**3,021**	862	1,006	1,188	901	**3,957**	**3,919**	**3,934**	**3,955**
Utility operating and maintenance expenses	1,203	361	401	358	369	1,489	1,349	1,275	1,201
Voluntary separation program	-	-	-	-	-	-	-	-	-
Depreciation and amortization	598	185	188	191	195	759	801	824	850
General taxes	222	26	36	25	40	127	123	124	124
Other	47	55	55	60	46	216	230	245	261
Total	2,070	627	679	635	650	2,592	2,502	2,468	2,435
Operating income	**951**	235	327	553	251	**1,366**	**1,416**	**1,467**	**1,520**
EBITDA	**1,550**	419	515	744	446	**2,125**	**2,217**	**2,291**	**2,369**
Non-operating income/expenses	34	5	2	4	1	11	11	11	11
Interest charges	296	105	110	114	117	446	518	537	548
Income before income tax expense and loss from equity investments	**621**	125	215	436	133	**909**	**888**	**918**	**960**
Income tax expense	42	26	45	92	28	191	186	193	202
Effective Tax Rate (%)	7%	21%	21%	21%	21%	21%	21%	21%	21%
Loss from equity investments, net of income taxes	(4)	(1)	(1)	(2)	-	(4)	(4)	(4)	(4)
Income from continuing operations	**609**	100	171	346	105	**722**	**706**	**730**	**763**
Income (loss) from discontinued operations, net of income taxes	-	-	-	-	-	-	-	-	-
Net income	**609**	100	171	346	105	**722**	**706**	**730**	**763**
Less - Net income attributable to noncontrolling interest	(5)	-	(3)	(3)	-	(5)	(5)	(5)	(5)
Net income attributable to Great Plains Energy	**604**	100	169	344	105	**717**	**700**	**725**	**758**
Preferred stock dividend requirements	-	-	-	-	-	-	-	-	-
Earnings available for common shareholders	**604**	100	169	344	105	**717**	**700**	**725**	**758**
						18.7%	**(2.3%)**	**3.5%**	**4.6%**
Non GAAP Adjustments:									
Total operating adjustments	(6)	-	-	-	-	-	-	-	-
Adjusted earnings to common shareholders	**599**	100	169	344	105	**717**	**700**	**725**	**758**
Diluted earnings (loss) per common share	2.60	0.38	0.67	1.42	0.45	2.93	3.27	3.42	3.58
Non operating adjustments	(0.04)	-	-	-	-	-	-	-	-
Diluted operating EPS	**2.63**	0.38	0.67	1.42	0.45	**2.93**	**3.27**	**3.42**	**3.58**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
EVERGY, Inc
CONSOLIDATED FINANCIALS

Consolidated Balance Sheet ($MM)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Assets									
Current Assets									
Cash and cash equivalents	93	6	12	15	28	28	175	163	199
Funds on deposit	-	-	-	-	-	-	-	-	-
Receivables, net	490	483	487	487	480	480	470	460	450
Accounts receivable pledged as collateral	195	195	195	195	195	195	195	195	195
Fuel inventories, at average cost	196	196	196	196	196	196	196	196	196
Materials and supplies, at average cost	325	325	325	325	325	325	325	325	325
Deferred refueling outage costs	-	-	-	-	-	-	-	-	-
Prepaid expenses and other assets	427	429	430	432	432	432	437	442	447
Total current assets	**1,726**	1,634	1,646	1,650	1,656	**1,656**	**1,798**	**1,781**	**1,812**
Nonutility property and investments									
Affordable housing limited partnerships	-	-	-	-	-	-	-	-	-
Nuclear decommissioning trust fund	518	518	518	518	518	518	518	518	518
Other	(8)	(14)	(22)	(29)	(37)	(37)	(66)	(95)	(124)
Total	**511**	504	496	489	481	**481**	**452**	**423**	**394**
Utility Plant, at Original Cost									
Electric	28,401	28,738	29,075	29,413	29,750	29,750	31,124	32,589	34,074
Less-accumulated depreciation	10,351	10,536	10,724	10,915	11,110	11,110	11,911	12,735	13,584
Net utility plant in service	**18,050**	18,203	18,352	18,497	18,640	**18,640**	**19,213**	**19,854**	**20,490**
Construction work in progress	724	724	724	724	724	724	724	724	724
Nuclear fuel, net of amortization	109	109	109	109	109	109	109	109	109
WR - Net Property, plant, equipment	312	312	312	312	312	312	312	312	312
Total PP&E	**19,195**	19,347	19,496	19,642	19,784	**19,784**	**20,358**	**20,999**	**21,635**
Deferred Charges and Other Assets									
Regulatory assets	1,518	1,518	1,518	1,518	1,518	1,518	1,518	1,518	1,518
Goodwill	2,334	2,334	2,334	2,334	2,334	2,334	2,334	2,334	2,334
Derivative instruments	-	-	-	-	-	-	-	-	-
Other	380	380	380	380	380	380	380	380	380
Total	**4,231**	4,231	4,231	4,231	4,231	**4,231**	**4,231**	**4,231**	**4,231**
Total Assets	**25,663**	25,716	25,869	26,011	26,152	**26,152**	**26,839**	**27,434**	**28,072**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

EVERGY, Inc

CONSOLIDATED FINANCIALS

Consolidated Balance Sheet ($MM)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
LIABILITIES AND CAPITALIZATION									
Current Liabilities									
Notes payable	676	676	676	676	676	676	676	676	676
Collateralized note payable	195	195	195	195	195	195	195	195	195
Commercial paper	-	-	-	-	-	-	-	-	-
Current maturities of long-term debt	740	740	740	740	740	740	740	740	740
Accounts payable	304	304	304	304	304	304	304	304	304
Accrued taxes	282	282	282	282	282	282	282	282	282
Accrued interest	120	120	120	120	120	120	120	120	120
Accrued compensation and benefits	-	-	-	-	-	-	-	-	-
Pension and post-retirement liability	-	-	-	-	-	-	-	-	-
Other	345	300	324	431	510	510	668	829	995
Total Current Liabilities	**2,661**	2,616	2,640	2,747	2,827	**2,827**	**2,984**	**3,145**	**3,311**
Deferred Credits and Other Liabilities									
Deferred income taxes	1,536	1,536	1,536	1,536	1,536	1,536	1,536	1,536	1,536
Deferred tax credits	-	-	-	-	-	-	-	-	-
Asset retirement obligations	623	623	623	623	623	623	623	623	623
Pension and post-retirement liability	950	950	950	950	950	950	950	950	950
Regulatory liabilities	2,357	2,357	2,357	2,357	2,357	2,357	2,357	2,357	2,357
Other	611	611	611	611	611	611	611	611	611
Total	**6,076**	6,076	6,076	6,076	6,076	**6,076**	**6,076**	**6,076**	**6,076**
Capitalization									
Common stock	8,722	8,192	7,663	7,133	6,603	6,603	5,512	5,512	5,512
Retained earnings	1,416	1,390	1,439	1,663	1,655	1,655	1,906	2,158	2,411
Treasury stock - 266,889 and 400,889 shares, at cost	-	-	-	-	-	-	-	-	-
Accumulated other comprehensive loss	-	-	-	-	-	-	-	-	-
Total	**10,138**	9,582	9,102	8,796	8,258	**8,258**	**7,418**	**7,671**	**7,923**
Noncontrolling interest	(40)	(40)	(40)	(40)	(40)	(40)	(40)	(40)	(40)
Total common shareholders' equity	10,098	9,542	9,061	8,756	8,218	8,218	7,377	7,630	7,883
Long-term debt	6,826	7,481	8,091	8,431	9,031	9,031	10,401	10,581	10,801
Total	16,925	17,023	17,153	17,188	17,249	17,249	17,779	18,212	18,685
Total Liabilities and Equity	**25,663**	25,716	25,869	26,011	26,152	**26,152**	**26,839**	**27,434**	**28,072**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
EVERGY, Inc
CONSOLIDATED FINANCIALS

Consolidated Cash Flow Statement ($MM)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash Flows from Operating Activities									
Net income	609	100	171	346	105	722	706	730	763
Adjustments to reconcile income to net cash from operating activities									
Depreciation and amortization	598	185	188	191	195	759	801	824	850
Amortization of nuclear fuel	36	8	8	8	8	30	30	30	30
Other	35	7	(4)	1	7	10	10	10	10
Deferred income taxes, net	48	(2)	-	-	-	(2)	(2)	(2)	(2)
Investment tax credit amortization	(0)	(0)	0	-	(0)	(0)	(0)	(0)	(0)
Other operating activities									
Other	80	(44)	24	107	79	167	159	163	167
Net cash from operating activities	**1,477**	252	385	651	393	**1,681**	**1,698**	**1,750**	**1,813**
Less dividends paid	473	126	122	122	114	484	455	477	510
Total cash sources	1,004	125	263	530	280	1,198	1,244	1,273	1,303
Cash Flows from Investing Activities									
Utility capital expenditures	1,069	337	337	337	337	1,348	1,374	1,465	1,485
Allowance for borrowed funds used during construction	-	-	-	-	-	-	-	-	-
Payment to Black Hills for asset sale working capital adjustment	-					-	-	-	-
Purchases of nuclear decommissioning trust investments	107					-	-	-	-
Proceeds from nuclear decommissioning trust investments	(110)					-	-	-	-
Proceeds from time deposit	-					-	-	-	-
Other investing activities	(1,270)	1	-	-	-	1	1	1	1
Net cash from investing activities	**(204)**	338	337	337	337	**1,349**	**1,375**	**1,466**	**1,486**
Free Cash Flow	**1,208**	(212)	(74)	193	(58)	**(152)**	**(131)**	**(193)**	**(184)**
Cash Flows from Financing Activities									
Issuance of long-term debt									
Repayment of long-term debt									
Net change in long term debt	(0)	655	610	340	600	2,205	1,370	180	220
Issuance of common stock/Buybacks	(514)	(530)	(530)	(530)	(530)	(2,119)	(1,091)	-	-
Issuance fees	-					-	-	-	-
Net change in short-term borrowings	(167)	-	-	-	-	-	-	-	-
Net change in collateralized short-term borrowings	15	-	-	-	-	-	-	-	-
Other financing activities	(452)					-	-	-	-
Net cash from financing activities	**(1,118)**	125	80	(190)	70	**86**	**279**	**180**	**220**
Net Change in Cash and Cash Equivalents	**90**	(87)	6	3	13	**(65)**	**147**	**(13)**	**36**
Cash and Cash Equivalents at Beginning of Period	**3**	93	6	12	15	**93**	**28**	**175**	**163**
Cash and Cash Equivalents at End of Period	**93**	6	12	15	28	**28**	**175**	**163**	**199**

Source: Company reports; Guggenheim Securities, LLC estimates.

EXELON (EXC, BUY, $53 PT)

Strong execution at the utilities is underscored by a slate of state and federal policy tailwinds for ExGen in 2019… this remains a very strong, if unique, story within our coverage universe – reiterate Bellwether BUY…

- **EXC remains a differentiated story in our coverage universe thanks to its large policy-exposed generation business coupled with materially lean balance sheet – we think 2019 should bring additional comfort to investors who may be wary of the integrated model, as state and federal reforms provide more 'regulated'-like revenue streams, stable cash flows – EXC valuation, in our view, doesn't reflect these dynamics.** ExGen's story continues to shift towards a more regulated, contracted earnings profile as nuclear ZECs proliferate and FERC moves to accommodate state policies, while on the regulated side mgmt. continues to execute on ROE improvements at the POM utilities. Underpinning the commitment to the integrated model are the strong FCFs from ExGen, which continues to support spend at the utilities, assist with dividend and deleveraging, as mgmt. remains disciplined at ExGen on capex and O&M. **We believe EXC's current valuation still fails to reflect the positive potential catalysts in this story for 2019, mainly: strong contracted cash flows, ROE improvements at PHI, energy/capacity market reforms, solid growth at legacy utilities, a commitment to de-levering, retail exposure, healthy balance sheet and respectable 5% dividend growth. The stock trades at roughly a ~0.5x discount to its integrated peer PEG, and even more (~2.4x) versus other 'multi-industry' utilities with the most upside potential from market reforms vs. peers. Reiterate BUY – our PT moves to $53 from $51 as we refresh and roll forward our valuation.**
- **We are introducing our 2022E EPS of $3.21 and refreshing our 2019/2020/2021 outlook - our 2019/2020/2021 EPS estimates move to $3.16/$3.25/$3.17 from $2.87/$3.07/$3.20.** Our consolidated EPS estimates are based on an expected ~$21bn of regulated CapEx over the 2019-2022 period, driving ~6% rate base growth through 2022 – our ExGen estimates are marked to the 12/07/2018 curves**.** Consolidated earnings growth is comprised of ~7% regulated earnings growth at the utilities from a base of 2017 actuals through 2022E, which is in line with the midpoint of management's guidance of 6-8%. **We model PHI ROEs improving through our forecast period from ~7-8% to 8.75%, slightly below mgmt.'s target of 9%**, on improvements in distribution ROEs. The legacy utilities continue to perform at close to their ~10% allowed through our forecast period. **At ExGen we now include NJ ZECs from the Salem plant in our model, adjusted for outages.**
- **State and federal policy reforms remain the keystone to the ExGen story…** NJ ZECs aside, many of the reforms we had expected to come to fruition in 2018 have slipped to 2019, but the net effect of the initiatives remains positive for EXC's fleet in our view. **On the energy and capacity side**, the PJM market continues to move forward with a slate of changes – *all of which we see as beneficial to EXC's baseload fleet*. The single largest outstanding item will be FERC's January ruling on reforms to the capacity market, **with the Commission likely, in our view, to pursue a path that accommodates the will of states to subsidize nuclear plants for their environmental attributes**. Such a ruling would remove a major overhang for EXC, as even though the capacity auctions are already set through our 2022 forecast window, we believe investors have been experiencing some FERC-fatigue during the long stakeholder/hearing process. Changes to the energy market are also afoot, with fast start and other efforts designed to minimize uplift likely to provide a modest boost. **Finally, we highlight (and discuss further in our industry section) that we see a greater possibility of some sort of ZEC support mechanism emerging in Pennsylvania following the release of the Nuclear Caucus' report and pledge to**

bring forward legislation. We are not assigning any odds to the likelihood of passage at this time, but we note that sentiment has improved significantly since our last outlook, which we partially attribute to the announced closure of FES' large Beaver Valley plant. **As a reminder, our current model assumes the retirement of TMI after June 2019.**

Focus at utilities remains on robust capex and earning their allowed returns. EXC continues to work towards achieving ~9+% ROEs at the legacy Pepco utilities through our forecast period, with additional rate cases possible in jurisdictions like DC, where mgmt. is considering a multi-year case in 2019. **We also remain on the lookout for 1)** any changes at PECO given PA has now opened the door to decoupling and performance-based ratemaking (PBR) and **2)** additional capex and ROE improvement at Atlantic City Electric (ACE) in NJ. **On ACE in particular we believe there are opportunities for EE and grid mod investment, especially given the scale of what we've seen from its neighbors PSE&G, and to a lesser degree JCP&L.** We also no longer feel EXC has any remote interest in moving out of NJ... not yet given recent policy initiatives within the state – could be an opportunity at a later time.

Guggenheim's EXC EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	0.96A	0.71A	0.88A	0.54E	**3.09E**	3.12E
Prior			*0.88E*	*0.54E*	*3.09E*	
2019E	0.87E	0.74E	0.99E	0.56E	**3.16E**	3.14E
Prior	*0.80E*	*0.66E*	*0.95E*	*0.47E*	*2.87E*	
2020E	0.87E	0.67E	1.12E	0.59E	**3.25E**	3.17E
Prior	*0.81E*	*0.65E*	*1.08E*	*0.52E*	*3.07E*	
2021E	0.85E	0.74E	1.12E	0.46E	**3.17E**	3.14E
Prior	*0.85E*	*0.72E*	*1.14E*	*0.49E*	*3.20E*	
2022E	0.88E	0.73E	1.17E	0.43E	**3.21E**	3.25E
Prior						

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** Our $53 price target is based on a sum-of-the-parts analysis. We assign ~$21/share (vs. prior $22/share) for ExGen using a 5.5x (vs. prior 7x) weighted average EV/EBITDA applied to ExGen's various assets. We assign $36/share (vs. prior $33/share) for the regulated utilities combined based on our 2020E EPS of $2.13 (vs. prior 2019E EPS of $1.93) applied to a 17x regulated utility multiple, which is based on our regression model using the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years. Subtracting out ~$2 (vs. prior $3) in parent drag and discounting back, we arrive at our 12-month price target of $53.
- **Risks:** Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. EXC is still inherently a long natural gas call with gas the marginal price setter in PJM.

  The remaining risks center on the regulated utilities and transmission assets, which encompass traditional risk factors inherent with all utilities, including: 1) rate case risk; 2) lower capex outlook; and 3) interest rate changes above what we account for in our regression model.

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EXELON MODEL
CONSOLIDATED FINANCIALS

Income Statement ($ millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating revenues	33,824	7,959	7,290	7,532	7,123	29,903	29,698	29,304	29,556
Operating expenses									
Fuel & purchased power	14,710	3,005	2,486	2,395	2,502	10,389	9,746	9,178	9,178
Operating and maintenance	8,873	2,058	2,058	2,058	2,058	8,233	8,314	8,364	8,398
Depreciation and amortization	4,429	1,160	1,174	1,189	1,203	4,726	4,962	5,198	5,433
Taxes other than income	1,713	417	417	417	417	1,669	1,692	1,692	1,692
Total operating expenses	**29,726**	**6,641**	**6,136**	**6,059**	**6,181**	**25,016**	**24,714**	**24,432**	**24,701**
Equity in earnings of unconsolidated affiliates	88	81	80	73	79	313	268	267	324
NY ZECs	46	34	34	34	34	134	193	193	193
IL ZECs	28	34	34	34	34	135	159	159	159
Operating income	**4,260**	**1,466**	**1,300**	**1,614**	**1,089**	**5,469**	**5,604**	**5,491**	**5,531**
Other income and deductions									
Interest expense	(1,563)	(428)	(430)	(431)	(433)	(1,723)	(1,734)	(1,723)	(1,729)
Other income and deductions	210	-	-	-	-	-	-	-	-
Total other income and deductions	**(1,353)**	**(428)**	**(430)**	**(431)**	**(433)**	**(1,723)**	**(1,734)**	**(1,723)**	**(1,729)**
Income before income taxes	2,907	1,038	870	1,183	656	3,747	3,869	3,768	3,801
Income taxes	380	191	156	223	111	679	715	694	689
Net income	**2,527**	**847**	**715**	**960**	**545**	**3,067**	**3,155**	**3,075**	**3,113**
Earnings attributable to noncontrolling interests	143	-	-	-	-	-	-	-	-
Preferred dividends	-	-	-	-	-	-	-	-	-
GAAP earnings	**2,384**	**847**	**715**	**960**	**545**	**3,067**	**3,155**	**3,075**	**3,113**
Adjustments	(610)	-	-	-	-	-	-	-	-
Non-GAAP adjusted earnings	**2,994**	**847**	**715**	**960**	**545**	**3,067**	**3,155**	**3,075**	**3,113**
Weighted average shares outstanding									
Basic	967	967	967	967	967	967	967	967	967
Diluted	969	969	969	969	969	969	969	969	969
Adjusted EPS	**3.09**	**0.87**	**0.74**	**0.99**	**0.56**	**3.16**	**3.25**	**3.17**	**3.21**

Source: Company reports; Guggenheim Securities, LLC estimates.

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CONSOLIDATED FINANCIALS

BALANCE SHEET ($ millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
ASSETS									
Cash and cash equivalents	1,174	1,366	1,620	1,918	2,016	2,016	2,884	3,486	4,255
Restricted cash	240	240	240	240	240	240	240	240	240
Unamortized energy contracts	413	413	413	413	413	413	413	413	413
Regulatory assets	9,342	9,342	9,342	9,342	9,342	9,342	9,342	9,342	9,342
NDT funds	12,464	12,464	12,464	12,464	12,464	12,464	12,464	12,464	12,464
Goodwill	6,677	6,677	6,677	6,677	6,677	6,677	6,677	6,677	6,677
Property, plant and equipment, net	76,444	76,785	77,131	77,462	77,780	77,780	79,047	79,995	81,487
Other	12,610	12,629	12,648	12,667	12,686	12,686	12,761	12,837	12,913
Total assets	**119,364**	**119,916**	**120,535**	**121,184**	**121,617**	**121,617**	**123,829**	**125,454**	**127,790**
LIABILITIES AND SHAREHOLDERS EQUITY									
Debt									
Short term borrowing	959	959	1,009	959	1,059	1,059	1,059	1,034	1,034
Long-term debt due within one year	771	771	771	771	771	771	871	871	871
Long-term debt of VIE due within one year	(875)	(1,075)	(1,175)	(1,275)	(1,325)	(1,325)	(1,550)	(2,250)	(2,250)
Long-term debt	34,859	34,960	35,110	35,160	35,211	35,211	35,278	35,412	35,546
Long-term debt to financing trust	390	390	390	390	390	390	390	390	390
Long-term debt of variable interest entity	-	-	-	-	-	-	-	-	-
Deferred income taxes and unamortized ITCs	11,702	11,702	11,702	11,702	11,702	11,702	11,702	11,702	11,702
Regulatory liabilities	10,445	10,445	10,445	10,445	10,445	10,445	10,445	10,445	10,445
Unamortized energy contracts	655	655	655	655	655	655	655	655	655
Asset retirement obligations	9,747	9,747	9,747	9,747	9,747	9,747	9,747	9,747	9,747
Pension obligations	3,385	3,385	3,385	3,385	3,385	3,385	3,385	3,385	3,385
Non-pension postretirement benefits obligations	2,155	2,155	2,155	2,155	2,155	2,155	2,155	2,155	2,155
Spent nuclear fuel obligation	1,164	1,164	1,164	1,164	1,164	1,164	1,164	1,164	1,164
Other	10,330	10,330	10,330	10,330	10,330	10,330	10,330	10,330	10,330
Total liabilities	**85,687**	**85,588**	**85,688**	**85,588**	**85,689**	**85,689**	**85,631**	**85,040**	**85,174**
Preferred securities of subsidiary	-	-	-	-	-	-	-	-	-
Shareholder's equity									
Common stock	19,063	19,063	19,063	19,063	19,063	19,063	19,063	19,063	19,063
Treasury stock	(123)	(123)	(123)	(123)	(123)	(123)	(123)	(123)	(123)
Retained earnings	15,238	15,889	16,408	17,156	17,489	17,489	19,759	21,975	24,178
ACI	(2,869)	(2,869)	(2,869)	(2,869)	(2,869)	(2,869)	(2,869)	(2,869)	(2,869)
Total shareholder's equity	**31,309**	**31,960**	**32,479**	**33,227**	**33,560**	**33,560**	**35,830**	**38,046**	**40,249**
Preference stock not subject to mandatory redemption	-	-	-	-	-	-	-	-	-
Noncontrolling interest	2,368	2,368	2,368	2,368	2,368	2,368	2,368	2,368	2,368
Total liabilities and shareholder's equity	**119,364**	**119,916**	**120,535**	**121,184**	**121,617**	**121,617**	**123,829**	**125,454**	**127,790**

Source: Company reports; Guggenheim Securities, LLC estimates.

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Cash Flow Statement ($ millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash flows from operating activities									
Net (loss) income	2,506	847	715	960	545	3,067	3,155	3,075	3,113
Adjustments to reconcile NI to net operating CFs:									
Depreciation, amortization and accretion	5,872	1,390	1,385	1,400	1,414	5,589	5,782	5,978	5,433
Deferred taxes and amortization of ITCs	97	-	-	-	-	-	-	-	-
Other non-cash operating activities	844	-	-	-	-	-	-	-	-
Changes in assets and liabilities:									
Income taxes	166	-	-	-	-	-	-	-	-
Post-retirement benefit contributions	(381)	(19)	(19)	(19)	(19)	(76)	(76)	(76)	(76)
Other assets and liabilities	(560)	-	-	-	-	-	-	-	-
Net cash flows provided by operating activities	8,544	2,218	2,081	2,342	1,941	8,581	8,861	8,977	8,470
Cash flows from investing activities									
Capital expenditures	(7,462)	(1,731)	(1,731)	(1,731)	(1,731)	(6,925)	(7,050)	(6,925)	(6,925)
Net change in NDT funds	(174)	-	-	-	-	-	-	-	-
Net change in investments	-	-	-	-	-	-	-	-	-
Net PP&E investments	(57)	-	-	-	-	-	-	-	-
Other investing activities	119	-	-	-	-	-	-	-	-
Net cash flows used in investing activities	(7,574)	(1,731)	(1,731)	(1,731)	(1,731)	(6,925)	(7,050)	(6,925)	(6,925)
Cash flows from financing activities									
Net change in debt	681	(100)	100	(100)	100	1	(58)	(591)	134
Distributions between sub and parent (modeled)	101	144	144	144	144	575	575	675	700
Dividends paid on common stock	(1,339)	(339)	(339)	(356)	(356)	(1,391)	(1,460)	(1,533)	(1,610)
Dividends paid on preference stock	-	-	-	-	-	-	-	-	-
Net change in equity	67	-	-	-	-	-	-	-	-
Other financing activities	(94)	-	-	-	-	-	-	-	-
Net cash flows used in financing activities	(583)	(295)	(95)	(312)	(112)	(815)	(943)	(1,450)	(776)
Increase in cash and cash equivalents	276	192	254	298	97	841	868	602	769
Cash and cash equivalents at beginning of period	898	1,174	1,366	1,620	1,918	1,174	2,016	2,884	3,486
Cash and cash equivalents at end of period	**1,174**	**1,366**	**1,620**	**1,918**	**2,016**	**2,016**	**2,884**	**3,486**	**4,255**

Source: Company reports; Guggenheim Securities, LLC estimates.

FIRSTENERGY (FE, BUY, $46 PT)

A boring regulated utility with 6-8% growth or more – It's what we have all been waiting for! We see the rebooted FE entering 2019 as attractive as ever…

- **Reaffirming our BUY rating on FE and raising our PT to $46 from $43 – we believe FE remains one of the cheaper value utilities in the sector as it continues to re-rate towards the regulated group average or higher in time: story could take some time to play out as they recently reemerged as a traditional, block and tackle regulated electric utility.** One of the busiest names in 2018 remains a solid value heading into the new year, in our view, with 6-8% growth and a slate of investment opportunities across its regulated footprint. **With the dissolution of the Restructuring Working Group (RWG) FE remains solidly on track towards its new fully regulated life and one that grows top tier with a better balance sheet.** Having said that, we believe the market still undervalues this story, with the stock trading at ~15x on 2020E EPS vs. the group average of ~16.9x. As such, we reiterate our BUY rating and expect 2019 to be another step function in the company's reinvention.
- **We are introducing our 2022E EPS of $3.02 and updating our 2018-21 outlook...** Our estimates for 2018/2019/2020/2021 move to $2.56/$2.57/$2.63/$2.81 from $2.59/$2.40/$2.66/$2.93 as we adjust our operating assumptions. We model ~6% regulated earnings growth through 2022, including ~7% earnings growth at the transmission business driven by 9% rate base growth with ~$1.2bn annual CapEx spread across the transmission subsidiaries. Our estimated ~4% earnings growth at Distribution through 2021 reflects average $1.6bn CapEx with ~5% rate base growth. **We also assume the Distribution Modernization Rider (DMR), which was approved in OH authorizing ~$200mm/year recovery through 2019, ends after its initial run**. Finally, we continue to model ~$100mm/year in equity ongoing through the employee benefit plan.
- **What happens next? 2019 to bring the next phase of guidance as investors begin looking towards the 2020s.** FE mgmt. declined to update investors on its plans for the post-2021 window on the 3Q18 call (or at EEI), with CEO Chuck Jones highlighting on the 3Q18 call that FE has "*been a fully regulated company now for all of about a month since the filing was approved...*" **We expect mgmt. to take a methodic approach before announcing a roll forward in 2H19 at the earliest.** As a reminder, at this time we model a placeholder $1.6bn in distribution spend and $1.2bn in transmission spend for 2022. Finally, we note that mgmt. does not see further FE Tomorrow cost cuts at the parent going forward after announcing an additional $85mm on the 3Q18 earnings call – tough for us to not see top end of growth guide.
- **Robust investment opportunities abound in OH and NJ - we are allocating additional focus to New Jersey in 2019 as JCP&L works through its infrastructure program with the BPU.** FE's recent filing for a $400mm IIP program dubbed Reliability Plus bears close watching, in our view, as mgmt. has indicated that it sees the filing as somewhat of a litmus for its building a more constructive relationship with the BPU. **We view this as critical, given the policy direction in the state should provide additional opportunities for JCP&L to spend above its current base (e.g., EV infrastructure, EE, AMI, etc.) in a manner similar to PSE&G.** We also note that similar opportunities exist in OH, where the company recently received approval to spend some $500mm, including the installation of 700k smart meters across the state.
- **M&A not a priority in the NT.** We do not see M&A as a near-term priority for FE mgmt. in 2019 given its focus on the regulated transition and infrastructure

investment. In addition, the sale of individual utilities seems highly unlikely, in our view, given the aforementioned investment opportunities and mgmt.'s stated belief that it does not feel the need to delever at this point. **FE sticking with Jersey, for now.**

Guggenheim's FE EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	0.67A	0.62A	0.80A	0.48E	**2.56E**	2.53E
Prior				*0.50E*	*2.59E*	
2019E	0.58E	0.60E	0.90E	0.49E	**2.57E**	2.54E
Prior	*0.53E*	*0.53E*	*0.71E*	*0.63E*	*2.40E*	
2020E	0.60E	0.62E	0.91E	0.50E	**2.63E**	2.53E
Prior	*0.63E*	*0.60E*	*0.77E*	*0.66E*	*2.66E*	
2021E	0.64E	0.66E	0.96E	0.54E	**2.81E**	2.71E
Prior	*0.70E*	*0.66E*	*0.84E*	*0.73E*	*2.93E*	
2022E	0.69E	0.72E	1.01E	0.60E	**3.02E**	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** Our $46 price target is based on a sum-of-the-parts analysis. We assign ~$43/share for the regulated utilities using the 17.0x regulated group target multiple, which is based on our regression model using the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years and apply a one turn premium. We assign $15/share to transmission, subtract ~$11 of parent drag, and discount back to arrive at our 12-month price target of $46.
- **Risks:** The remaining risks center on the regulated utilities and transmission assets, which encompass traditional risk factors inherent with all utilities, including: 1) rate case risk; 2) lower CapEx outlook; and 3) interest rate changes above what we account for in our regression model.

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INCOME STATEMENT ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating Revenue									
Unregulated Revenues									
Regulated Electric Revenues		2,665	2,438	2,859	2,373				
Transmission Project Revenue		376	382	388	395				
Total Operating Revenues	**11,398**	**3,041**	**2,820**	**3,247**	**2,768**	**11,876**	**12,209**	**12,635**	**13,091**
Expenses									
Fuel	**613**	143	132	141	115	**532**	**548**	**564**	**581**
Purchased Power	**3,099**	844	720	899	722	**3,185**	**3,281**	**3,380**	**3,482**
Gross Margin	**7,686**	**2,054**	**1,968**	**2,206**	**1,931**	**8,159**	**8,380**	**8,691**	**9,027**
Other Operating Expense	**3,092**	864	756	753	739	**3,111**	**3,133**	**3,155**	**3,178**
Pension MTM	**0**					**0**	**0**	**0**	**0**
Depreciation	**1,177**	306	311	315	320	**1,251**	**1,324**	**1,396**	**1,468**
Amortization of new regulatory assets	**(138)**	50	50	50	50	**200**	**200**	**200**	**200**
General Taxes	**971**	238	238	238	238	**952**	**967**	**983**	**999**
Impairment / Other	0					0	0	0	0
Total Other Operating Expenses	**5,102**	**1,458**	**1,354**	**1,356**	**1,347**	**5,514**	**5,624**	**5,734**	**5,844**
'									
OPERATING INCOME	**2,584**	**596**	**614**	**851**	**584**	**2,645**	**2,756**	**2,957**	**3,183**
Other Income & Deductions	178	57	57	35	15	162	166	172	179
EBIT	**2,761**	**653**	**671**	**885**	**599**	**2,808**	**2,923**	**3,129**	**3,362**
EBITDA (Non GAAP)	**3,815**	**952**	**975**	**1,216**	**954**	**4,096**	**4,280**	**4,553**	**4,851**
Interest Expense	**(1,120)**	(245)	(249)	(253)	(257)	**(1,003)**	**(1,074)**	**(1,147)**	**(1,221)**
Capitalized Interest	47					0	0	0	0
Interest Expense - Net	(1,073)	(245)	(249)	(253)	(257)	(1,003)	(1,074)	(1,147)	(1,221)
EBT	**1,688**	**408**	**422**	**633**	**342**	**1,805**	**1,849**	**1,982**	**2,141**
Income Taxes	(579)	(94)	(98)	(146)	(79)	(417)	(426)	(456)	(492)
Effective Tax Rate	26%	21%	21%	21%	21%	21%	21%	21%	21%
Earnings Available to Parent	**1,109**	**314**	**324**	**486**	**263**	**1,387**	**1,423**	**1,526**	**1,649**
Less: Non-controlling interest income (loss)	0					0	0	0	0
Accounting Adjustments (after tax)	4					0	0	0	0
Earnings - GAAP	**1,113**	**314**	**324**	**486**	**263**	**1,387**	**1,423**	**1,526**	**1,649**
Non GAAP Adjustments	188	0	0	0	0	0	0	0	0
Operating Earnings	**1,301**	**314**	**324**	**486**	**263**	**1,387**	**1,423**	**1,526**	**1,649**
Operating EPS Diluted	**$2.56**	**$0.58**	**$0.60**	**$0.90**	**$0.49**	**$2.57**	**$2.63**	**$2.81**	**$3.02**

Source: Company reports; Guggenheim Securities, LLC estimates.

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BALANCE SHEET ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash and marketable securities	1,937	1,506	1,533	1,725	1,698	1,698	2,145	2,754	3,540
Accounts receivable	1,616	1,616	1,616	1,616	1,616	1,616	1,616	1,616	1,616
Inventory	240	240	240	240	240	240	240	240	240
Total other current assets	331	331	331	331	331	331	331	331	331
Current assets	**4,124**	**3,693**	**3,720**	**3,912**	**3,885**	**3,885**	**4,332**	**4,941**	**5,727**
Total Gross Fixed Assets	40,575	41,288	42,000	42,713	43,425	43,425	46,225	49,025	51,825
Accumulated Depreciation	(10,769)	(11,075)	(11,386)	(11,701)	(12,021)	(12,021)	(13,345)	(14,740)	(16,208)
Property, plant and equipment held for sale	0	0	0	0	0	0	0	0	0
Net Fixed assets	**29,806**	**30,212**	**30,614**	**31,011**	**31,404**	**31,404**	**32,880**	**34,285**	**35,617**
Investments	822	822	822	822	822	822	822	822	822
Net goodwill	5,618	5,618	5,618	5,618	5,618	5,618	5,618	5,618	5,618
Total Other Non-Current Assets	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total Assets	**41,370**	**41,345**	**41,774**	**42,364**	**42,729**	**42,729**	**44,652**	**46,666**	**48,783**
Accounts payable	997	997	997	997	997	997	997	997	997
Short-term debt	2,628	2,578	2,578	2,578	2,578	2,578	2,728	2,928	3,128
Total other current liabilities	1,975	1,975	1,975	1,975	1,975	1,975	1,975	1,975	1,975
Current liabilities	**5,600**	**5,550**	**5,550**	**5,550**	**5,550**	**5,550**	**5,700**	**5,900**	**6,100**
Long-term debt	16,899	16,791	17,076	17,360	17,644	17,644	18,746	19,814	20,894
Net deferred tax liability	2,427	2,427	2,427	2,427	2,427	2,427	2,427	2,427	2,427
Other non-current liabilities	7,762	7,762	7,762	7,762	7,762	7,762	7,762	7,762	7,762
Total liabilities	**32,688**	**32,530**	**32,815**	**33,099**	**33,383**	**33,383**	**34,635**	**35,903**	**37,183**
Minority interest - accumulated	0	0	0	0	0	0	0	0	0
Preferred equity	0	0	0	0	0	0	0	0	0
Common equity	8,682	8,815	8,959	9,264	9,346	9,346	10,017	10,762	11,600
Shareholders' equity	8,682	8,815	8,959	9,264	9,346	9,346	10,017	10,762	11,600
Total Liabilities and Equity	**41,370**	**41,345**	**41,774**	**42,364**	**42,729**	**42,729**	**44,652**	**46,666**	**48,783**

Source: Company reports; Guggenheim Securities, LLC estimates.

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CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Net Income	1,488	314	324	486	263	1,387	1,423	1,526	1,649
Extraordinary Loss/Gain, net	(405)	0	0	0	0	0	0	0	0
Depreciation & Amortization	1,304	306	311	315	320	1,251	1,324	1,396	1,468
Deferred Inc. Taxes & ITCs, net	462	0	0	0	0	0	0	0	0
Other, net	(1,712)	0	0	0	0	0	0	0	0
Net Operating Cash Flows	**1,137**	**620**	**635**	**801**	**583**	**2,639**	**2,746**	**2,921**	**3,117**
Capital Expenditures	(2,642)	(713)	(713)	(713)	(713)	(2,850)	(2,800)	(2,800)	(2,800)
Other - net	(295)	0	0	0	0	0	0	0	0
Net Investing Cash Flows	**(2,937)**	**(713)**	**(713)**	**(713)**	**(713)**	**(2,850)**	**(2,800)**	**(2,800)**	**(2,800)**
Dividends Paid	(716)	(205)	(206)	(206)	(206)	(823)	(851)	(881)	(911)
Net Change in STD	1,164	(50)	0	0	0	(50)	150	200	200
Net LTD Addition/(Redemption)	(1,960)	(108)	285	284	284	745	1,102	1,069	1,080
Net LTD Addition/(Redemption) - Corp	0	0	0	0	0	0	0	0	0
Common Stock Issue / (Buyback)	2,570	25	25	25	25	100	100	100	100
Other	2,087	0	0	0	0	0	0	0	0
Net Financing Cash Flow	**3,145**	**(338)**	**104**	**103**	**102**	**(28)**	**501**	**488**	**469**
Net Change in Cash +/-(incl. Disc.)	1,348	(431)	27	192	(27)	(240)	447	609	786
Beginning Cash Balance	589	1,937	1,506	1,533	1,725	1,937	1,698	2,145	2,754
Ending Cash Balance	**1,937**	**1,506**	**1,533**	**1,725**	**1,698**	**1,698**	**2,145**	**2,754**	**3,540**

Source: Company reports; Guggenheim Securities, LLC estimates.

ALLIANT ENERGY (LNT, NEUTRAL, $41 PT)

LNT remains a low drama story with solid growth in favorable jurisdictions – Our NEUTRAL stance remains a valuation call as we continue to look for better entry, not making an M&A call here.

- **Maintaining our NEUTRAL rating on LNT and raising our PT to $41 from $37.** LNT remains a fundamentally strong utility with minimal overhangs and organic growth story capital plan that is well laid out through 2027, cementing above-average utility growth of 5-7%. LNT's primary long-term focus for the capex plan, in our view, will be continued gas/electric distribution system improvements and planning the future of its generation fleet (i.e., wind, peaking capacity, distribution, batteries) as it continues to take more traditional resources (coal/nuclear) offline. We believe incremental growth opportunities could come in the form of a policy windfall in Wisconsin (more on this below) and to a lesser degree from growth at ATC outside the base plan (e.g., efforts in AZ and AK). That said, the fairly high multiple that shares trade at keep us on the sidelines for now; **essentially a valuation call on a quality utility with above-average growth prospects and very favorable regulatory environments. A modest pullback could cause us to become more constructive on the stock given a multitude of attributes we like with the story.**

- **We are introducing our 2022E EPS of $2.69 and refreshing our 2018-2021 outlook.** As a result, our 2018-2021 EPS moves to $2.18/$2.24/$2.37/$2.50 from $2.19/$2.19/$2.31/$2.45 This outlook captures the continued spending on regulated investments especially focusing on renewable and gas generation projects, organic growth and rate recovery through improving rate mechanisms, as updated on the 3Q18 call and further at EEI. Our forecasted consolidated earnings growth of ~6% is comprised of 6.7% growth from the regulated utility segment. We project 15% rate base growth and ROEs of ~10% through 2020 at IPL and 8% rate base growth at WPL earning ROEs in the low 10% range, with ~$1.4bn of annual CapEx deployed at the utility through 2021, fairly evenly spread between IPL and WPL and in line with LNT's updated Capex program of $6.9Bn through 2022. Additionally, we forecast continuation of earnings from transmission and energy efficiency riders through 2021 and model ~1% system-wide volume growth at IPL and ~0.75% growth at WPL through 2022. **Finally we note that we continue to model up to $400mm in additional equity in 2019, in line with mgmt.'s guide and the recently announced forward sale of up to $375mm, and remain on the lookout for additional details regarding 2020, where we do see incremental equity of $150mm.**

- **Some key items coming up in 2019, including an electric filing in Iowa.** LNT's electric filings are currently planned for a somewhat unique format, as Iowa recently passed legislation to allow forward-looking rates. IPL mgmt. is currently planning to file two concurrent rate cases: one with a historical test year and one with a forward test year of 2020. This format will capture a majority of IPL's current wind buildout. **In addition we note that mgmt. will likely seek to replicate the higher equity layer (51%, up from 45%) it recently achieved in its gas rate review settlement this past September.** Beyond Iowa we also foresee the potential for incremental renewables investment in Wisconsin, largely as a result of the election of Democrat Tony Evers. We believe Evers could prompt the state to revisit its current RPS standard of 10% by 2015. Evers has been supportive of clean energy, and both we and mgmt. agreed that he could provide a policy boost for solar resources in the state. **We note that this is also very much in line with what we heard from WEC mgmt. on Day 2 of this year's EEI Conference. We will continue to be on the lookout in 2019 for signs that the state is considering an expansion of its RPS.**

- **We don't see M&A as likely in the near term, although the premium at which shares trade indicates there may be others who hold differing view.** LNT's mgmt. team has reiterated to us on NDRs and in EEI meetings that it remains focused on the company's rather robust organic growth story, which we largely take at face value. In our view, mgmt. is occupied with the ongoing wind buildout and minimizing lag via the regulatory cycle.

Guggenheim's LNT EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	0.52A	0.43A	0.85A	0.35E	**2.18E**	2.16E
Prior				*0.39E*	*2.19E*	
2019E	0.47E	0.51E	0.82E	0.42E	**2.24E**	2.25E
Prior	*0.46E*	*0.46E*	*0.85E*	*0.41E*	*2.19E*	
2020E	0.49E	0.54E	0.86E	0.46E	**2.37E**	2.39E
Prior	*0.47E*	*0.49E*	*0.89E*	*0.46E*	*2.31E*	
2021E	0.51E	0.58E	0.90E	0.50E	**2.50E**	2.51E
Prior	*0.49E*	*0.53E*	*0.93E*	*0.49E*	*2.45E*	
2022E	0.56E	0.63E	0.96E	0.54E	**2.69E**	2.67E

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** We arrive at our $41 price target by applying our 17.0x regulated group target multiple, which is based on our regression model using the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years, plus a one turn premium to account for the reality that this market cap range will continue to embed an M&A premium above larger cap equivalents, to our 2020 EPS estimate of $2.37.
- **Risk:** Downside risks to our rating and valuation for LNT mainly encompass traditional risk factors inherent with all regulated utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model. Upside risks include: (1) favorable regulatory settlements; (2) opportunities around ATC; and (3) higher CapEx outlook.

See pages 278 - 279 for analyst certification and important disclosures.

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INCOME STATEMENT ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Electric utility	3,004	733	784	920	766	3,203	3,445	3,600	3,716
Gas utility	463	187	72	50	169	478	495	512	530
Other utility	50	14	12	13	15	54	57	60	62
Non-regulated	43	5	16	5	16	41	45	49	49
Total Operating Revenues	**3,560**	939	885	988	965	**3,777**	**4,043**	**4,221**	**4,357**
Fuel & purchased power	839	210	225	243	217	894	962	1,005	1,038
Electric transmission service	513	132	131	139	149	551	593	619	640
Cost of gas sold	241	113	29	13	94	248	256	264	272
Other O&M	655	162	160	149	187	657	659	660	661
Asset valuation charges	-	-	-	-	-	-	-	-	-
Non-regulated O&M	2	0	-	-	3	3	4	4	4
Depreciation and amortization	484	118	120	121	123	481	502	516	529
Taxes other than income taxes	103	26	24	26	25	101	101	101	101
Total Operating Expenses	**2,839**	761	687	690	797	**2,936**	**3,076**	**3,169**	**3,244**
EBITDA	**1,206**	295	317	419	291	**1,322**	**1,469**	**1,569**	**1,642**
Operating Income	**721**	177	198	297	168	**841**	**967**	**1,053**	**1,113**
Interest expense	243	61	68	70	66	266	281	292	303
Interest Rate	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*
Unconsolidated investments	(40)	(8)	(8)	(9)	(9)	(34)	(34)	(34)	(35)
AFUDC	(73)	(23)	(23)	(23)	(23)	(92)	(40)	(12)	(24)
Interest income and other	6	1	1	1	0	4	4	4	4
Total interest expense and other	**136**	31	38	40	35	**144**	**210**	**249**	**248**
Income before tax	**585**	146	160	257	134	**697**	**757**	**804**	**865**
Income taxes	65	31	34	54	28	146	159	169	182
Income from continuing ops. after tax	**520**	116	126	203	106	**551**	**598**	**635**	**683**
Discontinued operations (net tax)	-	-	-	-	-	-	-	-	-
Effective Tax Rate (%)	11%	21%	21%	21%	21%	21%	21%	21%	21%
Net income before preferred dividend	**520**	116	126	203	106	**551**	**598**	**635**	**683**
Preferred dividends	10	3	3	3	3	10	10	10	10
GAAP Net income for common	**510**	113	124	201	103	**540**	**587**	**625**	**673**
Non-GAAP Items									
Other (weather)									
Adjusted (Non-GAAP) Net Income	**510**	113	124	201	103	**540**	**587**	**625**	**673**
Wtd. Avg. shares outstanding	234	239	242	244	246	241	248	250	250
Adjusted Earnings per Share	**$2.18**	$0.47	$0.51	$0.82	$0.42	**$2.24**	**$2.37**	**$2.50**	**$2.69**

Source: Company reports; Guggenheim Securities, LLC estimates.

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Balance Sheet	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Assets									
Cash and cash equivalents	167	397	320	458	315	315	332	383	282
Accounts receivable, less allowance for doubtful accounts	489	352	450	495	525	525	561	586	604
Production fuel, at weighted average cost	64	66	71	76	82	82	107	128	145
Gas stored underground, at weighted average cost	45	46	50	53	57	57	75	89	102
Materials and supplies, at weighted average cost	112	115	125	132	142	142	187	222	252
Regulatory assets	82	82	82	82	82	82	82	82	82
Other	127	127	127	127	127	127	127	127	127
Total Current Assets	**1,086**	1,184	1,224	1,424	1,330	**1,330**	**1,471**	**1,617**	**1,594**
Property, plant and equipment, net	12,316	12,573	12,829	13,082	13,335	13,335	13,992	14,406	15,012
Investment in American Transmission Company LLC	307	326	344	363	382	382	444	509	574
Other	184	204	217	231	277	277	370	463	556
Total investments	490	529	562	595	659	659	814	972	1,130
Regulatory assets	1,613	1,613	1,613	1,613	1,613	1,613	1,613	1,613	1,613
Deferred charges and other	103	103	103	103	103	103	103	103	103
Total other assets	1,716	1,716	1,716	1,716	1,716	1,716	1,716	1,716	1,716
Total Assets	**15,608**	16,003	16,330	16,817	17,039	**17,039**	**17,993**	**18,711**	**19,452**
Current maturities of long-term debt	506	506	506	506	506	506	506	506	506
Commercial paper	137	137	137	137	137	137	137	137	137
Accounts payable	523	536	581	618	664	664	872	1,037	1,177
Regulatory liabilities	152	152	152	152	152	152	152	152	152
Other	256	256	256	256	256	256	256	256	256
Total Current Liabilities	**1,573**	1,586	1,631	1,668	1,714	**1,714**	**1,922**	**2,087**	**2,227**
Long-term debt, net (excluding current portion)	5,554	5,718	5,937	6,106	6,265	6,265	6,637	6,951	7,296
Deferred tax liabilities	1,575	1,575	1,575	1,575	1,575	1,575	1,575	1,575	1,575
Regulatory liabilities	1,354	1,354	1,354	1,354	1,354	1,354	1,354	1,354	1,354
Pension and other benefit obligations	487	487	487	487	487	487	487	487	487
Other	287	287	287	287	287	287	287	287	287
Total other liabilities	3,703	3,703	3,703	3,703	3,703	3,703	3,703	3,703	3,703
Total Liabilities	**10,830**	11,007	11,271	11,477	11,681	**11,681**	**12,261**	**12,741**	**13,226**
Common stock	2	2	2	2	2	2	2	2	2
Additional paid-in capital	2,047	2,234	2,258	2,422	2,422	2,422	2,572	2,572	2,572
Retained earnings	2,538	2,569	2,609	2,726	2,744	2,744	2,967	3,206	3,462
Accumulated other comprehensive loss	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Shares in deferred compensation trust	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Total Alliant Energy Corporation common equity	**4,578**	4,796	4,860	5,140	5,158	**5,158**	**5,532**	**5,770**	**6,026**
Cumulative preferred stock of Interstate Power and Light (	200	200	200	200	200	200	200	200	200
Noncontrolling interest	-	-	-	-	-	-	-	-	-
Total equity	**4,778**	4,996	5,060	5,340	5,358	**5,358**	**5,732**	**5,970**	**6,226**
Total Liabilities & Equity	**15,608**	16,003	16,330	16,817	17,039	**17,039**	**17,993**	**18,711**	**19,452**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

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CASH FLOW STATEMENT	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash flows from operating activities:									
Net income	520	116	126	203	106	551	598	635	683
Adjustments to reconcile net income to net cash flows from operating activities:									
Depreciation and amortization	484	118	120	121	123	481	502	516	529
Deferred tax expense and investment tax credits	63	-	-	-	-	-	-	-	-
Other	(33)	-	-	-	-	-	-	-	-
Other changes in assets and liabilities:									
Accounts receivable	(348)	137	(98)	(45)	(30)	(36)	(36)	(25)	(18)
Sales of accounts receivable	-	-	-	-	-	-	-	-	-
Production fuel, at weighted average cost	(3)	(2)	(6)	(5)	(6)	(17)	(26)	(20)	(17)
Gas stored underground, at weighted average cost	(2)	(1)	(4)	(3)	(4)	(12)	(18)	(14)	(12)
Materials and supplies, at weighted average cost	(5)	(3)	(10)	(8)	(10)	(30)	(45)	(35)	(30)
Regulatory assets	27	-	-	-	-	-	-	-	-
Accounts payable	(22)	13	45	37	46	141	208	165	140
Regulatory liabilities	15	-	-	-	-	-	-	-	-
Deferred income taxes	33	-	-	-	-	-	-	-	-
Other	(100)	-	-	-	-	-	-	-	-
Net cash flows from operating activities	**627.1**	378	173	300	225	**1,077**	**1,184**	**1,221**	**1,275**
Cash flows used for investing activities:									
Utility business	(1,499)	(375)	(375)	(375)	(375)	(1,500)	(1,160)	(930)	(1,135)
Non-regulated businesses	(93)	(20)	(13)	(14)	(45)	(93)	(93)	(93)	(93)
Proceeds from projects	-	-	-	-	-	-	-	-	-
Other (incl ATC going forward)	292	(19)	(19)	(19)	(19)	(76)	(62)	(65)	(65)
Net cash flows used for investing activities	**(1,300)**	(414)	(407)	(408)	(439)	**(1,669)**	**(1,315)**	**(1,088)**	**(1,293)**
Cash flows used for financing activities:									
Common stock dividends	(321)	(85)	(86)	(87)	(88)	(345)	(374)	(397)	(427)
Proceeds from issuance of common stock, net	200	188	23	164	-	375	150	-	-
Proceeds from issuance of long-term debt	1,806	164	219	169	159	711	372	315	345
Payments to retire long-term debt	(603)	-	-	-	-	-	-	-	-
Net change in short-term debt	-		-	-		-	-	-	-
Net change in commercial paper	(278)	-	-	-	-	-	-	-	-
Other	11	-	-	-	-	-	-	-	-
Net cash flows used for financing activities	**814**	267	156	246	71	**741**	**148**	**(82)**	**(83)**
Net increase (decrease) in cash and cash equivalents	**141**	230	(77)	139	(143)	**148**	**17**	**51**	**(101)**
Cash and cash equivalents at beginning of period	26	167	397	320	458	167	315	332	383
Cash and cash equivalents at end of period	**167**	397	320	458	315	**315**	**332**	**383**	**282**

Source: Company reports; Guggenheim Securities, LLC estimates.

NEXTERA ENERGY (NEE, BUY, $205 PT)

We rate NEE a BUY based on conservative growth guide, potential further M&A potential utilizing borrowing capacity, continued upside from Gulf Power deal on improving O&M, purchase power and higher capex – move past "optically" high P/E, and focus on the bigger picture which continues to show value on a cash flow basis. That said, we believe earnings growth is likely breaching 9%-10% post FL deal digestion.

- **Reiterating our BUY rating on NEE** and **raising our price target to $205** from $197 as we roll our valuation forward to base off 2020 fundamentals and embed accretion from Florida acquisitions. While NEE P/E screens high vs peers, NEE is a sum of the parts, cash flow generating story and on any cash flow metric shares look more under-valued, in our view. NEER growth is perpetual – we believe this management team is able to execute on large scale renewables better, faster, and cheaper – we don't see the NEER backlog decreasing and remains a core growth engine in addition to Florida utilities. **Looking through 2019, it is very tough for us to not see further a multiple re-rating as this story remains event driven by Gulf Power deal which closed on Jan 1 2019, followed by a likely higher accretion vs current guide and an outcome/conclusion with Santee Cooper process in SC, etc.** Reiterate BUY.
- **Introducing our 2022 estimate of $10.52/shr which equates to a strong consolidated CAGR of 8%, the top end of management's 6-8% LT growth guide.** We see little impact to FP&L due to the tax reform legal challenge intervenors recently filed - the intervenors are breaking the settlement they were previously signatories to, which, in our view, will have little-to-no traction. We model FP&L earning at or close to its allowed ROE with earned ROEs of 11.5-12.0% through 2022. We model 8% earnings growth at FP&L through 2022 on regulated CAPEX of ~$4.1Bn/year through 2022 ex the FL deals. We also continue to see perpetual growth opportunities at NEER given continued corporate demand for long term renewable PPAs and very favorable wind + battery economics – backlog and pipeline continues to expand, not contract.
- **We see strong capex and O&M improvement opportunities at Gulf Power.** We continue to view the **$0.15-$0.20/share in accretion mgmt. disclosed as a place holder** until the full FP&L play book can be unleashed at Gulf Power. **With O&M multiple times that of FP&Ls and old high heat rate plants in service including very high purchase power costs, Gulf Power is ripe for optimization.** Example, Gulf Power O&M is ~$31/MWh which is more than double FP&L's $12.44/MWh and this alone should provide ample headroom in rates to invest in modern infrastructure opportunities. **So what's the likely strategy with Gulf Power in the NT?** We believe NEE will likely increase Capital spend and manage to stay out of a rate case for several years with O&M and fuel/purchase power synergies subsidizing the spending. At some point in the future when NEE files a Gulf Power GRC, we see further upside potential as they true-up the regulatory construct (i.e., ROE band, equity layer) to emulate FP&L.
- **Could 2019 be the year of Santee Cooper? Three options with Santee: (1) it remains government owned, (2) sells to a larger public entity like NEE, (3) has an operating management agreement like PSEG and LIPA with a larger entity like NEE. NEE clearly benefits from the latter two options and would obviously prefer the 2nd route.** Mgmt. has publicly acknowledged that the RFP (request for purchase) for Santee Cooper is out, independent consultants are evaluating bids and that answers are expected by early 2019. From there it is up to the consultants and a legislative committee to decide upon which bids will make it to the second round. NEE mgmt's only question is if Santee should be 100% acquired or if someone will

 See pages 278 - 279 for analyst certification and important disclosures.

come in and strike a management agreement. **NEE does not have as much interest in a management contract vs out right acquiring Santee but would do either if presented the opportunity.** Competition bidding for Santee could be sparse considering it would likely take sizable balance sheet capacity to re-finance all of the municipal tax free debt on Santee's balance sheet. **We continue to believe that given its $5-7bn balance sheet capacity, solid operating history and highly constructive relation with regulators NEE is very strongly positioned to be considered for acquiring Santee Cooper.** As a reminder Santee Cooper is the third largest municipal utility in the U.S. and the Governor of South Carolina has been very vocal about monetizing Santee to pay for debt incurred while constructing the abandoned VC Summer nuclear power plant.

Guggenheim's NEE EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2018E	1.94A	2.10A	2.18A	1.58E	**7.83E**	*7.75E*
Prior				*1.58E*	*7.81E*	
2019E	1.79E	2.36E	2.88E	1.60E	**8.63E**	*8.38E*
Prior	*1.87E*	*2.26E*	*2.54E*	*1.74E*	*8.42E*	
2020E	1.89E	2.67E	2.93E	1.70E	**9.19E**	*9.00E*
Prior	*1.97E*	*2.60E*	*2.64E*	*1.84E*	*9.05E*	
2021E	2.00E	3.05E	3.06E	1.80E	**9.91E**	*9.78E*
Prior	*2.08E*	*2.97E*	*2.75E*	*1.94E*	*9.75E*	
2022E	2.08E	3.44E	3.15E	1.85E	**10.52E**	*10.65E*

Source: Guggenheim Securities, LLC. , FactSet, Company reports

- **Valuation:** Our $205 PT is comprised of $95 for FP&L, and $116 for NEER, which we discount back by one-year to arrive at our 12-month price target. We derive our regulated utility group target multiple of 17x from our regression model, which uses the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years, and we now ascribe a one-turn premium to reflect several externalities (e.g., macro/geopolitical uncertainties) that continue to support the group trading beyond fundamentals and forward-yield expectations; we apply the 18x multiple to our 2020 EPS estimate of $5.29 for NEE's FP&L subsidiary and Other to arrive at a ~$95 valuation, while our NEER valuation assumes an 90% payout rate and targets a 4% yield to arrive at a $116 valuation – We combine these in our sum-of-the-parts to arrive at a $208 valuation, and next add 15 cents for Gulf Power, which we then discount back by one-year to arrive at our $205 PT.

- **Risks:** Risks to our thesis for NEE include Florida economy, commodity prices, and other risk factors inherent with all regulated utilities including: (1) rate case risk, (2) lower CapEx outlook, and (3) interest rate changes above what we account for in our regression model.

GUGGENHEIM
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INCOME STATEMENT *($ in millions)*	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Total Operating Revenues	16,604	4,332	4,339	5,284	4,489	18,444	18,964	19,538	20,199
Fuel, Purchased Power & Interchange	4,183	1,096	945	1,588	1,403	5,032	5,089	5,047	5,105
Operations & Maintenance	3,467	1,063	1,018	979	1,059	4,118	4,313	4,411	4,509
Restructuring & Impairment Charges	37	2	5	15	15	37	37	37	37
Depreciation & Amortization	3,483	686	699	709	710	2,805	2,991	3,190	3,397
Taxes Other than Income Taxes	1,378	366	217	232	322	1,136	1,224	1,244	1,277
Operating Income / (Loss)	4,056	1,119	1,455	1,761	981	5,316	5,310	5,611	5,874
Interest Charges	(1,084)	(299)	(304)	(307)	(311)	(1,220)	(1,198)	(1,242)	(1,287)
Earnings from Equity Method Investments	375	38	38	38	38	150	150	150	150
AFUDC	97	36	42	48	55	181	282	383	484
Interest Income	41	1	2	2	2	7	7	7	7
NEER Growth Projects, pre-tax	185	46	46	46	46	185	185	185	185
Other, net	4,280	75	75	75	75	300	450	450	450
Income from Operations (pre-tax)	7,956	1,026	1,369	1,683	911	4,989	5,337	5,777	6,177
Income Tax Expense (Benefit)	1,735	178	253	321	152	904	986	1,087	1,195
Income Before Cumulative Accounting Change	6,221	848	1,116	1,362	759	4,085	4,351	4,690	4,982
Cumulative Effect Accounting Change	755	-	-	-	-	-	-	-	-
Net Income / (Loss)	6,976	848	1,116	1,362	759	4,085	4,351	4,690	4,982
Operating Adjustments	(3,272)	-	-	-	-	-	-	-	-
Operating earnings (ex. Adjustments)	3,704	848	1,116	1,362	759	4,085	4,351	4,690	4,982
Income before GAAP Adjustments	$13.16	$1.79	$2.36	$2.88	$1.60	$8.63	$9.19	$9.91	$10.52
GAAP Earnings / (Loss) per Share	$14.75	$1.79	$2.36	$2.88	$1.60	$8.63	$9.19	$9.91	$10.52
Operating Earnings / (Loss) per Share	**$7.83**	**$1.79**	**$2.36**	**$2.88**	**$1.60**	**$8.63**	**$9.19**	**$9.91**	**$10.52**

Source: Company reports; Guggenheim Securities, LLC estimates.

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CASH FLOW STATEMENT ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2021E
Cash Flows From Operating Activities									
Net Income / (Loss)	6,285	848	1,116	1,362	759	4,085	4,351	4,690	4,982
Adjustments to Reconcile Net Income to Cash									
Depreciation & Amortization	3,483	686	699	709	710	2,805	2,991	3,190	3,397
Nuclear Fuel Amortization	205	29	29	29	29	114	114	114	114
Cumulative Effect Accounting Change	-	-	-	-	-	-	-	-	-
Restructuring & Impairment Charges	-	-	-	-	-	-	-	-	-
Storm Related Costs, net of Insurance Rei	-	-	-	-	-	-	-	-	-
Deferred Income Taxes & Related Regulat	1,660	178	233	282	146	839	929	1,023	1,128
Cost Recovery Clauses & Franchise	(79)	-	-	-	-	-	-	-	-
AFUDC	(10)	(14)	(17)	(21)	(24)	(75)	(130)	(185)	(239)
Change in Restricted Cash	-	-	-	-	-	-	-	-	-
Other, net	(4,785)	-	-	-	-	-	-	-	-
Net Cash Flows From Operating Activitie	6,758	1,726	2,060	2,361	1,620	7,768	8,255	8,832	9,382
Capital Distributions to FPL Group, net	-	-	-	-	-	-	-	-	-
Dividends on Common Stock	(2,196)	(594)	(694)	(694)	(694)	(2,675)	(2,984)	(3,332)	(3,726)
Total Dividends	(2,196)	(594)	(694)	(694)	(694)	(2,675)	(2,984)	(3,332)	(3,726)
Cash Flows From Investing Activities									
Utility Capital Expenditures	(4,563)	(1,036)	(1,036)	(1,036)	(1,036)	(4,145)	(4,145)	(4,145)	(4,145)
Nuclear Fuel Purchases	(440)	(110)	(110)	(110)	(110)	(440)	(440)	(440)	(440)
Independent Power Investments	(1,666)	(375)	(375)	(375)	(375)	(1,500)	(1,500)	(1,500)	(1,500)
Sale of Independent Power Investments	327	-	-	-	-	-	-	-	-
Other Capex	(10)	(3)	(3)	(3)	(3)	(10)	(10)	(10)	(10)
Contributions to Special Use Funds	(281)	-	-	-	-	-	-	-	-
Sale of Olympus Note Receivable	-	-	-	-	-	-	-	-	-
Funding of Secured Loan	-	-	-	-	-	-	-	-	-
Other, net	16	(50)	(50)	(50)	(50)	(200)	(200)	(200)	(200)
Net Cash Flows From Investing Activities	(6,617)	(1,574)	(1,574)	(1,574)	(1,574)	(6,295)	(6,295)	(6,295)	(6,295)
Dividend Payout (%)	34.9%	70.0%	62.1%	51.0%	91.4%	65.5%	68.6%	71.1%	74.8%
Free Cash Flow - After Dividends	(2,055)	(441)	(208)	94	(647)	(1,202)	(1,024)	(796)	(639)

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

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BALANCE SHEET ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Property, Plant and Equipment									
Electric Utility Plant in Service	75,146	76,624	78,105	79,589	81,077	81,077	87,062	93,702	100,396
Nuclear Fuel	2,067	2,148	2,230	2,311	2,393	2,393	2,719	3,045	3,371
Construction Work in Progress	8,599	8,599	8,599	8,599	8,599	8,599	8,599	7,999	7,399
Less: Accumulated Depreciation	(21,838)	(22,524)	(23,223)	(23,932)	(24,642)	(24,642)	(27,633)	(30,823)	(34,220)
Net Property, Plant and Equipment	63,974	64,847	65,710	66,567	67,426	67,426	70,746	73,922	76,946
Cash and Cash Equivalents	4,148	4,387	4,960	5,454	5,516	5,516	7,133	8,837	10,823
Customer Receivables	2,155	2,155	2,155	2,155	2,155	2,155	2,155	2,155	2,155
Other Receivables	592	592	592	592	592	592	592	592	592
Materials, Supplies & Fuel Inventory	1,225	1,225	1,225	1,225	1,225	1,225	1,225	1,225	1,225
Deferred Clause Expenses	-	-	-	-	-	-	-	-	-
Derivative Assets	314	314	314	314	314	314	314	314	314
Other	3,214	3,214	3,214	3,214	3,214	3,214	3,214	3,214	3,214
Total Current Assets	11,648	11,887	12,460	12,954	13,016	13,016	14,633	16,337	18,323
Special Use Funds	6,087	6,087	6,087	6,087	6,087	6,087	6,087	6,087	6,087
Other Investments	6,497	6,497	6,497	6,497	6,497	6,497	6,497	6,497	6,497
Other	8,692	8,692	8,692	8,692	8,692	8,692	8,692	8,692	8,692
Total Other Assets	21,276	21,276	21,276	21,276	21,276	21,276	21,276	21,276	21,276
Total Assets	**96,898**	**98,010**	**99,446**	**100,796**	**101,718**	**101,718**	**106,655**	**111,535**	**116,545**
Capitalization									
Common Stock	5	5	5	5	5	5	5	5	5
Additional Paid-In Capital	8,058	8,058	7,958	7,858	7,758	7,758	7,458	7,158	6,858
Retained Earnings	22,398	22,653	23,175	23,943	24,109	24,109	25,776	27,434	28,991
Accumulated Other Comprehensive Income	2,928	2,928	2,928	2,928	2,928	2,928	2,928	2,928	2,928
Total Common Shareholders' Equity	33,389	33,644	34,066	34,734	34,800	34,800	36,167	37,525	38,782
Long-Term Debt	27,489	28,169	28,949	29,349	30,059	30,059	32,699	35,199	37,824
Total Capitalization	60,878	61,813	63,015	64,083	64,859	64,859	68,866	72,724	76,606
Commercial Paper	3,942	3,942	3,942	3,942	3,942	3,942	3,942	3,942	3,942
Notes Payable	675	675	675	675	675	675	675	675	675
Current Maturities of Long-Term Debt	3,019	3,019	3,019	3,019	3,019	3,019	3,019	3,019	3,019
Accounts Payable	3,137	3,137	3,137	3,137	3,137	3,137	3,137	3,137	3,137
Customers' Deposits	448	448	448	448	448	448	448	448	448
Accrued Interest & Taxes	502	502	502	502	502	502	502	502	502
Other	3,382	3,382	3,382	3,382	3,382	3,382	3,382	3,382	3,382
Total Current Liabilities	15,105	15,105	15,105	15,105	15,105	15,105	15,105	15,105	15,105
Asset Retirement Obligations	2,990	2,990	2,990	2,990	2,990	2,990	2,990	2,990	2,990
Accrued Asset Removal Costs	-	-	-	-	-	-	-	-	-
Accumulated Deferred Income Taxes	7,397	7,575	7,808	8,090	8,236	8,236	9,165	10,188	11,316
Other	10,528	10,528	10,528	10,528	10,528	10,528	10,528	10,528	10,528
Total Other Liabilities & Deferred Credits	20,915	21,093	21,326	21,608	21,754	21,754	22,683	23,706	24,834
Total Capitalization & Liabilities	**96,898**	**98,010**	**99,446**	**100,796**	**101,718**	**101,718**	**106,655**	**111,535**	**116,545**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

NEXTERA ENERGY PARTNERS (NEP, BUY, $56 PT)

NEP continues to be our preferred yieldco because it has very visible 12-15% growth through our trajectory with minimal needs to access market-based equity offerings; perpetual growth funded with dropdowns at +20 GW of potential assets from sponsor NEE as well as inorganic acquisition opportunities; and attractive financing with the Blackrock deal likely opening the door for more nontraditional players to step in.

- **Maintaining our BUY and increasing our price target to $56 from $50 as we roll forward to 2020 fundamentals - LT commitment from NEE "yields" solid investment in NEP.** We continue to see high organic growth opportunities, perpetual support from a very strong parent (NEE halo effect) and continued end demand for renewables on multiple end user fronts. Continued strong visibility into a 12-15% growth rate and incremental financing, similar to last year's Blackrock deal, we believe it could pave a path for additional attractive financing. NEP's $5bn interest rate hedge should help insulate from any fears of rising interest rates. **Above average CAFD/share growth conservative, achievable and LT sustainable.**
- **Our 2022 DPS estimate of $3.05 equates to a ~15% CAGR from 2018 to 2022.** Our DPS estimate is driven by EBITDA accelerating from $1.0Bn in 2018 to ~$2.0bn by 2022 and NEE steadily dropping down projects with a "conveyor belt" approach and a specific payout ratio which we model to be slightly lower than historical precedence due to the recent acquisitions that should effectively lead to higher dividend growth vs our conservative assumptions – i.e. we assume more dry powder vs higher payouts. Additionally, we assume no needs to fund organic drops utilizing public equity markets. Continued attractive financing like the Blackrock deal (2.5% coupon) could incentivize dropdowns quicker than we expect
- **We continue to believe the Blackrock financing in '18 opened the spigot for attractive financing at NEP, it's just a question of time for others to step in.** The $750 million of convertible financing affirmed that NEP can stand on its own to fund its 20 GW of potential opportunities presented by NEE through time as other nontraditional financing prospects will likely open up, in our view. The Blackrock financing was utilized to partially fund 1.4 GW of renewable projects dropped down from NEER to NEP. As a reminder the deal pays a 2.5% yield to BlackRock in exchange for the right to convert into NEP common + cash after three years. **This was privately negotiated financing which validates the yieldco model for NEE and affirms NEP is not dependent on public equity markets to fund its future growth** - NEP can stand on its own which should help remove any lingering investor concerns about dilution to fund dropdowns, a practice many of NEP's yieldco peers have engaged in.
- **Key take here on NEP? Size doesn't matter for NEE.** The NEP structure has been highly effective and unlike other YieldCo peers, NEP has satisfied its original intent since its launch. **Will the "law of large numbers" eventually curtail the yieldco as we have seen in the MLP space? Likely not.** As a reminder, NextEra has +12GW of eligible assets in operation with a backlog that has grown over 2.5x to over +7.5GW so mgmt. sees no issues growing and capital markets continue to present opportunities to fund NEP's growth – **the financial strength of NEE, available debt capacity, innovative structures like the BlackRock deal, as well as the lever to further reset/modify IDRs among other options all present opportunities for incremental growth opportunities at NEP.**
- **We continue to prefer NEP over CWEN in the NT.** We downgraded CWEN to NEUTRAL in this outlook given our view point that investors in '19 have a small appetite for yieldco's with NEP yielding the strongest option in the NT. While CWEN

trades at a higher yield than NEP, NEP remains our preferred name to own given sponsor strength and material distribution growth prospects with very little needs to access the equity markets – NEP has a proven mgmt. team that consistently under promises and over delivers but more importantly, committed to the yieldCo for the LT **and why shouldn't they be??** NEE is very comfortable with NEP, it's performed well and remains only one of several avenues NEE has to recycle capital. NEE has plenty of ways to monetize its renewable assets (i.e., sell assets privately, tap balance sheet capacity, etc.), but NEP remains the key avenue.

Guggenheim's NEP DPS & Adj. EBITDA Estimates

NEP	Adjusted EBITDA *($MM)*					Consensus
	1Q	2Q	3Q	4Q	FY	(Mean)
2018E	*258A*	253A	203A	392E	**$1,106E**	*966E*
				277E	*$1,018E*	
2019E	370E	327E	324E	372E	**$1,393E**	*1,141E*
Prior	*286E*	*273E*	*272E*	*312E*	*$1,143E*	
2020E	386E	375E	372E	427E	**$1,560E**	*1,251E*
Prior	*323E*	*322E*	*319E*	*367E*	*$1,331E*	
2021E	442E	437E	434E	498E	**$1,811E**	*1,383E*
Prior	*380E*	*384E*	*381E*	*437E*	*$1,581E*	
2022E	515E	468E	464E	533E	**$1,981E**	*NA*
Prior	*452E*	*414E*	*412E*	*472E*	*$1,751E*	

Source: FactSet consensus estimates, Guggenheim Securities, LLC estimates.

NEP	Distribution per Share					Consensus
	1Q	2Q	3Q	4Q	FY	(Mean)
2018E	0.42A	0.42A	0.45A	0.45E	**$1.74E**	*1.75E*
2019E	0.48E	0.48E	0.52E	0.52E	**$2.00E**	*2.01E*
2020E	0.56E	0.56E	0.60E	0.60E	**$2.30E**	*2.30E*
2021E	0.64E	0.64E	0.68E	0.69E	**$2.65E**	*2.65E*
2022E	0.73E	0.73E	0.79E	0.79E	**$3.05E**	*NA*

Source: FactSet consensus estimates, Guggenheim Securities, LLC estimates.

Valuation: We apply a 4.0% target yield to our estimated distribution of $2.30 in 2020, and discount back to the PV to arrive at our $56 12-month price target.

Risks: NEP is exposed to interest rates as it is an investment vehicle marketed to yield-oriented investors, in addition to some construction, operating, and re-contracting risk, as well as risk of unfavorable weather.

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NEXTERA ENERGY PARTNERS

CONSOLIDATED FINANCIALS

Income statement	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E	2020E	2021E	2022E
Revenues	983	379	340	338	388	1,445	1,626	1,900	2,088
(-) Operating costs	267	76	68	68	78	289	325	380	418
Gross margin	716	304	272	270	310	1,156	1,301	1,520	1,670
(-) Depreciation	244	92	97	98	98	384	433	507	556
(-) Other	(138)	5	5	5	5	20	20	20	20
Operating income	611	206	170	168	207	751	847	993	1,094
(-) Interest expense	(127)	(34)	(50)	(49)	(48)	(182)	(200)	(280)	(309)
(+) Other	112	0	0	0	0	0	0	0	0
Earnings before tax	596	173	119	119	159	570	647	714	785
(-) Taxes	(43)	(26)	(18)	(18)	(24)	(85)	(97)	(107)	(118)
Net income	553	147	101	101	135	484	550	607	667
(-) Non-controlling interest	325	113	78	77	104	372	422	466	513
NI attributable to NEP	228	34	24	23	31	112	128	141	155
Common units outstanding	74.6	74.6	74.6	88.6	88.6	88.6	88.6	88.6	88.6
EPS for common *(public units)*	$3.06	0.46	0.32	0.26	0.35	$1.27	$1.44	$1.59	$1.75
LP distributions per share	1.36	0.38	0.38	0.40	0.40	1.56	1.78	2.04	2.34
GP distributions per share	0.38	0.11	0.11	0.12	0.12	0.44	0.52	0.61	0.70
Total Distributions per Share	$1.74	$0.48	$0.48	$0.52	$0.52	$2.00	$2.30	$2.65	$3.05

Source: Company reports; Guggenheim Securities, LLC estimates, $/millions.

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NEXTERA ENERGY PARTNERS

CONSOLIDATED FINANCIALS

Cash flow statement ($MM's)	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E	2019E	2020E	2021E
Net income	194	87	71	70	96	323	338	339	397
Depreciation and amortization	214	59	74	74	74	281	325	379	452
Deferred income taxes	43	15	12	12	17	57	60	60	70
Change in working capital	(24)	(6)	(6)	(6)	(6)	(24)	(19)	(12)	(3)
Operating cash flow	379	155	151	151	181	638	704	766	916
Investing cash flow	(268)	-	(2,522)	-	-	(2,522)	(1,682)	(2,522)	(3,363)
Members distributions	(205)	(43)	(45)	(46)	(47)	(181)	(208)	(237)	(270)
LT debt issuance	978	-	1,610	-	-	1,610	2,135	3,200	2,067
LT debt retirements	(92)	(29)	-	(50)	(50)	(129)	(206)	(868)	(411)
Financing cash flow	498	(72)	1,566	(96)	(97)	1,301	1,721	2,096	1,386
Net change in cash	611	83	(806)	55	84	(584)	744	339	(1,061)
Opening balance	147	757	840	34	89	757	173	917	1,257
Closing balance	757	840	34	89	173	173	917	1,257	195

Source: Company reports; Guggenheim Securities, LLC estimates.

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NEXTERA ENERGY PARTNERS

CONSOLIDATED FINANCIALS

Balance sheet	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E	2020E	2021E	2022E
Cash	308	477	856	932	1,048	1,048	251	266	301
Accounts receivable	73	73	73	73	73	73	73	73	73
Due to related parties	809	809	809	809	809	809	809	809	809
Restricted cash	15	15	15	15	15	15	15	15	15
Prepaid expenses	-	-	-	-	-	-	-	-	-
Other	2	2	2	2	2	2	2	2	2
Total current assets	1,207	1,376	1,755	1,831	1,947	1,947	1,150	1,165	1,200
PP&E	10,670	10,578	11,322	11,224	11,127	11,127	13,216	16,072	17,197
Construction in progress	-	-	-	-	-	-	-	-	-
Deferred income taxes	99	99	99	99	99	99	99	99	99
Other	1,626	1,642	1,659	1,675	1,692	1,692	1,761	1,832	1,907
Total noncurrent assets	12,396	12,320	13,080	12,999	12,918	12,918	15,075	18,003	19,203
Total assets	13,603	13,695	14,835	14,829	14,865	14,865	16,225	19,169	20,403
Accounts payable	10	10	10	10	10	10	10	10	10
Due to related parties	42	42	42	42	42	42	42	42	42
LT debt, current	64	64	64	64	64	64	64	64	64
Accrued interest	13	13	13	13	13	13	13	13	13
Other	54	54	55	55	56	56	58	60	63
Total current liabilities	183	183	184	184	185	185	187	189	192
LT debt	1,824	1,795	3,300	3,233	3,166	3,166	3,455	4,559	4,187
Differential member int. (VIE)	-	-	-	-	-	-	-	-	-
Asset retirement	70	70	70	70	70	70	70	70	70
Other	79	83	87	91	96	96	116	141	172
Total non-current liabilities	1,973	1,948	3,457	3,394	3,331	3,331	3,641	4,771	4,429
Total liabilities	2,155	2,131	3,640	3,578	3,516	3,516	3,828	4,960	4,621
Limited partners	1,845	1,845	1,845	1,845	1,845	1,845	1,845	1,845	1,845
Additional paid in capital	6,930	6,900	6,428	6,384	6,347	6,347	6,845	8,050	8,956
Retained earnings	1,034	1,181	1,282	1,383	1,518	1,518	2,068	2,675	3,342
Accum. other comp. loss	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
NCI	1,644	1,644	1,644	1,644	1,644	1,644	1,644	1,644	1,644
Total members equity	11,448	11,565	11,194	11,251	11,349	11,349	12,397	14,208	15,782
Total liabilities and equity	13,603	13,695	14,835	14,829	14,865	14,865	16,225	19,169	20,403

Source: Company reports; Guggenheim Securities, LLC estimates.

NISOURCE INC (NI, BUY, $29 PT)

Upgrading to Buy from Neutral, valuation provides good entry point; watch for capex update driven by gas safety requirements, mid-2019 analyst day ahead.

- **We are upgrading NI to BUY on valuation with a PT of $29, up from $28.** Valuation presents a good entry point; potential NT catalysts include gas event moving to the rearview mirror plus higher capex opportunities among other items key events to watch. NI trades at a discount to gas, modest premium to electric peers but with above-average growth and incremental capital opportunities in the NT - NI's current 5-7% growth guidance was affirmed after the September gas event and no change with O&M profile. Restoration efforts in MA are substantially complete. We see the tide beginning to turn for NI given its proactive focus on safety/restoration following the unexpected gas event with upside optionality and even a potential to sell Columbia Gas of MA if price is right, which could lead to a further strengthening of the B/S or redeployment of capital into other regulated growth opportunities.
- **Introducing our 2022 EPS estimate of $1.68, which is predicated on a 7% CAGR hitting the high end of mgmt's guide without even including a higher capital program.** Our 2019/2020/2021 estimates of $1.38/$1.48/$1.58 are inline with a smooth ~7% YoY earnings growth profile and are based on electric/gas earnings mix shifting from 58% in 2018 to 68% by 2021. Our electric earnings are driven by earning a strong ~10% ROE and the gas business closing some historical lag by 2021 and earning its allowed ROE of ~10%. We see clarity ahead in the MA gas event investigations, which could drive capex needs for gas safety spending – **we currently model ~$1.9Bn in capex on average per year through 2022, which could prove conservative following the YE call and heading into the Analyst Day.**
- **Ex-Columbia Gas of Massachusetts valuation impact.** Shortly after the September gas event in Massachusetts we re-ran our valuation model for NiSource but **excluded Columbia Gas of Massachusetts earnings to establish a simple floor price ex-Columbia Gas of MA's earnings** (see original note HERE). As a reminder, MA earnings contribution is ~$0.12/share on consolidated EPS of $1.48 or approximately 8% of earnings. Under an unlikely scenario we simply eliminate the $0.12/share of MA earnings, our PT would de-rate ~$2.40 but this assumes no de-levering or capital redeployment opportunities which provide earnings upside. **We think that the most likely scenarios are: (1)** NI files a MA rate case soon given that they recently pulled their settlement or **(2)** they outright sell MA if price is right (although the company has not indicated it is looking to sell) and proceeds are redeployed into de-levering or other regulated organic opportunities – **we think former for now**.
- **We believe the market will continue to be focused on negative events from the September Gas event but working through it could bring more clarity.** NI mgmt. already mentioned at EEI that recent gas safety concerns have caused other service territories outside of MA to consider spending on automatic shut-off valves to prevent MA-like situations from happening. NI mgmt. noted that this gas safety spend should result in $150mm in incremental capex across its other low pressure distributions systems, mainly PA and Ohio. **There is likely little reason for regulators to push back on gas safety investments after recent events.** The silver lining continues to be increased capex on modernizing the gas systems.
- **Look out for mid-2019 analyst day.** Likely a substantial update post MA gas event here with a potential focus on state by state capex. **The analyst day could be a key podium to reaffirm above-average growth prospects** and to reiterate there's more to the story than issues in MA. Columbia Gas of MA is a small portion of rate base yet it has had an outsized impact on the valuation. **In the near term NI is focused**

on the short term cash flow mismatch of safety/restoration spend vs. insurance proceed receivables. We don't see NTSB investigation impacting its access to insurance proceeds.

- **Gas event could be in the rearview mirror but watching for insurance proceeds and potential developments on criminal investigation.** On the 3Q18 call, mgmt. disclosed for the first time that it should have access to $800mm of general liability insurance, which should cover all of the costs associated with the September gas event in Massachusetts. Mgmt disclosed cost estimates of $415mm to $450mm for third party claims, $180mm to $210mm for other expenses (emergency response, personal injury, property damage, etc.), and $135mm to $165mm for capex. These amounts do not include potential fines or settlements with the government, which are not recoverable by insurance. An insurance receivable is expected to be recorded by 4Q.

Guggenheim's NI EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	0.77A	0.07A	0.10A	0.35E	**1.28E**	*1.28E*
Prior				*0.35E*	*1.31E*	
2019E	0.83E	0.12E	0.09E	0.34E	**1.38E**	*1.34E*
Prior	*0.80E*	*0.13E*	*0.11E*	*0.34E*	*1.37E*	
2020E	0.90E	0.13E	0.10E	0.36E	**1.48E**	*1.43E*
Prior	*0.84E*	*0.13E*	*0.11E*	*0.36E*	*1.43E*	
2021E	0.96E	0.13E	0.10E	0.39E	**1.58E**	*1.54E*
Prior	*0.91E*	*0.13E*	*0.10E*	*0.38E*	*1.52E*	
2022E	1.02E	0.14E	0.11E	0.41E	**1.68E**	*NA*
Prior	*0.96E*	*0.14E*	*0.12E*	*0.40E*	*1.62E*	

Source: Guggenheim Securities, LLC; FactSet consensus estimates.

- **Valuation:** We derive our regulated utility group target multiple of 17x from our regression model, which uses the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years, and now ascribe a one-turn premium to reflect several externalities (e.g., macro/geopolitical uncertainties) that continue to support the group trading beyond fundamentals and forward-yield expectations. We arrive at our valuation utilizing a sum-of-the parts analysis, based on: (1) ~$9/share for the regulated electric utility; (2) ~$23/share value for the regulated gas segment utilizing our regulated electric P/E multiple plus a premium to account for the historical gas LDC spread above electric counterparts; and (3) (~$2)/share for other adjustments for Corp and Other. We then discount our valuation back by one-year to arrive at our $29 PT.
- **Risks:** The primary risks on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model. Company specific risks include regulatory risk/rate case risk associated with September gas explosions in Massachusetts.

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INCOME STATEMENT ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Gas Distribution	2,569	949	442	627	990	3,008	3,114	3,217	3,319
Gas Transportation and Storage	1,225	452	211	299	472	1,434	1,484	1,533	1,582
Electric	1,715	417	397	445	421	1,680	1,751	1,849	1,977
Other	11	8	4	5	8	24	25	26	26
Total Operating Revenues	**5,519**	**1,826**	**1,053**	**1,377**	**1,890**	**6,146**	**6,374**	**6,624**	**6,905**
Cost of Sales	1,713	721	312	214	460	1,708	1,741	1,782	1,833
Operation and maintenance	2,489	413	377	802	940	2,533	2,533	2,533	2,533
Loss (gain) on sale of assets and impairments, net	0	-	-	-	-	-	-	-	-
Other taxes	279	73	73	75	81	303	336	368	403
Total Operating Expenses	**2,768**	**487**	**450**	**877**	**1,021**	**2,835**	**2,868**	**2,900**	**2,936**
EBITDA	**1,038**	**618**	**291**	**285**	**409**	**1,603**	**1,765**	**1,942**	**2,137**
Depreciation and amortization	585	150	153	156	159	619	668	722	790
Operating Income	**452**	**467**	**138**	**129**	**250**	**985**	**1,096**	**1,220**	**1,346**
Equity Earnings in Unconsolidated Affiliates	-	-	-	-	-	-	-	-	-
Other, net	42	-	-	-	-	-	-	-	-
Loss on early extinguishment of long-term debt	(46)	-	-	-	-	-	-	-	-
Interest expense, net	352	79	82	85	88	335	382	434	491
Income before income taxes	**98**	**388**	**56**	**44**	**162**	**650**	**714**	**786**	**855**
Income Taxes	8	81	12	9	34	136	150	165	179
Net income from continuing operations	**90**	**307**	**44**	**35**	**128**	**514**	**564**	**621**	**676**
Income (Loss) from Discontinued Operations - net of taxes	-	-	-	-	-	-	-	-	-
Net income	**90**	**307**	**44**	**35**	**128**	**514**	**564**	**621**	**676**
Less: Net income attributable to noncontrolling interests	-	-	-	-	-	-	-	-	-
Net Income (Loss) attributable to NiSource	**90**	**307**	**44**	**35**	**128**	**514**	**564**	**621**	**676**
Avg. shares outstanding (diluted)	352	369	371	374	376	373	383	393	403
Earnings Per Common Share, Diluted	**$0.25**	0.83	0.12	0.09	0.34	**$1.38**	**$1.48**	**$1.58**	**$1.68**
Non-GAAP Items	360								
Net income (Non-GAAP)	**450**	**307**	**44**	**35**	**128**	**514**	**564**	**621**	**676**
EPS from Continuing Operations	**$1.28**	**$0.83**	**$0.12**	**$0.09**	**$0.34**	**$1.38**	**$1.48**	**$1.58**	**$1.68**

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM
NISource
Consolidated

BALANCE SHEET ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash and cash equivalents	33	797	729	363	25	25	46	51	77
Restricted cash	12	12	12	12	12	12	12	12	12
Accounts receivable	1,044	345	199	260	357	357	113	36	11
Gas inventory	825	305	142	202	318	318	107	36	12
Materials and supplies, at average cost	204	67	39	51	70	70	22	7	2
Electric production fuel, at average cost	42	10	10	11	10	10	3	1	0
Exchange gas receivable	37	37	37	37	37	37	37	37	37
Regulatory assets	221	221	221	221	221	221	221	221	221
Deferred income taxes	-	-	-	-	-	-	-	-	-
Prepayments and other	90	90	90	90	90	90	90	90	90
Total Current Assets	**2,508**	**1,885**	**1,479**	**1,246**	**1,140**	**1,140**	**651**	**490**	**463**
Property, plant and equipment									
Property, plant and equipment	22,860	23,323	23,785	24,248	24,710	24,710	26,555	28,600	30,795
Less: accumulated depreciation	(7,318)	(7,469)	(7,622)	(7,778)	(7,937)	(7,937)	(8,605)	(9,327)	(10,118)
Net utility plant	**15,542**	**15,854**	**16,163**	**16,469**	**16,773**	**16,773**	**17,950**	**19,273**	**20,677**
Other property, at cost, less accumulated depreciation	17	17	17	17	17	17	17	17	17
Net Property, Plant and Equipment	**15,559**	**15,871**	**16,180**	**16,487**	**16,790**	**16,790**	**17,967**	**19,290**	**20,695**
Investments and Other Assets									
Unconsolidated affiliates	3	3	3	3	3	3	3	3	3
Other investments	215	215	215	215	215	215	215	215	215
Total Investments and Other Assets	**217**	**217**	**217**	**217**	**217**	**217**	**217**	**217**	**217**
Other Assets									
Regulatory assets	1,907	1,907	1,907	1,907	1,907	1,907	1,907	1,907	1,907
Goodwill	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691
Intangible assets-net of accumulated amortization	224	224	224	224	224	224	224	224	224
Deferred charges and other	117	117	117	117	117	117	117	117	117
Total other non-current assets	**3,939**	**3,939**	**3,939**	**3,939**	**3,939**	**3,939**	**3,939**	**3,939**	**3,939**
Total Assets	**22,223**	**21,911**	**21,815**	**21,889**	**22,086**	**22,086**	**22,774**	**23,936**	**25,313**

Source: Company reports, Guggenheim Securities, LLC estimates.

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BALANCE SHEET ($ Millions)	**2018E**	1QE	2QE	3QE	4QE	**2019E**	**2020E**	**2021E**	**2022E**
Current portion of long-term debt	49	49	49	49	49	49	49	49	49
Short-term borrowings	1,611	1,611	1,611	1,611	1,611	1,611	1,611	1,611	1,611
Accounts payable	905	299	173	226	310	310	98	31	10
Dividends payable	82	82	82	82	82	82	82	82	82
Customer deposits and credits	238	238	238	238	238	238	238	238	238
Taxes accrued	150	150	150	150	150	150	150	150	150
Interest accrued	108	108	108	108	108	108	108	108	108
Exchange gas payable	58	58	58	58	58	58	58	58	58
Deferred revenue	-	-	-	-	-	-	-	-	-
Regulatory liabilities	82	82	82	82	82	82	82	82	82
Accrued liability for postretirement and postemployment benefit	-	-	-	-	-	-	-	-	-
Legal and environmental	20	20	20	20	20	20	20	20	20
Accrued compensation and employee benefits	153	153	153	153	153	153	153	153	153
Other accruals	420	420	420	420	420	420	420	420	420
Total Current Liabilities	**3,882**	**3,277**	**3,150**	**3,203**	**3,287**	**3,287**	**3,076**	**3,008**	**2,987**
Other Liabilities and Deferred Credits									
Risk management liabilities	45	45	45	45	45	45	45	45	45
Deferred income taxes	1,292	1,292	1,292	1,292	1,292	1,292	1,292	1,292	1,292
Deferred investment tax credits	12	12	12	12	12	12	12	12	12
Deferred credits	-	-	-	-	-	-	-	-	-
Accrued liability for postretirement and postemployment benefit	301	301	301	301	301	301	301	301	301
Regulatory liabilities	2,827	2,827	2,827	2,827	2,827	2,827	2,827	2,827	2,827
Asset retirement obligations	347	347	347	347	347	347	347	347	347
Other noncurrent liabilities	297	297	297	297	297	297	297	297	297
Total Other Liabilities and Deferred Credits	**5,120**	**5,120**	**5,120**	**5,120**	**5,120**	**5,120**	**5,120**	**5,120**	**5,120**
Total Liabilities	**9,002**	**8,397**	**8,270**	**8,323**	**8,407**	**8,407**	**8,196**	**8,128**	**8,107**
Capitalization									
Stockholders' Equity:									
Common stock	4	4	4	4	4	4	4	4	4
Treasury stock	(497)	(499)	(501)	(503)	(505)	(505)	(512)	(519)	(526)
Additional paid-in capital	6,793	6,856	6,918	6,981	7,043	7,043	7,293	7,543	7,793
Retained deficit	(1,326)	(1,093)	(1,123)	(1,163)	(1,110)	(1,110)	(874)	(613)	(332)
Accumulated other comprehensive loss	3	3	3	3	3	3	3	3	3
Total NiSource Common Stockholders' Equity	**4,977**	**5,270**	**5,300**	**5,321**	**5,435**	**5,435**	**5,914**	**6,418**	**6,941**
Noncontrolling interest in consolidated subsidiaries	-	-	-	-	-	-	-	-	-
Total Stockholders' Equity	**4,977**	**5,270**	**5,300**	**5,321**	**5,435**	**5,435**	**5,914**	**6,418**	**6,941**
Long-term debt, excluding amounts due within one year	8,245	8,245	8,245	8,245	8,245	8,245	8,665	9,390	10,265
Total Capitalization	**13,221**	**13,515**	**13,545**	**13,566**	**13,679**	**13,679**	**14,578**	**15,807**	**17,206**
Total Liabilities and Equity	**22,223**	**21,911**	**21,815**	**21,889**	**22,086**	**22,086**	**22,774**	**23,936**	**25,313**

Source: Company reports, Guggenheim Securities, LLC estimates.

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NISource
Consolidated

CASH FLOW STATEMENT ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Net income	**90**	307	44	35	128	**514**	**564**	**621**	**676**
Adjustments to reconcile net income to net cash provided by operating activities:									
Loss on early extinguishment of debt	46	-	-	-	-	-	-	-	-
Depreciation and amortization	585	150	153	156	159	619	668	722	790
Deferred income tax provision and investment tax credits	(26)	-	-	-	-	-	-	-	-
Other adjustments	16								
Changes in current operating assets and liabilities:									
Total Changes in Assets and Liabilities	(183)	782	211	(81)	(148)	765	299	99	33
Net Cash Provided by Operating Activities	**526**	1,239	409	110	139	**1,897**	**1,531**	**1,442**	**1,499**
Net Operating Activities from (used for) Discontinued Operation	-	-	-	-	-	-	-	-	-
Net Cash Flows from Operating Activities	**526**	1,239	409	110	139	**1,897**	**1,531**	**1,442**	**1,499**
Cash Flow from Investing Activities:									
Capital expenditures	**(1,829)**	(463)	(463)	(463)	(463)	**(1,850)**	**(1,845)**	**(2,045)**	**(2,195)**
Other investing activities	(80)					-	-	-	-
Net Cash Used in Investing Activities	**(1,908)**	(463)	(463)	(463)	(463)	**(1,850)**	**(1,845)**	**(2,045)**	**(2,195)**
Net Investing Activities from (used for) Continuing Operations	-	-	-	-	-	-	-	-	-
Net Cash Flows from (used for) Investing Activities	**(1,908)**	(463)	(463)	(463)	(463)	**(1,850)**	**(1,845)**	**(2,045)**	**(2,195)**
Cash Flow from Financing Activities:									
Cash of CPG at Separation	-	-	-	-	-	-	-	-	-
Issuance of long-term debt	1,500					-	420	725	875
Repayments of long-term debt and capital lease obligations	(1,044)		-	-	-	-	-	-	-
Premiums and other debt related costs	(46)	-	-	-	-	-	-	-	-
Change in short-term borrowings, net	405					-	-	-	-
Issuance of common stock	**850**	63	63	63	63	**250**	**250**	**250**	**250**
Acquisition of treasury stock	**(7)**	(2)	(2)	(2)	(2)	**(7)**	**(7)**	**(7)**	**(7)**
Dividends paid - common stock	(269)	(74)	(74)	(75)	(75)	(299)	(328)	(360)	(395)
Net Cash (Used in) Provided by Financing Activities	**1,389**	(13)	(14)	(14)	(15)	**(56)**	**335**	**608**	**723**
Net Financing Activities from Discontinued Operations	-	-	-	-	-	-	-	-	-
Net Cash Flows from (used for) Financing Activities	**1,389**	(13)	(14)	(14)	(15)	**(56)**	**335**	**608**	**723**
Net (Decrease) Increase in Cash and Cash Equivalents	**7**	763	(68)	(367)	(338)	**(9)**	**21**	**5**	**26**
Cash and Cash Equivalents, Beginning of Period	38	45	809	741	375	45	37	58	63
Cash and Cash Equivalents, End of Period	**45**	809	741	375	37	**37**	**58**	**63**	**89**

Source: Company reports, Guggenheim Securities, LLC estimates

See pages 278 - 279 for analyst certification and important disclosures.

NEW JERSEY RESOURCES (NJR, SELL, $39 PT)

Strong 2018 performance prices in the entire story and then some - downgrading to SELL on valuation as we await clarity on the next phase of this story: tough to justify these valuation multiples unless one is making an M&A call... which we are not.

- **We are downgrading from a NEUTRAL to a SELL rating on valuation; we don't see an M&A premium as justified at this time, and the valuation has become stretched given top tier performance in 2018 – we downgraded in September 2018 from BUY to NEUTRAL (see HERE) on valuation, and now we are taking a further step back.** On M&A, we continue to believe management is not quite as interested in selling as some may think. NJR shares continue to trade at a slight premium to the gas LDC average – which itself is skewed by the 4x premium currently assigned by the market to sell-rated NWN. Aside from NWN, NJR is the second most expensive gas LDC under our coverage. At these levels, and with an outstanding run for 2018 (up 13%), we see an exit point in the NT to allow shares to re-rate. In addition, and similar to our view on NWN, we see regional environmental policies as dimming the prospects for any new midstream investment in the LT. Our PT moves to $39 from $49 as we shift our valuation forward to 2020 and concurrently remove the M&A premium. **NJR remains a sound story with good fundamentals but these valuation levels becoming harder and harder to justify.**

- **We are introducing our 2022 EPS estimate of $2.54, maintaining our 2019 estimates and refreshing our 2020/2021 estimates.** Our 2020 and 2021 EPS estimates move to $2.19 and $2.36 from $2.10 and $2.26 as we refresh. Our estimates incorporate average earned ROEs of ~9.4% for the regulated utility (vs. 9.75% authorized) driven by rate base growth of ~7.8% from '18 to '22, with average customer growth of ~1.8%. We model PennEast coming online in fiscal 1Q20, contributing $0.11/share in its first year of operations, and the Adelphia Gateway Pipeline contributing to earnings in the midstream segment in 2020. Additionally, we model continued strength in the Clean Energy Ventures (CEV) segment driven by solid contracted solar investments and firmer SREC pricing, with CEV contributing ~32% to our consolidated EPS estimate of $2.54 in 2022.

- **SRL and PennEast projects were further delayed in 2018, but not estimated to materially impact earnings due to AFUDC contributions. Adelphia project slightly backfilling PennEast delays…** As of December 2018, SRL had commenced construction in Ocean County on SRL, with road opening permits in Burlington County and appeals in state courts still outstanding. The project has a targeted in-service date of late 2019 (from late 2018), and assuming NJR gets the final approvals needed, it will likely file for recovery in a separate filing to mitigate regulatory lag. PennEast has faced its own challenges 2018, with its in-service date pushed back to 2020 following survey delays along the route in both PA and NJ from landowner legal actions. These delays on PennEast have been slightly backfilled by the acquisition of the Adelphia liquids to gas conversion project, which has faced significantly less opposition as a brownfield development. **We model PennEast earning $0.11/share in its first full-year of operation vs. Adelphia at ~$0.09/share when live in 2020 before any upsizing.**

- **NJ policy direction cuts both ways in the LT - we are increasingly left to wonder what the state's new direction will mean for NJR.** Governor Murphy made good on his campaign promises to implement new environmental policies in NJ, with his first year in office punctuated by several initiatives to bolster the state's green credentials. NJR's CEV segment should benefit as a result, as its residential and commercial solar investments are supported by state policy and growing customer demand that will see the state procure 50% of its energy from Class I renewables by 2030. We continue to expect future year SREC prices may firm up as LSEs will need to meet the targets. Despite the positive momentum on the CEV side, **we are increasingly left to wonder what the state's new direction will mean for NJR.** While the core LDC business is experiencing steady customer growth, we do not see additional midstream investment as particularly viable from a policy standpoint going forward. Adelphia aside (itself a unique conversion project), **the state has become much more hostile towards fossil infrastructure, in our view.**

Guggenheim's NJR EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018A	1.56A	1.62A	-0.09A	-0.35A	**2.74A**	2.74E
Prior	*1.56E*	*1.62E*	*0.09E*	*-0.34E*	*2.74E*	
2019E	0.69E	1.05E	0.27E	0.01E	**2.01E**	2.03E
Prior	*0.65E*	*1.01E*	*0.31E*	*0.05E*	*2.01E*	
2020E	0.72E	1.14E	0.30E	0.05E	**2.19E**	2.15E
Prior	*0.65E*	*1.06E*	*0.32E*	*0.08E*	*2.10E*	
2021E	0.78E	1.20E	0.35E	0.04E	**2.36E**	2.31E
Prior	*0.71E*	*1.12E*	*0.36E*	*0.07E*	*2.26E*	
2022E	0.83E	1.29E	0.39E	0.04E	**2.54E**	
Prior						

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** We arrive at our valuation utilizing a sum-of-the parts analysis comprised of: (1) ~$27/share for regulated gas utility when we ascribe our historical LDC premium to our regulated electric target multiple; (2) ~$5/share (previously ~$6/share) for the midstream segment, applying a 21x gas multiple for growth associated with the Adelphia Gateway pipeline (2020 targeted in-service date); (3)~$7/share (previously $14) for Clean Energy Ventures and Home Services, applying an 11x multiple for its LT contracted cash flow stream; and, (4) ~-$1/share for NJR's energy services (previously $3) when we ascribe an 8x EV/EBITDA multiple to our 2020 EBITDA estimate less implied debt (previously 12x on 2019E EBITDA). We then discount our valuation back one year to arrive at our new $39 PT.
- **Risks:** Upside risks for NJR include (1) more favorable regulatory outcomes, (2) higher capex outlook, (3) favorable interest rate changes, and (4) additional midstream capex opportunities.

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NJR MODEL
CONSOLIDATED FINANCIALS

Income Statement ($ in millions)	2018A	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating Revenues									
Utility	732	219	333	146	123	821	887	940	988
Nonutility	2,183	406	526	347	393	1,672	1,698	1,727	1,748
Total Operating Revenues	2,915	625	859	494	515	2,494	2,585	2,667	2,736
Operating Expenses									
Cost of sales	2,275	443	618	359	407	1,827	1,871	1,922	1,958
Gas Purchases - Utility	276	89	149	55	51	344	372	394	414
Gas Purchases - Nonutility	1,991	354	469	304	356	1,482	1,499	1,528	1,543
Gas Purchases - Related parties	9	-	-	-	-	-	-	-	-
Operation and maintenance	267	50	52	64	74	239	241	242	244
Regulatory rider expenses	39	12	18	6	4	39	39	39	39
Depreciation and amortization	86	27	28	29	30	115	128	139	145
Energy and other taxes	52	15	22	8	2	46	46	46	46
Other	-	1	1	2	2	6	7	7	8
Total operating expenses	2,719	548	738	467	519	2,272	2,332	2,396	2,440
Operating Income	196	77	121	27	(3)	221	253	271	297
Other income, net	17	2	2	3	3	10	10	10	10
Interest expense, net of capitalized interest	46	9	10	10	11	41	50	55	57
Earnings before tax	167	70	113	19	(12)	191	213	226	250
Income tax provision	(54)	15	26	0	(9)	32	36	35	39
Equity in earnings of affiliates	13	5	5	5	4	19	22	28	27
Net Income	233	61	92	24	1	178	200	219	238
Adjustments	6	-	-	-	-	-	-	-	-
Net Income (Non GAAP)	239	61	92	24	1	178	200	219	238
Avg. Shares Outstanding (Diluted)	87	88	88	89	89	89	91	93	94
Reported EPS (Diluted)	$2.67	$0.69	$1.05	$0.27	$0.01	$2.01	$2.19	$2.36	$2.54
Adjustments	$0.07	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Ongoing EPS diluted	$2.74	$0.69	$1.05	$0.27	$0.01	$2.01	$2.19	$2.36	$2.54

Source: Company reports; Guggenheim Securities, LLC estimates.

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NJR MODEL

CONSOLIDATED FINANCIALS

Balance Sheet ($ in millions)	2018A	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Assets									
Utility Plant at original cost	2369	2568	2768	2967	3166	3166	3721	4054	4054
Less: Accumulated depreciation	(531)	(558)	(586)	(615)	(645)	(645)	(773)	(912)	(1,057)
Plant in service, net	1,838	2,010	2,181	2,352	2,521	2,521	2,947	3,142	2,997
Construction work in progress	192	192	192	192	192	192	192	192	192
Net Utility Plant	2,031	2,203	2,374	2,544	2,713	2,713	3,140	3,334	3,189
Solar and wind equipment and other	697	731	765	798	832	832	936	1043	1043
Less: Accumulated depreciation	(123)	(123)	(123)	(123)	(123)	(123)	(123)	(123)	(123)
Solar equipment, net	575	608	642	676	709	709	814	920	920
Construction work in progress	46	46	46	46	46	46	46	46	46
Net Solar and wind equipment plant	620	654	688	721	755	755	859	966	966
Property, plant and equipment, net	2,651	2,857	3,062	3,265	3,468	3,468	3,999	4,300	4,155
CURRENT ASSETS									
Cash and cash equivalents	1	23	78	65	29	29	29	15	433
Customer accounts receivable									
Billed	205	205	205	205	205	205	205	205	205
Unbilled revenues	7	7	7	7	7	7	7	7	7
Allowance for doubtful accounts	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Regulatory assets	18	18	18	18	18	18	18	18	18
Gas in storage, at average cost	185	185	185	185	185	185	185	185	185
Materials and supplies, at average cost	14	14	14	14	14	14	14	14	14
Prepaid and accrued taxes	23	23	23	23	23	23	23	23	23
Asset held for sale	207	207	207	207	207	207	207	207	207
Derivatives, at fair value	27	27	27	27	27	27	27	27	27
Restricted broker margin accounts	54	54	54	54	54	54	54	54	54
Deferred taxes	-	-	-	-	-	-	-	-	-
Other	34	34	34	34	34	34	34	34	34
Total current assets	770	792	846	833	798	798	798	784	1,202
NONCURRENT ASSETS									
Investments in equity investees	191	191	191	191	191	191	191	191	191
Prepaid pension asset	-	-	-	-	-	-	-	-	-
Regulatory assets	369	369	369	369	369	369	369	369	369
Derivatives, at fair value	11	11	11	11	11	11	11	11	11
Restricted cash construction fund	-	-	-	-	-	-	-	-	-
Available for sale securities	33	33	33	33	33	33	33	33	33
Intangible assets	23	23	23	23	23	23	23	23	23
Other	96	96	96	96	96	96	96	96	96
Total noncurrent assets	723	723	723	723	723	723	723	723	723
Total Assets	4,144	4,371	4,631	4,821	4,989	4,989	5,520	5,806	6,079

Source: Company reports; Guggenheim Securities, LLC estimates.

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NJR MODEL

CONSOLIDATED FINANCIALS

BALANCE SHEET ($ in millions)	2018A	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Liabilities									
Capitalization									
Common stock	226	246	265	285	304	304	419	459	477
Premium on common stock	275	275	275	275	275	275	275	275	275
Accumulated other comprehensive (loss)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)
Treasury stock at cost and other	(76)	(76)	(76)	(76)	(76)	(76)	(76)	(76)	(76)
Retained earnings	1,007	1,042	1,108	1,106	1,080	1,080	1,164	1,257	1,359
Shareholder's Equity	1,419	1,473	1,559	1,576	1,570	1,570	1,769	1,902	2,022
Long-term debt	1,181	1,354	1,528	1,701	1,875	1,875	2,207	2,360	2,514
Total capitalization	2,600	2,827	3,086	3,277	3,445	3,445	3,976	4,262	4,535
Noncurrent liabilities									
Deferred income taxes	242	242	242	242	242	242	242	242	242
Deferred investment tax credits	4	4	4	4	4	4	4	4	4
Deferred gain	9	9	9	9	9	9	9	9	9
Derivatives, at fair value	23	23	23	23	23	23	23	23	23
Manufactured gas plant remediation	131	131	131	131	131	131	131	131	131
Postemployment employee benefit liability	137	137	137	137	137	137	137	137	137
Regulatory liabilities	209	209	209	209	209	209	209	209	209
New Jersey clean energy program	-	-	-	-	-	-	-	-	-
Asset retirement obligation	29	29	29	29	29	29	29	29	29
Other	9	9	9	9	9	9	9	9	9
Total noncurrent liabilities	793	793	793	793	793	793	793	793	793
Current Liabilities									
Current maturities of long-term debt	124	124	124	124	124	124	124	124	124
Short-term debt	152	152	152	152	152	152	152	152	152
Gas purchases payable	211	211	211	211	211	211	211	211	211
Gas purchases payable to related parties	1	1	1	1	1	1	1	1	1
Accounts payable and other	135	135	135	135	135	135	135	135	135
Dividends payable	26	26	26	26	26	26	26	26	26
Accrued taxes	2	2	2	2	2	2	2	2	2
Regulatory liabilities	8	8	8	8	8	8	8	8	8
New Jersey clean energy program	14	14	14	14	14	14	14	14	14
Derivatives, at fair value	47	47	47	47	47	47	47	47	47
Broker margin accounts	4	4	4	4	4	4	4	4	4
Customers' credit balances and deposits	27	27	27	27	27	27	27	27	27
Total Current Liabilities	751	751	751	751	751	751	751	751	751
Total Capitalization and Liabilities	4,144	4,371	4,631	4,821	4,989	4,989	5,520	5,806	6,079

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

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NJR MODEL

CONSOLIDATED FINANCIALS

Cash Flow Statement ($ in millions)	2018A	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating Activities									
Net Income	233	61	92	24	1	178	200	219	238
Unrealized loss (gain) on derivative instruments	27					-	-	-	-
Depreciation and amortization	104	27	28	29	30	115	128	139	145
Gain/loss on investment	(10)					-	-	-	-
Allowance for equity used during construction	(6)	-	-	-	-	-	-	-	-
Allowance for bad debt expense	3	-	-	-	-	-	-	-	-
Deferred income taxes	16	-	-	-	-	-	-	-	-
Manufactured gas plant remediation costs	(16)	-	-	-	-	-	-	-	-
Equity in earnings, net of distributions received	(2)	-	-	-	-	-	-	-	-
Cost of removal - asset retirement obligations	(0)	-	-	-	-	-	-	-	-
Contributions to postemployment benefit plans	(6)	-	-	-	-	-	-	-	-
Tax benefit from stock-based compensation	(73)	-	-	-	-	-	-	-	-
Changes in:									
Components of working capital	97	-	-	-	-	-	-	-	-
Other noncurrent assets	18	-	-	-	-	-	-	-	-
Other noncurrent liabilities	14	-	-	-	-	-	-	-	-
Net Cash Flows from Operating Activities	398	88	121	53	31	293	328	358	383
Investing Activities									
Expenditures for:									
Utility plant expenditures	(207)	(199)	(199)	(199)	(199)	(797)	(555)	(333)	-
Solar and wind equipment expenditures	(123)	(34)	(34)	(34)	(34)	(134)	(104)	(106)	-
Real estate properties and other expenditures	(7)	-	-	-	-	-	-	-	-
Cost of removal expenditures	(48)	-	-	-	-	-	-	-	-
Investments in equity investees	(16)	-	-	-	-	-	-	-	-
Distributions in excess of equity in earnings	3	-	-	-	-	-	-	-	-
Withdrawal/(payment) from/to restricted cash construction fund	(0)	-	-	-	-	-	-	-	-
Proceeds from sale of investment	7								
Proceeds from sale of property	-	-	-	-	-	-	-	-	-
Other	18	-	-	-	-	-	-	-	-
Net Cash Flows Used in Investing Activities	(373)	(233)	(233)	(233)	(233)	(932)	(659)	(440)	-
Financing Activities									
Proceeds from issuance of common stock	59	20	20	20	20	78	115	40	18
Tax benefit from stock options exercised	-	-	-	-	-	-	-	-	-
Proceeds from sale-leaseback transaction	79	-	-	-	-	-	-	-	-
Proceeds from long-term debt	225	173	173	173	173	694	332	153	153
Payments of long-term debt	(165)	-	-	-	-	-	-	-	-
Purchases of treasury stock	-	-	-	-	-	-	-	-	-
Payments of common stock dividends	(96)	(26)	(26)	(26)	(27)	(105)	(116)	(126)	(136)
Tax withholding payments	(14)	-	-	-	-	-	-	-	-
Net proceeds from (payments of) short-term debt	(114)	-	-	-	-	-	-	-	-
Net Cash Flows from (used in) Financing Activities	(26)	167	167	167	166	667	331	67	35
Net change in cash	(1)	22	54	(13)	(36)	28	0	(14)	418
Beginning cash balance	2	1	23	78	65	1	29	29	15
Ending cash balance	1	23	78	65	29	29	29	15	433

Source: Company reports; Guggenheim Securities, LLC estimates.

NRG ENERGY, INC. (NRG, BUY, $51 PT)

We believe 2018's breakneck pace of transformation should yield way to a slightly more straightforward 2019; focus remains on buybacks and execution at the 'new' NRG.

- **Reiterating our BUY rating on NRG** and **maintaining our $51 PT** as we enter 2019 primed for additional capital return via buybacks and a robust outlook for power; both fundamentals in ERCOT and policy-driven change in PJM. NRG's stock continues to trade, in our view, at an unsustainably high FCF yield in the mid-teens – we see buybacks remaining the favored capital allocation route until this corrects. **Overall, we believe NRG looks very well positioned for 2019 and on a path to realize its integrated power model, with retail as the keystone to the transformed NRG. As a reminder we recently took the full C-suite of management on the road – see our deeper thoughts on that HERE.**
- **We are updating our estimates through 2022 as we mark our merchant power models to the 12/07/18 forward commodity price curves and introduce 2022 estimates.** Our estimates are slightly changed versus our fall 2018 mark, with 2019 higher and 2020/2021 slightly lower. We are introducing 2022 estimates built off the same underlying assets and assumptions driving our estimates in 3Q18, with NYLD and LaGen completely removed. **Note: our estimates incorporate the most visible cost savings management has highlighted from its transformation plan thus far -** we model O&M and SG&A reductions ramping up over time consistent with management's guidance, achieving 100% of the $590mm EBITDA-accretive cost savings by YE2020. **Our estimates also call for roughly $5bn in buybacks between 2018 and 2021, with $3.5bn of those yet to be announced by mgmt**. The deployment of all this cash slightly delays our deleveraging versus mgmt.'s original goal, and we now forecast NRG to fall below 3x net debt/EBITDA in 2020. We note that mgmt. has considered relaxing this timeline as well, so we remain very much in line with the overall guide. On the retail side We forecast the segment rising from ~54% of EBITDA in 2019, to ~60% in 2020, in line with mgmt.'s stated target of 60%. We also assume ~1% growth in usage per customer in all 2Qs, and 2% growth in all 3Qs going forward, to account for our expectation that summers will be hotter going forward.
- **Power markets remain favorably positioned for NRG, with tightness in ERCOT and reforms in PJM slated for the 2019 season.** As noted in early sections, we remain highly constructive on power-levered names, with policy and market fundamentals driving a robust outlook for 2019 across the major markets. In ERCOT, we note that expectations for an 8.1% reserve margin have primed the market for scarcity pricing, and while NRG's retail hedge may dull its exposure to volatility we still see the company as better positioned vs. some of its shorter retail peers. In PJM the central focus remains on capacity market reforms, with an announcement from FERC expected within the next month. As we have noted previously (see HERE), we do not expect FERC's order to be anything less than beneficial for generators like NRG, although we remain highly attuned to the details as NRG's fleet is highly concentrated in the Comed LDA. EXC also owns a substantial amount of nuclear capacity in this LDA, so we remain on the lookout for whether its 'carve out' could positively or negatively swing clearing prices.

Guggenheim's NRG EBITDA Estimates

EBITDA ($MM)	1Q	2Q	3Q	4Q	FY	*Cons*
2018E	549A	843A	677A	304E	**2,373E**	*3,006E*
Prior				*319E*	*2,388E*	
2019E	419E	466E	730E	359E	**1,975E**	*2,004E*
Prior	*406E*	*444E*	*689E*	*347E*	*1,886E*	
2020E	323E	406E	760E	368E	**1,858E**	*1,842E*
Prior	*332E*	*409E*	*740E*	*389E*	*1,870E*	
2021E	311E	409E	788E	392E	**1,900E**	*1,878E*
Prior	*330E*	*427E*	*793E*	*431E*	*1,981E*	
2022E	300E	432E	797E	397E	**1,936E**	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** We project unlevered free cash flows based on adjusted EBITDA, subtracting environmental and maintenance CapEx, and cash taxes. We apply an NRG-specific 5.6x (previously 6.9x) terminal multiple to 2025 cash flow, which is weighted by the individual assets in NRG's portfolio, and we discount at NRG's estimated WACC. We also incorporate our fair value estimates for NRG's future environmental liabilities and NOLs and subtract net debt of ~$6.5bn to arrive at our $51 price target.
- **Risk:** Commodity price risk: If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. NRG is still inherently a long natural gas call, with gas the marginal price setter in PJM, MISO, ERCOT, NYISO, etc. Environmental/Policy risk: Environmental regulations could require increased spending; permitting and compliance associated with these regulations could require significant capital and operating expenditures. Considering timing to comply with these regulations and costs, some retirements of plants could be accelerated. Changes to these regulations could increase costs of operating these plants and/ or increase competition. Operational risks: NRG's fleet could experience unforced outages or other operational issues that are inherent risks of the power generation business.

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NRG

Consolidated financials

Income Statement ($MM, unless otherwise noted)	1Q19E	2Q19E	3Q19E	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E	1Q21E	2Q21E	3Q21E	4Q21E	1Q22E	2Q22E	3Q22E	4Q22E	2019E	2020E	2021E	2022E
Revenue	2,575	2,855	3,495	2,595	2,448	2,768	3,523	2,577	2,429	2,769	3,555	2,599	2,420	2,755	3,530	2,565	11,520	11,316	11,352	11,280
Fuel and Purchased Power	1,648	1,886	2,268	1,746	1,638	1,877	2,282	1,729	1,642	1,886	2,296	1,737	1,654	1,859	2,272	1,708	7,548	7,526	7,561	7,493
Other cost of operations	384	378	373	367	365	362	359	357	354	352	350	347	345	343	341	338	1,502	1,443	1,403	1,365
Gross Margin	**544**	**590**	**853**	**482**	**445**	**529**	**882**	**491**	**433**	**531**	**910**	**514**	**422**	**553**	**918**	**518**	**2,469**	**2,347**	**2,388**	**2,422**
SG&A	115	115	114	114	113	114	114	114	114	114	114	114	114	114	114	114	457	455	456	455
Development expense	10	9	9	9	9	9	9	8	8	8	8	8	8	7	7	7	37	34	32	32
Other (Income) / Loss																	-	-	-	-
Adjustment for unconsolidated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MTM and other one-time items																	-	-	-	
Adjusted EBITDA	**419**	**466**	**730**	**359**	**323**	**406**	**760**	**368**	**311**	**409**	**788**	**392**	**300**	**432**	**797**	**397**	**1,975**	**1,858**	**1,900**	**1,936**
Deprecation & amortization	123	124	125	126	127	128	129	131	132	133	134	135	136	137	138	140	497	515	533	538
Interest	90	90	90	90	90	90	90	90	86	86	86	86	81	81	81	81	361	361	342	322
NYLD Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MTM and other one-time items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings Before Taxes	**207**	**252**	**515**	**143**	**106**	**188**	**540**	**148**	**93**	**191**	**568**	**172**	**83**	**214**	**578**	**177**	**1,117**	**982**	**1,024**	**1,076**
Effective Tax Rate	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Income Tax Expense/(Benefit)	43	53	108	30	22	40	113	31	20	40	119	36	18	45	121	37	235	206	215	226
Minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preferred Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on redemption of preferred shares																	-	-	-	-
Net Income	**163**	**199**	**407**	**113**	**84**	**149**	**427**	**117**	**74**	**151**	**449**	**136**	**66**	**169**	**456**	**140**	**882**	**776**	**809**	**850**
Fully Diluted Shares Outstanding	270	257	244	231	222	217	213	208	203	199	194	190	188	188	188	188	250	215	197	195
EPS	**$0.61**	**$0.78**	**$1.67**	**$0.49**	**$0.38**	**$0.68**	**$2.01**	**$0.56**	**$0.36**	**$0.76**	**$2.31**	**$0.71**	**$0.35**	**$0.90**	**$2.43**	**$0.74**	**$3.53**	**$3.61**	**$4.12**	**$4.36**
Dividends per Share	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	0.03	$0.03	$0.03	$0.03	$0.12	$0.12	$0.12	$0.12
Dividend Payout Ratio	5%	4%	2%	6%	8%	4%	1%	5%	8%	4%	1%	4%	9%	3%	1%	4%	3%	3%	3%	
Year End Share Count	263	250	237	224	220	215	210	206	201	197	192	188	188	188	188	188	244	213	194	195
EBITDA by Segment																				
Retail	189	234	507	130	197	246	535	136	203	253	545	143	209	261	556	149	1,060	1,113	1,144	1,175
NRG Yield	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gulf Coast	58	63	68	71	28	28	30	30	4	8	12	15	(19)	26	30	32	260	116	39	68
East	21	16	1	4	3	2	(0)	2	7	16	33	33	12	12	13	12	42	7	89	60
West	5	6	6	6	6	6	6	6	5	5	5	5	5	5	5	5	23	23	21	26
Renewables	(1)	(0)	1	1	1	2	3	3	3	4	5	5	5	6	6	7	0	9	16	16
Corporate and Other	148	148	148	148	89	123	187	192	89	123	187	192	89	123	187	192	590	590	590	590
Adj. EBITDA	**419**	**466**	**730**	**359**	**323**	**406**	**760**	**368**	**311**	**409**	**788**	**392**	**300**	**432**	**797**	**397**	**1,975**	**1,858**	**1,900**	**1,936**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

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Consolidated financials

Cash Flow Statement ($mm, unless otherwise noted)	1Q19E	2Q19E	3Q19E	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E	1Q21E	2Q21E	3Q21E	4Q21E	1Q22E	2Q22E	3Q22E	4Q22E	2018E	2019E	2020E	2021E	2022E
Net Income	163	199	407	113	84	149	427	117	74	151	449	136	66	169	456	140	475	882	776	809	850
Depreciation & Amortization	123	124	125	126	127	128	129	131	132	133	134	135	136	137	138	140	677	497	515	533	538
Non-Cash Extraordinary Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Tax	59	59	59	59	52	52	52	52	54	54	54	54	56	56	56	56	(35)	235	206	215	226
Other Adjustments to Cash Flow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	35	-	-	-	-
Changes in Working Capital, Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(138)	-	-	-	-
Cash Flow From Operations	**344**	**382**	**590**	**298**	**262**	**328**	**608**	**299**	**259**	**337**	**637**	**324**	**258**	**363**	**651**	**336**	**1,014**	**1,614**	**1,497**	**1,557**	**1,613**
																	(0)	-	-		
Capital Expenditures	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(681)	(180)	(180)	(180)	(180)
Divestitures of Assets	-	-	-	205	-	-	-	-	-	-	-	-	-	-	-	-	-	205	-	-	-
Acquisitions of Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(209)	-	-	-	-
Other (incl. CITC cash grant proceeds)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	495	-	-	-	-
Cash Flow From Investing	**(45)**	**(45)**	**(45)**	**160**	**(45)**	**(45)**	**(45)**	**(45)**	**(45)**	**(45)**	**(45)**	**(45)**	**(45)**	**(45)**	**(45)**	**(45)**	**(395)**	**25**	**(180)**	**(180)**	**(180)**
																	-	-	-	-	
Issuance/(Redemption) of Debt	-	-	-	-	-	-	-	-	-	-	-	-	(278)	(278)	(278)	(278)	25	-	-	-	(1,110)
Issuance/(Rep.) of Common Equity	(500)	(500)	(500)	(500)	(188)	(188)	(188)	(188)	(188)	(188)	(188)	(188)	-	-	-	-	(1,500)	(2,000)	(750)	(750)	-
Common Stock Dividends	(8)	(8)	(7)	(7)	(7)	(7)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(46)	(30)	(26)	(24)	(23)
Preferred Stock Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale proceeds / contributions from non-control (NYLD drops)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	222	-	-	-	-
Distributions to unconsolidated (NYLD, solar)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	125	-	-	-	-
Cash Flow From Financing	**(508)**	**(508)**	**(507)**	**(507)**	**(194)**	**(194)**	**(194)**	**(194)**	**(194)**	**(193)**	**(193)**	**(193)**	**(283)**	**(283)**	**(283)**	**(283)**	**(1,174)**	**(2,030)**	**(776)**	**(774)**	**(1,133)**
																	-	-	-		
Effect of exchange rate changes on cash																	1	-	-		
Increase/(Decrease) in Cash	(209)	(171)	38	(49)	23	89	369	60	21	99	398	86	(70)	35	323	7	(555)	(391)	541	604	300
Cash at Beginning of Period	504	295	124	162	113	136	226	594	654	675	774	1,172	1,258	1,189	1,223	1,546	1,059	504	113	654	1,258
Cash at End of Period	**295**	**124**	**162**	**113**	**136**	**226**	**594**	**654**	**675**	**774**	**1,172**	**1,258**	**1,189**	**1,223**	**1,546**	**1,554**	**504**	**113**	**654**	**1,258**	**1,558**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

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Consolidated financials

Balance Sheet ($mm, unless otherwise noted)	1Q19E	2Q19E	3Q19E	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E	1Q21E	2Q21E	3Q21E	4Q21E	1Q22E	2Q22E	3Q22E	4Q22E	2018E	2019E	2020E	2021E	2022E
Assets																					
Cash and Cash Equivalents	267	96	134	85	108	198	566	626	647	746	1,144	1,230	1,161	1,195	1,518	1,526	476	85	626	1,230	1,530
Restricted Cash	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28
Accounts Receivable	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297
Fuel Stocks & Other Inventory	408	408	408	408	408	408	408	408	408	408	408	408	408	408	408	408	408	408	408	408	408
Short Term Derivative Assets	683	683	683	683	683	683	683	683	683	683	683	683	683	683	683	683	683	683	683	683	683
Cash Collateral Postings	209	209	209	209	209	209	209	209	209	209	209	209	209	209	209	209	209	209	209	209	209
Other Current Assets	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34
Total Current Assets	**2,926**	**2,755**	**2,793**	**2,744**	**2,767**	**2,857**	**3,225**	**3,285**	**3,306**	**3,405**	**3,803**	**3,889**	**3,820**	**3,854**	**4,177**	**4,185**	**3,135**	**2,744**	**3,285**	**3,889**	**4,189**
Gross Property, Plant & Equipment	6,632	6,677	6,722	6,562	6,607	6,652	6,697	6,742	6,787	6,832	6,877	6,922	6,967	7,012	7,057	7,102	6,587	6,562	6,742	6,922	7,102
Less: Accumulated Depreciation	(2,690)	(2,814)	(2,939)	(3,065)	(3,192)	(3,320)	(3,449)	(3,580)	(3,711)	(3,844)	(3,978)	(4,113)	(4,249)	(4,386)	(4,525)	(4,664)	(2,567)	(3,065)	(3,580)	(4,113)	(4,651)
Net PP&E	**3,942**	**3,863**	**3,783**	**3,497**	**3,415**	**3,332**	**3,248**	**3,162**	**3,076**	**2,988**	**2,899**	**2,809**	**2,718**	**2,626**	**2,532**	**2,438**	**4,020**	**3,497**	**3,162**	**2,809**	**2,451**
Goodwill	539	539	539	539	539	539	539	539	539	539	539	539	539	539	539	539	539	539	539	539	539
Long Term Derivative Assets	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392
Equity Investments	452	452	452	452	452	452	452	452	452	452	452	452	452	452	452	452	452	452	452	452	452
Notes Receivable	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Other Long Term Assets	2,173	2,173	2,173	2,173	2,173	2,173	2,173	2,173	2,173	2,173	2,173	2,173	2,173	2,173	2,173	2,173	2,173	2,173	2,173	2,173	2,173
Total Other Assets	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**	**3,566**
Total Assets	**10,434**	**10,185**	**10,143**	**9,808**	**9,749**	**9,755**	**10,039**	**10,014**	**9,947**	**9,959**	**10,268**	**10,264**	**10,103**	**10,046**	**10,276**	**10,188**	**10,721**	**9,808**	**10,014**	**10,264**	**10,206**
Liabilities																					
Current Portion of LT Debt	593	593	593	593	593	593	593	593	593	593	593	593	593	593	593	593	593	593	593	593	593
Accounts Payable	824	824	824	824	824	824	824	824	824	824	824	824	824	824	824	824	824	824	824	824	824
Short Term Derivative Liabilities	550	550	550	550	550	550	550	550	550	550	550	550	550	550	550	550	550	550	550	550	550
Other Current Liabilities	756	756	756	756	756	756	756	756	756	756	756	756	756	756	756	756	756	756	756	756	756
Total Current Liabilities	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**	**2,723**
Deferred Income Taxes	41	100	159	217	269	320	372	423	477	531	585	638	695	751	808	864	(17)	217	423	638	864
Long Term Derivative Liabilities	357	357	357	357	357	357	357	357	357	357	357	357	357	357	357	357	357	357	357	357	357
Other Long-Term Liabilities	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611
Long-Term Debt	6,658	6,658	6,658	6,658	6,658	6,658	6,658	6,658	6,658	6,658	6,658	6,658	6,381	6,103	5,826	5,548	6,658	6,658	6,658	6,658	5,548
Total Long Term Liabilities	**9,667**	**9,726**	**9,785**	**9,843**	**9,895**	**9,946**	**9,998**	**10,049**	**10,103**	**10,157**	**10,211**	**10,264**	**10,043**	**9,822**	**9,601**	**9,380**	**9,609**	**9,843**	**10,049**	**10,264**	**9,380**
Total Liabilities	**12,390**	**12,449**	**12,508**	**12,566**	**12,618**	**12,669**	**12,721**	**12,772**	**12,826**	**12,880**	**12,934**	**12,987**	**12,766**	**12,545**	**12,324**	**12,103**	**12,332**	**12,566**	**12,772**	**12,987**	**12,103**
Minority Interest	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19
2.822% Preferred Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common Stock	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Additional Paid-in-Capital	8,453	8,453	8,453	8,453	8,453	8,453	8,453	8,453	8,453	8,453	8,453	8,453	8,453	8,453	8,453	8,453	8,453	8,453	8,453	8,453	8,453
Retained Earnings/(Deficit)	(6,040)	(5,848)	(5,449)	(5,343)	(5,266)	(5,124)	(4,703)	(4,593)	(4,525)	(4,380)	(3,937)	(3,807)	(3,747)	(3,584)	(3,133)	(2,999)	(6,195)	(5,343)	(4,593)	(3,807)	(2,981)
Treasury Stock	(4,334)	(4,834)	(5,334)	(5,834)	(6,022)	(6,209)	(6,397)	(6,584)	(6,772)	(6,959)	(7,147)	(7,334)	(7,334)	(7,334)	(7,334)	(7,334)	(3,834)	(5,834)	(6,584)	(7,334)	(7,334)
Other Comp. Income/(Loss)	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)	(58)
Total Shareholders' Equity	**(1,975)**	**(2,283)**	**(2,384)**	**(2,778)**	**(2,888)**	**(2,934)**	**(2,701)**	**(2,778)**	**(2,898)**	**(2,940)**	**(2,685)**	**(2,742)**	**(2,682)**	**(2,519)**	**(2,068)**	**(1,934)**	**(1,630)**	**(2,778)**	**(2,778)**	**(2,742)**	**(1,916)**
Liab. & Shareholders' Equity	**10,434**	**10,185**	**10,143**	**9,808**	**9,749**	**9,755**	**10,039**	**10,014**	**9,947**	**9,959**	**10,268**	**10,264**	**10,103**	**10,046**	**10,276**	**10,188**	**10,721**	**9,808**	**10,014**	**10,264**	**10,206**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

NORTHWEST NATURAL GAS (NWN, SELL, $49 PT)

Reiterate SELL based on lofty M&A premium persists, underlying utility sound but not a big grower and we aren't making an M&A call with this name.

- **Reiterate SELL and are lowering our PT to $49 from $51 as we roll forward our valuation. We continue to believe NWN commands an unjustified M&A premium, and we do not foresee any suitors in the near term.** NWN remains a fundamentally strong utility earning decent returns in a fairly constructive regulatory environment, all overlaid by a strong underlying economy and growth. **Our thesis remains based on the valuation, with the stock trading at a roughly four-turn premium to the already-premium regulated gas utility group.** NWN trades at a ~26x multiple on '20 EPS estimates, reflecting a lofty acquisition premium. **Said differently, if an acquirer were to come in and make an offer, the 25-30% premiums target company board members have been accustomed to would yield a potential transaction multiple of ~34x for NWN** – **something rarely seen in the utility space.** We also question whether a deal could be done in the state in the near term, especially given that the commissioners have been somewhat vocal against utility combinations. **We continue to foresee the potential for sizeable downside if the M&A premium wears out, which we anticipate could happen, given recent M&A issues in the region.**

- **We are introducing our estimate for 2022 of $2.71 and maintaining 2018/2019/2020 EPS outlook.** Our consolidated earnings growth of ~3.8% through 2022, based off 2017 actuals, is comprised of ~3.0% growth from the regulated utility segment, where we anticipate an average earned ROE of 8.6% from 2019-2022. Our utility estimates also assume ~1.5% consolidated load growth through 2021, in line with management's outlook, driving the consistent growth profile of NWN's utility business as we model ~3% regulated earnings growth and ~8.6% ROEs through 2022, vs. 9.4% authorized ROEs. We project ~3.8% rate base growth with ~$180mm of annual CapEx deployed at the utility through 2021, including the North Mist gas storage expansion investment to be concluded in 2019 in Oregon. Our capex numbers are slightly higher than mgmt. guide ($160mm per year through 2022). **In addition, we note that the nascent water business segment is not yet reflected in our numbers as it remains quite small (<20k customers), but mgmt. has identified significant opportunities in the region to pursue through our forecast period**.

- **North Mist expansion project is slightly delayed – now expected by the company to be online in 1Q19.** On the 3Q18 call management highlighted that the North Mist Gas Storage expansion project continues to move forward; however, its completion has been delayed from December 2018 to March 2019. The expansion project (to serve POR under a long-term contract) has been slightly delayed due to site conditions and contracting delays on the compressor station, with the $12mm in additional investment costs to be recovered through the existing tariff once project is in service. As a reminder compressor which was delayed slightly at the manufacturer in Texas due to Hurricane Harvey. The total estimated cost for the project is ~$140mm and it will be rate-based immediately after completion with a tariff schedule that has been approved by the Oregon PUC.

Guggenheim's NWN EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2018E	1.44A	-0.03A	-0.41A	1.13E	2.17E	*2.21E*
Prior				*1.13E*	*2.17E*	
2019E	1.51E	0.13E	-0.33E	1.13E	2.44E	*2.45E*
Prior	*1.51E*	*0.10E*	*-0.30E*	*1.13E*	*2.44E*	
2020E	1.56E	0.15E	-0.32E	1.21E	2.60E	*2.57E*
Prior	*1.54E*	*0.12E*	*-0.27E*	*1.20E*	*2.60E*	
2021E	1.59E	0.16E	-0.32E	1.23E	2.66E	*2.67E*
Prior	*1.59E*	*0.15E*	*-0.25E*	*1.24E*	*2.73E*	
2022E	1.61E	0.16E	-0.32E	1.25E	2.71E	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** We value NWN as a regulated gas utility, arriving at our $49 PT. We employ our regulated electric target P/E multiple, derived from our corporate bond regression model, of 17.0x and an incremental 2.5x premium to account for the traditional LDC spread, adjusted downward to arrive at our NWN specific 19.5x target P/E multiple. Applying this to our 2020 EPS estimate of $2.60, we arrive at our $49 price target.
- **Upside risks** to our price target include: (1) favorable regulatory settlements; (2) additional gas reserve deals; and (3) higher CapEx outlook.

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NORTHWEST NATURAL GAS COMPANY
Consolidated Financials

INCOME STATEMENT ($ in millions)	2017A	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating Revenues:										
Utility	733	701	255	105	88	247	696	712	723	734
Gas Storage	24	31	9	9	9	9	37	44	48	51
Other	6	4	2	0	0	0	2	2	2	2
Total Operating Revenues	**762**	**736**	266	115	97	256	**734**	**758**	**773**	**787**
Operating Expenses:										
Cost of gas	325	286	111	24	31	113	279	286	290	295
Operations and maintenance	358	174	51	48	44	55	198	198	198	198
Environmental remediation	15	8	-	-	-	-	-	-	-	-
General taxes	32	46	-	-	-	-	-	-	-	-
Depreciation & amortization	86	88	26	26	26	27	105	112	119	126
Total Operating Expenses	**815**	**601**	187	97	102	195	**581**	**596**	**607**	**618**
EBITDA	**32**	**223**	**104**	**43**	**22**	**88**	**258**	**275**	**286**	**295**
Operating Income	**(53)**	**135**	**79**	**17**	**(4)**	**61**	**153**	**163**	**167**	**169**
Other Income (Expense):										
Other income, net	5	(1)	(1)	(1)	(1)	2	(0)	(0)	(0)	(0)
Interest expense, net	(39)	(36)	(9)	(9)	(9)	(9)	(36)	(37)	(37)	(37)
Total Other Income (Expense)	**(33)**	**(37)**	**(10)**	**(10)**	**(10)**	**(7)**	**(37)**	**(37)**	**(37)**	**(37)**
Income Before Income Tax Expense	**(86)**	**98**	**69**	**8**	**(14)**	**54**	**116**	**125**	**129**	**132**
Income Taxes	(31)	37	26	4	(5)	23	48	52	54	55
Net Income	**(56)**	**61**	**42**	**4**	**(9)**	**32**	**68**	**73**	**75**	**76**
Earnings from Equity Method Investments	-	-	-	-	-	-	-	-	-	-
Net Income from Noncontrolling Interest	-	-	-	-	-	-	-	-	-	-
Earnings for Common	**(56)**	**61**	**42**	**4**	**(9)**	**32**	**68**	**73**	**75**	**76**
Wtd. avg. share count (MM)	**29**	**28**	28	28	28	28	**28**	**28**	**28**	**28**
EPS (Basic and Diluted)	**(1.94)**	**2.17**	1.51	0.13	(0.33)	1.13	**2.44**	**2.60**	**2.66**	**2.71**
Non-operating items	120	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	64	**61**	42	4	(9)	32	**68**	**73**	**75**	**76**
Operating EPS	**2.25**	**2.17**	1.51	0.13	(0.33)	1.13	**2.44**	**2.60**	**2.66**	**2.71**

Source: Company reports; Guggenheim Securities, LLC estimates.

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NORTHWEST NATURAL GAS COMPANY

Consolidated Financials

BALANCE SHEET ($ in millions)	2017A	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
	2017A	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2020E	2020E
Assets										
Property, plant, and equipment	3,215	3,425	3,470	3,515	3,560	3,606	3,606	3,787	3,968	4,149
Less: Accumulated depreciation	(960)	(1,021)	(1,047)	(1,073)	(1,099)	(1,126)	(1,126)	(1,238)	(1,357)	(1,483)
Utility Plant, Net	2,255	2,404	2,423	2,442	2,461	2,480	2,480	2,549	2,611	2,666
Gas reserves	84	71	71	71	71	71	71	71	71	71
Regulatory assets	357	334	334	334	334	334	334	334	334	334
Derivative instruments	1	1	1	1	1	1	1	1	1	1
Other investments	66	65	65	65	65	65	65	65	65	65
Restricted cash	-	-	-	-	-	-	-	-	-	-
Other non-current assets	7	19	19	19	19	19	19	19	19	19
Nonutility Property and Investments, Net	515	490	490	490	490	490	490	490	490	490
Current Assets:										
Cash and cash equivalents	3	34	59	33	23	38	38	54	70	94
Accounts receivable	68	27	27	25	26	26	26	30	33	35
Accrued unbilled revenue	62	16	16	16	16	16	16	16	16	16
Allowance for uncollectible accounts	(1)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Regulatory assets	46	41	41	41	41	41	41	41	41	41
Derivative instruments	2	3	3	3	3	3	3	3	3	3
Inventories	48	58	59	34	41	42	42	46	49	52
Gas reserves	16	17	17	17	17	17	17	17	17	17
Income taxes receivable	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other current assets	25	33	33	33	33	33	33	33	33	33
Total Current Assets	270	229	255	201	200	216	216	240	261	291
Total Assets	3,040	3,122	3,168	3,134	3,151	3,186	3,186	3,278	3,362	3,447
Capitalization and Liabilities										
Common Stock	449	456	457	458	459	460	460	464	468	472
Retained Earnings	302	323	365	369	359	391	391	464	539	615
Accumulated Other Comprehensive Loss	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Total Common Equity	743	771	815	819	811	843	843	920	999	1,080
Long-Term Debt, net	683	725	725	725	740	740	740	750	750	750
Total Capitalization	1,426	1,496	1,539	1,544	1,551	1,583	1,583	1,670	1,749	1,829
Current Liabilities:										
Short-term debt	54	101	101	101	101	101	101	101	101	101
Current maturities of long-term debt	97	85	85	85	85	85	85	85	85	85
Accounts payable	112	87	89	51	61	63	63	69	74	78
Taxes accrued	19	13	13	13	13	13	13	13	13	13
Interest accrued	7	9	9	9	9	9	9	9	9	9
Regulatory liabilities	34	38	38	38	38	38	38	38	38	38
Derivative instruments	19	9	9	9	9	9	9	9	9	9
Other current liabilities	40	49	49	49	49	49	49	49	49	49
Current Liabilities	382	390	392	354	364	366	366	372	377	381
Deferred Credits and Other Liabilities:										
Deferred tax liabilities	271	274	274	274	274	274	274	274	274	274
Regulatory liabilities	586	606	606	606	606	606	606	606	606	606
Pension and other postretirement benefit liabilities	223	212	212	212	212	212	212	212	212	212
Derivative instruments	5	3	3	3	3	3	3	3	3	3
Other non-current liabilities	147	140	140	140	140	140	140	140	140	140
Total Liabilities	1,232	1,236	1,236	1,236	1,236	1,236	1,236	1,236	1,236	1,236
Total Liabilities & Equity	3,040	3,122	3,168	3,134	3,151	3,186	3,186	3,278	3,362	3,447

Source: Company reports; Guggenheim Securities, LLC estimates.

OGE ENERGY (OGE, NEUTRAL, $41 PT)

Potential upside to capital and earnings remains from OK grid modernization, Midstream recovery a free call option, but stock now pricing in a more balanced risk/reward, and we have to make a valuation call; we Downgrade to NEUTRAL on material '18 outperformance and lack of NT catalysts over the next few months.

- **We are downgrading to NEUTRAL (from BUY) and raising our PT to $41 (from $39) as we roll forward our valuation, incorporating our 2020 EPS estimates.** OGE now trades at ~17x P/E on 2020 earnings which is in line with our electric utility, multi industry peer group and our baseline utility multiple of 17x. **We maintain our previous view that OGE deserves at least an inline multiple or a slight premium**, due to the potential upside in capital plan expansion, despite some of the regulatory overhangs. That said, with current market valuations, the stock has limited upside (as illustrated by our $41 price target), and **we prefer to be selective in other value names such as CNP which has a similar growth profile, a lower valuation multiple (i.e., CNP ~1.5x cheaper) and MLP upside exposure through ENBL ownership.** But, as we noted earlier in the note, despite the downgrade, we consider OGE a battleground name as a NEUTRAL with potential upside bias – **we look for another entry point given probable incremental growth opportunities especially as we move through the OK rate case later in 2019** (i.e., the OK rate case could be the catalyst we need, but we do not expect more visibility with regulatory progress for a few months).
- **We are maintaining our 2018-2021 estimates and introducing our 2022 EPS estimate of $2.51.** We model earned ROEs near authorized levels of 9.7% through our forecast period, with rate base growth of ~5-7% and an earnings CAGR of ~5%. We expect ENBL to contribute between $0.40-$0.41/share through 2021, representing ~19% of the overall earnings mix on average, with distributions of $1.32 in 2019. Our 2022 estimate incorporates earned ROEs near authorized, with ENBL contributing $0.41/share, and OG&E contributing $1.82/share, with no changes in rate base growth and earned return expectations.
- **OGE is working through rate filings in AK and OK.** In AK, the FRP was filed in October for recovery of Mustang CTs and grid modernization, while the OK rate case filed in 4Q18 includes the Muskogee natural gas conversion and Sooner scrubber investment, as well as depreciation rate adjustments, cost structure updates and a potential ROE increase from 9.5% to 9.9%. OGE management has had conversations with OK regulators and further expects that a rider mechanism could also be approved, with Arkansas' filing serving as the benchmark - could lead to some further capex expansion opportunities for grid modernization but not likely a game changer and not expected to be disclosed for a few months, in our view.
- **OGE management and the board remains comfortable with ENBL as a source of cash flow which strengthens the balance sheet and gets reinvested in the business and dividend (i.e., no needs to fund regulated CapEx with equity).** Management guidance for investors is 3 pronged – expect OGE to invest wisely, grow earnings and return capital through dividends. On the question of debt capacity and opportunities to utilize balance sheet strength for acquisitions, management declined to comment directly, but stated that status quo is seen as fine in terms of business mix, and transactions to pivot to more regulated business are not necessarily top of mind. While **OGE sees no need for utilizing leverage at this time, Mgmt. remains committed to not having a "lazy balance sheet" – it's a question of time when they access it.**

- **AEP's PSO utility still could present a healthy accretive opportunity but likely waits for AEP to potentially become a more willing seller in 2019 if a 3rd strike occurs in the rate case** – as a reminder, we believe our case for a sale of PSO to maybe a player like OGE on the buying end would be a potential win-win for both parties involved if something leads to a transaction – accretion all-around: over 3-6% for OGE, 1-2% for AEP under a modest 50% capital redeployment assumption and growing through time. There are several complexities that need to be worked out for AEP if the Oklahoma commission fails to deliver this a 3rd time around, including the relocation of employees, tax leakage as well as the redeployment of proceeds (i.e., how quickly), which we think could be worked through. **See our most recent OK commissioner meetings HERE and our deeper thoughts around a potential AEP/OGE PSO deal HERE.**

Guggenheim's OGE EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2018E	0.27A	0.55A	1.02A	0.21E	**2.06E**	*2.07E*
Prior	*0.27A*	*0.55A*	*1.02A*	*0.22E*	*2.07E*	
2019E	0.23E	0.52E	0.97E	0.41E	**2.14E**	*2.14E*
Prior	*0.24E*	*0.59E*	*0.96E*	*0.39E*	*2.18E*	
2020E	0.27E	0.58E	1.00E	0.45E	**2.30E**	*2.31E*
Prior	*0.27E*	*0.64E*	*0.99E*	*0.40E*	*2.30E*	
2021E	0.29E	0.60E	1.04E	0.48E	**2.41E**	*2.42E*
Prior	*0.30E*	*0.67E*	*1.02E*	*0.42E*	*2.42E*	
2022E	0.31E	0.62E	1.07E	0.50E	**2.51E**	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** We arrive at our valuation utilizing a sum-of-the-parts analysis, which is comprised of: (1) ~$31/share (up from $29) for the regulated electric utility, apply a one-turn discount for uncertainty in OK which we could remove following the current rate case; and, (2) ~$11/share (up from $10) for OGE's ~26% ownership of ENBL's LP units, based on cash distributions of $1.38 per unit and applying a 7% target yield, which we derive from comparable gas-focused MLPs and ENBL's current LP unit value. We then discount our valuation back one-year to arrive at our $41 PT (up from $39).

- **Risks:** Outside of noise around ENBL, downside/upside risks to achieving our price target for OGE mainly encompass traditional risk factors inherent with all electric utilities including: (1) negative/constructive rate case outcomes (i.e. regulatory risk including AR), (2) lower/higher capex outlook, and (3) interest rate changes below/above what we account for in our regression model.

GUGGENHEIM
OGE Model
Consolidated Financials

INCOME STATEMENT ($M)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating Revenues									
Electric Utility	2,220	503	573	726	534	2,336	2,448	2,514	2,580
Natural Gas Midstream Operations	-	-	-	-	-	-	-	-	-
Total Operating Revenues	**2,220**	503	573	726	534	**2,336**	**2,448**	**2,514**	**2,580**
Electric Utility	849	215	211	254	214	894	937	963	988
Natural Gas Midstream Operations	-	-	-	-	-	-	-	-	-
Total Cost of sales	**849**	215	211	254	214	**894**	**937**	**963**	**988**
Gross Margin	**1,372**	288	362	472	320	**1,442**	**1,511**	**1,551**	**1,592**
O&M	480	116	120	117	117	469	460	455	451
Taxes Other Than Income Tax	91	24	22	23	22	91	91	91	91
Total Operating Expenses	**571**	140	142	140	139	**560**	**551**	**546**	**541**
EBITDA	**800**	148	220	332	181	**882**	**960**	**1,005**	**1,051**
Depreciation and amortization	322	82	83	83	84	332	346	360	374
Operating Income	**478**	67	138	249	97	**550**	**614**	**645**	**677**
Equity in earnings of unconsolidated affiliates	135	29	32	34	43	138	147	148	148
Allowance for equity funds	20	5	5	5	5	21	-	-	-
Other income (expense)	10	2	3	3	3	10	(2)	(2)	(2)
Net other income	**164**	36	40	43	51	**170**	**146**	**146**	**146**
Interest on long-term debt	163	44	45	45	44	179	179	182	187
Allowance for borrowed funds	(9)	5	5	5	5	21	-	-	-
Interest on short-term debt and other	9					-	-	-	-
Total Interest Expense	**162**	44	45	45	44	**179**	**179**	**182**	**187**
Income Before Taxes	**481**	59	132	246	104	**541**	**581**	**609**	**635**
Income Taxes	69	12	28	52	22	114	122	128	133
Net Income	**412**	47	104	194	82	**427**	**459**	**481**	**502**
Weighted-average Number of Common Shares Outstanding	200	200	200	200	200	200	200	200	200
Earnings Per Common Share, Diluted	**$ 2.06**	$ 0.23	$ 0.52	$ 0.97	$ 0.41	**$ 2.14**	**$ 2.30**	**$ 2.41**	**$ 2.51**
Non-operating items	-	-	-	-	-	-	-	-	-
Net Income (Non GAAP)	**412**	47	104	194	82	**427**	**459**	**481**	**502**
Operating EPS	**$ 2.06**	$ 0.23	$ 0.52	$ 0.97	$ 0.41	**$ 2.14**	**$ 2.30**	**$ 2.41**	**$ 2.51**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
OGE Model
Consolidated Financials

BALANCE SHEET ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash and cash equivalents	217	297	254	282	224	224	179	148	224
Accounts receivable	162	37	42	53	39	39	9	2	1
Accounts receivable - unconsolidated affiliates	-	-	-	-	-	-	-	-	-
Accrued unbilled revenues	45	10	12	15	11	11	3	1	0
Income taxes receivable	14	14	14	14	14	14	14	14	14
Fuel inventories	49	12	12	15	12	12	3	1	0
Materials and supplies, at average cost	100	25	25	30	25	25	6	2	0
Deferred income taxes	-	-	-	-	-	-	-	-	-
Fuel clause under recoveries	-	-	-	-	-	-	-	-	-
Other	28	28	28	28	28	28	28	28	28
Total Current Assets	**614**	**423**	**385**	**436**	**353**	**353**	**241**	**194**	**267**
Property, plant and equipment, at cost									
In service	**11,697**	11,822	11,947	12,072	12,197	**12,197**	**12,657**	**13,181**	**13,625**
Construction work in progress	**656**	687	718	750	781	**781**	**896**	**1,027**	**1,138**
Total Property, Plant and Equipment	**12,353**	**12,509**	**12,665**	**12,821**	**12,978**	**12,978**	**13,553**	**14,208**	**14,763**
Less: accumulated depreciation	3,761	3,843	3,926	4,009	4,094	4,094	4,440	4,800	5,174
Net Property, Plant and Equipment in Service	**8,591**	**8,666**	**8,739**	**8,812**	**8,884**	**8,884**	**9,113**	**9,407**	**9,588**
OTHER PROPERTY AND INVESTMENTS									
Investment in unconsolidated affiliates	1,157	1,149	1,144	1,142	1,148	1,148	1,143	1,131	1,118
Other	78	78	78	78	78	78	78	78	78
Total Other Property and Investments	**1,234**	**1,227**	**1,222**	**1,219**	**1,226**	**1,226**	**1,220**	**1,208**	**1,196**
DEFERRED CHARGES AND OTHER ASSETS									
Regulatory assets	256	256	256	256	256	256	256	256	256
Other	10	10	10	10	10	10	10	10	10
Total Deferred Charges and Other Assets	**266**	**266**	**266**	**266**	**266**	**266**	**266**	**266**	**266**
Total Assets	**10,705**	**10,581**	**10,612**	**10,733**	**10,729**	**10,729**	**10,840**	**11,075**	**11,316**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
OGE Model
Consolidated Financials

BALANCE SHEET ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Short-term debt	-	-	-	-	-	-	-	-	-
Accounts payable - unconsolidated affiliates	-	-	-	-	-	-	-	-	-
Accounts payable	130	33	32	39	33	33	8	2	0
Dividends payable	73	73	73	73	73	73	73	73	73
Customer deposits	83	83	83	83	83	83	83	83	83
Accrued taxes	63	63	63	63	63	63	63	63	63
Accrued interest	40	40	40	40	40	40	40	40	40
Accrued compensation	40	40	40	40	40	40	40	40	40
Long-term debt due within one year	250	250	250	250	250	250	250	250	250
Fuel clause over recoveries	39	39	39	39	39	39	39	39	39
Other	82	82	82	82	82	82	82	82	82
Total Current Liabilities	**799**	**702**	**701**	**708**	**702**	**702**	**677**	**671**	**670**
Long-Term Debt	**2,972**	**2,972**	**2,972**	**2,972**	**2,972**	**2,972**	**2,972**	**3,072**	**3,172**
DEFERRED CREDITS AND OTHER LIABILITIES									
Accrued benefit obligations	173	173	173	173	173	173	173	173	173
Deferred income taxes	1,292	1,292	1,292	1,292	1,292	1,292	1,292	1,292	1,292
Deferred investment tax credits	-	-	-	-	-	-	-	-	-
Regulatory liabilities	1,291	1,291	1,291	1,291	1,291	1,291	1,291	1,291	1,291
Other	180	180	180	180	180	180	180	180	180
Total Deferred Credits and Other Liabilities	**2,936**	**2,936**	**2,936**	**2,936**	**2,936**	**2,936**	**2,936**	**2,936**	**2,936**
Total Liabilities	**6,707**	**6,610**	**6,609**	**6,615**	**6,609**	**6,609**	**6,585**	**6,679**	**6,777**
Stockholders' Equity:									
Common stockholders' equity	1,124	1,124	1,124	1,124	1,124	1,124	1,124	1,124	1,124
Retained earnings	2,893	2,866	2,898	3,012	3,014	3,014	3,150	3,291	3,434
Accumulated other comprehensive loss	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
Total Stockholders' Equity	**3,998**	**3,972**	**4,003**	**4,117**	**4,119**	**4,119**	**4,255**	**4,397**	**4,539**
Non-controlling interests	-	-	-	-	-	-	-	-	-
Total Equity	**3,998**	**3,972**	**4,003**	**4,117**	**4,119**	**4,119**	**4,255**	**4,397**	**4,539**
Total Liabilities and Equity	**10,705**	**10,581**	**10,612**	**10,733**	**10,728**	**10,728**	**10,840**	**11,075**	**11,316**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
OGE Model
Consolidated Financials

CASH FLOW STATEMENT ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash Flow from Operating Activites:									
Net income	**412**	47	104	194	82	**427**	**459**	**481**	**502**
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation and amortization	322	82	83	83	84	332	346	360	374
Deferred income taxes and investment tax credits	64	-	-	-	-	-	-	-	-
Equity in earnings of unconsolidated affiliates	(135)	(29)	(32)	(34)	(43)	(138)	(147)	(148)	(148)
Distributions from unconsolidated affiliates	139	37	37	37	37	146	153	160	160
Allowance for equity funds used during construction	(20)	-	-	-	-	-	-	-	-
Stock-based compensation	10	-	-	-	-	-	-	-	-
Regulatory assets	(5)	-	-	-	-	-	-	-	-
Regulatory liabilities	(4)	-	-	-	-	-	-	-	-
Other assets	2	-	-	-	-	-	-	-	-
Other liabilities	(1)	-	-	-	-	-	-	-	-
Accounts receivable, net	27	125	(5)	(11)	14	123	30	7	2
Accounts receivable - unconsolidated affiliates	-	-	-	-	-	-	-	-	-
Accrued unbilled revenues	23	35	(1)	(3)	4	34	8	2	0
Fuel, materials and supplies inventories	63	111	1	(8)	7	111	28	7	2
Fuel clause under recoveries	38	-	-	-	-	-	-	-	-
Other current assets	19	-	-	-	-	-	-	-	-
Accounts payable	(76)	(97)	(1)	7	(6)	(97)	(25)	(6)	(2)
Other current liabilities	73	-	-	-	-	-	-	-	-
Other current liabilities									
Net Cash Provided by Operating Activities	**951**	310	185	265	178	**939**	**852**	**864**	**891**
Cash Flow from Investing Activities:									
Capital expenditures	(529)	(156)	(156)	(156)	(156)	(625)	(575)	(655)	(555)
Investment in unconsolidated affiliates	(2)	-	-	-	-	-	-	-	-
Return of capital - equity method investments	3					-	-	-	-
Net Cash Used in Investing Activities	**(528)**	(156)	(156)	(156)	(156)	**(625)**	**(575)**	**(655)**	**(555)**
Cash Flow from Financing Activities:									
Dividends paid on common stock	(272)	(73)	(73)	(80)	(80)	(306)	(323)	(340)	(359)
Proceeds from long-term debt	471	-		-	-	-	-	100	100
Payments of long-term debt	(250)	-	-	-		-	-	-	-
Increase in short-term debt	(168)					-	-	-	-
Net Cash (Used in) Provided by Financing Activities	**(220)**	(73)	(73)	(80)	(80)	**(306)**	**(323)**	**(240)**	**(259)**
Net (Decrease) Increase in Cash and Cash Equivalents	**202**	81	(44)	29	(58)	**8**	**(45)**	**(31)**	**77**
Cash and Cash Equivalents, Beginning of Period	14	217	297	254	282	217	224	179	148
Cash and Cash Equivalents, End of Period	**217**	297	254	282	224	**224**	**179**	**148**	**224**

Source: Company reports; Guggenheim Securities, LLC estimates.

PG&E CORP (PCG, NEUTRAL)

PCG faces an uphill battle in 2019, with 2017/18 wildfire investigation results still due, regulators scrutinizing PCG safety record and organizational structure and liability claims mounting in courts with no clear path for recovery pending cost cap and securitization analysis for 2017; furthermore, 2018 still remains a "gap" year pending further legislative relief, if any.

- **We maintain our NEUTRAL rating on PCG as the stock remains burdened with a broken regulatory construct and potential wildfire liabilities that may keep PCG un-investable in the near future – <u>see our CA industry section earlier on in this note for a more in-depth drill down</u>.** While in theory a return to rational utility valuation based on earnings power could mean a significant upside to the stock, the bottom scenario for the stock is zero, as late 2018 regulatory efforts sought to examine the feasibility of restructuring and potential breakup of PCG electric and gas utilities – **Note: we aren't sold that shareholders (i.e., equity owners) will ultimately benefit from this path as there isn't enough information to assess in either direction at this point; at a minimum, it's a big uncertainty as policymakers' comments have been very conflicted at times.** We think the majority of 2019 could remain a "falling knife" year for PCG as it remains at the mercy of regulators and legislators while property damage claims continue to accumulate, with expected civil suits and potentially criminal investigations/cases and while any hope from legislative/judicial efforts re-visiting the interpretation of inverse condemnation in CA will likely take a considerable amount of time to play out. And, we are still waiting for CalFire findings for 2017 Tubbs and 2018 Camp Fires which could further cause a downturn in shares if outcomes are as damaging as prior CalFire findings. **Due to low visibility into the legislature, regulatory process and litigation, we remain NEUTRAL on PCG, and prefer to BUY EIX on the thesis of rebuilding the California regulatory construct with less risk for EIX despite shares trading at a premium to PCG (see our dedicated California wildfire section in this report).**
- **Major events in 2019 will start with the legislative session, CPUC safety investigations, CPUC SB901 cost cap proceedings and a variety or regulatory proceedings to follow. The CA legislature reconvenes on Jan 7,** but there are currently no bills directly addressing wildfire liabilities, especially for '18 gap year or Inverse Condemnation in general, despite some legislators calling for bill language to be introduced at the onset of the legislature taking seats in late 2018. While there is no constructive potential catalyst at this time, we are reminded of the tumultuous process that SB901 took, with final language only in place in the last month of the session. **The CPUC will be taking up the implementation of SB901 cost cap provision starting the docket with a vote on the order instituting ratemaking (OIR) on January 10, with the opening comments expected Feb 11, while the second phase of the PCG safety investigation will have PCG background filing due Jan 16 and opening comments on January 30.** Both proceedings have consequences for PCG; Cost cap methodology will narrow the range of liabilities from the 2017 wildfires (<u>see our California section in this report</u>), while the safety investigation will analyze PCG corporate structure and governance, and could include ROE penalties and restructuring alternatives (up to public ownership of PCG utilities). **2019 was also expected to be a back to core operations year for PCG** – GRC filing due for rates starting in 2020 and a Cost of capital filing due in April 2019; all this before the wildfire season opened the more immediate set of uncertainties, with GRC and Cost of Capital proceedings now unlikely to be resolved in 2019 due to the heavy wildfire related workload at the CPUC, as well as backlog delays, including the EIX GRC from 2017.
- **The circumstances for recovery of wildfire costs beyond insured coverage are fundamentally broken in CA; in our view, the bull/bear case is a function of timing,**

and time likely won't be on PCG's side for the NT. Despite regulators recognizing the disconnect between their responsibility to review prudency vs. the court's interpretation of inverse condemnation as it applies to regulated utilities, they've stopped short of offering a solution or even a visible path toward one. The CPUC has been critical of PCG operations and safety efforts thus far, including in the public forum, while Federal judges and state AGs have faced inquiries over potential probation violations and criminal charges to be filed against the company over events in 2018. Insured loss estimates are still getting updated and civil claims against PCG from 2018 are just starting to be filed in courts. A petition to review IC is awaiting response from the California Supreme Court (expected by December 2018), which if granted could go through an appellate process of ~1-2 years. **Due to the length of the litigation progress, we maintain focus on the near-term potential catalysts in the regulatory and legislative arena to provide clarity on rebuilding PCG investability. As it currently stands outside of special situations, there is no market with utility investors for a pure T&D business that doesn't pay a dividend and has the potential for material liabilities and equity needs in the near future.**

- **We are updating our 2018-2021 estimates and introducing 2022, noting that we are excluding any potential liabilities resulting from litigation.** Our 2018 – 2021 estimates of $3.84, $4.07, $4.39 and $4.57 respectively are based on the capital and rate base growth guidance provided on the 3Q18 call, in aggregate a 7-8.5% CAGR through 2023, with accumulating lag due to recoverability of operating and wildfire costs, as well as capital recovery lag due to rate case and financing uncertainty (minimal internal-only equity issuance) past the last currently approved GRC year (2019). We expect there to be significant delays in the cost of capital proceeding (due to start 2019) and the GRC which should be filed some time in 2019 as well (we note EIX has operated without a GRC approved rate for all of 2018). Our 2022 EPS estimate of $4.67 assumes significant earned ROE lag vs. the currently approved 10.25% ROE due to our view of regulatory uncertainty related to the core business but does not include any incremental wildfire liabilities or dilution due to potential up-front funding (half of pre-tax liability ~36% would need to have a cash reserve at time of non-cash charge). **In relative terms, $1B of pre-tax liability would imply ~$0.09 of earnings power if funded by "normalized" equity issuance; $1B x (1 – 28% tax rate), divided by current 517M share count, divided by a "normalized" 15x P/E ratio (15x is where a CA utility could trade in the absence of liabilities – a 2x discount to our regulated P/E for challenging regulatory environment).**

Guggenheim's PCG EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2018E	0.91A	1.16A	1.13A	0.64E	**3.84E**	*3.82E*
Prior		*1.16E*	*1.13E*	*0.64E*	*3.83E*	
2019E	0.68E	0.57E	1.52E	1.30E	**4.07E**	*4.04E*
Prior	*0.97E*	*0.94E*	*1.01E*	*1.11E*	*4.03E*	
2020E	0.73E	0.62E	1.58E	1.45E	**4.39E**	*4.20E*
Prior	*1.09E*	*1.03E*	*1.05E*	*0.99E*	*4.16E*	
2021E	0.79E	0.67E	1.65E	1.45E	**4.57E**	*4.22E*
Prior	*1.11E*	*1.12E*	*1.10E*	*1.01E*	*4.34E*	
2022E	0.85E	0.74E	1.73E	1.35E	**4.67E**	*3.75E*

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** We do not assign a price target to PCG given extraordinary circumstances, as PCG no longer trades on utility fundamentals and has now become a pure special situation story. We could consider reinstalling our PT once fundamentals come back into play following any regulatory or legislative actions.

- **Risks:** Outside of exposure to the wildfires discussed above, downside risks to our valuation mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk; (2) lower CapEx outlook; (3) interest rate changes above what we account for in our regression model. Upside risk to our price target include: (1) favorable regulatory settlements; (2) improved regulatory construct in CA; and (3) higher CapEx outlook.

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PACIFIC GAS & ELECTRIC COMPANY
CONSOLIDATED FINANCIALS

INCOME STATEMENT ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating Revenues									
Electric	13,565	2,948	3,444	3,956	3,962	14,310	14,701	15,002	15,243
Nat Gas	3,667	1,263	821	1,028	819	3,931	4,030	4,122	4,213
Total Operating Revenues	**17,231**	**4,211**	**4,264**	**4,984**	**4,781**	**18,241**	**18,731**	**19,123**	**19,456**
Cost of Electricity	3,947	827	973	1,269	918	3,986	4,026	4,066	4,107
Cost of Natural Gas	628	332	136	93	42	604	604	604	604
Gross Margin	**12,657**	**3,052**	**3,155**	**3,622**	**3,821**	**13,651**	**14,101**	**14,453**	**14,746**
O&M	8,959	1,545	1,728	1,549	1,790	6,612	6,612	6,612	6,612
Other (Income)/Expense	(320)	30	31	37	36	134	157	161	165
EBITDA	**4,018**	**1,476**	**1,396**	**2,036**	**1,996**	**6,905**	**7,332**	**7,680**	**7,969**
Interest Income	(2)	(9)	(12)	(14)	33	(2)	(2)	(2)	(2)
D&A	3,016	790	784	797	797	3,166	3,316	3,466	3,616
EBIT	**1,004**	**696**	**625**	**1,253**	**1,166**	**3,740**	**4,018**	**4,216**	**4,355**
Interest Expense	978	245	245	245	295	1,029	1,070	1,110	1,151
Earnings Before Taxes	**25**	**451**	**380**	**1,009**	**871**	**2,711**	**2,948**	**3,106**	**3,204**
Income Taxes	(1,975)	95	80	212	183	569	619	652	673
Net Income	**2,001**	**357**	**301**	**797**	**688**	**2,142**	**2,329**	**2,453**	**2,531**
Minority Interest	14	3	4	3	4	14	14	14	14
Net Income to Shareholders	**1,987**	**354**	**297**	**794**	**684**	**2,128**	**2,315**	**2,439**	**2,517**
Avg. Fully Diluted Shares	**517**	520	522	523	524	**522**	**527**	**534**	**539**
Adjusted EPS	**$ 3.84**	**$ 0.68**	**$ 0.57**	**$ 1.52**	**$ 1.30**	**$ 4.07**	**$ 4.39**	**$ 4.57**	**$ 4.67**

Source: Company reports; Guggenheim Securities, LLC estimates.

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PACIFIC GAS & ELECTRIC COMPANY
CONSOLIDATED FINANCIALS

BALANCE SHEET ($ Millions)	2018E	2019E	2020E	2021E	2022E
Assets					
Cash and Cash Equivalents	637	1,175	1,950	3,047	4,400
Restricted Cash	0	0	0	0	0
Accounts Receivable	4,296	4,548	4,670	4,768	4,851
Inventories	435	437	441	444	448
Prepaid Expenses and Other	1,085	1,149	1,180	1,204	1,225
Total Current Assets	**6,454**	**7,308**	**8,240**	**9,463**	**10,924**
Net PP&E	**57,073**	**59,906**	**62,590**	**65,124**	**67,507**
Other Non-Current Assets					
Regulatory Assets	3,793	3,793	3,793	3,793	3,793
Nuclear Decommissioning Funds	2,863	2,863	2,863	2,863	2,863
Other	1,286	1,286	1,286	1,286	1,286
Total Non-Current Assets	**7,942**	**7,942**	**7,942**	**7,942**	**7,942**
Total Assets	**71,468**	**75,157**	**78,772**	**82,529**	**86,373**
Liabilities and Shareholders' Equity	**2018E**	**2019E**	**2020E**	**2021E**	**2021E**
Current Liabilities					
Short Term Debt	931	931	931	931	931
Accounts Payable	3,923	3,923	3,923	3,923	3,923
Deferred & Payable Income Taxes	-	-	-	-	-
Other	3,483	3,483	3,483	3,483	3,483
Total Current Liabilities	**8,338**	**8,338**	**8,338**	**8,338**	**8,338**
Noncurrent Liabilities					
Long-term debt	18,953	19,753	20,553	21,353	22,153
Energy Recovery Bonds	-	-	-	-	-
Regulatory Liabilities	8,679	8,679	8,679	8,679	8,679
Asset Retirement Obligations + Pensions	7,027	7,027	7,027	7,027	7,027
Deferred Income Taxes & Credits	6,322	6,891	7,201	7,527	7,863
Other	2,130	2,130	2,130	2,130	2,130
Total Liabilities	**51,449**	**52,818**	**53,927**	**55,054**	**56,190**
Pref Stock of Subsidiary	252	252	252	252	252
Common Shareholders Equity	**19,768**	**22,087**	**24,593**	**27,223**	**29,931**
Total Liabilities and Equity	**71,468**	**75,157**	**78,772**	**82,529**	**86,373**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
PACIFIC GAS & ELECTRIC COMPANY
CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT *($ Millions)*	2018E	2019E	2020E	2021E	2022E
Cash Flow From Operations					
Net Income	$357	$2,128	$2,315	$2,439	$2,517
D&A	3,016	3,166	3,316	3,466	3,616
Deferred income taxes	500	569	310	326	336
Changes in working capital	1,224	(317)	(157)	(126)	(108)
Cash Flow From Operations	**5,097**	**5,547**	**5,784**	**6,106**	**6,362**
% Growth	*-14.7%*	*8.8%*	*4.3%*	*5.6%*	*4.2%*
Cash Flow From Investing Activities					
CAPEX - Regulated	(6,300)	(6,000)	(6,000)	(6,000)	(6,000)
Cash Flow From Investing Activities	**(6,300)**	**(6,000)**	**(6,000)**	**(6,000)**	**(6,000)**
Cash Flow From Financing Activities					
Net change in ST debt	-	-	-	-	-
Issuance of LT debt	1,200	800	800	800	800
DRIP and Dribble plans	191	191	191	191	191
Cash Flow From Financing Activities	**1,391**	**991**	**991**	**991**	**991**
Increase (decrease) in cash & equiv.	188	538	775	1,097	1,353
Beginning Cash	449	637	1,175	1,950	3,047
Ending Cash	**637**	**1,175**	**1,950**	**3,047**	**4,400**

Source: Company reports; Guggenheim Securities, LLC estimates.

PUBLIC SERVICE ENTERPRISE GROUP (PEG, BUY, $59 PT)

Quality Regulated business with a profitable generation business awaiting policy changes and market reform – tough to get negative in '19 so we continue to support.

- **Reaffirming our BUY rating on PEG and maintaining our $59 price target. We remain very supportive of the "Power" sector, while the PSE&G utility remains a cornerstone of sector-leading long-term growth.** We continue to see PEG as best in class while policy efforts with market reforms could further benefit the unregulated power segment substantially – would be pure upside to our numbers. PSE&G on the regulated side maintains a clear line of sight in achieving the high-end of the 7-9% rate base growth range through 2022 with no equity needs. **On the Power side, we incorporate the state efforts to reward environmental attributes (ZECs which legislated and process of regulator approval), while further upsides could materialize in 2019 for federal/RTO level efforts to properly compensate coal, gas and nuclear baseload generation (i.e., energy price formation and capacity market reforms in PJM).** Viability of the integrated model continues to draw some investor attention, but PEG is maintaining a wait-and-see approach while recycling capital internally to fund the top quartile regulated growth and pushing off need for strategic alternatives in the medium term – Power funds ~9%-10% rate base growth at PSE&G without having any needs to raise equity. **We believe PEG should continue to be a core investor holding given the high-quality underlying utility that remains a growth engine and energy policy reforms that could add incremental value to Power. Reiterate BUY, $59 PT.**
- **PEG's regulated business remains the bedrock of this 8-10% growth story, supported by a strong policy environment in NJ.** With the distribution base rate case settlement approved (9.6% ROE on 54% equity, $9.5bn rate base), the focus at PSE&G now turns to the incremental infrastructure spend and clean energy filings pending before the BPU. As a reminder, PEG currently has the Energy Strong 2 Program ($2.5bn), and the Clean Energy Future ($3.6bn over 6 years, now including $700mm of AMI) before the BPU. In the LT, we continue to believe that opportunities exist for 1) storage (the CEF filings only propose ~35MW out of a state mandate for 600MW) and 2) transmission investments driven by the development of offshore wind.
- **Despite some challenges to power in 2018, the segment remains profitable, a large cash generator and well positioned for policy-driven uplift.** In 3Q Power lead to lowered guidance for 2018, while the ZEC process continues apace. The revision drew a sharply negative market response as it was attributed to compressed sparks, driven by higher prices at the Leidy hub and some coal/gas switching on the margin. Our view is that despite the near-term compression, Power remains a valuable part of the business and will likely have more value to gain from energy/capacity market reforms. Meanwhile on the ZEC front, the process continues to move forward; the public hearings are done, and PEG anticipates the BPU filing in December 2018, which we now model in our estimates. **PEG has been actively involved in discussions around DOE's rulemaking proposal, supporting DOE and FERC's effort to properly compensate baseload generation** while seeing that a likely outcome would be that FERC works with RTO/ISOs on a comprehensive market-based solution to solve the energy price formation issue in the LT.
- **We are introducing our 2022E EPS of $3.83 and updating our 2018-2021 outlook to $3.13, $3.28, $3.49 and $3.60 respectively**, as we now account for higher capital spending at PSEG, with the removed overhang of rate case uncertainty, and including updates for ZECs and power curves. **This outlook captures the consistent ~9% regulated earnings growth at PSE&G**, modeling ROEs averaging ~11% through

2022. We project ~8-9% rate base growth, driven by a $16B capex program addressing NJ's aging infrastructure needs coupled with ambitious clean energy programs that have been supported by the Governor and Legislature. Should PEG receive close to the full ask for the NJ infrastructure programs, it could push growth to 10%. We model a declining contribution from Power segment due to continued weakness of forward curves, generation volume adjustment and roll-off from higher hedged prices – **our Power model is marked to the 12/7 forward curves. We also assume Keys and Sewaren begin operating in 2H2018, and Bridgeport Harbor in 2H2019.**

- We recently hosted NJ BPU and PSEG site visit for clients, **see HERE.**

Guggenheim's PEG EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	0.97A	0.64A	0.95A	0.57E	**3.13E**	3.10E
Prior			*0.90E*	*0.56E*	*3.12E*	
2019E	1.36E	0.53E	0.94E	0.45E	**3.28E**	3.26E
Prior	*1.27E*	*0.85E*	*0.78E*	*0.37E*	*3.28E*	
2020E	1.36E	0.58E	1.00E	0.55E	**3.49E**	3.54E
Prior	*1.24E*	*0.89E*	*0.84E*	*0.47E*	*3.44E*	
2021E	1.36E	0.64E	1.02E	0.58E	**3.60E**	3.63E
Prior	*1.21E*	*0.90E*	*0.83E*	*0.46E*	*3.40E*	
2022E	1.46E	0.68E	1.08E	0.61E	**3.83E**	3.80E

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** Our $59 price target incorporates SOTP analysis. We assign a PEG-specific ~7.2x weighted average EV/EBITDA multiple for Power, subtracting out net debt of ~$2.8B and making other EV adjustments including MtM, resulting in a Power contribution of ~$12 (down from $14) to our equity valuation. We apply our regulated multiple and 2x premium for above average growth and regulatory constructs to our 2020E utility EPS of $2.50 resulting in $48/share (up from $45) and incorporate $1/share (down from $2) for holdings. We then discount our valuation back to arrive at our $59 PT.
- **Risks:** Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. In our view, PEG is inherently a long natural gas call, with gas the marginal price setter in PJM. If forward natural gas prices fall or PEG loses its basis and locational advantages, earnings can be impacted.

  The remaining risks center on the regulated electric and gas utility – PSE&G. Risks mainly encompass traditional risk factors inherent with all utilities, including: (1) future rate case risk, (2) lower CapEx outlook, (3) interest rate changes above what we account for in our regression model and (4) decline in allowed ROE for investment programs in NJ (energy strong II, GSMP, clean energy future).

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INCOME STATEMENT ($mm, unless otherwise noted)	1Q19E	2Q19E	3Q19E	4Q19E	2018E	2019E	2020E	2021E	2022E
Operating revenues	3,488	2,281	2,755	2,691	10,096	11,215	11,164	11,360	11,741
Energy costs	(1,461)	(866)	(1,053)	(1,181)	(3,825)	(4,561)	(4,231)	(4,217)	(4,275)
O&M	(770)	(708)	(712)	(841)	(2,909)	(3,030)	(3,063)	(3,081)	(3,129)
D&A	(309)	(305)	(309)	(317)	(1,161)	(1,240)	(1,320)	(1,407)	(1,494)
Taxes other than income	-	-	-	-	-	-	-	-	-
Total operating expenses	(2,539)	(1,879)	(2,074)	(2,338)	(7,895)	(8,831)	(8,614)	(8,706)	(8,899)
Operating Income	**949**	**402**	**681**	**353**	**2,201**	**2,384**	**2,550**	**2,654**	**2,843**
Equity in Income of Affiliates	-	-	-	-	12	-	-	-	-
Other income (net)	80	85	85	85	287	336	341	341	341
Impairments	-	-	-	-	-	-	-	-	-
Interest expense	(138)	(139)	(140)	(141)	(478)	(559)	(596)	(635)	(678)
EBT	891	348	626	296	2,023	2,161	2,296	2,360	2,506
Income taxes	(201)	(81)	(149)	(67)	(497)	(499)	(527)	(533)	(563)
Income from Cont Ops	690	267	476	229	1,526	1,662	1,768	1,828	1,943
Disc Ops (net of tax)	-	-	-	-	-	-	-	-	-
Net Income	690	267	476	229	1,526	1,662	1,768	1,828	1,943
Preferred stock dividend	-	-	-	-	-	-	-	-	-
NI Available to Common	**690**	**267**	**476**	**229**	**1,526**	**1,662**	**1,768**	**1,828**	**1,943**
Weighted diluted shares	507	507	507	507	507	507	507	507	507
EPS	**1.36**	**0.53**	**0.94**	**0.45**	**3.01**	**3.28**	**3.49**	**3.60**	**3.83**
Co. defined operating EPS	**1.36**	**0.53**	**0.94**	**0.45**	**3.13**	**3.28**	**3.49**	**3.60**	**3.83**

Source: Company reports; Guggenheim Securities, LLC estimates.

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PSEG
CONSOLIDATED FINANCIALS

BALANCE SHEET ($mm, unless otherwise noted)	1Q19E	2Q19E	3Q19E	4Q19E	2018E	2019E	2020E	2021E	2022E
Assets									
Cash and Equivalents	264	84	67	12	17	12	143	126	617
Accounts Receivable	1,240	1,240	1,240	1,240	1,240	1,240	1,240	1,240	1,240
Inventory	919	919	919	919	919	919	919	919	919
Assets of disc ops	-	-	-	-	-	-	-	-	-
Net PP&E	35,081	35,570	36,055	36,532	34,596	36,532	38,842	41,165	43,301
Investments	923	923	923	923	923	923	923	923	923
Goodwill	16	16	16	16	16	16	16	16	16
Other	7,806	7,806	7,806	7,806	7,806	7,806	7,806	7,806	7,806
Total Assets	**46,249**	**46,558**	**47,026**	**47,447**	**45,517**	**47,447**	**49,889**	**52,195**	**54,822**
Liabilities									
Accounts Payable	1,317	1,317	1,317	1,317	1,317	1,317	1,317	1,317	1,317
Short Term Debt	-	-	-	150	-	150	50	50	50
Long Term Debt	14,926	15,101	15,226	15,401	14,751	15,401	16,751	17,851	19,201
Total Debt	14,926	15,101	15,226	15,551	14,751	15,551	16,801	17,901	19,251
Deferred taxes and ITCs LT	5,819	5,926	6,032	6,138	5,713	6,138	6,563	6,988	7,413
Other	9,318	9,318	9,318	9,318	9,318	9,318	9,318	9,318	9,318
Total Liabilities	31,381	31,662	31,893	32,324	31,099	32,324	33,999	35,524	37,299
Noncontrolling Interests	-	-	-	-	-	-	-	-	-
Preferred Equity	-	-	-	-	-	-	-	-	-
Common stock	4,966	4,966	4,966	4,966	4,966	4,966	4,966	4,966	4,966
Treasury stock	(811)	(811)	(811)	(811)	(811)	(811)	(811)	(811)	(811)
Retained earnings	11,120	11,148	11,385	11,375	10,670	11,375	12,141	12,923	13,774
OCI	(407)	(407)	(407)	(407)	(407)	(407)	(407)	(407)	(407)
Total Common Equity	14,868	14,896	15,133	15,123	14,418	15,123	15,889	16,671	17,522
Total Liabilities and Equity	**46,249**	**46,558**	**47,026**	**47,447**	**45,517**	**47,447**	**49,889**	**52,195**	**54,822**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
PSEG
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CASH FLOW STATEMENT ($mm, unless otherwise noted)	1Q19E	2Q19E	3Q19E	4Q19E	2018E	2019E	2020E	2021E	2022E
Statement of CFs (period)									
Net Income	690	267	476	229	1,526	1,662	1,768	1,828	1,943
Depreciation and Amortization	309	305	309	317	1,161	1,240	1,320	1,407	1,494
Deferred taxes and ITCs	106	106	106	106	503	425	425	425	425
Other	-	-	-	-	189	-	-	-	-
Operating CFs	**1,105**	**678**	**892**	**652**	**3,379**	**3,327**	**3,513**	**3,660**	**3,861**
Additions to PP&E	(794)	(794)	(794)	(794)	(4,150)	(3,175)	(3,630)	(3,730)	(3,630)
Acquisitions / Investments	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	(85)	-	-	-	-
Investing CFs	**(794)**	**(794)**	**(794)**	**(794)**	**(4,235)**	**(3,175)**	**(3,630)**	**(3,730)**	**(3,630)**
Net Change in Debt	175	175	125	325	269	800	1,250	1,100	1,350
Net Change in Preferred Equity	-	-	-	-	-	-	-	-	-
Net Change in Common Equity	-	-	-	-	-	-	-	-	-
Common Dividends	(239)	(239)	(239)	(239)	(910)	(957)	(1,002)	(1,046)	(1,091)
Other	-	-	-	-	1,217	-	-	-	-
Financing CFs	**(64)**	**(64)**	**(114)**	**86**	**576**	**(157)**	**248**	**54**	**259**
Total change in cash	247	(180)	(16)	(56)	(296)	(5)	131	(17)	490
Beginning cash	17	264	84	67	313	17	12	143	126
Ending cash	**264**	**84**	**67**	**12**	**17**	**12**	**143**	**126**	**617**

Source: Company reports; Guggenheim Securities, LLC estimates.

PINNACLE WEST (PNW, NEUTRAL, $89 PT)

PNW remains a simple story underpinned by strong fundamentals at both the utility and within its service territory. We remain NEUTRAL on valuation and are not making any M&A calls at this time – PNW highlighted as a NEUTRAL-rated stock with upside bias…

- **Maintaining our NEUTRAL rating and shifting our PT to $89 from $80 as we roll forward our valuation.** PNW remains a very strong name in our view, with a seasoned management team, constructive relationship with regulators, above-average EPS growth, a sustainable capital program, and robust underlying growth in its service territory. We remain on the sidelines solely due to valuation as shares have continued to trade at a premium to the group, **however we note that this premium has diminished over the course of 2018, with the stock almost in line on 2020 EPS - a further pull-back in shares could cause us to revisit our NEUTRAL stance which remains on watch.**
- **We are introducing our 2022 EPS estimate of $5.45 and refreshing our 2019-2021 estimates.** As a result, our estimates are slightly higher at $4.84/$5.04/$5.25 for '19/20/21, versus the previous $4.75/$4.99/$5.24. Through our forecast period, we incorporate rate base growth of +6%, consistent with guidance of 6-7%, and average earned ROEs near the 10.1% authorized for APS, translating into an EPS CAGR of ~6% through 2021 off a base of 2017 actuals. Our 2022 EPS estimate represents ~4% EPS growth vs. 2021, as we continue to forecast roughly ~$1.2bn in capital expenditures through the 2022 forecast window, which could be backfilled with additional spend in our view given the level of LT policy uncertainty at the moment. We model EPS growth at APS will remain consistent YoY at roughly 4-5% through the forecast period, with the 4 Corners SCR recovery starting in January 2019. As we noted following the 3Q18 call and our EEI meetings earlier in November, mgmt. indicated that it is considering filing a rate case in 2020 (it is in a stay out through May 2019). **We asked if mgmt. even needs to file in 2020, to which mgmt. acknowledged it is still thinking through its options and could consider delaying if it's able to reduce costs further.**
- **Capex update coming with 4Q18 results in February…** While we continue to model roughly ~1.2bn in annual capex through the 2022 forecast period, in line with the current guide, we would not be surprised if mgmt. upwardly revised its capital expenditure forecast on the YE18 call. We believe there remains ample opportunities for grid modernization, while incremental improvements in O&M efficiency may also provide additional headroom for spend - but again we will await 4Q18 results. **As a reminder, PNW remains under a self-build moratorium through a 2021 in-service date**.
- **Despite the defeat of Proposition 127, policy and regulatory fronts remain key areas for investors to watch in 2019…** In our view, the LT policy picture in AZ remains rather muddled, as the state is still recovering from the bruising fight over 127. We note that ACC Chairman Tobin's 2050 Energy Modernization Plan remains an outstanding possibility on the generation front, although we expect progress in the docket to move slowly over the course of the year given the sheer complexity and number of stakeholder opinions involved. **Finally, we note that ACC has restarted an examination of retail choice in the state, but we do not see this as more than an informational process at this time – retail choice seems to us a big stretch.**
- **As a clean single state utility, the topic of M&A frequently comes up in our conversations on PNW with investors – we continue to hold the impression that PNW mgmt. remains comfortable with its single state utility model and are not motivated sellers, at least not in the near term.** At EEI, mgmt. noted that it was

not particularly interested in acquiring assets in neighboring states given the economic conditions in AZ are comparatively better, and in our view, the tone was very focused on the current model. Mgmt. sees no problems with its current size. As a target, mgmt. acknowledged that there could be some execution risk for any potential suitor given the regulatory approval process – no surprise to us.

Guggenheim's PNW EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	0.03A	1.48A	2.80A	0.19E	**4.49E**	4.48E
Prior			*2.80E*	*0.19E*	*4.49E*	
2019E	0.14E	1.55E	2.87E	0.28E	**4.84E**	4.82E
Prior	*0.15E*	*1.58E*	*2.74E*	*0.27E*	*4.75E*	
2020E	0.16E	1.60E	2.96E	0.31E	**5.04E**	5.00E
Prior	*0.18E*	*1.65E*	*2.84E*	*0.31E*	*4.99E*	
2021E	0.18E	1.66E	3.05E	0.35E	**5.25E**	5.24E
Prior	*0.21E*	*1.73E*	*2.95E*	*0.35E*	*5.24E*	
2022E	0.20E	1.72E	3.14E	0.39E	**5.45E**	
Prior						

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

Valuation: We apply our target multiple of 17x (previously 16x), which we derive from our regression model, which uses the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years, and ascribe a universal one-turn premium to reflect several externalities that continue to support the group trading beyond fundamentals and forward yield expectations; we apply the 18x multiple to our 2020 EPS estimate of $4.84 (up from $4.75) to arrive at our $89 PT.

- **Risks:** Downside risks to our rating and valuation for Pinnacle West mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk, (2) lower CapEx outlook, and (3) interest rate changes above what we account for in our regression model. Upside risk to our price target include: (1) improved regulatory constructs; (2) higher CapEx outlook; (3) interest rates fall lower.

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PINNACLE WEST CAPITAL CORP.

Income Statement	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating Revenues									
Arizona Public Service	3,651	$707	$945	$1,270	$746	3,669	3,786	3,912	4,025
Marketing and Trading	0	0	0	0	0	0	0	0	0
Real Estate	0	0	0	0	0	0	0	0	0
Other	3	1	2	5	3	12	12	12	12
Total Operating Revenues	3,655	708	947	1,276	750	3,681	3,798	3,923	4,037
Fuel and purchased power	1,052	201	262	397	211	1,071	1,097	1,123	1,149
Fuel and PP - Non Regulated	0	0	0	0	0	0	0	0	0
Gross Margin	2,603	507	685	879	538	2,609	2,701	2,801	2,887
Operating Expenses									
O&M	1,032	243	202	209	242	896	896	896	896
Real estate	0	0	0	0	0	0	0	0	0
Taxes other than income	186	46	52	51	36	185	191	198	204
Other expenses	(2)	0	6	1	(10)	(3)	(3)	(3)	(3)
AFUDC	(51)	(14)	(13)	(12)	(12)	(51)	(51)	(51)	(51)
Other Income	(57)	(17)	(19)	(19)	(2)	(57)	(57)	(57)	(57)
Other Expense	21	3	4	5	9	21	21	21	21
EBITDA	1,474	246	452	644	276	1,618	1,704	1,796	1,877
Depreciation & amortization	592	160	163	165	168	655	698	737	769
EBIT	881	86	290	479	108	963	1,006	1,059	1,108
Interest expense	241	64	66	67	66	263	280	300	321
AFUDC	(20)	(4)	(4)	(4)	(4)	(15)	(18)	(15)	(15)
EBT	660	26	227	416	46	715	743	774	802
Income taxes	134	5	48	87	10	150	156	163	168
Tax rate	*20.3%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*
Net Income	526	20	180	328	37	565	587	611	633
Discontinued Ops									
Pref. Dividends & Minority Int.	20	5	5	5	5	20	20	20	20
Net Income Avail. to Common	506	15	175	323	32	545	567	591	613
Weighted Avg. Fully Diluted Shares	112.6	112.6	112.6	112.6	112.6	112.6	112.6	112.6	112.6
Operating EPS	$4.49	$0.14	$1.55	$2.87	$0.28	$4.84	$5.04	$5.25	$5.45

Source: Company reports; Guggenheim Securities, LLC estimates.

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PINNACLE WEST CAPITAL CORP.

Balance Sheet	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Current Assets									
Cash and equivalents	$219	229	251	356	318	$318	$380	$571	$794
Investment in debt securities						0	0	0	0
Customer and other receivables	211	207	277	373	219	219	227	235	242
Accrued revenues	112	110	147	198	116	116	120	124	128
Allowance for uncollectibles	(3)	(3)	(4)	(5)	(3)	(3)	(3)	(3)	(3)
Inventory	152	150	200	270	159	159	164	170	175
Fuel	23	23	30	41	24	24	25	26	26
Deferred income taxes	0	0	0	0	0	0	0	0	0
Income Tax Receivable	0	0	0	0	0	0	0	0	0
Home inventory	0	0	0	0	0	0	0	0	0
Risk management assets	1	1	1	1	1	1	1	1	1
Regulatory Assets	210	210	210	210	210	210	210	210	210
Other	61	61	61	61	61	61	61	61	61
Current Assets	**984**	**986**	**1,173**	**1,504**	**1,104**	**1,104**	**1,184**	**1,393**	**1,633**
Property, Plant and Equipment									
Plant	18,750	19,038	19,326	19,614	19,903	19,903	21,114	22,338	23,562
Accumulated depreciation	(6,485)	(6,645)	(6,808)	(6,972)	(7,140)	(7,140)	(7,838)	(8,575)	(9,344)
Net PPE	12,265	12,393	12,518	12,642	12,763	12,763	13,276	13,762	14,217
CWIP	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201
Intangible, net of accum. Amortization (Pal	375	375	375	375	375	375	375	375	375
Nuclear fuel, net of accum. amort.	135	135	135	135	135	135	135	135	135
Total PPE	**13,975**	**14,104**	**14,229**	**14,353**	**14,474**	**14,474**	**14,987**	**15,473**	**15,928**
Investments and Other Assets									
Real estate, net	-	-	-	-	-	-	-	-	-
Long-term risk management	-	-	-	-	-	-	-	-	-
Nuclear decommissioning trust	907	907	907	907	907	907	907	907	907
Other	341	341	341	341	341	341	341	341	341
Deferred Debits		-	-	-	-				
Assets for post retirement benefits	29	29	29	29	29	29	29	29	29
Regulatory assets	1,221	1,221	1,221	1,221	1,221	1,221	1,221	1,221	1,221
Other deferred debits	141	141	141	141	141	141	141	141	141
Total Assets	**$17,598**	**17,729**	**18,041**	**18,496**	**18,216**	**$18,216**	**$18,809**	**$19,505**	**$20,200**

Source: Company reports; Guggenheim Securities, LLC estimates.

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PINNACLE WEST CAPITAL CORP.

	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Current Liabilities									
Accounts payable	$141	$139	$186	$251	$147	$147	$152	$158	$162
Accrued taxes	$129	$127	$169	$228	$134	$134	$139	$144	$148
Accrued interest	$30	$30	$40	$53	$31	$31	$32	$34	$35
Common Dividends Payable	$0	0	0	0	0	$0	$0	$0	$0
Short-term debt	$203	203	203	203	203	$203	$203	$203	$203
Current maturities of L/T debt	$600	600	600	600	600	$600	$600	$600	$600
Customer deposits	$51	$50	$67	$90	$53	$53	$55	$57	$59
Deferred taxes	$0	0	0	0	0	$0	$0	$0	$0
Risk management liabilities	$46	46	46	46	46	$46	$46	$46	$46
Liabilities for Asset Retirements	$13	13	13	13	13	$13	$13	$13	$13
Deferred fuel and purchase power obligatio	$0	0	0	0	0	$0	$0	$0	$0
Other regulatory Liab	$160	160	160	160	160	$160	$160	$160	$160
Other	$169	169	169	169	169	$169	$169	$169	$169
Current Liabilities	**1,542**	**$1,536**	**$1,653**	**$1,813**	**$1,557**	**1,557**	**1,569**	**1,582**	**1,594**
Long-term debt	4,644	4,844	4,944	4,994	5,019	5,019	5,369	5,819	6,269
Deferred taxes	1,813	1,813	1,813	1,813	1,813	1,813	1,813	1,813	1,813
Regulatory liabilities	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411
Asset retirement liabilities	682	682	682	682	682	682	682	682	682
Pensions, OPRB liabilities	316	316	316	316	316	316	316	316	316
Risk management liabilities	34	34	34	34	34	34	34	34	34
Customer Advances	125	125	125	125	125	125	125	125	125
Coal Mine reclamation	210	210	210	210	210	210	210	210	210
Deferred investment tax credit	198	198	198	198	198	198	198	198	198
Unrecognized Tax benefits	12	12	12	12	12	12	12	12	12
Other	161	161	161	161	161	161	161	161	161
Total Liabilities	**12,151**	**12,345**	**12,562**	**12,772**	**12,540**	**12,540**	**12,903**	**13,366**	**13,827**
Minority interest	132	132	132	132	132	132	132	132	132
Preferred stock	-	-	-	-	-	-	-	-	-
Common stock	5,315	5,252	5,347	5,591	5,544	5,544	5,774	6,007	6,240
Total Equity	**5,448**	**5,384**	**5,479**	**5,724**	**5,676**	**5,676**	**5,906**	**6,140**	**6,372**
Total Liabilities & Equity	**$17,598**	**17,729**	**18,041**	**18,496**	**18,216**	**$18,216**	**$18,809**	**$19,505**	**$20,200**

Source: Company reports; Guggenheim Securities, LLC estimates.

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PINNACLE WEST CAPITAL CORP.

Cash Flow Statement	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash Flow From Operations									
Net Income from continuing operations	526	20	180	328	37	565	587	611	633
Gain on disposals	-	-	-	-	-	-	-	-	-
Regulatory disallowance	-	-	-	-	-	-	-	-	-
Depr. and amort., incl. nuclear fuel	646	160	163	165	168	655	698	737	769
Deferred fuel and purch power	(82)	-	-	-	-	-	-	-	-
Deferred fuel and purch pwr amort	92	-	-	-	-	-	-	-	-
Deferred fuel and purc pwr reg dis	-	-	-	-	-	-	-	-	-
AFUDC	(39)	-	-	-	-	-	-	-	-
Real estate impairment change	-	-	-	-	-	-	-	-	-
Deferred taxes	118	-	-	-	-	-	-	-	-
Other	9	-	-	-	-	-	-	-	-
Changes in working capital, net	(17)	2	(48)	(65)	105	(6)	(5)	(5)	(5)
Changes in current assets and liabilities	-					-	-	-	-
Customer and other receivables	95	4	(70)	(96)	154	(9)	(7)	(8)	(7)
Accrued unbilled revenues	1	2	(37)	(51)	81	(5)	(4)	(4)	(4)
Materials, supplies and fossil fuel	113	3	(58)	(80)	128	(7)	(6)	(7)	(6)
Income tax receivable	-	-	-	-	-	-	-	-	-
Other current assets	22	(0)	1	1	(2)	0	0	0	0
Accounts payable	(119)	(2)	47	64	(103)	6	5	5	5
Accrued taxes	(19)	(2)	43	59	(94)	5	5	5	4
Other current liabilities	(49)	(1)	27	37	(59)	3	3	3	3
Other changes	(61)	-	-	-	-	-	-	-	-
Cash Flow From Operations	**1,252**	**182.7**	**294.5**	**427.6**	**308.9**	**1,214**	**1,280**	**1,344**	**1,398**
Cash Flow From Investing									
Capital Expenditures	(1,204)	(288)	(288)	(288)	(288)	(1,153)	(1,211)	(1,224)	(1,224)
Contributions in aid of construction	23	-	-	-	-	-	-	-	-
AFUDC allowance	(19)	-	-	-	-	-	-	-	-
Other	(19)	-	-	-	-	-	-	-	-
Cash Flow From Investing	**(1,219)**	**(288)**	**(288)**	**(288)**	**(288)**	**(1,153)**	**(1,211)**	**(1,224)**	**(1,224)**
Cash Flow From Financing									
Issuance of long-term debt	420	350	250	200	175	975	600	450	450
Repayment/retirement long-term debt	(50)	(150)	(150)	(150)	(150)	(600)	(250)	-	-
Short-term debt, net	108	-	-	-	-	-	-	-	-
Common stock issuance	13					-	-	-	-
Common stock dividends	(307)	(84)	(84)	(84)	(84)	(337)	(357)	(378)	(401)
Other	(11)					-	-	-	-
Cash Flow From Financing	**172**	**116**	**16**	**(34)**	**(59)**	**38**	**(7)**	**72**	**49**
Net change in cash	**205**	**10**	**22**	**105**	**(38)**	**99**	**62**	**191**	**223**
Beginning cash	14	219	229	251	356	219	318	380	571
Ending cash	**219**	**229**	**251**	**356**	**318**	**318**	**380**	**571**	**794**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

PORTLAND GENERAL ELECTRIC CO. (POR, NEUTRAL, $44 PT)

Renewables, Grid Mod and Customer Growth Remain Key Variables to watch for POR into 2019

- **Maintaining our NEUTRAL rating and moving our PT to $44 from $42 – our stance is purely a valuation call.** POR exhibits an average earnings growth profile with a steady capital spending program and relatively constructive rate-making given the use of forward-looking test years and decoupling mechanisms, among other items – earned ROEs exhibit very modest regulatory lag, which accounts for certain items like incentive comp, etc. **That said, we believe POR's valuation captures this outlook, with the company trading at roughly a 0.5x vs. peers; we continue to remain on the sidelines largely due to valuation – a modest pullback could warrant an interesting opportunity to revisit our thesis esp. given potential RPS legislative efforts (i.e., potentially mirroring CA) among other incremental policy items as well as possibly more frequent updates around the capital program.**

- **Our 2018E EPS remains the same, while our 2019-2021 EPS estimates move to $2.43/$2.54/$2.68 from $2.51/$2.64/$2.77; introducing our 2022 EPS estimate of $2.75.** We model a +4% EPS CAGR through our forecast period, incorporating rate base growth of 4% and average earned ROEs of ~9% (vs. current 9.5% authorized in the 2019 GRC settlement). Our model captures capital expenditures of roughly $575mm/year in the 2020-2022 time period, roughly $75mm/year higher than the ~$500mm/year in guidance – we believe there are opportunities for additional capex to be added for distribution system investment and renewables deployments over the coming years. Given recent changes to internal planning, mgmt. could be in a position to update the Street quarterly on CapEx changes approved by the finance committee vs. annually, as was the case in the past. We expect modest structural lag to remain over the forecast period, which partially contributed to the shift in our 2019-2021 numbers. **Finally, our 2022 number reflects roughly 3% growth over 2021 and a CAGR of ~4% off of 2017 actuals – we believe there may be additional backfill here as the policy picture in the state continues to evolve as discussed below.**

- **POR could be entering a positive policy cycle, as state entities coalesce around a focus on renewables and new technologies…** The recent reelection of Governor Kate Brown could presage the enactment of a 100% RPS standard, with both mgmt. and the legislature likely supporting any such move in our view. As a reminder, OR currently operates under a 50% by 2040 construct. While POR remains on track through 2025 under this program, we believe an increase to 100% could be a podium for increasing spending opportunities given it is still below targets for 2030 under the 50% goal – i.e., a higher and more aggressive RPS standard could prompt some additional spending opportunities in the 2020 timeframe. Avenues for increased spend include generation and smart grid technologies to support DERs. We note that POR's current trial smart grid programs currently serve over 20k customers. **Finally, on the policy front, we believe the OPUC is generally on the same page as mgmt., and while policy requests such as full decoupling may not come with the 2019 GRC, they remain aware of the de-risking benefits of such mechanisms.** The SB978 process has also strengthened this relationship, in our view.

- **Capex program remains consistent through our forecast period: grid modernization and renewables investments could provide upside to the current plan, although region remains sensitive to rates.** We continue to look for details that POR's existing grid mod efforts could help reduce the O&M profile going forward – potentially providing more headroom in rates, in our view. Otherwise, we believe that the region remains sensitive to rate pressures, with the unknown variable in this equation the above-discussed policy deliberations. **Finally, we highlight that mgmt. remains undecided on the timing of its next GRC, and could potentially stay out through 2020, although the decision remains an ongoing internal process.**

- **M&A not likely a near term option…** Our numerous meetings with mgmt. this year lead us to believe that they remain focused on the organic growth within their service territory and not on M&A opportunities. We have asked mgmt. several times about the potential for a tie-up with NWN, the gas LDC within its electric territory, but mgmt. indicated that 1) the price NWN would command is too high at this time, and 2) they see future environmental policies as diminishing the value of gas PDC in the coming years/decades. Finally, we note that the OPUC is not particularly fond of M&A activity, in our opinion, given its experiences with Enron's ownership in the early 2000s. The additional frictions in the Hydro One (TSX: H) and Avista merger have also led to renewed scrutiny of such activity in the region.
- **We recently took mgmt. on a two day NDR – see our note HERE for additional thoughts and details.**

Guggenheim's POR EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	0.72A	0.52A	0.59A	0.49E	**2.32E**	2.34E
Prior				*0.49E*	*2.32E*	
2019E	0.83E	0.42E	0.45E	0.72E	**2.43E**	2.46E
Prior	*0.86E*	*0.44E*	*0.47E*	*0.74E*	*2.51E*	
2020E	0.88E	0.44E	0.47E	0.75E	**2.54E**	2.58E
Prior	*0.92E*	*0.46E*	*0.49E*	*0.77E*	*2.64E*	
2021E	0.93E	0.47E	0.50E	0.79E	**2.68E**	2.71E
Prior	*0.96E*	*0.48E*	*0.51E*	*0.81E*	*2.77E*	
2022E	0.95E	0.48E	0.51E	0.81E	**2.75E**	0.00E
Prior						

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** We apply our electric target multiple of 17x plus a one-turn premium for the potential for utilities to trade outside forward interest rate fundamentals and for the reality that this market cap range will continue to embed an M&A premium to our 2020 EPS estimate of $2.54 and discount our valuation back to the PV to arrive at our $44 PT. Our prior $42 PT was based on a 16x plus one-turn premium off 2019E EPS of $2.51.

- **Risks:** The primary downside risks on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model. Upside risks to our price target include: (1) favorable regulatory settlements; (2) higher economic growth in service territory; and (3) higher CapEx outlook.

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PORTLAND GENERAL ELECTRIC COMPANY

INCOME STATEMENT ($millions)		2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Revenue		1,966	522	471	541	526	2,060	2,166	2,265	2,352
Purchased power and fuel		569	131	118	188	144	581	608	639	668
Generation, transmission and distribution		286	75	81	74	72	302	317	333	349
Administrative and other		255	63	65	65	65	258	271	285	298
Depreciation and amortization		378	98	99	101	103	401	421	433	445
Taxes other than income taxes		126	32	33	33	34	133	146	154	161
Total Operating Expenses		1,614	400	396	462	417	1,676	1,763	1,844	1,921
OPERATING INCOME		352	122	74	79	109	385	403	421	431
% Operating Margin		18%	23%	16%	15%	21%	19%	19%	19%	18%
EBITDA		740	*221*	*177*	*182*	*214*	795	832	863	885
EBIT		363	*123*	*77*	*81*	*112*	394	412	430	440
Interest expense		121	29	30	30	30	119	125	128	131
Other income:										
AFUDC		10	2	2	2	2	8	8	8	8
Misc. income (expense)		1	(1)	1	0	1	1	1	1	1
Other income		11	1	3	2	3	9	9	9	9
Income before income tax expense		241	94	48	51	81	274	287	302	310
Income tax expense	21%	35	20	10	11	17	58	60	63	65
Non-GAAP adjustments										
Net Income		207	74	38	40	64	217	227	238	245
Weighted-average shares outstanding (in thousands):		89	89	89	89	89	89	89	89	89
EPS		$2.32	0.83	0.42	0.45	0.72	$2.43	$2.54	$2.68	$2.75

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
PORTLAND GENERAL ELECTRIC COMPANY

CONSOLIDATED BALANCE SHEET ($millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Assets:									
Cash and cash equivalents	38	43	21	7	2	2	8	28	37
Accounts receivable, net	180	188	170	195	189	189	199	208	215
Unbilled revenues	73	73	73	73	73	73	73	73	73
Inventories	78	81	96	77	76	76	80	84	87
Regulatory assets—current	42	42	42	42	42	42	42	42	42
Other current assets	51	51	51	51	51	51	51	51	51
Electric utility plant, net	6,835	6,910	6,983	7,054	7,124	7,124	7,278	7,420	7,550
Regulatory assets—noncurrent	426	426	426	426	426	426	426	426	426
Nuclear decommissioning trust	42	42	42	42	42	42	42	42	42
Non-qualified benefit plan trust	39	39	39	39	39	39	39	39	39
Other LT Assets	55	55	55	55	55	55	55	55	55
Total Assets	7,859	7,949	7,998	8,061	8,119	8,119	8,293	8,468	8,618
Liabilities:									
Accounts payable	136	99	111	117	135	135	143	149	155
Liabilities from price risk management activities—curren	42	42	42	42	42	42	42	42	42
Current portion of long-term debt	-	-	-	-	-	-	-	-	-
Accrued expenses and other current liabilities	248	233	242	267	247	247	260	272	283
Long-term debt, net of current portion	2,277	2,377	2,402	2,427	2,457	2,457	2,527	2,597	2,647
Regulatory liabilities—noncurrent	1,379	1,379	1,379	1,379	1,379	1,379	1,379	1,379	1,379
Deferred income taxes	372	372	372	372	372	372	372	372	372
Unfunded status of pension and postretirement plans	283	283	283	283	283	283	283	283	283
Liabilities from price risk management activities—noncu	124	124	124	124	124	124	124	124	124
Asset retirement obligations	196	196	196	196	196	196	196	196	196
Non-qualified benefit plan liabilities	106	106	106	106	106	106	106	106	106
Other noncurrent liabilities	199	199	199	199	199	199	199	199	199
Total Liabilities	5,361	5,410	5,455	5,512	5,540	5,540	5,631	5,719	5,786
Noncontrolling interests' equity	-	-	-	-	-	-	-	-	-
Common Stock	1,209	1,209	1,209	1,209	1,209	1,209	1,209	1,209	1,209
Accumulated other comprehensive loss	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Retained earnings	1,296	1,338	1,342	1,348	1,378	1,378	1,461	1,548	1,631
Total Liabilities & Shareholders Equity	7,859	7,949	7,998	8,061	8,119	8,119	8,293	8,468	8,618

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

GUGGENHEIM

PORTLAND GENERAL ELECTRIC COMPANY

CASH FLOW STATEMENT ($millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Net Income	207	74	38	40	64	217	227	238	245
Depreciation and amortization	378	98	99	101	103	401	421	433	445
(Decrease) increase in net liabilities from price risk mana	0	0	0	0	0	0	0	0	0
Decoupling mechanism deferrals, net of amortization	2	0	0	0	0	0	0	0	0
Deferred income taxes	2	0	0	0	0	0	0	0	0
Pension and other postretirement benefits	19	0	0	0	0	0	0	0	0
Allowance for equity funds used during construction	(8)	0	0	0	0	0	0	0	0
Other non-cash income and expenses, net	45	0	0	0	0	0	0	0	0
Changes in Assets & Liabilities:									
Decrease in accounts receivable and unbilled revenue	21	(9)	19	(25)	5	(10)	(9)	(9)	(8)
Increase in inventories	0	(3)	(16)	20	1	2	(4)	(4)	(4)
Decrease (increase) in margin deposits, net	6	0	0	0	0	0	0	0	0
Decrease in accounts payable and accrued liabilities	39	(51)	20	32	(2)	(1)	20	18	17
Other working capital items, net	19	0	0	0	0	0	0	0	0
Other - net	(24)	0	0	0	0	0	0	0	0
Net Operating Cash Flows	706	110	160	168	172	609	654	677	695
Capital Expenditures	(551)	(173)	(173)	(173)	(173)	(690)	(575)	(575)	(575)
Other - net	123	0	0	0	0	0	0	0	0
Net Investing Cash Flows	(428)	(173)	(173)	(173)	(173)	(690)	(575)	(575)	(575)
Equity issuance	0	0	0	0	0	0	0	0	0
LT debt issued	150	100	25	25	30	180	70	70	50
LT debt payments	0	0	0	0	0	0	0	0	0
Change in short-term debt	(300)	0	0	0	0	0	0	0	0
Dividends paid	(125)	(32)	(34)	(34)	(34)	(135)	(143)	(152)	(161)
Other - net	(4)	0	0	0	0	0	0	0	0
Net Financing Cash Flow	(279)	68	(9)	(9)	(4)	45	(73)	(82)	(111)
Beginning Cash Balance	39	38	43	21	7	38	2	8	28
Net Change in Cash +/-	(1)	5	(21)	(14)	(5)	(36)	6	20	9
Ending Cash Balance	38	43	21	7	2	2	8	28	37

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

PPL CORP (PPL, NEUTRAL, $29 PT)

Continued UK regulatory/Brexit uncertainty keeps us on the sidelines, strategic alternatives are possible but require diluting UK business mix – a tall order with Brexit ambiguity.

- **Maintaining our NEUTRAL view on PPL as uncertainty surrounding Brexit and UK regulatory reform only seems to increase despite us seeing material value in the business w/ investors remaining on the sidelines.** Maintaining our $29 PT as we roll forward on 2020 fundamentals. PPL mgmt. continues to publicly telegraph it is ripe for strategic alternatives but in our view any large buyers are likely waiting out the game until more clarity on Brexit/Ofgem is gained. Ofgem's recent decision to lower the cost of capital for gas and transmission utilities has only further confused U.S. utility investors and for now seems hard for us to imagine this won't have a ripple effect on the electric distribution companies – at a minimum, this is a major uncertainty which we are closely following.
- **Introducing our 2022 estimate of $2.85 which equates to a ~5.5% CAGR off mgmt's $2.30 base, i.e., the 2018 mid-point guide.** Our estimates incorporate healthy ROEs at the US regulated utilities with each earning close to their allowed, i.e., we forecast the Pennsylvania earning 10.5-11.0% growing off $7.1Bn rate base in 2018, LKE earning 9.0-10.0% growing off $9.9Bn in rate base in 2018; we model total regulated CAPEX of ~$3.2Bn/year for PPL consolidated, cap structure in line with regulatory allowed and UK business growing rate base at a ~5% CAGR off of $10.3Bn base at YE 2018.
- **We and most traditional U.S. utility investors remain on the sidelines with continued regulatory uncertainty in the UK.** Ofgem sent a 'shot heard around the world' when it cut the cost of capital in half for gas and transmission utilities (i.e., the cost of capital was cut to a base line rate of return of 4% for gas distribution and electric transmission businesses). Investors immediately extrapolated this to PPL's UK electric distribution business even though the proposed ruling's scope did not extend to electric distribution businesses. PPL shares fell 6% the day Ofgem announced this proposal vs the UTY only down 0.46% (for more see HERE). Ofgem's executive director for systems and networks explained, "We want to cut the cost to consumers for accommodating electric vehicles, renewables and electricity storage, and make sure that all consumers benefit from these technologies." Given the market reaction, Ofgem's proposed cost of capital was on the much lower end of investor's expectations. **Although we agree that the current rate cut was not directly related to electric distribution companies like WPD, investors will likely draw correlations indirectly – though Mgmt. has stopped short of revising guidance on this. At a minimum, this places a major overhang on shares which we will continue to monitor for the time being.**
- **We caught up with PPL after the Ofgem decision to compare notes – we feel better but remain on guard given the indirect read.** PPL explained that nothing in the Ofgem decision was causing them to change previously announced guidance for RIIO2. As a reminder PPL's UK business is only electric distribution and it has no exposure to gas distribution or electric transmission. It is possible that the market's reaction was premature but only time will tell. PPL maintains the stance that gas/transmission and electric distribution are two very distinct businesses and if the UK wants to achieve its goals for carbon reduction – bill headroom for renewables (i.e., DG investments, electric vehicles) are clearly a reason why they cut returns for gas and electric transmission – then we believe it will require investment in the electric distribution systems, which would be severely curtailed if returns are cut in half.

Regardless of the company's messaging U.S. infrastructure investors view the Ofgem's regulatory proposals for gas/transmission as contentious.

- **Strategic alternatives ahead? It has to be an entire PPL sale, not parts.** PPL has been very public about its openness to strategic alternatives, but the UK business creates some unique hurdles to getting a deal done. In our recent meetings mgmt. said it gets pitched ideas all of the time that just don't work. Mgmt. explained that selling 100% or a partial interest of the UK business does not fit well as the credit rating agencies view the UK business in a stronger light vs other US utilities given the long-term rate certainty, i.e., this affords PPL a lower FFO/debt threshold of 12% vs U.S. regulated peers of ~15%. If WDP was monetized, then FFO/debt would come in below 12% and **proceeds from a sale would need to be used for debt reduction which would be dilutive to earnings**. Either way there would be a tax bill and mgmt. recognized this is also a hurdle.
- **Mgmt. wish list, target mix 20-25% - likely hinders a U.S. acquisition given lack of currency and balance sheet capacity.** This target business mix likely rules out any potential single state small utility acquisitions like in KY and, in our view, implies a large +$10bn deal to dilute the UK. We observe conventional wisdom amongst investors that only a very large player could step in, potentially absorb PPL and dilute down the contribution of the UK business but given NT uncertainty with Brexit and the Ofgem regulatory process, trying to extrapolate earnings visibility could be challenging, in our view, for an acquirer and not likely an upside risk to our neutral stance for now.

Guggenheim's PPL EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2018E	0.74A	0.55A	0.59A	0.48E	**2.36E**	*2.36E*
Prior				*0.54E*	*2.42E*	
2019E	0.69E	0.55E	0.65E	0.55E	**2.44E**	*2.43E*
Prior	*0.72E*	*0.55E*	*0.57E*	*0.55E*	*2.39E*	
2020E	0.75E	0.58E	0.69E	0.58E	**2.61E**	*2.55E*
Prior	*0.76E*	*0.59E*	*0.61E*	*0.59E*	*2.56E*	
2021E	0.78E	0.62E	0.72E	0.62E	**2.74E**	*2.68E*
Prior	*0.79E*	*0.63E*	*0.65E*	*0.63E*	*2.70E*	
2022E	0.81E	0.64E	0.75E	0.65E	**2.85E**	*NA*
Prior						

Source: Company reports, Guggenheim Securities, LLC, Factset

Valuation:

- We derive our regulated utility group target multiple of 17x from our regression model, which uses the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years; we apply the 17x multiple to our 2020 EPS estimate of $1.30 for PPL's US utility franchises (i.e., PA and KY utilities) to arrive at a $22 valuation; we combine this with the $7.5bn equity value we estimate for PPL's UK franchise above (~$10/share), and subtract ~$2/share of holding company drag, we then discount back by one year to arrive at our $29 12-month price target.

Risks:

- **Downside risks include** PPL's UK segment performance, accounts for a majority of consolidated results, can be impacted by fluctuations on FX rates between USD/GBP as well as potential deterioration in regulatory construct and actions outside of the US Outside of the UK segment, risks to estimates for PPL Corp mainly encompass traditional risk factors inherent with all electric and gas utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

- **Upside risks** include an (1) improving outlook for the UK economy, (2) improved capital flows, and (3) strengthening of the GBP above our estimates.

See pages 278 - 279 for analyst certification and important disclosures.

GUGGENHEIM
PPL MODEL
CONSOLIDATED FINANCIALS

INCOME STATEMENT ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Total Operating Revenues	7,768	2,121	1,946	2,064	1,972	8,103	8,339	8,556	8,786
Fuel	(884)	(294)	(268)	(293)	(277)	(1,132)	(1,132)	(1,132)	(1,132)
Realized	(672)	(163)	(116)	(128)	(136)	(543)	(548)	(554)	(559)
Other O&M	(1,675)	(411)	(444)	(417)	(423)	(1,695)	(1,718)	(1,741)	(1,765)
Depreciation	(1,093)	(280)	(282)	(284)	(285)	(1,131)	(1,184)	(1,239)	(1,297)
Taxes, other than income	(301)	(82)	(74)	(79)	(74)	(309)	(314)	(320)	(325)
Operating Income	3,143	891	762	864	776	3,293	3,443	3,571	3,708
Other Income (Expense)	16	(22)	(21)	(23)	(20)	(84)	(24)	26	26
Interest Expense	(943)	(226)	(227)	(227)	(235)	(916)	(926)	(943)	(961)
EBT	2,215	643	515	614	521	2,293	2,493	2,654	2,773
Taxes	(457)	(138)	(111)	(132)	(113)	(494)	(537)	(572)	(597)
Net Income	1,758	505	404	482	409	1,799	1,956	2,082	2,176
Adjustments to Net Income									
Energy-related Economic Activity	-					-	-	-	-
FX Adjustments	103					-	-	-	-
Other	(14)					-	-	-	-
Total Adjustments	89	-	-	-	-	-	-	-	-
Adjusted Net Income	1,669	505	404	482	409	1,799	1,956	2,082	2,176
	7%					*8%*	*9%*	*6%*	*4%*
Adjusted EPS - Basic	$2.37	$0.70	$0.55	$0.66	$0.56	$2.46	$2.63	$2.76	$2.87
Adjusted EPS (Diluted)	$2.36	$0.69	$0.55	$0.65	$0.55	$2.44	$2.61	$2.74	$2.85

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
PPL MODEL
CONSOLIDATED FINANCIALS

BALANCE SHEET ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Current Assets									
Cash and Cash Equivalents	1,005	1,068	939	887	811	811	861	769	773
Customer	684	684	684	684	684	684	684	684	684
Other	58	58	58	58	58	58	58	58	58
Unbilled Revenues	411	411	411	411	411	411	411	411	411
Total Current Assets	**2,708**	**2,771**	**2,642**	**2,590**	**2,514**	**2,514**	**2,564**	**2,472**	**2,476**
Property, Plant and Equipment									
Regulated Utility Plant	39,866	40,626	41,386	42,146	42,906	42,906	46,056	49,206	52,356
Less: Accumulated Depreciation	(7,472)	(7,753)	(8,035)	(8,319)	(8,604)	(8,604)	(9,788)	(11,027)	(12,324)
Regulated Utility Plant, net	32,393	32,873	33,351	33,827	34,302	34,302	36,268	38,178	40,031
Other	365	365	365	365	365	365	365	365	365
Less: Accumulated Depcreciation	(111)	(111)	(111)	(111)	(111)	(111)	(111)	(111)	(111)
Non-regulated Net PP&E	254	254	254	254	254	254	254	254	254
CWIP	1,816	1,816	1,816	1,816	1,816	1,816	1,816	1,816	1,816
Property Plant and Equipment, net	**34,463**	**34,943**	**35,421**	**35,897**	**36,372**	**36,372**	**38,338**	**40,248**	**42,101**
Total Noncurrent Assets	**6,479**	**6,479**	**6,479**	**6,479**	**6,479**	**6,479**	**6,479**	**6,479**	**6,479**
Total Assets	**43,650**	**44,193**	**44,542**	**44,966**	**45,365**	**45,365**	**47,380**	**49,200**	**51,056**

BALANCE SHEET ($ in millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Liabilities and Equity									
Short-term Debt	1,569	1,569	1,589	1,589	1,609	1,609	1,649	1,689	1,729
Long-term Debt	330	330	330	330	330	330	330	330	330
Accounts Payable	814	814	814	814	814	814	814	814	814
Taxes	121	121	121	121	121	121	121	121	121
Interest	326	326	326	326	326	326	326	326	326
Dividends	287	287	287	287	287	287	287	287	287
Regulatory Liabilities	136	136	136	136	136	136	136	136	136
Other Current Liabilities	820	820	820	820	820	820	820	820	820
Total Current Liabilities	**4,403**	**4,403**	**4,423**	**4,423**	**4,443**	**4,443**	**4,483**	**4,523**	**4,563**
Long-term Debt	19,924	20,004	20,004	20,004	20,057	20,057	20,368	20,745	21,105
Total Deferred Credits, Other Liabilite	**7,053**	**7,197**	**7,314**	**7,452**	**7,571**	**7,571**	**8,131**	**8,727**	**9,348**
Equity									
Common Stock	7	7	7	7	7	7	7	7	7
APIC	11,447	11,572	11,697	11,822	11,947	11,947	12,447	12,597	12,747
Earnings Reinvested	4,464	4,658	4,745	4,906	4,989	4,989	5,592	6,249	6,934
Accumulated Other Comprehensive Lc	(3,648)	(3,648)	(3,648)	(3,648)	(3,648)	(3,648)	(3,648)	(3,648)	(3,648)
Total Common Equity	12,270	12,589	12,801	13,087	13,295	13,295	14,398	15,205	16,040
Total Equity	**12,270**	**12,589**	**12,801**	**13,087**	**13,295**	**13,295**	**14,398**	**15,205**	**16,040**
Total Liabilities and Equity	**43,650**	**44,193**	**44,542**	**44,966**	**45,365**	**45,365**	**47,380**	**49,200**	**51,056**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
PPL MODEL
CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT *($ in millions)*	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash Flows from Operating Activities									
Net Income	1,758	505	404	482	409	1,799	1,956	2,082	2,176
(Income) loss from discontinued operations (net of income taxes)	-	-	-	-	-	-	-	-	-
Income from continuing operations (net of	1,758	505	404	482	409	1,799	1,956	2,082	2,176
Net cash provided by operating activities - continuing operations	**2,934**	**929**	**803**	**903**	**812**	**3,448**	**3,701**	**3,917**	**4,094**
Net cash provided by operating activities - discontinued operations	-	-	-	-	-	-	-	-	-
Net Cash Flow from Operating Activities	**2,934**	**929**	**803**	**903**	**812**	**3,448**	**3,701**	**3,917**	**4,094**
Cash Flows from Investing Activities									
Net cash provided by (used in) investing activities - continuing operations	(3,188)	(760)	(760)	(760)	(760)	(3,040)	(3,150)	(3,150)	(3,150)
Net cash provided by (used in) investing activities - discontinued operations	-	-	-	-	-	-	-	-	-
Net Cash Flow Invested	**(3,188)**	**(760)**	**(760)**	**(760)**	**(760)**	**(3,040)**	**(3,150)**	**(3,150)**	**(3,150)**
Cash Flows from Financing Activities									
Net Cash Flow from Financing	**779**	**(107)**	**(171)**	**(196)**	**(128)**	**(602)**	**(501)**	**(858)**	**(940)**
Effect of FX Rates	(9)	-	-	-	-	-	-	-	-
Net (Increase) Decrease in Cash and Cash Equivalents included in Discontinued Operations	-	-	-	-	-	-	-	-	-
Change in Cash and Cash Equivalents	516	63	(128)	(53)	(76)	(194)	49	(91)	4
Cash and Cash Equivalents at Beginning of Period	485	1,005	1,068	939	887	1,005	811	861	769
Cash and Cash Equivalents at End of Period	**1,001**	**1,068**	**939**	**887**	**811**	**811**	**861**	**769**	**773**

Source: Company reports; Guggenheim Securities, LLC estimates.

SOUTHERN COMPANY (SO, NEUTRAL, $44 PT)

We are remaining on sidelines and waiting for stronger track record on Vogtle productivity improvements – which we view as an execution story for us at this point; Mgmt. is doing shareholder-friendly moves and can virtually eliminate any remaining market-based equity offerings through other avenues, in our view.

- **Maintaining our NEUTRAL rating on SO; we remain on the sidelines given the binary risk associated with Vogtle – pending visibility, our thesis could change despite us being very selective in this space.** Lowering our PT to $44 from $47 as we roll forward on 2020 fundamentals. Note: we continue to incorporate a two and a half discount for construction risks associated with Vogtle as our EPS estimates do not reflect any incremental risks for Vogtle which we choose to capture in our discounted multiple. Shares do present some value vs peers but we are still trying to gain more comfort with the project with recent productivity improvements but with the continued need to hire hundreds of more construction workers to meet the accelerated April 2021/22 schedule. We could see additional asset sales ahead to accelerate the remaining $2.4bn equity need, but we recognize SO can clear this equity need over time with internal programs, further equity infusion into Alabama, etc.
- **Introducing our 2022 estimate of $3.46/shr which equates to a ~4% CAGR through our trajectory.** Mgmt continues to guide toward 4-6% LT growth but binary risks associated with Vogtle and equity needs across the complex keep us conservative. Our model assumes robust ROEs of 13-14% at Alabama Power with $2.2-$1.7bn/year of capex, an ~11% ROE at Georgia Power with $3.4bn of capex in '18 that steps down to $2.7bn through '22, an ~13% ROE at Mississippi Power with capex of ~$200mm per year, and no additional asset sales at Southern Power. We assume SO can address its remaining $2.4Bn of equity needs with its internal programs. These ROE and capex assumptions drive our 2019/2020/2021 estimates of $3.05/$3.15/$3.31, respectively. We are not modeling further delays or cost overruns with Vogtle.
- **Vogtle remains top of mind but continuity of Commissioners on SO's side.** Based on recent VCM testimony we believe SO is on track to meet the normal November 21/22 schedule for Vogtle (i.e., the regulator's schedule). However, it is worth noting consultants explained in recent VCM testimony that any delays past the November 21/22 schedule would cause cost increases of ~$100mm per month. All of the republican Commissioners that unanimously voted for the revised cost estimate and revised schedule were recently re-elected in the November elections, we view this continuity as a plus for the project. Mgmt is focused on hiring more electricians and pipefitters to meet the accelerated April 2021/22 schedule. **The "bugle of hiring" will continue through the next couple of months.** As a reminder, Southern had a "stand down" at the Vogtle work site last year where it locked the construction site out for a day and a half and had conversations with employees on safety and productivity: 150 employees didn't return after the stand down but productivity levels rose dramatically. Pre-stand down SO was hitting 80,000 weekly hours and after it was achieving 120,000 weekly hours with less labor. The goal is to ramp up and sustain 140-150,000 weekly hours at the stronger productivity levels. SO continues to look toward Canada for labor and is working with the DOL to secure visas for electricians from our neighbors to the north.
- **Equity needs whittled down from $7.0bn to now $2.4bn.** In mid-December SO closed on its $1.2Bn of tax equity financing for its wind portfolio and this marks the latest internal financing initiative that is shareholder friendly. The large equity needs were mostly caused by cost overruns at Vogtle. Southern is working on increasing

 See pages 278 - 279 for analyst certification and important disclosures.

the equity layer at utilities as an avenue, i.e., Alabama power will need over $1bn in equity to step up to 55% by 2025.

- **SO could potentially sell additional CCGT assets, Nicore Gas, Mississippi Power or Virginia Natural Gas to continue whittling down its $2.4bn of remaining equity needs and further "simplify" the story.** However, SO has been very clear that it can address this remaining $2.4bn equity need with internal programs such as its DRIP. SO has 12 GW of remaining fossil fuel assets which could be rationalized in the future. As a reminder, SO recently sold Mankato a 760 MW plant in 3Q for $650mm or $855/kW. **Mgmt has explained there are three items that fit into its decision making process for a potential asset sale: 1)** Transaction value, is there a better owner of the asset that is willing to pay a price which offers premium value (i.e. will someone step up for Nicore?); **2)** SO stock price, i.e. If SO is trading at a significant discount, it is less attractive to issue stock and more attractive to monetize additional assets; **3)** Tax position, Mgmt. now could be less prone to sell assets especially as it becomes more of a cash tax payer approaching ~2022 timeframe. One item SO is potentially conscious about when monetizing gas asset is if the plant resides in the Southern Company power pool, which could preclude further sales - it is worth noting that the other two plants SO Power sold to NEE, Stanton and Oleander, were not in the power pool. At the end of the day if SO had any unexpected incremental equity needs, we believe it has levers to pull including monetizing additional assets.

Guggenheim's SO EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2018E	0.88A	0.80A	1.14A	0.26E	**3.07E**	*3.04E*
Prior				*0.26E*	*3.00E*	
2019E	0.80E	0.67E	1.08E	0.49E	**3.05E**	*3.02E*
Prior	*0.73E*	*0.63E*	*1.10E*	*0.56E*	*3.02E*	
2020E	0.84E	0.68E	1.12E	0.52E	**3.15E**	*3.12E*
Prior	*0.76E*	*0.65E*	*1.13E*	*0.58E*	*3.12E*	
2021E	0.88E	0.70E	1.16E	0.56E	**3.31E**	*3.23E*
Prior	*0.79E*	*0.67E*	*1.15E*	*0.61E*	*3.22E*	
2022E	0.92E	0.72E	1.21E	0.61E	**3.46E**	

Valuation:

- We arrive at our $44 price target for SO using our regulated utility target multiple of 17x and apply a two and half turn discount since our EPS estimates do not incorporate any risks associated with Vogtle's construction; we apply this to our 2020E EPS estimate of $3.15 and discount back one year to arrive at our 12-month price target of $44.

Risks:

- Downside risks include, Outside of nuclear construction risks, risks to our rating and price target for SO mainly encompass traditional risk factors inherent with all electric and gas utilities, including: (1) Rate case risk; (2) Lower CapEx; and (3) Interest rate changes above what we account for in our regression model.
- Upside risks, SO coming in under budget and ahead of schedule on Vogtle and/or plugging remaining equity need quicker than expected.

GUGGENHEIM
SOUTHERN COMPANY
CONSOLIDATED FINANCIALS

INCOME STATEMENT ($000)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Total Operating Revenues	23,000,469	6,281,013	8,123,011	5,236,396	4,922,495	24,562,915	24,804,176	25,147,868	25,486,482
Fuel	6,649,048	1,877,977	1,395,000	1,294,260	1,410,945	5,978,182	6,004,258	6,030,701	6,056,919
Purchased Power	970,995	281,491	204,824	212,339	213,548	912,201	915,471	918,774	921,996
Purchased Power - Afiliates	86,826	223,145	191,175	167,603	87,406	669,329	670,122	670,923	671,705
Other Operations	1,105,000	-	-	-	-	-	-	-	-
Maintenance	5,931,906	1,313,386	1,401,645	1,072,903	1,504,854	5,292,788	5,295,853	5,298,979	5,302,168
Depreciation & Amortization	3,103,144	775,259	807,933	628,098	776,835	2,988,125	3,031,475	3,078,855	3,128,282
Taxes other than Income Taxes	1,278,259	358,432	2,998,459	238,396	267,580	3,862,868	3,883,790	3,913,234	3,945,493
Consolidation Eliminations	118,786	635,964	544,848	477,669	249,108	1,907,589	1,909,849	1,912,132	1,914,358
Operating Income	3,756,505	815,359	579,127	1,145,127	412,218	2,951,831	3,093,358	3,324,269	3,545,561
Other Income / (Expense)	(801,525)	249,885	307,890	299,103	244,517	1,101,395	1,149,616	1,178,841	1,216,569
Income Taxes	668,186	223,701	186,274	303,288	137,914	851,177	891,024	945,653	1,000,047
Minority interest income	71,000	-	-	-	-	-	-	-	-
Consolidated Net Income	2,215,794	841,542	700,743	1,140,942	518,821	3,202,049	3,351,949	3,557,457	3,762,083
Consolidated EPS - Operating	$3.07	$0.80	$0.67	$1.08	$0.49	$3.05	$3.15	$3.31	$3.46

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
SOUTHERN COMPANY
CONSOLIDATED FINANCIALS

BALANCE SHEET ($ in thousand	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Current Liabilities									
Accounts Payable	**2,246,000**	2,246,000	2,246,000	2,246,000	2,246,000	**2,246,000**	**2,246,000**	**2,246,000**	**2,246,000**
Short-Term Debt	**2,564,000**	2,564,000	2,564,000	2,564,000	2,564,000	**2,564,000**	**2,564,000**	**2,564,000**	**2,564,000**
Total Other Current Liabilities	**8,155,000**	8,155,000	8,155,000	8,155,000	8,155,000	**8,155,000**	**8,155,000**	**8,155,000**	**8,155,000**
Total Current Liabilities	**12,965,000**	12,965,000	12,965,000	12,965,000	12,965,000	**12,965,000**	**12,965,000**	**12,965,000**	**12,965,000**
Total Debt	**44,923,000**	45,225,500	45,663,000	45,668,000	45,673,000	**45,673,000**	**47,133,000**	**48,783,000**	**50,308,000**
Long-Term Debt	**42,359,000**	42,661,500	43,099,000	43,104,000	43,109,000	**43,109,000**	**44,569,000**	**46,219,000**	**47,744,000**
Deferred Credits & Other									
Deferred Income Taxes	**6,074,046**	6,141,864	6,209,981	6,315,874	6,338,428	**6,338,428**	**6,602,770**	**6,872,754**	**7,145,375**
Regulatory Liabilities	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Employee Benefit Provisions	**2,017,000**	2,017,000	2,017,000	2,017,000	2,017,000	**2,017,000**	**2,017,000**	**2,017,000**	**2,017,000**
Other	**20,886,000**	20,886,000	20,886,000	20,886,000	20,886,000	**20,886,000**	**20,886,000**	**20,886,000**	**20,886,000**
Total Deferred Credits & Other	**28,977,046**	29,044,864	29,112,981	29,218,874	29,241,428	**29,241,428**	**29,505,770**	**29,775,754**	**30,048,375**
Commitments & Contingencies									
Minority Interest	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Preferred Equity	**324,000**	324,000	324,000	324,000	324,000	**324,000**	**324,000**	**324,000**	**324,000**
Common Equity	**28,246,703**	28,623,427	28,856,613	29,529,257	29,581,040	**29,581,040**	**31,037,437**	**32,671,503**	**34,482,354**
Total Shareholders' Equity	**28,570,703**	28,947,427	29,180,613	29,853,257	29,905,040	**29,905,040**	**31,361,437**	**32,995,503**	**34,806,354**
TOTAL LIABILITIES & EQUITY	**112,871,749**	**113,618,791**	**114,357,594**	**115,141,131**	**115,220,468**	**115,220,468**	**118,401,207**	**121,955,257**	**125,563,729**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
SOUTHERN COMPANY
CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT ($ in t	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Net Income	2,215,794	841,542	700,743	1,140,942	518,821	3,202,049	3,351,949	3,557,457	3,762,083
Less Earnings from Disc. Ops.	-	-	-	-	-	-	-	-	-
Depreciation	3,103,144	775,259	807,933	628,098	776,835	2,988,125	3,031,475	3,078,855	3,128,282
Amortization	417,000	109,000	109,000	109,000	109,000	436,000	436,000	436,000	436,000
Deferred Inc. Taxes & ITCs	(246,954)	67,818	68,117	105,893	22,554	264,382	264,342	269,984	272,621
Other (net)	1,275,000	-	-	-	-	-	-	-	-
Changes in Assets & Liabilities	-	-	-	-	-	-	-	-	-
Cash Flow from Operations	6,763,985	1,793,620	1,685,793	1,983,933	1,427,210	6,890,556	7,083,766	7,342,297	7,598,986
Net Contribution From Parent									
Less Preferred Dividend	5,000	8,000	9,000	8,000	5,000	30,000	30,000	30,000	30,000
Less Common Dividend	2,408,092	606,818	608,558	610,298	612,038	2,437,712	2,465,552	2,493,392	2,521,232
Total Cash Sources	4,350,893	1,178,802	1,068,235	1,365,635	810,172	4,422,844	4,588,214	4,818,905	5,047,754
Capex - Gross Property Add	7,800,000	2,123,250	2,123,250	2,123,250	330,250	6,700,000	6,300,000	5,800,000	5,400,000
Investment in Uncon. Subs	63,000	-	-	-	-	-	-	-	-
Capex - Other	-	-	-	-	-	-	-	-	-
Property Sales	-	-	-	-	-	-	-	-	-
Other	(4,201,000)	-	-	-	-	-	-	-	-
Uses of Cash	3,662,000	2,123,250	2,123,250	2,123,250	330,250	6,700,000	6,300,000	5,800,000	5,400,000

Source: Company reports; Guggenheim Securities, LLC estimates.

SPIRE (SR, NEUTRAL, $77 PT)

Downgrading to NEUTRAL rating based on valuation and lack of near-term catalysts in an otherwise uncontroversial gas utility story.

- **We are downgrading SR to NEUTRAL (from BUY) with a $77 PT (unchanged) on valuation and lack of near-term catalysts that are not priced into the current stock price – this is a valuation call on an already elevated utility sector.** The regulatory calendar is light, with few contested issues expected to arise, as revenue recovery mechanisms in place allow for adequate rate adjustment. We continue to see good value in the story despite any perception investors may have had around a "Missouri discount," which we continue to view as a misconception as gas utilities historically get favorable treatment (and have traded at higher P/E valuations, by our count a ~3x net premium, included in our valuation). Overall there is little improvement to be expected from the regulatory construct in the major operating jurisdictions for SR (MO/AL). SR has historically grown through acquisition but we believe it now has the scale to grow organically with infrastructure needs providing perpetual opportunities. We do not foresee any major acquisitions in the near term, which is overall a neutral view of prospects for outsized growth, balanced with few "surprises" and a focus on a regulated organic growth strategy. **With limited upside to the SR story, and a highly selective view going into 2019, at this time we are downgrading to a NEUTRAL with a $77 PT.**
- **We are adjusting our 2019-2021 EPS estimates to $3.75, $3.92 and $4.06, respectively, and introducing our 2022 estimate of $4.30.** We model 4.3% annual earnings growth through 2022 at the corporate level, with ~5.5% CAGR from the regulated utilities, in line with management's outlook of 4-7% for net economic earnings. Majority of the growth is driven by regulated utility investments - we note that more than 80% of capex is recoverable in rates with minimal regulatory lag. Capital investment in utility mainly focuses on infrastructure upgrades. We also model modestly increasing earnings contribution from gas marketing business with the exception of non-recurring earnings in 2018. **We are introducing our 2022 estimate of $4.30 based on continued utility investments**, totaling ~$490mm including the STL pipeline being fully operational by 2020 YE, with some contribution in 2019 FY for start of commercial operations. Our 2022 estimate also incorporates a ~10% earned return for the utilities, ~55% cap structure with potential to over-earn on cost management incentives among other items.

See pages 278 - 279 for analyst certification and important disclosures.

Guggenheim's SR EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons.
2018A	1.19A	2.83A	0.31A	-0.52A	**3.74A**	
Prior	*1.19E*	*2.83E*	*0.31E*	*-0.53E*	*3.72E*	
2019E	1.07E	1.69E	0.89E	0.10E	**3.75E**	3.70E
Prior	*1.21E*	*2.57E*	*0.47E*	*-0.53E*	*3.72E*	
2020E	0.99E	1.99E	0.89E	0.05E	**3.92E**	3.87E
Prior	*1.12E*	*2.85E*	*0.46E*	*-0.50E*	*3.93E*	
2021E	1.03E	2.20E	0.92E	-0.09E	**4.06E**	4.02E
Prior	*1.17E*	*3.05E*	*0.48E*	*-0.55E*	*4.15E*	
2022E	1.10E	2.34E	0.95E	-0.09E	**4.30E**	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** For SR, since the non-regulated businesses are a relatively small contribution to aggregate earnings and the focus of those businesses is on utility-related infrastructure or services, we value SR as a regulated gas distribution utility. We use our 17x regulated group multiple, applying a 3x gas utility premium spread to 2020 fundamentals, which equates to a 20.0x target P/E multiple. We apply our target multiple to our 2020 EPS estimate of $3.92 to arrive at our $77 price target.

- **Risks:** Outside of the potential overhangs around a difficult Missouri jurisdiction, downside risks to our rating and valuation for SR mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model. Upside risks include (1) constructive rate case outcomes (including favorable ROE / equity ratio decisions), (2) higher capex outlook (including development projects not currently in plan), and (3) interest rate changes below what we account for in our regression model.

See pages 278 - 279 for analyst certification and important disclosures.

GUGGENHEIM

Spire Inc.
Consolidated

Income Statement ($ Millions)	2018A	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
	2018A	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Gas Utility	1,888	581	816	426	316	2,139	2,250	2,325	2,410
Gas Marketing and other	77	23	26	19	22	91	92	96	99
Total Operating Revenues	**1,965**	**603**	**843**	**446**	**338**	**2,229**	**2,343**	**2,421**	**2,509**
Purchased gas-Utility	770	294	436	163	96	989	1,042	1,070	1,102
Purchased gas-Other	30	20	23	20	25	88	88	89	89
Gross Margin	**1,165**	**290**	**383**	**263**	**217**	**1,152**	**1,213**	**1,262**	**1,318**
Other O&M	456	94	140	101	106	441	445	449	454
Other taxes	153	46	47	48	50	191	209	224	238
Marketing O&M	109	41	45	12	9	108	107	106	105
EBITDA	**448**	**109**	**151**	**101**	**52**	**414**	**452**	**483**	**521**
D&A-Utility	167	47	48	49	51	195	214	230	245
D&A-Other	1	3	3	3	4	12	12	12	12
Operating Income	**280**	**60**	**100**	**49**	**(3)**	**206**	**225**	**241**	**264**
Other, net	6	32	30	32	29	123	123	123	123
Total Interest Charges	98	21	24	22	18	85	91	95	98
Income before income taxes	**188**	**70**	**107**	**59**	**8**	**244**	**257**	**269**	**289**
Income Taxes	(27)	16	22	14	3	56	58	61	65
Net income	**214**	**54**	**85**	**45**	**5**	**189**	**199**	**208**	**224**
Non-GAAP Adjustments	**(31)**	-	-	-	-	-	-	-	-
Net Economic Earnings (Loss) (Non-GAAP)	184	54	85	45	5	189	199	208	224
Wtd. Avg. share count	49.1	50	50	50	50	**50**	**51**	**51**	**52**
Earnings Per Share	$ 4.36	**$ 1.07**	**$ 1.69**	**$ 0.89**	**$ 0.10**	**$ 3.75**	**$ 3.92**	**$ 4.06**	**$ 4.30**
Net Economic EPS (Non-GAAP)	$ 3.74	**$ 1.07**	**$ 1.69**	**$ 0.89**	**$ 0.10**	**$ 3.75**	**$ 3.92**	**$ 4.06**	**$ 4.30**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

Spire Inc.
Consolidated

Cash Flow Statement ($ Millions)	2018A	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Net income	**214**	54	85	45	5	**189**	**199**	**208**	**224**
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation, amortization, and accretion	168	(103)	45	46	48	36	201	216	230
Deferred income taxes and investment tax credits	(29)	-	-	-	-	-	-	-	-
Other – net	-	-	-	-	-	-	-	-	-
Changes in current operating assets and liabilities:									
Accounts receivable	(33)	145	-	-	-	145	-	-	-
Unamortized purchased gas adjustments	109	-	-	-	-	-	-	-	-
Deferred purchased gas costs	-	-	-	-	-	-	-	-	-
Accounts payable	13	198	-	-	-	198	-	-	-
Delayed/advance customer billings – net	(13)	(0)	-	-	-	(0)	-	-	-
Taxes accrued	6	(5)	-	-	-	(5)	-	-	-
Inventories	16	16	-	-	-	16	-	-	-
Other assets and liabilities	(40)	(256)	-	-	-	(256)	-	-	-
Other	44	-				-	-	-	-
Net Cash Provided by Operating Activities	**457**	**47**	**130**	**91**	**53**	**321**	**400**	**424**	**454**
Cash Flow from Investing Activities:									
Capital expenditures	**(499)**	213	(145)	(145)	(145)	**(222)**	**(485)**	**(490)**	**(490)**
Other	(32)	-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	**(532)**	**213**	**(145)**	**(145)**	**(145)**	**(222)**	**(485)**	**(490)**	**(490)**
Cash Flow from Financing Activities:									
Issuance of long-term debt	75	100	-	25	70	**195**	**30**	**40**	**40**
Redemption and maturity of first mortgage bonds	-	-	-	-	-	-	-	-	-
Repayments of long-term debt	(105)	20	15	50	50	**135**	**100**	**130**	**130**
Repayment of short-term debt - net	76	(116)	-	10	45	**(61)**	**85**	**60**	**60**
Issuance of common stock	155	-	-	-	-	-	50	50	50
Dividends paid	(109)	(30)	(30)	(30)	(32)	(122)	(130)	(140)	(150)
Other	(3)	-	-	-	-	-	-	-	-
Net Cash (Used in) Provided by Financing Activities	**89**	**(26)**	**(15)**	**55**	**133**	**148**	**135**	**140**	**130**
Net (Decrease) Increase in Cash and Cash Equivalents	**(3)**	**235**	**(30)**	**1**	**41**	**247**	**50**	**75**	**94**
Cash and Cash Equivalents, Beginning of Period	7	4	239	209	210	4	251	301	376
Cash and Cash Equivalents, End of Period	**4**	**239**	**209**	**210**	**251**	**251**	**301**	**376**	**470**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

GUGGENHEIM

Spire Inc.
Consolidated

Balance Sheet ($ Millions)	2018A	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash and cash equivalents	4	239	209	210	251	251	301	376	470
Accounts receivable:	**297**	**152**	**152**	**152**	**152**	**152**	**152**	**152**	**152**
Delayed customer billings	6.9	7	7	7	7	7	7	7	7
Inventories	**210**	**195**	**195**	**195**	**195**	**195**	**195**	**195**	**195**
Natural gas	175	175	175	175	175	175	175	175	175
Propane gas	12	12	12	12	12	12	12	12	12
Materials and supplies	23	23	23	23	23	23	23	23	23
Natural gas receivable	2	2	2	2	2	2	2	2	2
Derivative instrument assets	13	13	13	13	13	13	13	13	13
Unamortized purchased gas adjustments	8	8	8	8	8	8	8	8	8
Other regulatory assets	65	65	65	65	65	65	65	65	65
Prepayments and other	53	53	53	53	53	53	53	53	53
Total Current Assets	**660**	**734**	**704**	**705**	**746**	**746**	**796**	**871**	**965**
Property, plant and equipment									
Utility Plant	5,653	5,440	5,585	5,730	5,875	5,875	6,360	6,850	7,340
Less: accumulated depreciation	1,683	1,580	1,625	1,671	1,719	1,719	1,920	2,136	2,367
Net utility plant	**3,971**	**3,861**	**3,961**	**4,059**	**4,157**	**4,157**	**4,440**	**4,714**	**4,974**
Investments and Other Assets									
Non-utility Property	175	175	175	175	175	175	175	175	175
Goodwill	1,172	1,172	1,172	1,172	1,172	1,172	1,172	1,172	1,172
Other Investments	69	69	69	69	69	69	69	69	69
Total Investments and Other Assets	**1,415**	**1,415**	**1,415**	**1,415**	**1,415**	**1,415**	**1,415**	**1,415**	**1,415**
Deferred Charges									
Regulatory assets	670	643	643	643	643	643	643	643	643
Other	129	129	129	129	129	129	129	129	129
Total Deferred Charges	**799**	**772**	**772**	**772**	**772**	**772**	**772**	**772**	**772**
Total Assets	**6,844**	**6,781**	**6,851**	**6,951**	**7,089**	**7,089**	**7,422**	**7,771**	**8,125**

Source: Company reports; Guggenheim Securities, LLC estimates.

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Spire Inc.
Consolidated

Balance Sheet ($ Millions)	2018A	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Current portion of long-term debt	176	60	60	70	115	115	200	260	320
Notes payable	554	500	500	500	500	500	500	500	500
Accounts payable	290	488	488	488	488	488	488	488	488
Advance customer billings	23	23	23	23	23	23	23	23	23
Wages and compensation accrued	40	38	38	38	38	38	38	38	38
Dividends payable	30	9	9	9	9	9	9	9	9
Customer deposits	36	32	32	32	32	32	32	32	32
Interest accrued	15	12	12	12	12	12	12	12	12
Taxes accrued	65	60	60	60	60	60	60	60	60
Unamortized purchased gas adjustments	3	2	2	2	2	2	2	2	2
Deferred income taxes	-	-	-	-	-	-	-	-	-
Other regulatory liabilities	33	22	22	22	22	22	22	22	22
Other	58	23	23	23	23	23	23	23	23
Total Current Liabilities	**1,322**	**1,269**	**1,269**	**1,279**	**1,324**	**1,324**	**1,409**	**1,469**	**1,529**
Other Liabilities and Deferred Credits									
Deferred income taxes	436	361	361	361	361	361	361	361	361
Unamortized investment tax credits	-	-	-	-	-	-	-	-	-
Pension and postretirement benefit costs	180	172	172	172	172	172	172	172	172
Asset retirement obligations	321	310	310	310	310	310	310	310	310
Regulatory liabilities	355	306	306	306	306	306	306	306	306
Other	67	56	56	56	56	56	56	56	56
Total Other Liabilities and Deferred Credits	**1,359**	**1,205**	**1,205**	**1,205**	**1,205**	**1,205**	**1,205**	**1,205**	**1,205**
Total Liabilities	**2,680**	**2,474**	**2,474**	**2,484**	**2,529**	**2,529**	**2,614**	**2,674**	**2,734**
Capitalization									
Stockholders' Equity:									
Common stock	51	51	51	51	51	51	51	51	51
Paid-in capital	1,491	1,491	1,491	1,491	1,491	1,491	1,541	1,591	1,641
Retained earnings	716	739	794	809	782	782	851	919	993
Accumulated other comprehensive loss	6	6	6	6	6	6	6	6	6
Total Common Stock Equity	**2,263**	**2,287**	**2,342**	**2,357**	**2,330**	**2,330**	**2,448**	**2,567**	**2,691**
Long-term debt, excluding amounts due within one year	1,900	2,020	2,035	2,110	2,230	2,230	2,360	2,530	2,700
Total Capitalization	**4,163**	**4,307**	**4,377**	**4,467**	**4,560**	**4,560**	**4,809**	**5,097**	**5,391**
Total Liabilities and Equity	**6,844**	**6,781**	**6,851**	**6,951**	**7,089**	**7,089**	**7,422**	**7,771**	**8,125**

Source: Company reports; Guggenheim Securities, LLC estimates.

SEMPRA ENERGY (SRE, BUY, $133 PT)

We view SRE as a catalyst rich long CA call, with business restructuring, capital recycling and infrastructure development upside potential – we believe it's a bellwether name to own in '19.

- **Maintaining our BUY rating on SRE and raising our PT to $133 (up from $127). Our long view on SRE is premised upon a value accretive business transformation of the diversified infrastructure businesses with potential for high growth LNG investments, while being supported by a growing, high-quality regulated utility core in CA and TX.** We feel comfortable with SRE's limited exposure in CA relative to EIX/PCG, and we are bullish on potential for above average growth in Texas (with Oncor upside capex and pending purchase of InfraREIT assets), commercial operation of Cameron LNG in 2019 with additional east/west coast project options on the horizon and a self-funding LatAM portfolio (SA utilities) and IENOVA – South America utilities monetization likely announced by the '19 Analyst Day to fund growth and/or strengthening the balance sheet. **We see 2019 as a catalyst rich year for SRE and view the company as well positioned for outperformance; reiterate BUY.**
- **Texas regulated utility growth and Sharyland JV provide a strong base for the diversified business mix going forward.** With the closing of the Oncor acquisition in 2018, 2019 will be the first year of full earnings contribution to SRE and the company has moved to shore up capex plans resulting in a 6% baseline CAGR from a $5.1B capital plan and included up to an 18% of potential capex increases beyond the base plan. In the 4Q of 2018, SRE also announced the acquisition of InfraREIT and 50% of Sharyland Utilities, setting up Texas for further growth opportunities namely transmission expansion for new generation in Panhandle and South Plains, economic expansion in West Texas and macroeconomic infrastructure need to support population growth. **Overall, we see potential for above-guidance growth at the Texas utilities, supported by the constructive regulatory relationships and a value creating acquisition catalyst pending InfraREIT deal close (see note here).** We also note that over time, SRE could look to purse 100% ownership of Oncor and look to eliminate ring-fencing provisions, optimize the B/S of Oncor (vs. the ~42.5% equity cap). And further enhance the value of Texas in the overall structure.
- **2018 built confidence in SRE LNG development goals which seemed to be achievable and the investment decisions more probable – instead of cherry picking which projects to move forward with, now everything in the mix plus some additional opportunities.** On the 3Q call, CEO Jeff Martin stated that the 45 MPTA of LNG capacity goal is set at what the SRE management team sees as the achievable level and is supported by the MOU with Total on LNG development and signed HOAs with off-takers for West Coast LNG. The HOAs with Total (TOT), Mitsui (8031.T) and Tokyo Gas (9531.T) are an example of long term, credible counterparties stepping up to contract near-term project capacity and at the current level of interest for ECA, which were stood at 5-6 parties according to SRE, is currently giving pricing power to SRE. This is a constructive precursor to the phase 2 investment decision; in management's words nobody wants to be left out in this process. This strong interest is also a direct read through to Port Arthur which is also gathering interest from potential off-takers. **Taken in aggregate, we view Sempra's 45 MPTA goal firmly achievable and see potential to stretch beyond that goal.** Sempra targets an equity share of 60-70% across the LNG portfolio, which may provide an opportunity to take on additional partners in development.

 See pages 278 - 279 for analyst certification and important disclosures.

- **Guilt by association? California regulated utility exposure has weighed on the stock in the 2018 wildfire season** as peers EIX and PCG faced wildfires in their service territory (by our estimates presented in the CA wildfire section, $2.5B and $23.8B in potential liability, respectively). **We see SRE California utilities, namely the electric portion of SDG&E, as relatively de-risked from wildfire events with a better geography and a world class weather monitoring and response program that the utility has implemented for almost a decade which now at least one in-state peer has begun to emulate** (since its own last major set of wildfire events in 2008).
- **The procedure for recovery of wildfire costs beyond insured coverage is fundamentally broken in CA; the bull case remains a function of valuation for SRE.** To some degree we believe even regulators recognize the disconnect between their responsibility to review prudency vs. the court's interpretation of inverse condemnation as it applies to regulated utilities, effectively holding them liable for damages irrespective of cause, and without commensurate rate relief. At the end of 2018, however, they've stopped short of offering a solution and as the process becomes more politicized around the massive Northern California wildfires in 2017 and 2018, it's becoming increasingly difficult to see a universal fix in 2019. **Our core thesis with SRE is not levered to legislative/judicial efforts re-visiting the interpretation of inverse condemnation in CA, since those will likely take a considerable amount of time, but such action could help the stock valuation re-rate higher.** If a constructive resolution doesn't play out around inverse condemnation and the CA regulatory construct doesn't improve, SRE at a minimum has other business areas to deploy additional capital.
- **Updating our 2018-2021 estimates to $5.47, $6.13, $7.29 and $7.60; introducing our 2022 estimate of $7.96.** Our forecast incorporates a consolidated ~9.4% EPS CAGR through 2022, driven by rate base growth of ~6% for the SDG&E and ~8% for SoCal Gas with earned ROEs close to or above authorized levels for each SoCal and SDG&E given incentives and FERC assets. Oncor rate base CAGR is ~7% through 2022, and currently does not include the InfraREIT acquisition and associated upsides which can prove material as we displayed in prior research (see link above). **We expect Cameron LNG to begin contributing to earnings in 2019** with all three trains fully in-service by 2019, providing ~$320mm to earnings in 2020 (consistent with guidance of $300-350mm) and growing to full run rate earnings of ~$400M with escalation beyond that. The international segment grows at a ~6-7% CAGR through our forecast period driven by energy reform in Mexico with several recent project wins (i.e. marine terminals, transmission, etc.) for IENOVA and solid performance by the S.A. utilities in Chile and Peru.

Guggenheim's SRE EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	1.43A	1.35A	1.23A	1.46E	**5.47E**	5.45E
Prior		*1.35E*	*1.23E*	*1.47E*	*5.48E*	
2019E	1.83E	1.31E	1.40E	1.59E	**6.13E**	6.10E
Prior	*1.74E*	*1.22E*	*1.45E*	*1.69E*	*6.10E*	
2020E	2.24E	1.56E	1.65E	1.84E	**7.29E**	7.23E
Prior	*2.13E*	*1.45E*	*1.67E*	*1.93E*	*7.18E*	
2021E	2.32E	1.63E	1.72E	1.93E	**7.60E**	7.58E
Prior	*2.26E*	*1.53E*	*1.74E*	*2.01E*	*7.54E*	
2022E	2.26E	1.53E	1.74E	2.01E	**7.96E**	7.80E

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** We derive our valuation through our sum-of-the-parts analysis comprised of: (1) ~$40/ share (up from $39) for SDG&E when we apply our 17x group average regulated electric utility multiple and 1x discount to our 2020 EPS estimate; (2)

~$36/share (up from $34) value for SoCalGas utilizing 17x our regulated electric P/E multiple and 4x historical gas LDC spread; (3) ~$29/share for Oncor applying our 17x regulated multiple plus 1x premium (down from 3x as incremental growth is now in EPS estimates) to our 2020 estimate; (4) ~$15/share (up from $14) for IEnova (~66.4% ownership) based on a 9x EV/EBITDA multiple; (5) ~$13/share (up from $12) for the S.A. Utilities based on our regulated electric group multiple; (6) ~$28/share (up from $25) for SRE LNG & Midstream using an 11x EV/EBITDA multiple; (6) ~$3/share for renewables utilizing a CAFD yield of 4%; and, (7) ~($30)/share (down from $30) for parent drag. We discount our valuation back to the present value to arrive at our $133 PT (up from $127).

- **Risk**: Outside of exposure to the wildfires discussed above and potential delays around Cameron, risks to our valuation mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk; (2) lower CapEx outlook; (3) interest rate changes above what we account for in our regression model.

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INCOME STATEMENT ($MM)	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E	2020E	2021E	2022E
Utilities	9,890	2,710	2,313	2,443	2,676	10,142	10,426	10,681	10,914
Energy-related businesses	1,627	489	482	578	547	2,097	2,073	2,296	2,339
Total Operating Revenue	**11,517**	**3,199**	**2,795**	**3,022**	**3,223**	**12,238**	**12,499**	**12,977**	**13,253**
Operating Expenses:									
Utilities:									
Cost of electric fuel and purchased power	2,401	616	632	780	631	2,659	2,693	2,729	2,766
Cost of natural gas	1,119	352	182	255	338	1,127	1,128	1,129	1,130
Energy-related businesses:									
Cost of natural gas, electric fuel and purchased power	296	119	117	125	131	492	455	576	578
Other cost of sales	56	8	9	7	9	32	30	38	38
Operation and maintenance	3,277	766	771	789	897	3,222	3,233	3,244	3,256
Depreciation and amortization	1,572	422	430	438	446	1,737	1,856	1,942	2,026
Franchise fees and other taxes	477	125	125	125	125	500	500	500	500
Total Operating Expenses	**9,198**	**2,409**	**2,265**	**2,519**	**2,577**	**9,770**	**9,895**	**10,158**	**10,293**
EBITDA	**3,891**	**1,212**	**960**	**941**	**1,092**	**4,205**	**4,460**	**4,762**	**4,985**
EBIT	**2,319**	**790**	**530**	**502**	**646**	**2,469**	**2,604**	**2,819**	**2,960**
Equity earnings, before income tax	(64)	14	14	14	14	56	58	60	61
Other income, net	80	58	58	58	58	232	232	232	232
Total interest and related charges	832	224	224	225	223	896	994	1,037	1,074
Pretax income	207	638	379	349	495	1,861	1,900	2,074	2,178
Equity earnings, net of income tax	38	69	127	184	120	500	823	902	948
Net Income including noncontrolling interests	598	534	392	419	475	1,820	2,167	2,375	2,489
Noncontrolling interests	19	8	9	9	8	33	35	37	38
Extraordinary items included in operating (after tax)	(90)	0	0	0	0	-	-	-	-
FX Adjustment	(19)	(9)	(9)	(9)	(9)	(37)	(30)	(36)	(32)
Reported GAAP Earnings	**470**	**517**	**373**	**401**	**458**	**1,749**	**2,101**	**2,302**	**2,419**
Income (loss) from disc ops	-	-	-	-	-	-	-	-	-
Items excluded from operating earnings	1,012	-	-	-	-	-	-	-	-
Adjusted Earnings	**1,482**	**517**	**373**	**401**	**458**	**1,749**	**2,101**	**2,302**	**2,419**
Diluted shares	271	283	284	286	288	285	288	303	304
Reported GAAP EPS	$1.74	$1.83	$1.31	$1.40	$1.59	$6.13	$7.29	$7.60	$7.96
Adjusted EPS	**$5.47**	**$1.83**	**$1.31**	**$1.40**	**$1.59**	**$6.13**	**$7.29**	**$7.60**	**$7.96**

Source: Company reports and Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

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BALANCE SHEET ($MM)	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E	2020E	2021E	2021E
ASSETS									
Current Assets:									
Cash and cash equivalents	803	767	595	456	343	343	1,804	3,239	4,645
Restricted cash	-	-	-	-	-	-	-	-	-
Accounts receivable:									
Customers	1,252	1,252	1,252	1,252	1,252	1,252	1,252	1,252	1,252
Other receivables	411	411	411	411	411	411	411	411	411
Due from unconsolidated affiliates	50	50	50	50	50	50	50	50	50
Income taxes receivable	4	4	4	4	4	4	4	4	4
Deferred income taxes	-	-	-	-	38	38	-	-	-
Inventories	345	345	345	345	345	345	345	345	345
Regulatory balancing accounts -undercollected	92	92	92	92	92	92	92	92	92
Other regulatory assets	-					-	-	-	-
Fixed-price contracts and other derivatives	96	96	96	96	96	96	96	96	96
Asset held for sale, power plant	1,881	1,881	1,881	1,881	1,881	1,881	1,881	1,881	1,881
Other	541	541	541	541	541	541	541	541	541
Total current assets	**5,475**	**5,439**	**5,267**	**5,128**	**5,053**	**5,053**	**6,476**	**7,911**	**9,317**
Investments									
Nuclear decommissioning trust funds	1,042	1,042	1,042	1,042	1,042	1,042	1,042	1,042	1,042
Investment in Oncor	9,553	9,553	9,553	9,553	9,553	9,553	9,553	9,553	9,553
Other	2,561	2,561	2,561	2,561	2,561	2,561	2,561	2,561	2,561
Total investments	**13,156**	**13,156**	**13,156**	**13,156**	**13,156**	**13,156**	**13,156**	**13,156**	**13,156**
Property, Plant and Equipment									
Property, Plant and Equipment	48,413	49,313	50,213	51,113	52,013	52,013	54,763	57,413	60,063
Accumulated depreciation, depletion and amortization	(12,650)	(13,073)	(13,503)	(13,941)	(14,387)	(14,387)	(16,243)	(18,185)	(20,211)
Total property, plant and equipment, net	**35,763**	**36,240**	**36,710**	**37,172**	**37,626**	**37,626**	**38,520**	**39,228**	**39,852**
Deferred Charges and Other Assets									
Restricted cash	3	3	3	3	3	3	3	3	3
Due from unconsolidated affiliates	682	682	682	682	682	682	682	682	682
Regulatory assets	1,469	1,469	1,469	1,469	1,469	1,469	1,469	1,469	1,469
Goodwill	2,363	2,363	2,363	2,363	2,363	2,363	2,363	2,363	2,363
Other intangible assets	229	229	229	229	229	229	229	229	229
Dedicated assets in support of certain benefit plans	443	443	443	443	443	443	443	443	443
Insurance receivable for Aliso Canyon costs	474	474	474	474	474	474	474	474	474
Deferred income taxes	116	116	116	116	116	116	116	116	116
Sundry and other	1,127	1,127	1,127	1,127	1,127	1,127	1,127	1,127	1,127
Total deferred charges and other assets	**6,906**	**6,906**	**6,906**	**6,906**	**6,906**	**6,906**	**6,906**	**6,906**	**6,906**
TOTAL ASSETS	**61,299**	**61,741**	**62,039**	**62,363**	**62,741**	**62,741**	**65,058**	**67,201**	**69,232**

Source: Company reports and Guggenheim Securities, LLC estimates.

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BALANCE SHEET	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E	2020E	2021E	2021E
Current Liabilities:									
Short-term debt	2,597	2,397	2,197	1,997	1,797	1,797	1,797	1,797	1,797
Accounts payable -trade	1,199	1,199	1,199	1,199	1,199	1,199	1,199	1,199	1,199
Accounts payable -other	176	176	176	176	176	176	176	176	176
Due to unconsolidated affiliate	7	7	7	7	7	7	7	7	7
Income taxes payable	0	0	0	0	0	0	0	0	0
Deferred income taxes	0	0	0	0	0	0	0	0	0
Dividends and interest payable	495	495	495	495	495	495	495	495	495
Accrued compensation and benefits	356	356	356	356	356	356	356	356	356
Regulatory balancing accounts -overcollected	284	284	284	284	284	284	284	284	284
Current portion of long-term debt	1,464	1,464	1,464	1,464	1,464	1,464	1,464	1,464	1,464
Fixed-price contracts and other derivatives	63	63	63	63	63	63	63	63	63
Customer deposits	172	172	172	172	172	172	172	172	172
Reserve for Aliso Canyon costs	161	161	161	161	161	161	161	161	161
Liabilities held for sale	156	156	156	156	156	156	156	156	156
Other	1,061	1,061	1,061	1,061	1,061	1,061	1,061	1,061	1,061
Total current liabilities	**8,191**	**7,991**	**7,791**	**7,591**	**7,391**	**7,391**	**7,391**	**7,391**	**7,391**
Long-Term Debt									
Long-term debt	21,435	21,635	21,835	22,035	22,235	22,235	23,535	24,635	25,635
Total long-term debt	**21,435**	**21,635**	**21,835**	**22,035**	**22,235**	**22,235**	**23,535**	**24,635**	**25,635**
Deferred Credits and Other Liabilities									
Due to unconsolidated affiliate	36	36	36	36	36	36	36	36	36
Customer advances for construction	146	146	146	146	146	146	146	146	146
Pension and other postretirement benefit plan obligations,	1,052	1,052	1,052	1,052	1,052	1,052	1,052	1,052	1,052
Deferred income taxes	2,231	2,231	2,231	2,231	2,231	2,231	2,231	2,231	2,231
Deferred investment tax credits	25	25	25	25	25	25	25	25	25
Regulatory liabilities arising from removal obligations	3,974	3,974	3,974	3,974	3,974	3,974	3,974	3,974	3,974
Asset retirement obligations	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750
Fixed-price contracts and other derivatives	235	235	235	235	235	235	235	235	235
Deferred credits and other	1,219	1,219	1,219	1,219	1,219	1,219	1,219	1,219	1,219
Total deferred credits and other liabilities	**11,668**	**11,668**	**11,668**	**11,668**	**11,668**	**11,668**	**11,668**	**11,668**	**11,668**
Total liabilities	**41,294**	**41,294**	**41,294**	**41,294**	**41,294**	**41,294**	**42,594**	**43,694**	**44,694**
Noncontrolling Interest	2,474	2,474	2,474	2,474	2,474	2,474	2,474	2,474	2,474
Subsidiary Preferred Stock	20	20	20	20	20	20	20	20	20
								0	0
Common Shareholders' Equity								0	0
Common stock-no par	6,235	6,426	6,618	6,809	7,000	7,000	7,100	7,200	7,300
Other paid-in capital	2,259	2,259	2,259	2,259	2,259	2,259	2,259	2,259	2,259
Retained earnings	9,629	9,880	9,987	10,119	10,306	10,306	11,223	12,166	13,097
Deferred compensation	0					0	0	0	0
Accumulated other comprehensive income (loss)	(612)	(612)	(612)	(612)	(612)	(612)	(612)	(612)	(612)
Total common shareholders' equity	**17,511**	**17,953**	**18,251**	**18,575**	**18,953**	**18,953**	**19,970**	**21,013**	**22,044**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**61,299**	**61,741**	**62,039**	**62,363**	**62,741**	**62,741**	**65,058**	**67,201**	**69,232**

Source: Company reports and Guggenheim Securities, LLC estimates.

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CONSOLIDATED FINANCIALS
$ in millions, unless otherwise noted

CASH FLOW STATEMENT ($MM)	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E	2020E	2021E	2022E
Cash Flows From Operating Activities									
Net income	579	525	383	410	466	1,783	2,136	2,339	2,457
Depreciation and amortization	1,572	422	430	438	446	1,737	1,856	1,942	2,026
Changes in operating assets and liabilities:									
Net change in other working capital components	444	-	-	-	-	-	-	-	-
Insurance receivable for Aliso Canyon costs	(56)	-	-	-	-	-	-	-	-
Distributions from RBS Sempra Commodities LLP	-	-	-	-	-	-	-	-	-
Changes in other assets	(89)	-	-	-	(38)	(38)	38	-	-
Changes in other liabilities	-					-	-	-	-
Net cash provided by operating activities	**3,507**	**947**	**813**	**848**	**874**	**3,482**	**4,030**	**4,281**	**4,483**
Cash Flows From Investing Activities									
Expenditures for property, plant and equipment	(3,494)	(900)	(900)	(900)	(900)	(3,600)	(2,750)	(2,650)	(2,650)
Expenditures for investments and acquisitions	(9,921)	-	-	-	-	-	-	-	-
Other						-	-	-	-
Net cash used in investing activities	**(13,419)**	**(900)**	**(900)**	**(900)**	**(900)**	**(3,600)**	**(2,750)**	**(2,650)**	**(2,650)**
Cash Flows From Financing Activities									
Common dividends paid	(918)	(274)	(276)	(277)	(279)	(1,107)	(1,219)	(1,396)	(1,526)
Preferred dividends paid	-	-	-	-	-	-	-	-	-
Redemption of subsidiary preferred stock	-	-	-	-	-	-	-	-	-
Preferred dividends paid by subsidiary	2,258	-	-	-	-	-	-	-	-
Issuances of common stock	3,011	191	191	191	191	765	100	100	100
Repurchases of common stock	(20)	-	-	-	-	-	-	-	-
Issuance of preferred stock	-	-	-	-	-	-	-	-	-
Issuances of debt (maturities greater than 90 days)	8,728	200	200	200	200	800	1,300	1,100	1,000
Payments on debt (maturities greater than 90 days)	(2,967)	-	-	-	-	-	-	-	-
Proceeds from sale of noncontrolling interests	90	-	-	-	-	-	-	-	-
Increase (decrease) in short-term debt, net	407	(200)	(200)	(200)	(200)	(800)	-	-	-
Tax benefit related to share-based compensation	-	-	-	-	-	-	-	-	-
Payments on notes payable to unconsolidated affiliate	-	-	-	-	-	-	-	-	-
Purchase of noncontrolling interests	-	-	-	-	-	-	-	-	-
Net distributions to noncontrolling interests	(101)	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-
Net cash used in financing activities	**10,488**	**(83)**	**(85)**	**(86)**	**(88)**	**(342)**	**181**	**(196)**	**(426)**
Effect of exchange rate changes on cash	(8)					-	-	-	-
Increase (decrease) in cash and cash equivalents	**439**	**(36)**	**(172)**	**(138)**	**(114)**	**(460)**	**1,461**	**1,435**	**1,406**
Beginning Cash and cash equivalents	364	803	767	595	456	803	343	1,804	3,239
Ending Cash and cash equivalents	**803**	**767**	**595**	**456**	**343**	**343**	**1,804**	**3,239**	**4,645**

Source: Company reports and Guggenheim Securities, LLC estimates.

VISTRA ENERGY (VST, BUY, $37 PT)

We believe capital allocation remains the key to this story as power market reforms and strong underlying fundamentals in ERCOT provide positive tailwinds in 2019. We see additional buybacks as a path of least resistance as mgmt. balances its deleveraging goals against returning capital to shareholders.

- **Reiterating our BUY rating and maintaining our $37 PT for VST as we remain firmly in favor of power-levered names heading into a likely eventful 2019.** As we noted for NRG and in our power and policy overviews, power-levered names are slated to go through a year of positive catalysts in 2019, dominated by the forecasted tightness of the ERCOT market this summer (where VST's portfolio remains slightly long power), and by the reform efforts underway in both the eastern markets and ERCOT. **Like NRG, we believe VST remains a "good problem to have" story with capital allocation the central narrative.** Mgmt.'s eventful 3Q18 call set a strong runway for 2019, with both buybacks and a dividend slated for the new year; **however, we believe investors should be on the lookout for additional updates in the coming year on capital allocation *beyond 2019*, as VST is expected to remain a strong FCF generator**.
- **Updating our estimates through 2021 and introducing 2022 estimate.** Our EBITDA estimates of $3,307MM/$3,355MM/$3402MM for 2019/2020/2021 are generally in line, to slightly higher than our previous estimates through 2021 as we mark our models to the 12/07/2018 forward curves for electric, natural gas, and coal prices. We are introducing 2022 estimates built off the same updated underlying assets and assumptions driving our estimates in prior years. We model O&M and SG&A reductions of ~$275mm through the Operations Performance Initiative (OPI) achieved by 2020, consistent with management's updated guidance. In addition, the retail business continues to provide a consistent $700-$900mm of EBITDA with modest maintenance capex through our forecast period. **We arrive at balance sheet and cash flow metrics relatively consistent with VST's targets**, with a relaxation of the <3.0x net debt/EBITDA deleveraging target from 2019 to 2020 (mgmt. indicates 2.9x still within sight by YE 2019). **We model $1.25Bn in buybacks for '19 and ~$500mm additional shares each year from 2020 through our forecast period of 2022, with the newly instated dividend slated to grow 7% yearly through the same period.** Finally, we model 2020 EBITDA as largely in line with 2019, per mgmt.'s most recent guidance.
- **The ERCOT market continues to look very tight in the near term, with all eyes on this upcoming summer and a forecasted 8% reserve margin – see our reserve margin forecasting in prior sections. To the east the focus is on policy, where FERC is expected to rule within the next month on reforms to PJM's capacity market.** We view both of these items as net positives for VST, with ERCOT providing both a fundamental supply/demand boost and the opportunity for policy-driven upside potential via energy market reforms (e.g., the ORDC, marginal line losses, etc.). In PJM, FERC continues to deliberate on the best path forward for reforms to the capacity market construct. We continue to see the process as constructive for generators like VST and NRG, and we expect a ruling on PJM's proposal by the end of January – stay tuned. Finally we note that the fate of the MISO fleet remains somewhat uncertain, with favorable developments at the state level in IL on emissions regulations left somewhat incomplete in 2018. We remain on the lookout for further policy indications from the office of the incoming governor, J.B. Pritzker (D).
- **On capex and M&A, we note that VST has dipped its toes into energy storage arena via two projects: the Moss Landing Project (300MW) and the Upton TX**

solar-colocation project (10MW). We currently model some $400mm in capex associated with Moss Landing; however, given our view that mgmt. will remain disciplined with capital deployment **we do not foresee many additional storage projects or associated capex at this time**. As policies in California and other states change (i.e., mandates) we may revisit this thesis**.** M&A remains a very low-level possibility, in our view, with retail books in ERCOT the only real feasible targets at this time, as mgmt. has indicated it is also trying to organically grow in the east. Finally we note that mgmt. had previously indicated that the Independence CCGT (the sole asset in NYISO) was non-core, but we are of the impression that mgmt. is in no rush at this point given its hands are still full with the Dynegy integration and the fact that the asset remains profitable.

Guggenheim's VST EBITDA Estimates

EBITDA ($mm)	1Q	2Q	3Q	4Q	FY	Cons
2018E	241A	653A	1,153A	753E	**2,800E**	2763E
Prior				813E	2,860E	
2019E	557E	513E	1,269E	969E	**3,307E**	3321E
Prior	596E	558E	1,200E	939E	3,294E	
2020E	595E	575E	1,223E	963E	**3,355E**	3232E
Prior	614E	588E	1,202E	956E	3,361E	
2021E	603E	615E	1,207E	977E	**3,402E**	3202E
Prior	603E	617E	1,199E	975E	3,394E	
2022E	969E	595E	575E	1,223E	**3,654E**	
Prior						

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:**

  We value IPPs including VST using an unlevered discounted cash flow methodology before accounting for growth CapEx from 2020 through the 2025 terminal year, at which point we apply an asset-weighted terminal multiple of 6.9x to derive a terminal value. We subtract net debt of ~$10.5bn to arrive at equity value of $16.6bn and price target of $37/share, which is discounted back a full year. Our model is marked to the 12/07/2018 forward through the 2025 terminal year.

- **Risks:**

  Commodity price risk: If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. VST is still inherently a long natural gas call, with gas the marginal price setter in ERCOT.

  Environmental/Policy risk: Environmental regulations could require increased spending; permitting and compliance associated with these regulations could require significant capital and operating expenditures. Considering timing to comply with these regulations and costs, some retirements of plants could be accelerated. Changes to these regulations could increase costs of operating these plants and/ or increase competition.

  Operational risks: VST's fleet could experience unforced outages or other operational issues that are inherent risks of the power generation business.

GUGGENHEIM

VST

Valuation

Income Statement ($mm, unless otherwise noted)	1Q19E	2Q19E	3Q19E	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E	1Q21E	2Q21E	3Q21E	4Q21E	1Q22E	2Q22E	3Q22E	4Q22E
Revenues	1,852	1,689	3,152	2,656	1,560	1,426	2,669	2,249	1,475	1,370	2,585	2,184	1,461	1,353	2,488	2,102
Hedge value	(443)	(443)	(443)	(443)	(218)	(218)	(218)	(218)	(82)	(82)	(82)	(82)	(9)	(9)	(9)	(9)
Contract amortization	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
Other - Previously included tolls, gas sales, etc	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fuel & purchased power	(821)	(740)	(1,443)	(1,191)	(718)	(645)	(1,238)	(1,024)	(743)	(665)	(1,282)	(1,060)	(764)	(681)	(1,124)	(1,088)
Contract amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retail	809	913	1,042	888	809	913	1,042	888	789	890	1,015	866	809	913	1,042	888
Gross margin	**1,379**	**1,400**	**2,289**	**1,891**	**1,416**	**1,458**	**2,236**	**1,878**	**1,420**	**1,495**	**2,218**	**1,890**	**1,479**	**1,557**	**2,378**	**1,874**
O&M expense	(280)	(277)	(329)	(315)	(281)	(278)	(329)	(315)	(281)	(278)	(330)	(317)	(282)	(278)	(332)	(318)
O&M synergies	38	38	38	38	40	40	40	40	40	40	40	40	40	40	40	40
G&A expense	(44)	(44)	(44)	(51)	(46)	(46)	(46)	(53)	(49)	(49)	(49)	(56)	(51)	(51)	(51)	(59)
G&A synergies	31	31	31	31	33	33	33	33	33	33	33	33	33	33	33	33
OPI Improvements	56	56	56	56	63	63	63	63	69	69	69	69	69	69	69	69
COGS - Retail	(529)	(595)	(674)	(582)	(529)	(595)	(674)	(582)	(529)	(595)	(674)	(582)	(529)	(595)	(674)	(582)
SG&A - Retail	(114)	(115)	(117)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)
	537	**493**	**1,249**	**949**	**575**	**555**	**1,203**	**943**	**583**	**595**	**1,187**	**957**	**639**	**654**	**1,343**	**937**
D&A expense	(189)	(189)	(189)	(189)	(195)	(195)	(195)	(195)	(200)	(200)	(200)	(200)	(204)	(204)	(204)	(204)
Interest expense	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)
Other income / expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Earnings before taxes	**146**	**102**	**858**	**558**	**179**	**159**	**807**	**547**	**182**	**194**	**786**	**556**	**234**	**249**	**938**	**532**
Tax rate	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*
Income tax expense	(31)	(22)	(180)	(117)	(38)	(33)	(170)	(115)	(38)	(41)	(165)	(117)	(49)	(52)	(197)	(112)
Operating net income	**116**	**81**	**678**	**441**	**142**	**126**	**638**	**432**	**144**	**154**	**621**	**440**	**185**	**197**	**741**	**421**
Special items	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
GAAP net income	**116**	**81**	**678**	**441**	**142**	**126**	**638**	**432**	**144**	**154**	**621**	**440**	**185**	**197**	**741**	**421**
EPS - operating	**0.23**	**0.17**	**1.44**	**0.96**	**0.31**	**0.28**	**1.45**	**1.00**	**0.34**	**0.36**	**1.48**	**1.06**	**0.45**	**0.49**	**1.86**	**1.07**
EPS - GAAP	0.23	0.17	1.44	0.96	0.31	0.28	1.45	1.00	0.34	0.36	1.48	1.06	0.45	0.49	1.86	1.07
Diluted avg shares	494	484	472	457	450	446	439	433	428	423	418	413	408	403	398	393
DPS	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.14	0.14	0.14	0.14	0.15	0.15	0.15	0.15
Period End Share Count	488	480	463	451	450	443	436	431	426	421	416	411	406	401	396	391
EBITDA reconciliation																
Net Income - Inc. Asset Closure NI	116	81	678	441	142	126	638	432	144	154	621	440	185	197	741	421
Asset closure segment contribution																
Net Income - Ongoing Operations	**116**	**81**	**678**	**441**	**142**	**126**	**638**	**432**	**144**	**154**	**621**	**440**	**185**	**197**	**741**	**421**
Income tax expense (benefit)	(31)	(22)	(180)	(117)	(38)	(33)	(170)	(115)	(38)	(41)	(165)	(117)	(49)	(52)	(197)	(112)
Interest expense	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)	(201)
D&A	(189)	(189)	(189)	(189)	(195)	(195)	(195)	(195)	(200)	(200)	(200)	(200)	(204)	(204)	(204)	(204)
Nuclear Fuel Amortization	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)
EBITDA	**557**	**513**	**1,269**	**969**	**595**	**575**	**1,223**	**963**	**603**	**615**	**1,207**	**977**	**659**	**674**	**1,363**	**957**

Income Statement ($mm, unless otherwise noted)	2019E	2020E	2021E	2022	2023	2024	2025
Revenues	9,349	7,904	7,614	7,405	7,389	7,174	7,046
Hedge value	(1,773)	(870)	(327)	(38)	0	0	0
Contract amortization	(75)	(75)	(75)	(75)	(75)	(75)	(74)
Other - Previously included tolls, gas sales, etc	0	0	0	0	0	0	5
Fuel & purchased power	(4,195)	(3,624)	(3,750)	(3,657)	(3,924)	(4,026)	(4,202)
Contract amortization	0	0	0	0	0	0	4
Retail	3,653	3,653	3,560	3,653	3,785	3,861	3,938
Gross margin	**6,958**	**6,988**	**7,022**	**7,288**	**7,175**	**6,934**	**6,718**
O&M expense	(1,201)	(1,203)	(1,205)	(1,210)	(1,218)	(1,221)	(1,225)
O&M synergies	151	160	160	160	160	160	160
G&A expense	(183)	(192)	(202)	(212)	(223)	(234)	(246)
G&A synergies	124	131	131	131	131	131	131
OPI Improvements	225	250	275	275	275	275	275
COGS - Retail	(2,381)	(2,381)	(2,381)	(2,381)	(2,467)	(2,516)	(2,567)
SG&A - Retail	(466)	(476)	(476)	(476)	(476)	(476)	(476)
	3,227	**3,275**	**3,322**	**3,574**	**3,356**	**3,052**	**2,769**
D&A expense	(757)	(780)	(801)	(817)	(834)	(851)	(868)
Interest expense	(805)	(803)	(803)	(803)	(778)	(665)	(530)
Other income / expense	0	0	0	0	0	0	0
Earnings before taxes	**1,665**	**1,693**	**1,719**	**1,953**	**1,744**	**1,536**	**1,371**
Tax rate	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*
Income tax expense	(350)	(355)	(361)	(410)	(366)	(323)	(288)
Operating net income	**1,316**	**1,337**	**1,358**	**1,543**	**1,378**	**1,213**	**1,083**
Special items	0	0	0	0	0	0	0
GAAP net income	**1,316**	**1,337**	**1,358**	**1,543**	**1,378**	**1,213**	**1,083**
EPS - operating	**2.76**	**3.02**	**3.23**	**3.85**	**3.53**	**3.11**	**2.77**
EPS - GAAP	2.76	3.02	3.23	3.85	3.53	3.11	2.77
Diluted avg shares	477	442	421	401	391	391	391
DPS	0.50	0.54	0.57	0.61	0.66	0.70	0.75
Period End Share Count	451	431	411	391	391	391	391
EBITDA reconciliation							
Net Income - Inc. Asset Closure NI	1,316	1,337	1,358	1,543	1,378	1,213	1,083
Asset closure segment contribution							
Net Income - Ongoing Operations	**1,316**	**1,337**	**1,358**	**1,543**	**1,378**	**1,213**	**1,083**
Income tax expense (benefit)	(350)	(355)	(361)	(410)	(366)	(323)	(288)
Interest expense	(805)	(803)	(803)	(803)	(778)	(665)	(530)
D&A	(757)	(780)	(801)	(817)	(834)	(851)	(868)
Nuclear Fuel Amortization	(80)	(80)	(80)	(80)	(80)	(80)	(80)
EBITDA	**3,307**	**3,355**	**3,402**	**3,654**	**3,436**	**3,132**	**2,849**

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

VST

Valuation

Cash Flow Statement ($mm, unless otherwise noted)	1Q19E	2Q19E	3Q19E	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E	1Q21E	2Q21E	3Q21E	4Q21E	1Q22E	2Q22E	3Q22E	4Q22E
Net income	116	81	678	441	142	126	638	432	144	154	621	440	185	197	741	421
D&A expense	189	189	189	189	195	195	195	195	200	200	200	200	204	204	204	204
Risk-management activities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Working capital	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)
Other operating cash flow	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Operating cash flow	**210**	**175**	**772**	**535**	**242**	**226**	**738**	**532**	**249**	**259**	**726**	**545**	**294**	**306**	**850**	**530**
Capital expenditures	(143)	(143)	(143)	(143)	(143)	(143)	(143)	(143)	(130)	(130)	(130)	(130)	(105)	(105)	(105)	(105)
Short-term investments, net	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Asset acquisitions / dispositions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other investing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Investing cash flow	**(143)**	**(143)**	**(143)**	**(143)**	**(143)**	**(143)**	**(143)**	**(143)**	**(130)**	**(130)**	**(130)**	**(130)**	**(105)**	**(105)**	**(105)**	**(105)**
Change in debt	(14)	(14)	(14)	(14)	0	0	0	0	0	0	0	0	0	0	0	0
Common Stock issued / repurchased	(313)	(200)	(425)	(313)	(25)	(175)	(175)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)
Preferred Stock issued / repurchased	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Common Dividends	(61)	(60)	(58)	(56)	(60)	(59)	(58)	(58)	(61)	(60)	(59)	(59)	(62)	(61)	(61)	(60)
Preferred Stock Dividends	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other financing cash flows (incl. swap pmts)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing cash flow	**(388)**	**(274)**	**(497)**	**(383)**	**(85)**	**(234)**	**(233)**	**(183)**	**(186)**	**(185)**	**(184)**	**(184)**	**(187)**	**(186)**	**(186)**	**(185)**
Opening cash and equivalents	596	276	35	168	177	191	40	402	609	542	486	897	1,128	1,130	1,145	1,705
Closing cash and equivalents	276	35	168	177	191	40	402	609	542	486	897	1,128	1,130	1,145	1,705	1,945
Change in cash flow	**(320)**	**(241)**	**133**	**10**	**14**	**(151)**	**362**	**207**	**(67)**	**(56)**	**412**	**231**	**2**	**15**	**560**	**240**

Cash Flow Statement ($mm, unless otherwise noted)	2019E	2020E	2021E	2022	2023	2024	2025
Net income	1,316	1,337	1,358	1,543	1,376	1,209	1,077
D&A expense	757	780	801	817	834	851	868
Risk-management activities	0	0	0	0	0	0	0
Deferred taxes	0	0	0	0	0	0	0
Working capital	(380)	(380)	(380)	(380)	(380)	(380)	(380)
Other operating cash flow	0	0	0	0	0	0	0
Operating cash flow	**1,693**	**1,737**	**1,779**	**1,981**	**1,830**	**1,680**	**1,564**
Capital expenditures	(570)	(570)	(520)	(420)	(420)	(420)	(420)
Short-term investments, net	0	0	0	0	0	0	0
Asset acquisitions / dispositions	0	0	0	0	0	0	0
Other investing	0	0	0	0	0	0	0
Investing cash flow	**(570)**	**(570)**	**(520)**	**(420)**	**(420)**	**(420)**	**(420)**
Change in debt	(56)	0	0	0	(771)	(2,283)	(1,224)
Common Stock issued / repurchased	(1,250)	(500)	(500)	(500)	0	0	0
Preferred Stock issued / repurchased	0	0	0	0	0	0	0
Common Dividends	(235)	(235)	(239)	(244)	(256)	(274)	(293)
Preferred Stock Dividends	0	0	0	0	0	0	0
Other financing cash flows (incl. swap pmts)	0	0	0	0	0	0	0
Financing cash flow	**(1,541)**	**(735)**	**(739)**	**(744)**	**(1,027)**	**(2,557)**	**(1,517)**
Opening cash and equivalents	596	177	609	1,128	1,945	2,328	1,031
Closing cash and equivalents	177	609	1,128	1,945	2,328	1,031	658
Change in cash flow	**(419)**	**432**	**519**	**817**	**383**	**(1,297)**	**(373)**

Source: Company reports, Guggenheim Securities, LLC estimates.

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VST

Valuation

Balance Sheet ($mm, unless otherwise noted)	1Q19E	2Q19E	3Q19E	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E	1Q21E	2Q21E	3Q21E	4Q21E	1Q22E	2Q22E	3Q22E	4Q22E
Assets																
Cash and equivalents	276	35	168	177	191	40	402	609	542	486	897	1,128	1,130	1,145	1,705	1,945
Fuel inventory and other	393	393	393	393	393	393	393	393	393	393	393	393	393	393	393	393
Accounts receivable	1,243	1,243	1,243	1,243	1,243	1,243	1,243	1,243	1,243	1,243	1,243	1,243	1,243	1,243	1,243	1,243
Assets from risk mgmt	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other current assets	960	1,055	1,150	1,245	1,340	1,435	1,530	1,625	1,720	1,815	1,910	2,005	2,100	2,195	2,290	2,385
Total current assets	**2,872**	**2,726**	**2,954**	**3,058**	**3,167**	**3,111**	**3,568**	**3,870**	**3,898**	**3,937**	**4,443**	**4,769**	**4,866**	**4,976**	**5,631**	**5,966**
Net PP&E	14,642	14,595	14,549	14,502	14,449	14,397	14,344	14,292	14,222	14,152	14,082	14,011	13,912	13,813	13,713	13,614
Investments and restricted cash	1,492	1,492	1,492	1,492	1,492	1,492	1,492	1,492	1,492	1,492	1,492	1,492	1,492	1,492	1,492	1,492
Other long-term assets	6,364	6,364	6,364	6,364	6,364	6,364	6,364	6,364	6,364	6,364	6,364	6,364	6,364	6,364	6,364	6,364
Total assets	**25,370**	**25,177**	**25,358**	**25,416**	**25,473**	**25,364**	**25,768**	**26,018**	**25,976**	**25,945**	**26,381**	**26,637**	**26,634**	**26,645**	**27,200**	**27,436**
Current portion of debt	181	181	181	181	181	181	181	181	181	181	181	181	181	181	181	181
Liabilities from risk mgmt	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Accounts payable	812	812	812	812	812	812	812	812	812	812	812	812	812	812	812	812
Other current liabilities	2,109	2,109	2,109	2,109	2,109	2,109	2,109	2,109	2,109	2,109	2,109	2,109	2,109	2,109	2,109	2,109
Total current liabilities	**3,102**	**3,102**	**3,102**	**3,102**	**3,102**	**3,102**	**3,102**	**3,102**	**3,102**	**3,102**	**3,102**	**3,102**	**3,102**	**3,102**	**3,102**	**3,102**
Long-term debt	11,046	11,032	11,018	11,004	11,004	11,004	11,004	11,004	11,004	11,004	11,004	11,004	11,004	11,004	11,004	11,004
Liabilities subject to compromise	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other long-term liabilities	3,321	3,321	3,321	3,321	3,321	3,321	3,321	3,321	3,321	3,321	3,321	3,321	3,321	3,321	3,321	3,321
Total long-term liabilities	**14,367**	**14,353**	**14,339**	**14,325**	**14,325**	**14,325**	**14,325**	**14,325**	**14,325**	**14,325**	**14,325**	**14,325**	**14,325**	**14,325**	**14,325**	**14,325**
Minority interest	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Common equity	9,277	9,077	8,652	8,339	8,314	8,139	7,964	7,839	7,714	7,589	7,464	7,339	7,214	7,089	6,964	6,839
Preferred stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retained earnings (deficit)	(1,366)	(1,346)	(725)	(341)	(259)	(193)	386	761	844	938	1,499	1,880	2,002	2,138	2,818	3,179
Other comprehensive income	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)
Total shareholders' equity	**7,895**	**7,716**	**7,911**	**7,983**	**8,040**	**7,931**	**8,335**	**8,585**	**8,543**	**8,512**	**8,948**	**9,204**	**9,201**	**9,212**	**9,767**	**10,003**
Total liabilities and equity	**25,370**	**25,177**	**25,358**	**25,416**	**25,473**	**25,364**	**25,768**	**26,018**	**25,976**	**25,945**	**26,381**	**26,637**	**26,634**	**26,645**	**27,200**	**27,436**

Balance Sheet ($mm, unless otherwise noted)	2019E	2020E	2021E	2022	2023	2024	2025
Assets							
Cash and equivalents	177	609	1,128	1,945	2,328	1,031	658
Fuel inventory and other	393	393	393	393	393	393	393
Accounts receivable	1,243	1,243	1,243	1,243	1,243	1,243	1,243
Assets from risk mgmt	0	0	0	0	0	0	0
Other current assets	1,245	1,625	2,005	2,385	2,765	3,145	3,525
Total current assets	**3,058**	**3,870**	**4,769**	**5,966**	**6,729**	**5,812**	**5,819**
Net PP&E	14,502	14,292	14,011	13,614	13,200	12,769	12,321
Investments and restricted cash	1,492	1,492	1,492	1,492	1,492	1,492	1,492
Other long-term assets	6,364	6,364	6,364	6,364	6,364	6,364	6,364
Total assets	**25,416**	**26,018**	**26,637**	**27,436**	**27,785**	**26,437**	**25,996**
Current portion of debt	181	181	181	181	181	181	181
Liabilities from risk mgmt	0	0	0	0	0	0	0
Accounts payable	812	812	812	812	812	812	812
Other current liabilities	2,109	2,109	2,109	2,109	2,109	2,109	2,109
Total current liabilities	**3,102**	**3,102**	**3,102**	**3,102**	**3,102**	**3,102**	**3,102**
Long-term debt	11,004	11,004	11,004	11,004	10,233	7,950	6,726
Liabilities subject to compromise	0	0	0	0	0	0	0
Other long-term liabilities	3,321	3,321	3,321	3,321	3,321	3,321	3,321
Total long-term liabilities	**14,325**	**14,325**	**14,325**	**14,325**	**13,554**	**11,271**	**10,047**
Minority interest	6	6	6	6	6	6	6
Common equity	8,339	7,839	7,339	6,839	6,839	6,839	6,839
Preferred stock	0	0	0	0	0	0	0
Retained earnings (deficit)	(341)	761	1,880	3,179	4,299	5,234	6,017
Other comprehensive income	(15)	(15)	(15)	(15)	(15)	(15)	(15)
Total shareholders' equity	**7,983**	**8,585**	**9,204**	**10,003**	**11,123**	**12,058**	**12,841**
Total liabilities and equity	**25,416**	**26,018**	**26,637**	**27,436**	**27,785**	**26,437**	**25,996**

Source: Company reports, Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

VECTREN (VVC, NEUTRAL, $72 PT)

Working through the CNP/VVC deal, which the company expects to close by 1Q of 2019, we see no roadblocks ahead. In 2019 VVC will be a part of CNP and big driver of the story – a key reason why CNP is now our new Best Idea.

- **We are maintaining our NEUTRAL rating and $72 PT for VVC.** We expect shares to continue to trade near the proposed acquisition price of $72/share with current merger arbitrage spreads below ~5bp not expected to change. CNP announced the proposed, combined corporate structure for the post-merger CNP company, and has been vocal about synergy analysis and financial reviews of VVC that were in the works for 1Q 2019, demonstrating confidence in a timely deal close. **At this point we do not see material risk to the CNP/VVC deal close in 1Q of 2019.**
- **Maintaining our 2018 EPS estimates of $2.89 on YTD results among modest model adjustments, updating 2019-2021 EPS estimates and introducing our 2022 EPS estimate of $3.71.** On a standalone basis, our outlook incorporates a ~6.5% EPS CAGR though 2022 excluding acquisition costs and is comprised of ~7.0% regulated rate base growth with earned ROEs near authorized levels ~10.0% and cap structures emulating the current approved construct at the gas and electric utilities, not including any incremental capex or synergies from the pending merger. We continue to also model non-utility segments grow ~5.5% through our extended 2022 timeframe. That said, **we believe that potential exists for near-term underearning due to regulatory lag and expenses not covered in current rates which may provide potential upside to synergies/growth for the combined CNP/VVC entity.**
- **For our prior CNP/VVC merger takes, see HERE.**

Guggenheim's VVC EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2018E	0.76A	0.27A	0.61A	1.25E	**2.89E**	2.88E
Prior	*0.76A*	*0.27A*	*0.61A*	*1.25E*	*2.89E*	
2019E	0.85E	0.57E	0.66E	1.00E	**3.09E**	3.05E
Prior	*0.78E*	*0.58E*	*0.79E*	*0.90E*	*3.06E*	
2020E	0.96E	0.57E	0.64E	1.07E	**3.27E**	3.27E
Prior	*0.90E*	*0.59E*	*0.79E*	*0.95E*	*3.25E*	
2021E	1.07E	0.59E	0.64E	1.15E	**3.47E**	
Prior	*1.02E*	*0.61E*	*0.80E*	*1.01E*	*3.47E*	
2022E	1.18E	0.62E	0.66E	1.24E	**3.71E**	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

Valuation

Our $72 PT reflects the announced purchase price of the proposed CenterPoint transaction.

Risk

Risks to our rating and valuation for VVC mainly encompass traditional risk factors inherent with all electric utilities including: **Downside risks** such as (1) negative rate case outcomes and lower allowed ROE, (2) lower capex outlook and (3) interest rate changes above what we account for in our regression model. **Upside risks** include (1) constructive rate case outcomes and higher allowed ROE, (2) higher capex outlook and (3) interest rate changes below what we account for in our regression model. M&A risks: Failure to approve the pending acquisition by CNP would impact the valuation of VVC.

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Vectren Corp.
Consolidated Financials

Income Statement ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Gas utility	897	335	153	126	302	916	910	910	914
Electric utility	560	136	146	163	125	570	584	602	630
Nonutility	1,424	220	378	435	346	1,379	1,441	1,508	1,576
Total Operating Revenues	**2,881**	**692**	**677**	**723**	**773**	**2,865**	**2,935**	**3,020**	**3,120**
Cost of gas sold	308	126	34	21	83	264	223	190	162
Cost of fuel & purchased power	176	43	49	48	39	179	183	189	198
Cost of nonutility revenues	695	202	314	364	284	1,165	1,218	1,277	1,335
Total Cost of sales	**1,179**	**371**	**397**	**434**	**406**	**1,608**	**1,625**	**1,656**	**1,695**
Gross Margin	**1,702**	**321**	**280**	**289**	**367**	**1,257**	**1,310**	**1,364**	**1,425**
Other operating	948	117	105	101	138	462	462	463	464
Taxes other than income taxes	73	24	25	25	26	100	107	115	125
Total Operating Expenses	**1,021**	**142**	**129**	**127**	**164**	**562**	**569**	**578**	**589**
EBITDA	**681**	**179**	**151**	**163**	**203**	**695**	**740**	**786**	**836**
Depreciation & amortization	288	72	73	74	75	293	310	325	342
Operating Income	**392**	**107**	**78**	**89**	**128**	**402**	**431**	**461**	**494**
Equity in unconsolidated affiliates	(18)	-	-	-	-	-	-	-	-
Other income – net	11	10	11	10	9	40	44	48	53
Interest expense	99	27	28	28	29	112	120	128	139
Income before taxes	**286**	**90**	**61**	**71**	**108**	**329**	**355**	**380**	**408**
Income Taxes	46	19	13	15	23	69	75	80	86
Tax Rate	*16%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*
Net income attributable to shareholders	**240**	**71**	**48**	**56**	**85**	**260**	**280**	**300**	**322**
Earnings Per Common Share, Diluted	2.89	0.85	0.57	0.66	1.00	3.09	3.27	3.47	3.71
Net Income (GAAP)	**240**	**71**	**48**	**56**	**85**	**260**	**280**	**300**	**322**
Wtd. Avg. shares outstanding	**83**	83	84	84	85	**84**	**86**	**86**	**87**
Operating EPS	**$2.89**	**0.85**	**0.57**	**0.66**	**1.00**	**$3.09**	**$3.27**	**$3.47**	**$3.71**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

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Vectren Corp.
Consolidated Financials

Cash Flow Statement ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Net income	**240**	71	48	56	85	**260**	**280**	**300**	**322**
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation & amortization	288	72	73	74	75	293	310	325	342
Net Cash Provided by Operating Activities	**489**	**142**	**121**	**130**	**160**	**553**	**590**	**626**	**664**
Cash Flow from Investing Activities:									
Sale of assets and other collections	6	-	-	-	-	-	-	-	-
Capital expenditures, excluding AFUDC equity	(626)	(150)	(159)	(145)	(145)	(600)	(600)	(785)	(785)
Business acquisitions and other costs	-	-	-	-	-	-	-	-	-
Changes in restricted cash	-	-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	**(620)**	**(150)**	**(159)**	**(145)**	**(145)**	**(600)**	**(600)**	**(785)**	**(785)**
Cash flow from financing									
Long-term debt, net of issuance costs	294	60	30	15	(15)	90	40	160	175
Dividend reinvestment & common stock issuances	10	25	25	25	25	100	100	-	-
Dividends on common stock	(112)	-	-	-	-	-	-	-	-
Retirement of long-term debt	(100)	-	-	-	-	-	-	-	-
Net change in short-term borrowings	76	(20)	(20)	(20)	(20)	(80)	(15)	(15)	(15)
Net Cash (Used in) Provided by Financing Activities	**168**	**65**	**35**	**20**	**(10)**	**110**	**125**	**145**	**160**
Net (Decrease) Increase in Cash and Cash Equivalents	**37**	**57**	**(3)**	**4**	**5**	**63**	**115**	**(14)**	**39**
Cash and Cash Equivalents, Beginning of Period	17	53	111	107	112	53	117	232	217
Cash and Cash Equivalents, End of Period	**53**	**111**	**107**	**112**	**117**	**117**	**232**	**217**	**256**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

GUGGENHEIM

Vectren Corp.

Consolidated Financials

Balance Sheet ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash & cash equivalents	53	111	107	112	117	117	232	217	256
Accounts receivable	231	231	231	231	231	231	231	231	231
Accrued unbilled revenues	156	156	156	156	156	156	156	156	156
Inventories	119	119	119	119	119	119	119	119	119
Recoverable fuel & natural gas costs	8	8	8	8	8	8	8	8	8
Prepayments & other current assets	54	54	54	54	54	54	54	54	54
Total Current Assets	**621**	**679**	**675**	**680**	**684**	**684**	**799**	**785**	**824**
Utility Plant									
Original cost	7,548	7,698	7,857	8,003	8,148	8,148	8,748	9,533	10,318
Less: accumulated depreciation & amortization	2,922	2,993	3,066	3,140	3,215	3,215	3,524	3,850	4,192
Net Property, Plant and Equipment in Service	**4,626**	**4,705**	**4,791**	**4,863**	**4,933**	**4,933**	**5,223**	**5,683**	**6,126**
Other Non-current Assets									
Investments in unconsolidated affiliates	2	2	2	2	2	2	2	2	2
Other utility & corporate investments	49	49	49	49	49	49	49	49	49
Other nonutility investments	10	10	10	10	10	10	10	10	10
Nonutility plant - net	483	483	483	483	483	483	483	483	483
Goodwill	294	294	294	294	294	294	294	294	294
Regulatory assets	470	470	470	470	470	470	470	470	470
Other assets	35	35	35	35	35	35	35	35	35
Total other non-current assets	**1,340**	**1,340**	**1,340**	**1,340**	**1,340**	**1,340**	**1,340**	**1,340**	**1,340**
Total Assets	**6,588**	**6,723**	**6,807**	**6,882**	**6,958**	**6,958**	**7,363**	**7,809**	**8,291**
Accounts payable	232	232	232	232	232	232	232	232	232
Accounts payable to affiliated companies	-	-	-	-	-	-	-	-	-
Refundable fuel & natural gas costs	-	-	-	-	-	-	-	-	-
Accrued liabilities	246	246	246	246	246	246	246	246	246
Short-term borrowings	325	305	285	265	245	245	230	215	200
Current maturities of long-term debt	60	60	60	60	60	60	60	60	60
Liabilities held for sale	-	-	-	-	-	-	-	-	-
Total Current Liabilities	**864**	**844**	**824**	**804**	**784**	**784**	**769**	**754**	**739**
Long-term Debt - Net of Current Maturities	1,974	2,034	2,064	2,079	2,064	2,064	2,104	2,264	2,439
Deferred income taxes	518	518	518	518	518	518	518	518	518
Regulatory liabilities	939	939	939	939	939	939	939	939	939
Deferred credits & other liabilities	306	306	306	306	306	306	306	306	306
Total deferred credits & other liabilities	**3,737**	**3,797**	**3,827**	**3,842**	**3,827**	**3,827**	**3,867**	**4,027**	**4,202**
Total Liabilities	**4,601**	**4,641**	**4,651**	**4,646**	**4,611**	**4,611**	**4,636**	**4,781**	**4,941**
Common stock	748	773	798	823	848	848	948	948	948
Retained earnings	1,241	1,311	1,360	1,415	1,501	1,501	1,781	2,081	2,403
Accumulated other comprehensive (loss)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Total Stockholders' Equity	**1,987**	**2,083**	**2,156**	**2,237**	**2,347**	**2,347**	**2,727**	**3,028**	**3,350**
Total Liabilities and Equity	**6,588**	**6,723**	**6,807**	**6,882**	**6,958**	**6,958**	**7,363**	**7,809**	**8,291**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 278 - 279 for analyst certification and important disclosures.

WISCONSIN ENERGY GROUP (WEC, BUY, $76 PT)

WEC remains a strong story, in our view, with 6% growth well-cemented into the next decade with potential upside. We continue to look for incremental renewables to be added, while monitoring the ongoing progress around Foxconn and broader economic development – one of only a few regulated electric utilities we continue to recommend.

- **Reaffirming our BUY rating and are raising our PT to $76 from $69 – we still see value in the shares; we believe this is a good story to own in 1H 2019 despite slightly higher valuation vs some peers.** WEC exhibits above-average 5-7% EPS growth, with the midpoint of growth well-cemented into the next decade, in our view, with strong visibility in to the future and the potential for incremental renewables opportunities to arise. WEC's updated capital program through 2023 maintains a healthy profile in our view, with spend likely sustainable beyond that, in our view; **a somewhat unique level of detail within our coverage universe, in our view**. As noted, we believe a number of potential upside renewables opportunities remain outside of the plan, with both mgmt. and our own estimates targeting growth just above midpoint growth. WEC continues to trade at a premium to the group, which we feel as justified given the long runway of strong capex and a favorable regulatory/economic environment in Wisconsin. However, we also note that we remain much attuned to developments regarding Foxconn (2354.TW), given the recent election of Democrat Tony Evers and the repeated modifications to the final plant design (Generation 10.5 vs. 6).
- **Refreshing our estimates and introducing our 2022 estimate of $4.26.** We model a ~6% EPS CAGR through our forecast period, coming in slightly above the midpoint. This is based off rate base growth of ~8% across all of the utilities and capital expenditures averaging ~$2.6bn/year (including ATC) consistent with guidance. Given the rate freeze in WI, we model earned ROEs averaging ~9.5% (vs. 10.2% authorized), which we believe could prove conservative. We expect management to stay out of rate case in IL for 2018 and model ROEs above authorized, with ROEs more in line thereafter. We also forecast a declining O&M profile annually through our forecast period, driven by coal plant retirements. Our 2018-2021 estimates remain unchanged at $3.32/$3.50/$3.73/$3.98. Our 2022 estimate of $4.26 represents ~7% YoY growth from 2021.
- **Incremental solar opportunities likely in our view, with corporate policy and political changes driving our thesis.** We continue to foresee the potential for additional solar to be added in Wisconsin, both at the Foxconn site (conversation on this remains ongoing per mgmt.) and more broadly in the state. On the political front, we note that the election of Tony Evers could drive a boost to the state's renewable portfolio standards, as he had indicated a clean energy tilt on the campaign trail. **The state's 10% by 2015 RPS could be ripe for revision under the new governor, per our conversations with mgmt., although it qualified that this is all very much in the early innings and conversations with Evers are only just beginning. We note that this exact sentiment has been echoed in our conversations with LNT mgmt.** We remain on the lookout for additional data points on the policy landscape as the new year unfolds. Finally, there are still sizeable ATC projects outside WEC's base plan still on the drawing board in AZ, AK, and elsewhere, though they continue to move at a very slow pace. **These yet-to-be-announced projects would be incremental to the current growth guidance, in our opinion.**
- **Progress continues on Foxconn development and other economic development opportunities in the region.** We remain attuned to developments at the Foxconn site, where mgmt. has already identified some $140mm in incremental

 See pages 278 - 279 for analyst certification and important disclosures.

capex spend – largely on natural gas infrastructure. Foxconn's plant and the associated developments are anticipated to generate ~250MW of electricity demand, with the manufacturing campus needing 60,000 dekatherms of natural gas capacity when completed ~2023. Having said that, the project has faced its own criticism of late, with the projects design changing from a more advanced Generation 10.5 plant to a Generation 6 design, a Wall Street Journal report on staffing via China due to labor shortages (see HERE), and the election of Tony Evers in November. On the last item we note that the that the Republican-led legislature has been seeking to strip the Governor's office of its ability to oversee the Wisconsin Economic Development Corp, the same entity that created the incentive packages for Foxconn (see HERE). **Finally we note that mgmt. has highlighted the potential for additional gas-related investment at the Mayo Clinic site in MN, where a significant enlargement of the campus is under consideration.**

Guggenheim's WEC EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2018E	1.23A	0.73A	0.74A	0.62E	**3.32E**	*3.33E*
Prior				*0.62E*	*3.32E*	
2019E	1.22E	0.76E	0.78E	0.75E	**3.50E**	*3.51E*
Prior	*1.22E*	*0.75E*	*0.78E*	*0.74E*	*3.50E*	
2020E	1.28E	0.82E	0.84E	0.79E	**3.73E**	*3.74E*
Prior	*1.29E*	*0.81E*	*0.83E*	*0.80E*	*3.73E*	
2021E	1.33E	0.88E	0.90E	0.86E	**3.98E**	*3.96E*
Prior	*1.35E*	*0.87E*	*0.89E*	*0.87E*	*3.98E*	
2022E	1.40E	0.95E	0.97E	0.93E	**4.26E**	*4.20E*
Prior						

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

- **Valuation:** We derive our regulated utility group target multiple of 17x from our regression model, which uses the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years and ascribe a two turn premium for WEC's superior regulatory environment and the positive economic outlook within its service territories as well as some growth opportunities not being reflected in our EPS forecasting. We arrive at our $76 price target utilizing a sum-of-the-parts analysis comprised of: (1) ~$27/ share for the regulated WI utility; (2) ~$26/share value for the regulated gas segment utilizing our 17x P/E multiple and historical gas LDC spread of 4x above their electric counterparts; (3) ~$12/share for ATC utilizing a premium to electric P/E multiple given the segment's higher growth; (4) ~$14/share for WE Power when utilizing a premium to electric P/E multiple given the segment's higher authorized return; and, (5) (~$2)/share for Corp. & Other. We then discount our valuation back on-year to arrive at our $76 price target.

- **Risks:** The primary risk to our thesis for WEC encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

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GUGGENHEIM

WEC Model
Consolidated Financials

INCOME STATEMENT ($ Millions)	2017A	1QA	2QA	3QA	4QE	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Operating Revenues	7,649	2,287	1,673	1,644	1,860	7,463	2,279	1,665	1,638	1,876	7,458	7,551	7,713	7,874
Cost of sales	2,823	972	548	524	746	2,790	979	552	528	753	2,811	2,844	2,911	2,977
Other operation and maintenance	2,047	512	538	553	564	2,167	480	499	476	493	1,947	1,830	1,739	1,657
Depreciation and amortization	799	209	207	213	214	843	218	220	223	226	886	933	978	1,013
Property and revenue taxes	195	49	50	51	47	196	49	50	51	47	196	196	196	196
Total operating expenses	5,863	1,741	1,342	1,341	1,572	5,996	1,725	1,320	1,277	1,519	5,841	5,804	5,825	5,843
Operating Income / (Loss)	1,785	545	331	303	289	1,467	554	345	361	357	1,617	1,748	1,888	2,031
EBITDA	2,584	754	538	516	503	2,310	772	566	583	583	2,503	2,681	2,867	3,044
Equity in earnings of transmission affiliate	154	33	29	34	48	143	36	37	37	38	148	160	171	180
Other Income / (Deductions)	65	8	31	26	19	84	8	31	26	19	84	84	84	84
Interest expense	416	107	109	112	120	447	117	119	122	126	484	540	593	636
Other expense														
Income / (Loss) from Operations Before Income Tax	1,588	479	282	251	236	1,248	481	294	302	289	1,366	1,452	1,551	1,660
Income Tax Expense (Benefit)	384	88	51	17	40	196	93	54	56	53	256	271	290	311
Effective Tax Rate (%)	24%	18%	18%	7%	17%	16%	19%	18%	18%	18%	19%	19%	19%	19%
Net Income / (Loss)	1,205	390	231	234	197	1,052	387	240	246	236	1,110	1,181	1,261	1,349
Extra-ordinary -	208	0	0	0										
Net income for common shareholders	997	390	231	233	197	1,052	387	240	246	236	1,110	1,181	1,261	1,349
Wtd. Avg. Diluted Shares Outstanding	317	317	317	317	317	317	317	317	317	317	317	317	317	317
Operating EPS	$3.14	$1.23	$0.73	$0.74	$0.62	$3.32	$1.22	$0.76	$0.78	$0.75	$3.50	$3.73	$3.98	$4.26

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

WEC Model

Consolidated Financials

BALANCE SHEET - ASSETS ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Property, Plant and Equipment									
Electric Utility Plant in Service	31,035	31,677	32,320	32,963	33,605	33,605	36,567	39,028	41,226
Less: Accumulated Depreciation & Amortization	(8,804)	(9,022)	(9,242)	(9,464)	(9,690)	(9,690)	(10,623)	(11,602)	(12,614)
	22,231	22,656	23,078	23,498	23,915	23,915	25,944	27,426	28,612
Construction work in progress	-	-	-	-	-	-	-	-	-
Leased facilities, net	-	-	-	-	-	-	-	-	-
Net Property, Plant and Equipment	22,231	22,656	23,078	23,498	23,915	23,915	25,944	27,426	28,612
Investments									
Equity investment in transmission affiliate	1,614	1,614	1,614	1,614	1,614	1,614	1,614	1,614	1,614
Other	-	-	-	-	-	-	-	-	-
Total investments	1,614	1,614	1,614	1,614	1,614	1,614	1,614	1,614	1,614
Current Assets									
Cash and Cash Equivalents	69	45	77	17	50	50	61	123	517
Accounts receivable and unbilled revenues	1,017	1,017	1,017	1,017	1,017	1,017	1,017	1,017	1,017
Accrued revenues									
Materials, supplies, and inventories	609	609	609	609	609	609	609	609	609
Assets held for sale	-	-	-	-	-	-	-	-	-
Prepayments	138	138	138	138	138	138	138	138	138
Other	62	62	62	62	62	62	62	62	62
Total Current Assets	1,894	1,870	1,902	1,842	1,876	1,876	1,886	1,948	2,343
Deferred charges and other assets									
Regulatory assets	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644	3,644
Goodwill	3,053	3,053	3,053	3,053	3,053	3,053	3,053	3,053	3,053
Other	749	749	749	749	749	749	749	749	749
Total deferred charges and other assets	7,445	7,445	7,445	7,445	7,445	7,445	7,445	7,445	7,445
Total Assets	33,184	33,585	34,039	34,400	34,850	34,850	36,889	38,434	40,013

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

WEC Model

Consolidated Financials

BALANCE SHEET - LIABILITIES & EQUITY ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Capitalization									
Common Stock	3	3	3	3	3	3	3	3	3
Additional Paid-In Capital	4,262	4,262	4,262	4,262	4,262	4,262	4,262	4,262	4,262
Retained Earnings	5,530	5,731	5,785	5,845	5,895	5,895	6,285	6,704	7,159
Accumulated Other Comprehensive Income / (Loss)	2	2	2	2	2	2	2	2	2
Total Common Shareholders' Equity	9,797	9,998	10,052	10,112	10,163	10,163	10,552	10,972	11,426
Preferred Stock of subsidiary	30	30	30	30	30	30	30	30	30
Long-Term Debt	9,719	9,919	10,319	10,619	11,019	11,019	12,669	13,794	14,919
Total Capitalization	19,546	19,948	20,402	20,762	21,212	21,212	23,251	24,796	26,376
Current Liabilities									
Current portion of long-term debt	369	369	369	369	369	369	369	369	369
Short-term debt	1,788	1,788	1,788	1,788	1,788	1,788	1,788	1,788	1,788
Accounts payable	690	690	690	690	690	690	690	690	690
Accrued payroll and benefits	143	143	143	143	143	143	143	143	143
Accrued interest	217	217	217	217	217	217	217	217	217
Other	394	394	394	394	394	394	394	394	394
Total Current Liabilities	3,603	3,603	3,603	3,603	3,603	3,603	3,603	3,603	3,603
Deferred credits and other liabilities									
Regulatory liabilities	3,960	3,960	3,960	3,960	3,960	3,960	3,960	3,960	3,960
Deferred income taxes	3,172	3,172	3,172	3,172	3,172	3,172	3,172	3,172	3,172
Deferred revenue, net	526	526	526	526	526	526	526	526	526
Pension and other postretirement benefit obligations	489	489	489	489	489	489	489	489	489
Environmental remediation	617	617	617	617	617	617	617	617	617
Other	1,270	1,270	1,270	1,270	1,270	1,270	1,270	1,270	1,270
Total Other Liabilities & Deferred Credits	10,035	10,035	10,035	10,035	10,035	10,035	10,035	10,035	10,035
Total Capitalization & Liabilities	33,184	33,585	34,039	34,400	34,850	34,850	36,889	38,434	40,013

Source: Company reports; Guggenheim Securities, LLC estimates

GUGGENHEIM

WEC Model

Consolidated Financials

CASH FLOW STATEMENT ($ Millions)	2018E	1QE	2QE	3QE	4QE	2019E	2020E	2021E	2022E
Cash Flows From Operating Activities									
Net Income / (Loss)	1,052	387	240	246	236	1,110	1,181	1,261	1,349
Adjustments to Reconcile Net Income to Cash									
Depreciation & Amortization	843	218	220	223	226	886	933	978	1,013
Deferred income taxes and investment tax credits, net	34	-	-	-	-	-	-	-	-
Contributions to pension and OPEB plans	(14)	-	-	-	-	-	-	-	-
Equity income in transmission affiliate, net of distributions	(5)	-	-	-	-	-	-	-	-
Changes in working capital									
Accounts receivable and unbilled revenues	312	-	-	-	-	-	-	-	-
Materials, supplies, and inventories	(69)	-	-	-	-	-	-	-	-
Other current assets	113	-	-	-	-	-	-	-	-
Accounts payable	(71)	-	-	-	-	-	-	-	-
Accrued taxes, net	-	-	-	-	-	-	-	-	-
Deferred costs, net	-	-	-	-	-	-	-	-	-
Other current liabilities	43	-	-	-	-	-	-	-	-
Total changes in working capital	327	-	-	-	-	-	-	-	-
Other, net	182	-	-	-	-	-	-	-	-
Net Cash Flows From Operating Activities	2,419	605	460	469	462	1,996	2,114	2,239	2,362
Cash Flows From Investing Activities									
Capital expenditures	(2,272)	(643)	(643)	(643)	(643)	(2,570)	(2,962)	(2,461)	(2,198)
Cost of removal, net of salvage	-					-	-	-	-
Business acquisition	(221)					-	-	-	-
Investment in transmission affiliate	(44)					-	-	-	-
Proceeds from sale of businesses	11					-	-	-	-
Withdrawal of restricted cash from Rabbi trust for qualifying paymen	17					-	-	-	-
Proceeds from asset sales	-					-	-	-	-
Change in restricted cash	-					-	-	-	-
Proceeds from cashout of corporate owned life insurance policies	-					-	-	-	-
Other, net	7					-	-	-	-
Net Cash Flows From Investing Activities	(2,502)	(643)	(643)	(643)	(643)	(2,570)	(2,962)	(2,461)	(2,198)
Cash Flows From Financing Activities									
Exercise of stock options	14					-	-	-	-
Purchase of common stock	(42)					-	-	-	-
Equity Issuance							-	-	-
Dividends paid on common stock	(698)	(186)	(186)	(186)	(186)	(744)	(791)	(841)	(894)
Redemption of WPS preferred stock	-					-	-	-	-
Issuance of long-term debt	1,200	200	400	300	400	1,300	1,650	1,125	1,125
Retirement of long-term debt	(694)								
Change in short-term debt	344					-	-	-	-
Other, net	(5)					-	-	-	-
Net Cash Flows From Financing Activities	118	14	214	114	214	556	859	284	231
Net change in cash and cash equivalents	10	(24)	32	(60)	33	(18)	11	62	394
Cash and cash equivalents at beginning of year	59	69	45	77	17	69	50	61	123
Cash and cash equivalents at end of year	69	45	77	17	50	50	61	123	517

Source: Company reports; Guggenheim Securities, LLC estimates

See pages 278 - 279 for analyst certification and important disclosures.

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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Underweight
Gas/Power Infrastructure – Market Overweight

February 3, 2019

NISOURCE

(NI US Equity – $26.79 – Outperform)

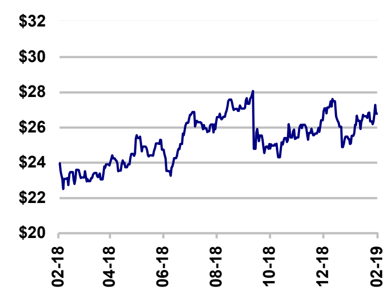
Prepping for N-T disappointment, but this is very fixable

- **Dividend update foreshadows a disappointing YE call.** On Friday, NI raised its annual dividend to $0.80 from $0.78, representing 2.5% growth – well below the company's targeted 5-7%. Following up with the company, we sense this as a signal that the drag associated with MA gas explosion fixes are worse than we originally thought likely leading to weak initial '19 guidance. Issues include higher recovery and carrying costs. As such, we are cutting our 2019E to $1.31 from $1.35. Our updated estimate represents 2.5% growth off our 2018E of $1.28. We feel this is a more prudent growth rate and keeps the company within its 60-70% targeted payout ratio. We are also reducing are 2020E by $0.02 to $1.43 as we feel it may take a bit longer for NI to fully offset / eliminate the drag associated with MA.
- **Sale of MA business would make even more sense now.** We continue to believe that NI would be best served exiting MA. NI's MA business only makes up roughly 7% of the company, yet it commands a significant amount management's time and is distracting investors from an otherwise solid story. As NI moves closer toward fully completing the recovery process, we think it would make sense to exit the state for a couple reasons 1) there are natural buyers, most logical being ES or Grid and 2) NI is unlikely to come out from under the political microscope in the state anytime soon. **We are sticking with our Outperform rating as we feel a sale of the business is more likely than not and would be a key positive catalyst for the stock. Even without it, MA will quiet down over time and NI's premium LDC value will return.**
- **Expecting N-T pressure, but we are ultimately buyers on weakness.** NI is currently trading at a modest premium to the electric average and has recovered a lot of its post explosion collapse, but its still well-below the LDC premium it had prior to the incident in MA. We expect the stock will likely weaken into the earnings call on 2/20. But long-term investors should hold on and we think the stock will likely rebound as investors realize the MA issues are very fixable and the stock will likely will claw back its prior premium.
- **Rolling valuation year to 2021, PT to $28.** We are rolling forward our valuation year to 2021 and raising our PT by $1 to $28. The increase in our PT is largely due to higher group multiples. In deriving our PT, we are still embedding a two-turn discount to the gas LDC average given the overhang in MA.

Estimates / Valuation				
(US$)	2018E	2019E	2020E	2021E
EPS	$1.28	$1.31	$1.43	$1.55
Consensus	$1.28	$1.34	$1.44	$1.57
P/E	20.9x	20.4x	18.7x	17.3x
Dividend Yield	2.9%	3.0%	3.2%	3.4%

Trading and Fundamental Data	
Price Target	**$ 28**
Current Price	26.79
52-Week Range	$22-$28
Market Cap. (MM)	9,980
Enterprise Value (MM)	19,070
Shares Out. (MM)	372.5
Dividend Yield	2.99%
Dividend Payout Ratio	62.6%
ROE	3.1%
Debt to Cap	63.3%
Avg. Daily Vol. (000)	3,014

Price Performance	YTD	LTM
NI US Equity	6%	11%
Utility Index	3%	8%
S&P 500	8%	-4%



Source: FactSet/Wolfe Research

Key Changes		
Year	New	Old
Target Price	$28	$27
2019E	$1.31	$1.35
2020E	$1.43	$1.45

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NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2018E	2019E	2020E	2021E
EPS	$1.28	$1.31	$1.43	$1.55
Diluted Shares Outstanding	349	372	383	394
Dividends Per Share	$0.78	$0.80	$0.85	$0.90
Dividend Yield	2.9%	3.0%	3.2%	3.4%
Dividend Payout Ratio	61%	61%	59%	58%
Equity Ratio	41%	41%	42%	43%
FFO/Net Debt	12%	14%	14%	15%
Valuation Metrics				
P/E	20.9x	20.4x	18.7x	17.3x
Price/Book	1.7x	1.7x	1.6x	1.6x
Segment EPS				
Gas Distribution	$1.02	$1.08	$1.15	$1.24
Electric	0.52	$0.52	0.53	0.54
Parent & Other	(0.26)	($0.28)	(0.25)	(0.24)
Total EPS	**$1.28**	**$1.31**	**$1.43**	**$1.55**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2018E	2019E	2020E	2021E
Total Capital Spending by Segment ($M)				
Gas Distribution	$1,100	$1,080	$1,080	$1,080
Electric	625	605	605	605
Parent	25	25	25	25
Total Capex	**$1,750**	**$1,710**	**$1,710**	**$1,710**
Financings ($M)				
Total Equity Issued/(Repurchased)	$904	$298	$298	$298
Total Preferred Equity Issued/(Repurchased)	$900	$0	$0	$0
Total Debt Issued/(Repurchased)	($75)	($325)	$400	$375

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, and Massachusetts.

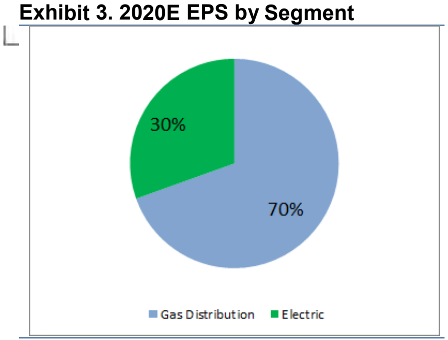
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of investment with recovery largely through trackers and balanced regulatory environments. Additionally, we see the gas business getting larger over time. NI appears attractive at current levels.

Valuation

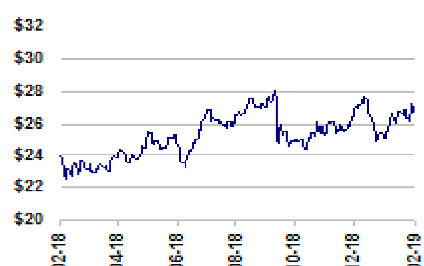
Our $28 price target is on a SOTP target P/E valuation. We apply a two-turn discount to the 19.5x group LDC multiple given the Massachusetts overhang. For its electric utility earnings, we ascribe a one-turn premium to our 17x group multiple. NI deserves the premium for its electric utility in Indiana given the tracking mechanisms that allow for timely cost recovery. Risks for NiSource are execution on rate base investment, economic conditions, regulatory outcomes, and if the company is found grossly negligent for operating its gas system in MA. Upsides are additional growth projects, customer growth potential, and the cost cutting initiatives

Exhibit 3. 2020E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: FactSet

Investment Conclusion

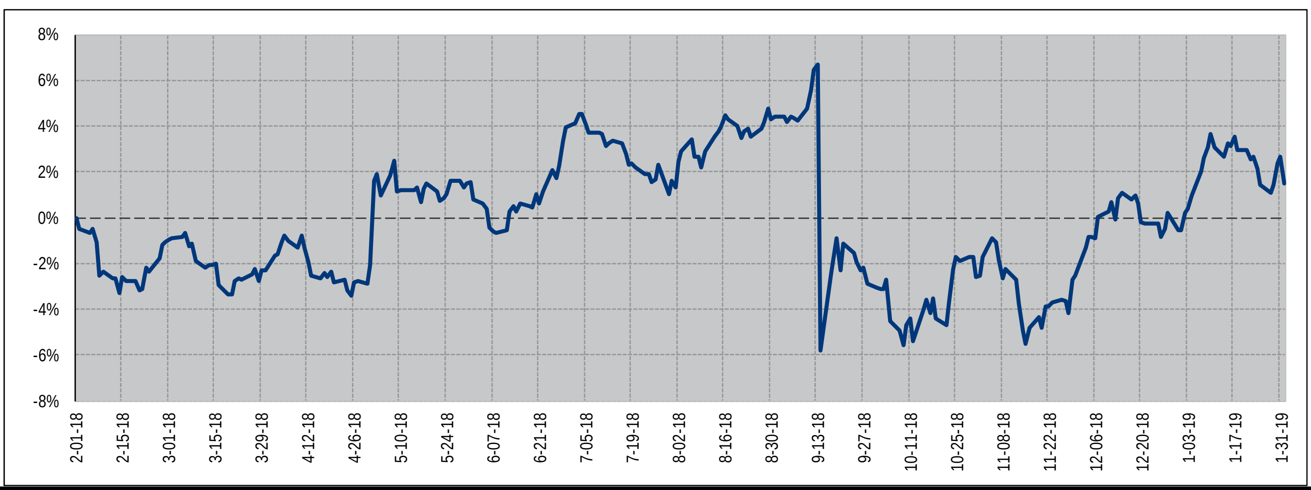
We remain Outperform on NI. The company's $30B capital investment backlog will drive its 5-7% annual earnings target well into the future, most of which is recovered with minimal lag via tracking mechanisms. Furthermore, NI has developed quite a constructive track record in the regulatory arena. The settlement in its Ohio CEP rider proceeding is the latest example. The situation in MA has unfortunately overshadowed an otherwise solid business – we believe the company would be best served to exit the state for a couple reasons 1) there are natural buyers, most logical being ES or Grid and 2) the company is unlikely to come out from under the political microscope in the state anytime soon. We believe a sale is more likely than not and are maintaining out Outperform rating as we believe this would be a key positive catalyst for the stock.

Exhibit 5: LDC gas comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E Multiple 2018E	2019E	2020E	2021E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Atmos Energy	ATO	$97.22	117	$11,364	24.3x	22.7x	21.3x	19.7x	2.2%	7.8%	68%	2.3	57%
Southwest Gas	SWX	78.11	53	4,140	20.4x	19.5x	18.4x	16.6x	2.7%	5.5%	71%	2.1	47%
ONE Gas	OGS	81.88	53	4,301	25.1x	23.9x	23.1x	22.0x	2.2%	8.0%	82%	2.2	56%
NiSource	NI	26.79	372	9,978	20.9x	20.4x	18.7x	17.3x	2.9%	2.6%	83%	2.1	32%
New Jersey Resources	NJR	48.10	89	4,261	17.6x	22.7x	21.2x	20.6x	2.4%	0.9%	66%	3.0	49%
Northwest Natural Gas	NWN	61.44	29	1,772	27.6x	25.0x	23.8x	23.3x	3.1%	0.9%	83%	2.4	47%
UGI Corp	UGI	57.06	174	9,920	20.8x	19.9x	18.6x	17.8x	1.8%	5.7%	52%	2.7	45%
Spire Inc.	SR	78.69	51	3,990	21.2x	21.1x	20.2x	19.7x	3.0%	0.3%	74%	1.8	46%
Average					**22.2x**	**21.9x**	**20.7x**	**19.6x**	**2.5%**	**3.9%**	**72%**	**2.3x**	**47%**
Average - electric utilities					*19.9x*	*19.1x*	*17.9x*	*16.9x*	*3.4%*	*5.5%*	*66%*	*2.0x*	*44%*

Source: Wolfe Research, FactSet

Exhibit 6: NiSource vs Regulated Average



Source: Wolfe Research, FactSet

We expect a negative call and N-T pressure, but this is very fixable

- **Massachusetts will be more of a headwind than we originally thought.** We expect the drag associated with MA to be more pronounced when NI gives its initial 2019 guidance on its year-end earnings call on 2/20. We believe this sets the stage for an otherwise negative call vs prior expectations. Originally, we had expected that constructive outcomes in other jurisdictions (OH and PA) would offset the on-going drag associated the withdrawn rate case and pipeline replacement program in MA. What we had underappreciated was the lingering impacts associated with getting affected customers back into their homes – additional costs related to providing housing, repairing damaged appliances, etc. NI's $800M+ of insurance should still be largely enough to cover the claims (may go over a little), but the timeline for collecting the cash from insurers is less certain. Additionally, NI has taken steps at its other subsidiaries to make sure an incident like this from happening again, which is likely to include additional O&M-type expenses.

- **Sale of MA business makes even more strategic sense.** We continue to hold the view that NI would be best served exiting MA. The MA business only represents roughly 7% of the business, yet it commands a significant amount of management's time and distracts investors from an otherwise solid story. We think it would make sense to exit the state for a couple reasons 1) there are natural buyers, most logical being ES or Grid 2) NI is unlikely to come out from under the political microscope in the state anytime soon. We are sticking with our Outperform rating given that we believe a sale of the business is more likely or not – this, in our opinion, would be a key positive catalyst for the stock and would allow the company to regain its premium multiple at a much faster pace.

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Price Chart with Ratings and Target Price History

Note: OP = Outperform; PP = Peer Perform; UP = Underperform

Wolfe Research, LLC Fundamental Valuation Methodology:

Company:	Fundamental Valuation Methodology:
NI US Equity	Forward P/E

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:	Risks That May Impede Achievement of the Recommendation, Rating or Target Price:
NI US Equity	Economy, findings from MA gas explosion, regulatory outcomes, project execution

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
NI US Equity	None

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KeyBanc Capital Markets

February 4, 2019

Energy: Multi-Utilities

Company Update / Estimate Changes / Price Target Changes

NiSource Inc.

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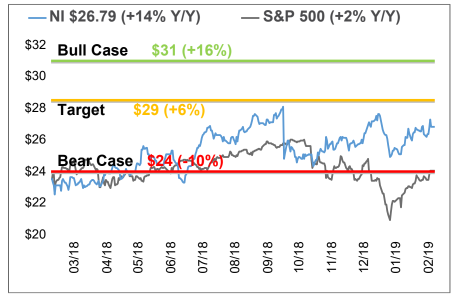
NI: Massachusetts Impacts Reflected in Dividend?

NI raised its annual dividend to $0.80 from $0.78 per share on February 1, 2019. This 2.5% increase is below NI's long-term targeted EPS growth of 5-7%. We expect the lower increase reflects near-term challenges around the MA gas accident as the Company grapples with the logistics of the incident. We have trimmed our 2019 estimate to $1.32 from $1.37. We believe the long-term story remains intact.

NYSE: NI	
Rating:	**Overweight**
Price Target:	**$28.50(▼from $29.00)**
Price:	**$26.79**



Sources: Company reports, Thomson Reuters, KeyBanc Capital Markets Inc.

Key Investment Points

Dividend Hike Below 5-7% - NI increased its dividend to $0.80 from $0.78 per share, below management's 5-7% long-term EPS growth range.

Earnings Read-Through - We believe this signals that the September MA gas incident may be having an EPS impact as management assesses the scale of the response and insurance recovery process.

Lowering 2019 Estimate - We have reduced our 2019 estimate to $1.32 from $1.37, aligning the y/y growth with the recent dividend announcement. We await more detail when NI reports 2018 results on February 20th.

Lowering Price Target - We have trimmed our price target to $28.50 from $29.00 given the lower near-term earnings outlook.

Long-Term Story Appears Intact - We view the setback as temporary as NI works through the NI recovery and expect the Company to be able to get back to (or close to) its original EPS trajectory of 5-7% growth of off 2018 results.

Company Data

52-week range	$22 - $28
Market Cap. (M)	$8,537.2
Shares Out. (M)	318.67
Enterprise Value (M)	$15,160.2
Avg. Daily Volume (30D)	3,630,208.0
Annual Dividend	$0.80
Dividend Yield	3.0%
SI as % of Float	5.9%
SI % Chg. from Last Per.	(1.8)%
Book Value/Share	$12.60

Sources: Company reports, Thomson Reuters, KeyBanc Capital Markets Inc.

Estimates

FY ends 12/31	F2017A	1Q18A	2Q18A	3Q18A	4Q18E	F2018E	F2019E
EPS (Net)	**$1.21**	**$0.77**	**$0.07**	**$0.10**	**$0.37**	**$1.28**	**$1.32**
Cons. EPS	--	--	--	--	*$0.36*	*$1.28*	*$1.34*
Previous	--	--	--	--	--	--	$1.37
EBITDA (M)	**$1,534.2**	--	--	--	--	**$1,531.7**	**$1,633.3**
Cons. EBITDA	--	--	--	--	*$419.9*	*$1,455.2*	*$1,689.2*
Previous	--	--	--	--	--	$1,531.8	$1,644.6
Valuation							
P/E	22.1x	--	--	--	--	20.9x	20.3x

Sources: Company reports, Thomson Reuters, KeyBanc Capital Markets Inc.

Our Case

Value at $28.50

NI continues to benefit from a constructive regulatory environment across its several jurisdictions, remains committed to its customer growth initiative and manages the MA incident to restore its growth trajectory. Shares trade at 21.6x 2019 EPS on our $28.50 price target.

Bull Case
Value of $30.50

NI is able to manage through its MA incident and deploy capital to hit top end of its long-term growth initiative. Shares trade at 23.1x 2019 EPS.

Bear Case
Value of $24

After the Massachusetts incident, NI's constructive regulatory environment starts to deteriorate and the Company does not execute on its customer growth initiative, pushing NI's long-term EPS growth rate to the low end of its 5-7% target EPS growth rate. Shares trade at 18.2x 2019 EPS.

Valuation

NiSource Inc. (NI)
Our price target represents a P/E multiple of 21.6x our 2019 estimate, while shares are recently trading (intraday $26.16 per share) at 19.8x our 2019 estimate. Our $28.50 price target assumes NI warrants a modest premium to peers given attractive capital opportunities backed by favorable regulation and capital trackers. With roughly two-thirds of NI's net income earned at the gas utilities, we use a sum-of-the-parts valuation with natural gas (21.8x) and regulated electric (18.5x) utility peers.

Investment Risks

NiSource Inc. (NI)
We believe the primary risks to achieving our price target include any deterioration of regulation and any inability to execute on the growth initiatives that management is targeting. A finding of gross negligence could result in fines requiring the issuance of equity.

Scale of MA Recovery Drives Headwinds

With NI's recent 2.5% dividend hike, we believe management may be suggesting the targeted 5-7% EPS growth may get sidetracked by the scale of September 2018 gas fires in explosions in Massachusetts. In our view, as the full extent of the response and financial recovery from insurers became more clear, near-term earnings pressures emerged. We have extrapolated the earnings outlook from this dividend increase and are reducing our 2019 EPS estimate to $1.32 from $1.37 per share.

We view the setback as temporary and consider the long-term story to be intact. We look for NI to return to its EPS trajectory by 2021 as the MA situation is resolved. At this point, we believe management is likely considering strategic options around the Massachusetts subsidiary, to find the best way to put the issues behind NI.

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NiSource - (NI)

Company Update

NISOURCE INCOME STATEMENT

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($ in millions)	2015	2016	2017	2018(E)	2019(E)
Gas Distribution	2,093.1	1,874.5	2,088.5	2,076.5	2,168.1
Gas Transportation & Storage	969.8	964.6	1,021.5	1,031.7	1,042.0
Electric	1,577.3	1,649.6	1,790.4	1,797.8	1,805.3
Other	27.2	16.2	4.4	10.0	10.0
Total Operating Revenues	$4,667.4	$4,504.9	$4,904.8	$4,916.0	$5,025.4
Fuel & Purchased Power	1,643.7	1,390.2	1,518.7	1,518.7	1,518.7
Gross Profit	3,023.7	3,114.7	3,386.1	3,397.3	3,506.7
Operations & Maintenance	1,411.1	1,429.1	1,589.2	1,589.2	1,584.4
Taxes Other Than Income Taxes	256.1	244.3	257.2	276.4	288.9
Other Expenses	0.0	0.0	5.5	0.0	0.0
EBITDA	1,356.5	1,441.3	1,534.2	1,531.7	1,633.3
Depreciation and Amortization	524.4	547.1	570.3	588.7	636.4
EBIT	832.1	894.2	963.9	943.0	997.0
Interest Expense	380.2	349.5	353.2	390.7	410.1
Other Income	33.0	1.5	(2.8)	0.0	0.0
EBT	484.9	546.2	607.9	552.3	586.9
Income Tax Expense	170.5	195.0	210.4	113.8	120.9
Tax Rate	35.2%	35.7%	34.6%	20.6%	20.6%
Net Income	314.4	351.2	397.5	438.5	466.0
Less Net Income to Noncontrolling Interest	15.6	0.0	0.0	0.0	0.0
Net Income - Ongoing	**$298.8**	**$351.2**	**$397.5**	**$438.5**	**$466.0**
Non-Recurring Items (After-Tax)	(12.3)	(26.5)	(268.9)	(500.0)	0.0
Discontinued Operations	(87.9)	3.4	(0.1)	0.0	0.0
Net Income - GAAP	**$198.6**	**$328.1**	**$128.5**	**($61.5)**	**$466.0**
EPS - Ongoing (weather normalized)	**$0.93**	**$1.09**	**$1.21**	**$1.28**	**$1.32**
EPS - GAAP	**$0.62**	**$1.02**	**$0.39**	**($0.18)**	**$1.32**
Average Common Shares (Basic)	319.8	321.8	329.4	342.4	352.4
YOY Change	3.2	2.0	7.6	13.0	10.0
Common Stock Dividend	$0.830	$0.640	$0.680	$0.780	$0.800
Payout Ratio	88.8%	58.6%	56.4%	60.9%	60.5%
Profitability Metrics					
Gross Margin	64.8%	69.1%	69.0%	69.1%	69.8%
EBITDA Margin	29.1%	32.0%	31.3%	31.2%	32.5%
EBIT Margin	17.8%	19.8%	19.7%	19.2%	19.8%
Net Margin	4.3%	7.3%	2.6%	-1.3%	9.3%
ROE - Ongoing	6.0%	8.9%	9.5%	9.8%	9.6%
ROE - Net Income	4.0%	8.3%	3.1%	-1.4%	9.6%
Growth Rates					
Revenue	-27.7%	-3.5%	8.9%	0.2%	2.2%
EBITDA	-25.8%	6.3%	6.4%	-0.2%	6.6%
EBIT	-32.0%	7.5%	7.8%	-2.2%	5.7%
Net Income - Ongoing	-44.9%	17.5%	13.2%	10.3%	6.3%
EPS - Ongoing	-45.5%	16.8%	10.6%	6.1%	3.2%
Input Drivers					
Gas Distribution Revenue (% Growth)	-19.4%	-10.4%	11.4%	1.1%	1.0%
Gas Transportation & Storage Revenue (% Growth)	-48.2%	-0.5%	5.9%	1.0%	1.0%
Electric Revenue (% Growth)	-4.9%	4.6%	8.5%	0.5%	0.5%
Regulatory Impact ($ in millions)	N/A	N/A	N/A	(21.7)	83.0
Weather Impact ($ in millions)	N/A	N/A	N/A	0.0	0.0
Fuel & Purchased Power (% Growth)	-26.1%	-15.4%	9.2%	0.0%	0.0%
O&M Cost (% Growth)	-33.3%	1.3%	11.2%	0.0%	-0.3%
Taxes Other Than Income Taxes (% PP&E)	1.8%	1.9%	1.88%	1.9%	1.8%
D&A (% PP&E)	3.7%	4.3%	4.16%	4.1%	4.1%
Average Interest Rate	4.5%	4.7%	4.18%	4.2%	4.2%

Model sources: Company documents and KeyBanc Capital Markets Inc. estimates

Disclosure Appendix

Important Disclosures

NiSource Inc. - NI

We have managed or co-managed a public offering of securities for NiSource Inc. within the past 12 months.

NiSource Inc. is an investment banking client of ours.

We have received compensation for investment banking services from NiSource Inc. during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from NiSource Inc. within the next three months.

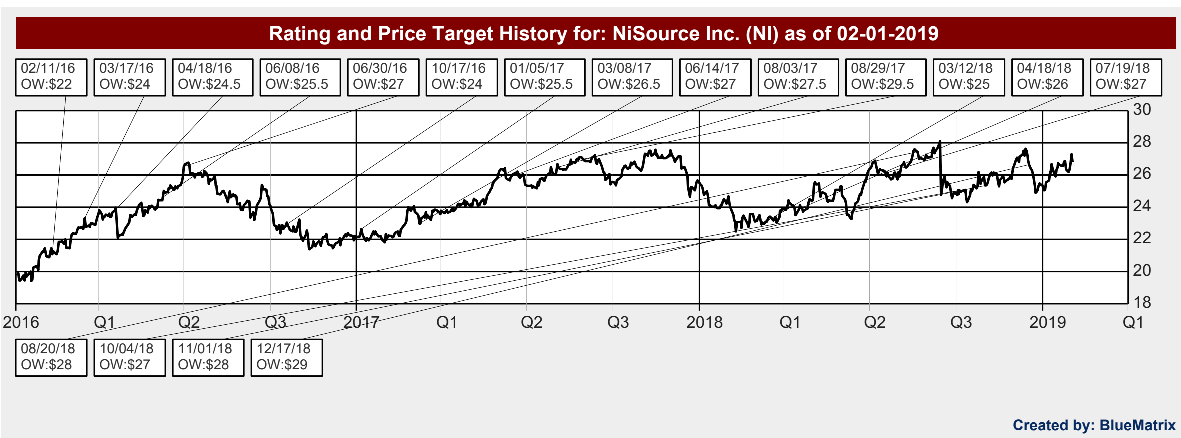
During the past 12 months, NiSource Inc. has been a client of the firm or its affiliates for non-securities related services.

As of the date of this report, we make a market in NiSource Inc..

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three-Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		Energy			IB Serv/Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**	**Rating**	**Count**	**Percent**	**Count**	**Percent**
Overweight [OW]	281	46.52	63	22.42	**Overweight [OW]**	16	36.36	9	56.25
Sector Weight [SW]	310	51.32	53	17.10	**Sector Weight [SW]**	28	63.64	17	60.71
Underweight [UW]	13	2.15	2	15.38	**Underweight [UW]**	0	0.00	0	0.00

Disclosure Appendix (cont'd)

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

Underweight - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

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GUGGENHEIM

February 6, 2019

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NI: Rebasing Expectations Following Recent Discussions with Management

Key Message: Rebasing expectations following recent discussions with management. Near-term estimates revised downward on higher regulatory lag (i.e., timing of capital recovery, drag from property taxes and depreciation), modest pension headwind, among other items. Longer term thesis remains intact. We believe growth in 2021 and beyond should resume back closer to historical guide.

NI — BUY

NiSource Inc.
Sector: Power, Utilities & Alternative Energy

Earnings Preview

Share Price	$26.31
Price Target	$29.00

EPS ($) (FY DEC)	1Q	2Q	3Q	4Q	FY
2018	0.77	0.07	0.10	0.36E	1.28E
Prior	—	—	—	*0.35E*	—
P/E					20.5x
2019	0.79E	0.12E	0.10E	0.32E	1.32E
Prior	*0.83E*	—	*0.09E*	*0.34E*	*1.38E*
P/E					19.9x
2020	0.82E	0.12E	0.10E	0.33E	1.37E
Prior	*0.90E*	*0.13E*	—	*0.36E*	*1.48E*
P/E					19.2x

Dividend/share ($) (FY DEC)	1Q	2Q	3Q	4Q	FY
2018	0.18	0.20	0.20	0.21E	0.78E
Prior	—	—	—	*0.18E*	*0.75E*
2019	0.20E	0.20E	0.20E	0.20E	0.80E
2020	0.21E	0.21E	0.21E	0.21E	0.82E
Prior	—	—	—	—	*0.86E*

Market Data

52-Week Range	$22.44 - $28.11
Dividend	$0.81
Dividend Yield	3.1%
Market Cap (M)	$9,799
Shares Out (M)	372.5
ADV (3 mo; 000)	3,170

Following discussions with NI, we are adjusting estimates as we enter YE results and ahead of expected new guidance provided by the company. We now account for modest drag from pension but, more materially, regulatory lag at Columbia Gas of MA (AKA Bay State Gas) stemming from the September 2018 explosion. We now assume material regulatory lag in the state driven by (1) a slower recovery of insurance proceeds over the next 12-18m as they work through the various towers and the reality that they may not get full proceeds vs our prior assumptions; (2) timing for recoveries for their pipeline replacement program where we now expect a GRC filing in early 2020 with rates in effect in 2021, which is more delayed than we initially thought; (3) higher drag from property taxes and depreciation among other minor items.

We are modestly lowering our 2019/20/21/22 estimates to $1.32/$1.37/$1.47/$1.58 from $1.38/$1.48/$1.58/$1.68, respectively. Our updated ’19-22 EPS CAGR equates to 6.5%, with more backend loaded growth post 2020 as recoveries in MA begin to bear fruit – 2021 and beyond should see a reversion to the mean when thinking about NI's longer term growth prospects. Regarding dividends, year-over-year growth mirrors our updated EPS growth trajectory and essentially implies a ~61% payout ratio. Given now more grounded expectations among investors, we believe NI should be in a better position to on deliver on plan.

Continued on second page...

Valuation: We derive our regulated utility group target multiple of 17x from our regression model, which uses the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years, and now ascribe a two turn premium to reflect several externalities (e.g., macro/geopolitical uncertainties) that continue to support the group trading beyond fundamentals and forward-yield expectations. We arrive at our valuation utilizing a sum-of-the parts analysis, based on: (1) ~$10/share for the regulated electric utility; (2) ~$22/share value for the regulated gas segment utilizing our regulated electric P/E multiple plus a premium to account for the historical gas LDC spread above electric counterparts; and (3) (~$2)/share for other adjustments for Corp and Other. We then discount our valuation back by two years to arrive at our $29 PT.

Risks: The primary risks on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model. Company specific risks include regulatory risk/rate case risk associated with September gas explosions in Massachusetts.

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Rating and Price Target History for: NiSource Inc. (NI) as of 02-05-2019

Created by: BlueMatrix

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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of between plus 10% and minus 10% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

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Price targets are assigned for Buy- and Sell-rated stocks. Price targets for Neutral-rated stocks are provided at the discretion of the analyst.

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			IB Serv./ Past 12Mos.	
Rating Category	**Count**	**Percent**	**Count**	**Percent**
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NEUTRAL	153	40.91%	6	3.92%
SELL	8	2.14%	0	0.00%

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CREDIT SUISSE

13 February 2019
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

Rating	**OUTPERFORM**
Price (13-Feb-19, US$)	26.63
Target price (US$)	29.00
52-week price range (US$)	28.08 - 22.74
Market cap(US$ m)	9,919
Enterprise value (US$ m)	18,686

Target price is for 12 months.

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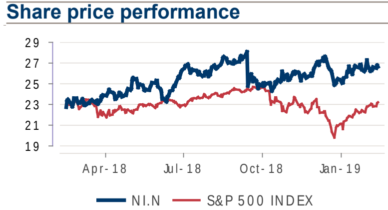
COMMENT

Vail Commentary: Looking Past Temporary Hits in 2019/20

- **Maintain Outperform and would buy on weakness as we reduce 2019/20 $0.05-0.07 for additional, but temporary hits beyond the $0.05 we already identified for pension.** We now expect additional pressure in 2019/20 from $0.04-$0.05 of gas system Safety Management System (SMS) accelerated implementation across NI's utilities. This is opex and importantly, we expect it to eventually make its way into rates over the next 12-18 months through the normal filing process. We also expect $0.08 of short-term debt carrying cost on $800M of Massachusetts costs and liabilities as the company waits for $800M of insurance offset over 12-24 months.
- **Expect 5%-7% long-term annual EPS growth guidance to be maintained, albeit off a lower 2019 initially.** However, we think that NI could be back on track (e.g., vs a 2018 base) as early as 2021 as pension, SMS, and carrying costs roll off. Also, the 5%-7% may be extended to 2022.
- **No block equity despite higher cost estimate for Massachusetts.** The cost estimate is likely to escalate from $660M first look to as much as $1.1B, with a portion of the increase at least partially covered by ~$300M pipeline property insurance. Bottom line: we expect management to maintain the prior financing plan of $200M-$300M through a new at-the-market (ATM) shelf plus $35-$60M employee plans.
- **Potential Sale of Columbia Gas of Massachusetts.** With ~$800M ratebase and only $0.11 EPS, our sense is that management is willing to consider the sale of Columbia Gas of Massachusetts, as suggested by local politicians in hearings last year.
- **Valuation:** Our 2019 and 2020 estimates are reduced to $1.30 and $1.39, accounting for the temporary near-term cost drags. Our TP stays at $29 with higher peer group 2020 P/E (19.3x (from 18.5x) and 20.3x (from 20.2x) to electric and gas utilities, respectivley) offsetting lower estimates. Our valuation also accounts for the reversal of 50% of the near-term $0.17 cost drag by 2021. Risks include regulatory outcomes and capital plan execution.

Share price performance



On 13-Feb-2019 the S&P 500 INDEX closed at 2754.12
Daily Feb13, 2018 - Feb13, 2019, 02/13/18 = US$23.13

Quarterly EPS	Q1	Q2	Q3	Q4
2017A	0.71	0.10	0.07	0.33
2018E	0.77	0.07	0.10	0.37
2019E	0.78	0.10	0.09	0.33

Financial and valuation metrics

Year	12/17A	12/18E	12/19E	12/20E
EPS (CS adj.) (US$)	1.21	1.28	1.30	1.39
Prev. EPS (US$)	-	-	1.35	1.46
P/E rel. (%)	108.6	126.0	132.4	137.2
Revenue (US$ m)	5,643.5	5,471.7	5,650.7	5,962.2
EBITDA (US$ m)	1,534.2	1,481.8	1,587.4	1,700.6
OCFPS (US$)	2.25	3.41	2.93	3.06
P/OCF (x)	11.4	7.8	9.1	8.7
EV/EBITDA (current)	11.8	12.2	11.4	10.7
Net debt (US$ m)	8,973	8,768	9,413	9,991
ROIC (%)	4.74	5.11	5.07	5.16

Number of shares (m)	372.46	IC (current, US$ m)	13,293.30
BV/share (Next Qtr., US$)	13.1	EV/IC (x)	1.4
Net debt (Next Qtr., US$ m)	8,712.3	Dividend (current, US$)	0.78
Net debt/tot eq (Next Qtr.,%)	171.7		

Source: Company data, Refinitive, Credit Suisse estimates

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CREDIT SUISSE

13 February 2019

NiSource Inc. (NI)

Price (13 Feb 2019): **US$26.63**; Rating: **OUTPERFORM**; Target Price: **29.00**; Analyst: **Michael Weinstein**

Income Statement	**12/17A**	**12/18E**	**12/19E**	**12/20E**
Revenue (US$ m)	**5,643.5**	**5,471.7**	**5,650.7**	**5,962.2**
EBITDA (US$ m)	**1,534**	**1,482**	**1,587**	**1,701**
Depr. & amort.	(570)	(588)	(613)	(641)
EBIT (US$)	**964**	**894**	**974**	**1,060**
Net interest exp	(399)	(392)	(377)	(418)
PBT (US$)	**608**	**568**	**616**	**675**
Income taxes	(210)	(111)	(129)	(142)
Profit after tax	**397**	**457**	**487**	**533**
Minorities	-0	-0	-0	-0
Reported net income (US$)	**291**	**457**	**487**	**533**
Other NPAT adjustments	(106)	0	0	0
Adjusted net income	**397**	**457**	**487**	**533**

Cash Flow	**12/17A**	**12/18E**	**12/19E**	**12/20E**
EBIT	964	894	974	1,060
Net interest	(399)	(392)	(377)	(418)
Change in working capital	(416)	494	0	0
Cash flow from operations	**742**	**1,213**	**1,100**	**1,174**
CAPEX	(1,433)	(2,305)	(1,700)	(1,700)
Free cashflow to the firm	**(690)**	**(1,091)**	**(600)**	**(526)**
Acquisitions	-	-	-	-
Divestments	0	0	0	0
Cash flow from investments	**(1,808)**	**(1,830)**	**(1,700)**	**(1,700)**
Net share issue(/repurchase)	337	792	250	250
Dividends paid	(229)	(271)	(295)	(302)
Changes in Net Cash/Debt	**(1,090)**	**206**	**(645)**	**(578)**

Balance Sheet (US$)	**12/17A**	**12/18E**	**12/19E**	**12/20E**
Assets				
Cash & cash equivalents	29	42	42	42
Account receivables	899	500	500	500
Other current assets	550	507	507	507
Total current assets	**1,763**	**1,369**	**1,369**	**1,369**
Total fixed assets	14,360	15,477	16,564	17,623
Investment securities	-	-	-	-
Total assets	**19,962**	**21,002**	**22,089**	**23,148**
Liabilities				
Total current liabilities	**3,178**	**3,467**	**4,112**	**4,690**
Total liabilities	**15,642**	**15,681**	**16,326**	**16,904**
Shareholder equity	4,320	5,321	5,763	6,244
Total liabilities and equity	**19,962**	**21,002**	**22,089**	**23,148**
Net debt	8,973	8,768	9,413	9,991

Per share	**12/17A**	**12/18E**	**12/19E**	**12/20E**
No. of shares (wtd avg)	329	356	375	384
CS adj. EPS	1.21	1.28	1.30	1.39
Prev. EPS (US$)	-	-	1.35	1.46
Dividend (US$)	0.70	0.74	0.79	0.83
Free cash flow per share	(2.10)	(3.07)	(1.60)	(1.37)

Earnings	**12/17A**	**12/18E**	**12/19E**	**12/20E**
Sales growth (%)	25.5	(3.0)	3.3	5.5
EBIT growth (%)	9.1	(7.3)	9.0	8.8
Net profit growth (%)	17.8	15.0	6.5	9.5
EPS growth (%)	15.7	6.4	1.0	7.0
EBITDA margin (%)	27.2	27.1	28.1	28.5
EBIT margin (%)	17.1	16.3	17.2	17.8
Pretax margin (%)	10.8	10.4	10.9	11.3
Net margin (%)	7.0	8.4	8.6	8.9

Valuation	**12/17A**	**12/18E**	**12/19E**	**12/20E**
EV/Sales (x)	3.35	3.42	3.42	3.34
EV/EBITDA (x)	11.8	12.2	11.4	10.7
EV/EBIT (x)	19.6	20.9	19.8	18.8
P/E (x)	22.1	20.7	20.5	19.2
Price to book (x)	2.0	1.9	1.8	1.7
Asset turnover	0.3	0.3	0.3	0.3

Returns	**12/17A**	**12/18E**	**12/19E**	**12/20E**
ROE stated-return on (%)	6.7	9.6	9.3	9.3
ROIC (%)	4.7	5.1	5.1	5.2

Gearing	**12/17A**	**12/18E**	**12/19E**	**12/20E**
Net debt/equity (%)	207.7	164.8	163.3	160.0
Interest coverage ratio (X)	2.4	2.3	2.6	2.5

Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2017A	0.71	0.10	0.07	0.33
2018E	0.77	0.07	0.10	0.37
2019E	0.78	0.10	0.09	0.33

Source: Company data, Refinitive, Credit Suisse estimates

Company Background

NiSource Inc. is energy holding company whose subsidiaries provide natural gas, electricity & other products & services. It operates in 3 segments: Gas Distribution Operations; Gas Transmission & Storage Operations, & Electric Operations.

Blue/Grey Sky Scenario

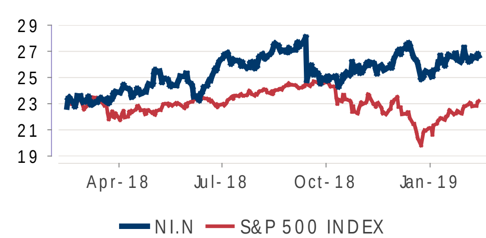
Our Blue Sky Scenario (US$) **32.00**

In our blue sky scenario we assume favorable regulatory outcomes across NI's jurisdictions, successful execution of their capital plan, and growth of infrastructure replacement program backlog. We assume that capex is at the high end of the $1.6-$1.8B and that NI is able to grow ratebase at the high end of their 8-10% range and grow earnings at the high end of their 5-7% range.

Our Grey Sky Scenario (US$) **25.00**

In our grey sky scenario we assume unfavorable regulatory outcomes across NI's jurisdictions, only partial execution of their capital plan, and a decline in the infrastructure replacement program backlog. We assume that capex is at the low end of the $1.6-$1.8B and that NI is able to grow ratebase at the low end of their 8-10% range and grow earnings at the low end of their 5-7% range. We also assume a -1% ROE hit in Ohio

Share price performance



On 13-Feb-2019 the S&P 500 INDEX closed at 2754.12
Daily Feb13, 2018 - Feb13, 2019, 02/13/18 = US$23.13

Further commentary:

We met with management at the annual CS Energy Conference in Vail.

- **Light dividend increase points to turbulence in 2019.** On Feb 1, NI raised its dividend only 2.5%, well below the expected 5%-7% that would be in-line with EPS growth. We expect dividend growth to resume a normal 5%-7% in 2020 and beyond.
- **Sale of Columbia Gas of Massachusetts could occur** should it become apparent that state officials signal that this is their preference through their treatment of cost recovery and returns. Recall that Eversource (ES) was tapped by the Governor to manage the crisis early on. We believe investors would react positively to a divestiture that eliminated future regulatory and political risk.
- **No analyst day in 2019.** This is going to be postponed while the company works out Massachusetts impacts and actions.

We reprint the remainder of our earnings preview from Jan 23rd below (adjusted for our new lower expectation for 2019/20):

- **Guidance for 2019** will be provided on the 4Q call, and we expect a range of $1.27-1.34 vs our reduced 1.30 and consensus $1.34. Expect further discussion of Massachusetts impacts as well as a long-term capex update, more details on the IRP, RFP, and the generation replacement strategy, with wind plant CPCN filings likely filed before the call. Progress will also be discussed for the Indiana ratecase that enables the generation strategy (the case is less important as a near-term earnings driver). Management will also highlight the new CEP rider in Ohio that brings tracked earnings up to over 80% from an already impressive ~75% previously.
- **Indiana electric rate case filed 10/31 in conjunction with a new IRP calling for 100% coal retirements by 2028 (vs prior plan for 50% by 2023), replaced with renewables rather than natural gas.** Looking beyond Massachusetts, the IRP calls for retirement of 80% of the coal fleet by 2023 and 100% by 2028 (vs prior plan 50% by 2023). The IRP also points toward rapidly declining-cost renewables (wind, solar, batteries) rather than gas-fired replacements, as had been the case with the 2016 IRP.
- **Despite impact from Massachusetts, no block equity in 2019/20.** With the recent 25M-share private placement out of the way, we expect equity to resume a more normalized annual pace of $200M-$300M through a new at-the-market (ATM) shelf plus another $35-$60M employee plans. The timing of equity issuance in 2019 is likely dependent on the timing of liability and property insurance recoveries for the Massachusetts incident.
- **Pension hit for 2018.** The assumed 7% return was not achieved, due in part to the market drawdown in 4Q18. Expect a 0.05 drag for 2018 results.
- **4Q18 earnings walk.**

Figure 1: NI - 4Q18 Earnings Walk

NI Earnings Walk	EPS
4Q17 Adjusted EPS (Actual)	**$0.33**
Electric Utilities	0.03
Gas Utilities	0.04
O&M	0.00
Corporate	0.01
Others	(0.03)
Tax reform impact	(0.01)
4Q18 Adjusted EPS (CS Estimate)	**$0.37**
Consensus 4Q18 Adjusted EPS	$0.36
CS Shares Outstanding	*367.3*
FY 2018 EPS - CS	$1.28
FY 2018 EPS - Consensus	$1.28
FY 2018 EPS - Guidance	$1.26-$1.32
FY 2019 EPS - CS	$1.30
FY 2019 EPS - Consensus	$1.33
FY 2019 EPS - Guidance	$1.27-$1.34

Source: Company data, Credit Suisse estimates, IBES

- **A 3Q18 beat $0.10 vs CS $0.08 and consensus $0.06. No changes to 2018 guidance $1.26-$1.32 vs. CS $1.29 and cons. $1.28, with 5%-7% annual EPS growth target off a lower 2019**. We've noted before that both the timing of rate orders as well as deployment of capital to support 8%-10% ratebase growth may cause some deviation from the midpoint of guidance, but management remains confident of steady performance within the band with no block equity required through 2020 (unchanged). While financing associated with ~$150M accelerated capex in Mass. and possible 1x penalties could put some temporary pressure on earnings (our opinion), the company continues to project performance toward the midpoint of the band. Ultimately, insurance is expected to be adequate to cover virtually all expected expenses (not penalties), and ratebase earnings and cost rolloff should eventually offset any effects by 2021/22 and beyond.
- **Base electric rate case filed in Indiana along with a new, more aggressively carbon-focused Integrated Resource Plan (IRP)**: NIPSCO Electric filed a $21.4M annual base rate request on Oct 31, 2018 in conjunction with the new 2018 Integrated Resource Plan filing also filed on Oct 31. An order is expected by 3Q19 and if approved, rates would be effective as of Sept 2019. The rate filing also includes changes to the depreciation schedules for the IRP's planned early retirements of coal, along with rate design changes to provide more tariff flexibility to industrial customers. The 2018 all-source RFP is a key component of the IRP planning process, with a winning selection expected to be approved by Indiana regulators in early 2019 for a "Phase 1" of the plan. For Phase 2, additional RFPs could be issued around 2021 to meet the 2023 80% goal (and take advantage of renewable tax credit programs before they completely ramp down). The IRP as submitted favors significant amounts of wind in the early years of the plan (take advantage of PTC tax credits in Phase 1 prior to 2020), although solar should become more economic after 2020. Management expects to have a better idea of timing on retirements and investment by mid-2019. Furthermore, we note that Indiana historically prefers utility ratebase generation vs PPAs. For Phase 3 after 2023, the utility is likely to rely on PPA contracts for a

remaining 400-MW hole. By 2028, all coal units including Michigan City are expected to be retired.

- **Integrated Resource Plan (IRP) now calls for 100% coal retirements by 2028.** NI takes a laddered approach to portfolio planning, so we expect to see a combination of PPAs and possible ratebase plants out of the process, with the possible acceleration of coal retirements. The 2018 all-source RFP helps with planning and has seen a strong response (80 bidders). Submissions were released to stakeholders on July 24 for their review followed by a submission of a winner to the IURC Nov for approval in early 2019. However, the final plan will be developed in coordination with the IRP process, with the company likely to file for a Certificate of Public Convenience and Necessity (CPCN) no later than early 2019 in order to have a plant ready to place assets in 2023 (should that be the path agreed upon through the IRP process).
- **Renewables favored over CCGTs in the IRP.** This is a rather stunning development in our opinion, especially since it relates to a near-term need (next few years) rather than middle of next decade as has been the case with CMS's longer-term coal replacement plans. The company says that CCGTs offered into the RFP have been in the $800-$900/kW cost range, well above the ~$300/kW needed to compete with tax advantaged wind, solar, and storage. Note that solar becomes more attractive than wind after 2020 as both the wind PTC and solar ITC begin to sunset. As we've noted previously, regulated utilities will increasingly find themselves more competitive with ratebased solar after 2022 when the ITC drops to 10% and the disadvantage of required tax normalization doesn't handicap utilities as much vs non-regulated third parties. For NIPSCO, the company's existing gas fleet will help balance the system as coal is replaced with renewables, although eventually (after 2028), more gas peakers may be needed. However, we would add here that with the cost of battery storage coming down too, gas peakers might eventually find themselves under threat as well.

- **The 2016 IRP had called for retiring 50% of the coal-fired generation fleet by the end of 2023**, including 500-MW Bailly 7/8 (MISO approved closure by May 31, 2018) and R.M. Schahfer Units 17 and 18. With interruptible load contracts in place, there is no rush to build replacement capacity until Schahfer retires in 2023 (likely replaced with a CCGT). However, with a three-year lead time (one year for filings and two for build), NIPSCO expects to file the 2018 IRP in November 2018 despite a November 2019 deadline to file, providing additional details on its long-term capacity plan as well as additional clarity on the capital plan and capital guidance post-2020.

Massachusetts Update:

- **Upgrades of other low pressure systems outside of Massachusetts now planned through 2019.** As part of the early response to the Massachusetts over pressurization incident in September, the company plans to reprioritize the installation of upgrades to other similar low pressure (i.e., older) systems in Ohio, PA, and elsewhere, including the fitting of safety shutoff and remote monitoring systems to modernize them into medium pressure systems with regulators at each location. Although this is a $150M capital program in 2019, there is no change to the company's long-term $1.6-$1.8B annual capital plan as this is simply a reprioritization within the budget.
- **Massachusetts work is progressing ahead of schedule.** All pipe replacement was completed and >99% of houses were reconnected and reoccupied in late-December. Despite bringing in work crews from across the country, the company has not yet

forecasted significant incremental capital expense beyond the $135-$165M that would have occurred normally (just accelerated, helped by having the entire system shut down for the upgrades). However, the final restoration cost estimate is still being developed and capex is likely to be somewhat higher than this, although some recovery is also likely through property insurance claims (>$800M coverage, separate from the ~$800M liability coverage previously discussed) that could mitigate needs for financing as well as any incremental rate requirements (for capex).

- **Replacement of entire system includes modern safety features.** The existing system is over 100 years old and did not have individual regulator valves or safety valves at each house. The new system consists of high-pressure plastic mains with regulators at each service meter to reduce the line pressure from the main to the required pressure.

- **A recommendation aimed at Massachusetts (i.e., not just NiSource):** As part of the ongoing investigation into the September natural gas explosions in Massachusetts, the National Transportation Safety Board (NTSB) released on Nov 15 five urgent safety recommendations, the first of which is aimed at the state itself. The NTSB recommended that Massachusetts eliminate a licensure exemption given to professional engineers for utility work, which would otherwise require a professional engineer's seal on utility engineering drawings. The report goes further to note that this type of exemption is a common practice across the country: "According to the National Society of Professional Engineers (NSPE), in most states PE's are not required to review and approve project plans, such as those used in this accident, because they have industrial, public utility, or other exemptions. The NSPE has advocated for the phasing out of existing industrial exemptions in state licensing laws."

- **NiSource recommendations**: These recommendations are not surprising and NI management has indicated they have already made significant procedural changes since the incident: (i) Revision of engineering plan and constructability review process, (ii) Review and ensure records and documentations are traceable, reliable, and complete, (iii) Apply management of change process to adequately identify system threats, and (iv) develop and implement control procedures during modifications to gas mains.

- **Next Steps.** The NTSB investigation is continuing; we note that a similar investigation into a 2014 explosion on Consolidated Edison's system was previously completed in 15 months. With Senate field hearings completed in November, we expect lower-key state hearings in mid-2019 (unlikely to be televised) as well as more generalized full Senate hearings on pipeline safety likely to take place next year, with the goal to improve federal regulations (e.g., Pipeline and Hazardous Materials Safety Administration PHMSA).

- **Penalties in MA are delineated at $20M per emergency response incident**, which the company is interpreting to mean one incident. Other penalties are limited to ~$2M. In our opinion, the incident appears more likely to be a one-time, quickly correctible event, and the company's latest estimate of Lawrence incident expenses stood at $415-$450M third-party claims and related expenses plus another $180-$210M administrative, charitable, and other expenses, much of which could be covered by the utility's $800M of insurance coverage plus additional claims through its property insurance (> $800M of coverage). We reiterate that uncovered expenses and penalties are unlikely to approach the ~$1B discount that NI currently trades at and more likely to be closer with those settled in the 2014 Con Ed Harlem explosion ($153M).
    - **Seems like a singular event.** As we've noted, the NTSB's preliminary fact finding report (Oct 2018) into the September Massachusetts natural gas explosions cites that the faulty work was performed in accordance with steps laid out in a work package developed and approved by Columbia Gas. The report identified two key findings: (1) a contracted

crew accompanied by a Columbia Gas inspector (this is normal) were working on a tie-in project of a new plastic distribution main and the abandonment of a cast-iron distribution main. The crew disconnected the cast-iron line without relocating pressure sensor lines to the new pipe. This resulted in the system falsely reading low pressure in the live system, which automatically opened regulator valves to raise pressure in the low-pressure distribution system. (2) The work was "performed in accordance with steps laid out in the work package…developed and approved by Columbia Gas".

- We note that for some investors, there's some uncertainty as to whether the cause of the error could be systematic poor long-term recordkeeping, which we agree had been a factor leading to high penalties in past cases such as San Bruno in California. However, the nature of this error so far described by the NTSB suggests to us that a non-systematic one-time engineering error is more likely: that an employee failed to instruct this crew to move sensing lines in this specific case. The replacement of old cast iron/bare steel pipes has been taking place for years and is not specialized situation work, hence we think if this error were systematic in nature, we would expect to have seen similar incidents in the past. In our opinion, this incident appears more likely to be a one-time, correctible event, more similar to the Harlem event than San Bruno.
- As we have noted before, the regrettable human toll from this incident (1 fatality, 21 injured, 131 structures damaged, including five houses destroyed) has been less than previous gas explosions at San Bruno, Dallas, and New York. In our opinion, this incident is more likely to follow a path similar to that of Consolidated Edison's 2014 Harlem explosion (eight fatalities resulting in a $153M settled outcome) rather than the much more punitive path followed in California after San Bruno.

Financing and Regulatory Updates:

- **No change to equity financing plan over the long term.** We expect management to make an effort (and likely succeed) to avoid any additional common or preferred equity despite Massachusetts impacts and for the company to maintain 5%-7% EPS annual EPS growth off a lower 2019 base (but caught up by 2021/22 as temporary earnings hits in 2019/20 roll off). Still see needs limited to $200-$300M annually through the ATM. In the short term, the timing of debt and equity in 2018/19 may be dependent on the timing of insurance recoveries in Massachusetts. While $800M of insurance won't cover capex, charitable contributions, and any possible penalties (apparently limited to ~$22M for the entire incident by state law), it should cover the company's estimate of other Lawrence incident expenses which currently stands at $415-$450M in third-party claims and related expenses plus another $180-$210M administrative, charitable, and other expenses. Furthermore, property insurance (>$800M coverage, of which $300M covers pipeline damage) may also cover a portion of capital expenses, although we wouldn't expect full recovery of depreciated equipment, obviously. Still expect 13% FFO/Debt by yearend 2018 improving to 15% for 2019/20, driven by a combination of strengthening cash flows and de-leveraging.
- **Gas utility rate activity heating up:** Aside from annual filings in Pennsylvania, we expect filings every few years in NI's other jurisdictions to recover remaining capital not picked up under tracker mechanisms. A $107.3M annual revenue base rate settlement in **Indiana** for NIPSCO Gas was reached in April 2018 and was approved on Sept 19th as filed, with rates effective Oct 1st. The company has withdrawn its filing to extend the

NIPSCO Gas System Modernization Program for another five years after the current one expires in May 2020. Instead, NI and intervenors are working on a new program after legal challenges, although NI may also choose to simply file forward looking ratecases similar to ones currently filed in Pennsylvania and Indiana. Also expect a general ratecase filing nearly every year in **Pennsylvania** ($47M filed in March 2018 with a $26M settlement reached Aug 31 and a final order on Dec 16 for rates effective in Dec), small filings in **Maryland** to pick up non-tracked STRIDE spending (settlement filed 7/31/18 with an order in 4Q18), and a 3-year cycle in **Massachusetts** (filed in April 2018 with a settlement withdrawn on Sept 19 after the explosions there). No new filing is expected there in 2019. In **Virginia**, the company filed for a $22M increase on Aug 28 (only $14M effective increase net of tracker roll-in). In **Ohio**, the Infrastructure Replacement Program just received a five-year extension in Jan 2018, while the company filed a $74.5M annual revenue settlement on Oct 25, 2018, establishing a deferral recovery rider for the Ohio Capital Expenditure Program, or CEP that was approved with rates in place on Nov 28. Note that a 9/4/18 audit returned virtually no red flags (only $200k). The CEP case was the first filing of its kind and essentially applies rate headroom from lower income tax rates to recovery of a $400M regulatory asset. See below for details.

- **Plans intact post-tax reform impact.** Management continues to guide annual infrastructure investments of $1.6B-$1.8B through 2020 (with $1.7B-$1.8B in 2018) and reiterated the commitment to investment grade credit ratings. This is notable given NI's relatively high level of parent debt (nearly 2/3 of the capital structure). As we've noted before, NI expects to maintain interest expense deductibility for holding company debt as it is now essentially classified as a regulated utility following legal entity restructuring initiated early 2017 to convert NIPSCO into an LLC. Our calculations have shown a -$14M (-$0.05 EPS) hit from lower parent interest shielding at the lower tax rate, but management has plans in place to offset this with cost cutting.

- **Rate headroom supports investment.** Following tax reform, NI's NOL carryforward had been revalued to $508M, which is expected to continue to provide a cash tax benefit that extends beyond 2025. The re-measurement of deferred tax liabilities decreases regulatory liabilities by ~$1.5B. The amortization of this regulatory liability and the reduction in the pass-through tax expense for customer bills provide additional rate headroom for incremental investments in necessary utility infrastructure.

- **Privately issuing some equity, shoring up credit ratings against tax reform impact.** On May 2nd, NI announced a private placement for the issuance and sale of 24,964,163 shares of common stock to six investors for gross proceeds of ~$606M. This is expected to fund capex and be used for general corporate purposes. This issuance resolves any negative credit and cash impacts from tax reform, and management does not expect any additional common equity block offerings in the planning horizon of 2018-2020. Recall that we had expected NI to issue incremental equity above the typical $200M-$300M annual at-the-market (ATM) issuances plus an additional $35M-$60M ESPP/401K/Other. With the latest equity issuance, management expects to raise FFO/debt to 13% by year-end 2018 from 12% as of year-end 2017, with a 14-15% target for 2019/2020. NI maintains investment grade credit ratings at Moody's (Baa2), S&P (BBB+), and Fitch (BBB) with a stable outlook al all three. We continue to expect NI to consider other alternatives to debt, including convertible equity, with $400M preferred equity issued in Jun 2018.

- **Tax reform progress with regulators also helps support FFO and credit ratings.** NI continues to work across its seven state jurisdictions on the pass-through of tax benefits for customers while maintaining credit metrics supportive of investment-grade credit ratings, as the company remains largely out of base ratecases in most jurisdictions. Thus far, NI has received rate orders for lower tax rates only in Maryland (effective April) and Kentucky (May 1st). The recent settlement in Indiana for NIPSCO Gas also includes the impact of lower tax rates (see below). NI's utilities hypothetically face the potential for roughly $200M lower cash collection in rates for deferred taxes as well as another $50M lower cash as ~$1.5B deferred tax liabilities are amortized (starting 2020, typically over the life of assets, e.g., about 30 years). This could include the reduction of deferred regulatory asset balances, including ~$63M of TDSIC tracker roll-in for higher depreciation in the ongoing NIPSCO Gas base ratecase. Furthermore, NI has a pending request for another ~$70M for the deferred recovery of prior period capital spending in Ohio under the Capital Expense Program rider (see below).

- **O&M and debt cost –** the company guides to flattish going forward, with some deviance due to timing issues. Debt refinancing opportunities have been largely executed, with no significant new refinancings expected through 2022.
- **On M&A**, the company emphasizes plenty of organic opportunity vs the high premiums that would be required for an acquisition (aside from small tuck-ins).

Regulatory details:

- **NIPSCO Gas ratecase settlement approved on Sept 19.** On April 20th, NIPSCO, the Indiana Office of Utility Consumer Counselor (OUCC), and other parties filed a settlement with the Indiana Utility Regulatory Commission (IURC) in the company's pending rate case. The settlement calls for a $107.3M three-step gas distribution rate increase with the first/second/third step at $86.5M/$29.2/-$8.4 at a 9.5% ROE, 45.91%/46.88%/46.88% equity ratio and a $1.25B/$1.52B/$1.52B ratebase to be effective Oct 1, 2018/Jan 1, 2019/Jan 1, 2020, respectively. ~$63M of the increase, the largest component of the ratecase, was for the Transmission, Distribution and Storage System Improvement Charge (TDSIC) tracker roll-in and higher depreciation, with no impact on net income. The reset of depreciation rates is the widely anticipated last step of a 2010 settlement that reduced depreciation temporarily in order to "rebuild" ratebase. To account for tax reform impact, NIPSCO previously revised its rate request to a two-step $117.9M rate increase at a 10.7% ROE, 46.02% equity ratio, and a $1.483B ratebase for a test year ending Dec. 31, 2018.
- **Rebuilding ratebase.** Recall that NIPSCO Gas' ratebase had been previously depleted faster than normal as the result of a 1998 rate order that set a 5% depreciation rate. By 2010, ratebase had been depleted to only ~$300M vs. what would have been about $1B under a normal 2% depreciation rate. A 2010 settlement agreed that the fair value of ratebase was $725M (based on a 9.9% ROE minus 2.9% inflation) and reset depreciation down to a 1.6% rate for a nearly $76M annual cash rate reduction to rebuild ratebase over the next several years (this was $26M beyond a normal 2%). In 2013, another settlement renewed the lower depreciation rate through 2020 with an agreement to file a ratecase before Nov 2020. The Sept 27th filing satisfied this requirement early, with $1.5B projected ratebase for 2018 including capital investment from the utility's ongoing $800M TSIC infrastructure program. Note that the TDSIC program is only expected to be about 1/2 to 2/3 completed by 2018 (Note that TDSIC filings are on their own track with the latest gas filing in Feb and decisions expected for gas and electric in July and June, respectively.)
- **Columbia Gas of Ohio Infrastructure Replacement Program.** On April 25th, the Public Utilities Commission of Ohio (PUCO) approved Columbia Gas of Ohio's (COH) annual Infrastructure Replacement Program tracker adjustment, allowing cost recovery of ~$207M of 2017 infrastructure investments. Recall that a 2017 settlement allowing COH to continue the IRP tracker through 2022 was previously approved in Jan 2018. The IRP program covers the replacement of priority mainline pipes and targeted customer service lines.

- **Columbia Gas of Ohio CEP rider settlement for $74.5M was reached on Oct 25, 2018.** Essentially, this would apply some cash tax savings toward the deferred recovery of Capital Expense Program spending since 2011. Under a 2011 agreement, NI had been allowed to spend on non-IRP capital spending in Ohio with recovery deferred until a ratecase (at a 10.95% ROE) in 2020. However, given the new headroom in rates from a lower revenue requirement for a lower tax rate, management filed for an initial $69.8M of recovery starting Aug 2018 for investments through Dec 2015 but deferred through Dec 2017. Going forward, the company had also requested revenue requirement increases to $90.1M in Aug 2020 and $108M in Aug 2022 for additional investment. A 9/4/18 audit returned virtually no red flags (only $200k), but the settlement reached on Oct 25, 2018 includes a $74.5M annual increase. The CEP case is one to watch as this is the first filing of its kind and seeks recovery of a $400M regulatory asset.
- **Columbia Gas of Maryland ratecase and IRIS filing - Settlement was filed on 7/31/18 with an order expected by 4Q18.** On April 13th, Columbia Gas of Maryland (CMD) filed with the Maryland Public Service Commission (PSC) for a $6M gas rate increase at a 10.95% ROE, 52.06% equity ratio, and a $113.5M average ratebase for a test period ending April 30th. The PSC is required to act by Oct. 29th. On April 16th, CMD also filed with the PSC for an updated Strategic Infrastructure Development and Enhancement (STRIDE) plan for 2019 through 2023 with its infrastructure replacement and improvement surcharge application (IRIS) calling for an incremental $4.3M revenue requirement increase, effective Jan 1, 2019, at a 9.7% ROE and $34.2M IRIS ratebase. Under the STRIDE plan, utilities in MD may recover related costs through the annual updated limited issue IRIS rider. Under the new STRIDE plan, CMD seeks to further accelerate the replacement of outdated “priority pipe” to 42.5 miles per year vs. the previously approved 37.8 miles per year for CMD’s 2014-2018 STRIDE plan.
- **Ratecase filing and settlement in Massachusetts withdrawn; no new filing expected in 2019**. This isn’t surprising given the attention now focused on restoration efforts after the recent explosions and fires in Lawrence, North Andover, and Andover. For details on the original filing, see our 9/13 note, ‘Massachusetts Explosions; Story Developing’.
- **Columbia Gas of Massachusetts ratecase filing.** On April 13th, Columbia Gas of Massachusetts (CMA) filed with the Massachusetts Dept. of Public Utilities (DPU) for a $43.8M gas rate increase at a 10.95% ROE, 53.25% equity ratio, and a $769.8M year-end ratebase for a calendar-2017 test period. The net annual rate increase (excluding $19.7M in infrastructure trackers from its Gas System Enhancement Plans) is $24.1M. A DPU decision is expected by Feb. 28, 2019 with new rates effective Mar. 1, 2019. Additionally on April 30th, the DPU approved CMA’s 2018 Gas System Enhancement Plan allowing for recovery of ~$84M incremental 2018 capital investments, effective May 1, 2018.
- **Columbia Gas of Pennsylvania rate increase request.** On Mar. 16th, Columbia Gas of Pennsylvania (CPA) filed with the Pennsylvania Public Utilities Commission (PUC) for a $46.9M rate increase for gas pipeline upgrade work. CGP currently plans to spend $215M in 2018 on upgrades to aging pipeline infrastructure. A $27M settlement was reached on Aug 31 with an order expected in Nov and rates effective in Dec 2018.
- **Remain on track for $30B in infrastructure investments, seven-year modernization programs.** NI has identified ~$30B in long-term infrastructure investment opportunities, with $20B from gas distribution operations and $10B from electric operations. After legal challenges, a filing this year was withdrawn that would have extended the 7-year NIPSCO Gas System Modernization Plan (TDSIC) past 2020 (a new deal is in the works, or perhaps the company will simply file regular ratecases for recovery rather than a rider). However, under the IURC-approved seven-year electric infrastructure modernization program remains in effect for now, and

NIPSCO expects $1.25B in electric infrastructure investments to be made through 2022.

- **From our 11/1 NI 3Q17 Earnings Note: 2018E Capex forecast is a little higher than expected.** Positive on the margins with $1.7B-$1.8B forecast vs. maintained longer-term guidance for $1.6B-$1.8B annually from 2019-2020. Continue to note short regulatory lag periods with 75% of capital starting recovery within 12 months or less.

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13 February 2019

Figure 2: NI Major Gas and Electric Utility Infrastructure Programs

	Authorized ROEs	Ratebase (YE 2017)	Total Identified Infrastructure Investments	Modernization Programs	Annual Modernization	Recovery Mechanism	Notes
NIPSCO Gas							
Columbia Gas Maryland	9.70%	$107M	$0.2B	$0.1B	$16-$21M	Tracked	Settlement filed 7/31/18 for a $3.7M annual increase vs the $6M requested Increase filed on 4/13/2018. Order Expected: 4Q2018
Columbia Gas Massachusetts	9.55%	$792M	$1.4B	$0.7B	$80-$120M	Tracked	Requested Increase: $24.1M, net of infrastructure trackers; filed: 4/13/2018 Settlement withdrawn Sept 19; refiling expected in 2019
NIPSCO Gas Base Rates	9.90%	$1.2B	$4.5B			Base rates	First base rate request in 25 years filed 9/27/17. Inclusive of various tracker programs, had sought annual revenue increase of $138.1M based on 10.7% ROE on 46.02% equity on $1.5B ratebase (yearend 2018), with ~half for higher depreciation rates. Settlement Filed for $107.3M on 4/20/2018 and was approved Sept 19 as filed. Rates effective Oct 1.
NIPSCO Gas System Modernization Program				$3.9B	$135-$160M	Tracked with TDSIC	7 Year plan update filing 4/2/18. Investment of ~$1.25B. Plan was withdrawn after legal challenges - NI likely to file forward looking ratecases going forward. Current plan expires May 2020.
NIPSCO Gas - PHMSA	Recovery of Federally Mandated Pipeline Safety Compliance Plan Settled as part of Base Rate Case						Filed: 11/8/2017 Settled: 4/20/2018. Settlement approved 9/19/18.
Columbia Gas Pennsylvania	Settlement - not specified	$1.5B	$3.0B	$1.8B	$210-$250M	Ratecase (Fwd Test Year)	Requested Increase: $46.9M Filed: 3/16/2018. Settlement filed for $27M on Aug 31 with approval expected in Nov and rates effective in Dec 2018.
Columbia Gas of Ohio (CEP)							Establishment of Deferral Recovery Rider for investments not covered through the IRP tracker. Filed 12/1/17 for initial annual revenue increase $69.8M. Audit in Sept revealed no major issues (only $200k flagged). Settlement filed 10/25/18 for $74.5M annual increase.
Columbia Gas of Ohio (IRP)	Settlement - not specified	$2.5B	$4.1B	$3.4B	$220-$270M	Tracked	Settlement for IRP 5-year extension through Dec 2022 filed 8/18/17 with approval on 1/31/2018
Columbia Gas Virginia	Settlement - not specified	$669M	$0.6B	$0.3B	$30-$40M	Tracked	Base ratecase settlement approved in Mar 2017. Filed again in Aug 2018 for a $22M increase, including $8M of tracker roll-in. Order expected in 2H2019 with rates effective 2/1/19 subject to refund.
Columbia Gas Kentucky	Settlement - not specified	$259M	$0.8B	$0.4B	$25-$45M	Tracked	
NIPSCO Electric							
Integrated Resource Plan (IRP)	The 2018 IRP calls for retirement of nearly 80 percent of NIPSCO's coal-fired generation fleet by 2023 and the remaining coal-fired units by 2028. Replacement options point toward lower-cost renewable energy resources such as wind, solar and battery storage technology. The prior 2016 IRP had called for retiring 50% of coal-fired generation fleet by end of 2023, including Bailly 7/8 (MISO approved closure by mid-2018) and R.M. Schahfer Units 17 and 18.						Stakeholder process initiated Mar. 2018; third stakeholder meeting held 7/24/18. 2018 IRP submitted to IURC Oct 31, 2018
Electric System Modernization (20+ years)	9.975%		$4.2B	$1.3B	$135-$235M	Tracked - TDSIC	Seven-year ~$1.25B electric system modernization program in progress 2016-2022 at $175M-$225M/yr. Filed semi-annual update TDSIC 4 on 7/31/18 for $77M of investment made from Dec 2017-May 2018. Settlement filed 10/25/18 with an order expected in 4Q18.
Environmental Compliance (~7 years) at Michgan City, RM Schahfer stations	Address requirements under U.S. EPA's Effluent Limitation Guidelines (ELG) and Coal Combustion Residuals (CCR) rules		$0.4B		$10-$90M	Tracked - FMCA	Costs to be recovered through Federally Mandated Cost Adjustment (FMCA) mechanism. CCR $193M settlement approved 12/13/17. Construction underway, expected completion by YE18. ELG moved to a later proceeding.
Transmission Project I (100-mi, 345-kV Reynolds-Topeka; 2H18)			$350-$400M		$50-$120M	FERC Formula	Completed and in-service June 2018
Transmission Project II (65-mi, 765-kV Greentown-Reynolds Partnership; 2H18)			NI: $175-$200M		$25-$50M	FERC Formula	Completed and in-service June 2018

Source: Company data, Credit Suisse estimates

- **Valuation.** Our TP is unchanged at $29 as lower 2020 earnings are offset by a higher peer group P/E and 50% credit for reversal of temporary earnings hits in 2019/20 for pension, SMS delayed recovery, and Massachusetts incident carrying cost.

Figure 3: NI - Valuation

		BASE CASE			
	2020 EPS	**Prem / Disc**	**Effective P/E**	**Equity**	**Equity / Sh**
Electric	$0.56	1.5x	19.3x	$4,067	$10.84
Gas	$1.06	1.5x	20.3x	$8,074	$21.52
Reversal of negative drag	$0.09	1.5x	20.3x	$647	$1.73
Other	($0.24)		19.8x	($1,774)	($4.73)
Total EPS	**$1.38**			**$11,015**	**$29.00**
Diluted Shares Outstanding					375.2
Dividend					$0.79
Implied Yield					2.7%
Current Yield					2.9%
Implied P/E					21.0x
Prem / (Disc) To Group					11.5%
Upside/ (Downside) to Current Price					8.3%

Source: Company data, Credit Suisse estimates

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Companies Mentioned *(Price as of 13-Feb-2019)*

Eversource Energy (ES.N, $70.06)
NiSource Inc. (NI.N, $26.77, OUTPERFORM, TP $29.0)

Disclosure Appendix

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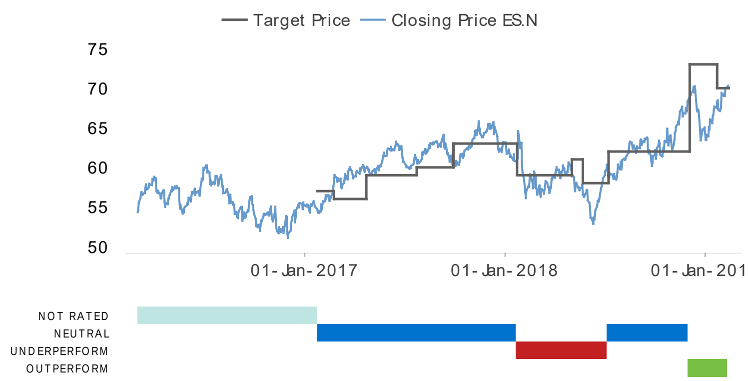
3-Year Price and Rating History for Eversource Energy (ES.N)

ES.N Date	Closing Price (US$)	Target Price (US$)	Rating
02-Mar-16	54.34		NR
24-Jan-17	54.55	57.00	N *
23-Feb-17	58.12	56.00	
23-Apr-17	59.80	59.00	
24-Jul-17	60.74	60.00	
29-Sep-17	60.44	63.00	
23-Jan-18	61.12	59.00	U
03-May-18	58.87	61.00	
23-May-18	56.54	58.00	
09-Jul-18	58.46	62.00	N
04-Dec-18	68.95	73.00	O
23-Jan-19	68.30	70.00	

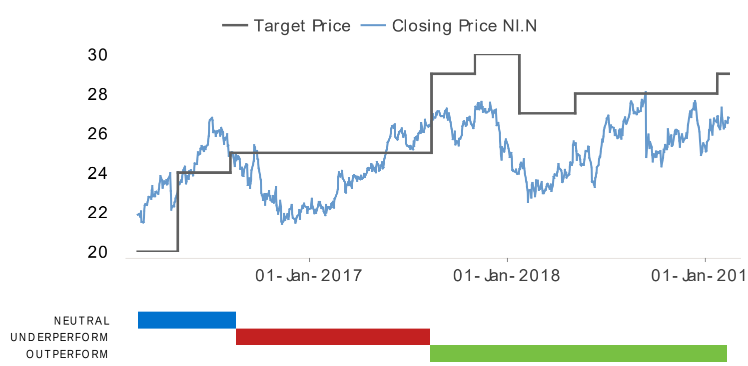
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
19-Feb-16	21.87	20.00	N
03-May-16	23.11	24.00	
08-Aug-16	24.81	25.00	
19-Aug-16	24.62	25.00	U
27-Jun-17	25.88		*
14-Aug-17	26.64	29.00	O
02-Nov-17	26.94	30.00	
23-Jan-18	24.17	27.00	
06-May-18	25.41	28.00	
23-Jan-19	26.83	29.00	

** Asterisk signifies initiation or assumption of coverage.*



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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and Asia stocks (excluding Japan and Australia), ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

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Neutral/Hold*	38%	(28% banking clients)
Underperform/Sell*	12%	(20% banking clients)
Restricted	2%	

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Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: We arrive at our $29 target price for NI by applying an effective 19.3x and 20.3x 2020 P/E multiple to the electric and gas utilities, respectively, representing a 1.5x premium to the peer group average to reflect the constructive regulatory environments in the jurisdictions that NI operates in. Our Outperform rating reflects a forecasted total return that is above the group average.

Risk: Risks to our $29 target price and Outperform rating are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particulary in the non-decoupled jurisdictions, 7) weather risk, and 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk.

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13 February 2019

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February 13, 2019 | Equity Research

WELLS FARGO SECURITIES

NiSource Inc.

NI: Lowering Estimates Ahead Of YE Report

Outperform / $29

Natural Gas LDCs
Market Weight

Earnings Estimate Revised Down

- Summary. We are lowering our post-'18 EPS estimates by $0.02-0.04 to better reflect near-term carrying costs on expenditures related to the Greater Lawrence explosions, along with recent financing activities. Our new/old '19-21E EPS are $1.31/1.35, $1.40/1.43 & $1.47/1.49. Based on our improved understanding of the insurance process, it is likely to take 12+ months to fully recover approved costs. Further, consistent with the pattern of other major utility incidents, we expect upward revisions to the total cost estimate relative to the 11/1/18 update, which included $135-165mm of capex, third-party claims of $415-450mm and other expenses of $180-210mm. We expect total expenditures could be $1B+. While NI previously disclosed $800mm of insurance coverage, it is our understanding that the company has separate property insurance (gas portion likely much smaller than the $800mm casualty coverage, but still material).

  NI is scheduled to report YE'18 results on 2/20. Of note, we believe shares already reflect downwardly revised expectations for '19E EPS based on our conversations with investors and the recent under-performance (shares have underperformed the S&P Utilities by over 3% month-to-date).

$ EPS	2017A	2018E Curr.	2018E Prior	2019E Curr.	2019E Prior
Q1 (Mar.)	0.71	0.77 A	NC	NE	
Q2 (June)	0.10	0.07 A	NC	NE	
Q3 (Sep.)	0.07	0.10 A	NC	NE	
Q4 (Dec.)	0.32	0.35	NC	NE	
FY	1.20	1.29	NC	1.31	1.35
CY	1.20	1.29		1.31	
FY P/EPS	22.3x	20.8x		20.4x	
Rev.(MM)	4,875	4,973		5,130	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile
Net Operating Earnings

Ticker	NI
Price Target/Prior:	$29/NC
Price (02/13/2019)	$26.77
52-Week Range:	$22-29
Shares Outstanding: (MM)	363.0
Market Cap.: (MM)	$9,717.5
S&P 500:	2,753.03
Avg. Daily Vol.:	2,848,990
Dividend/Yield:	$0.78/2.9%
LT Debt: (MM)	$7,094.5
LT Debt/Total Cap.:	51.3%
ROE:	9.0%
3-5 Yr. Est. Growth Rate:	5.0%
CY 2019 Est. P/EPS-to-Growth:	4.1x
Last Reporting Date:	11/01/2018 Before Open

NC = No Change
Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Price Target

Price Target: $29 from NC

Our price target is based on a P/E multiple analysis (~21X our '20E EPS of $1.40). Risks include material shareholder liabilities associated with the 9/13/18 MA gas incidents, unfavorable regulatory developments, a potential rise in interest rates (financing costs and sector valuation), and lower than expected sales growth.

Investment Thesis

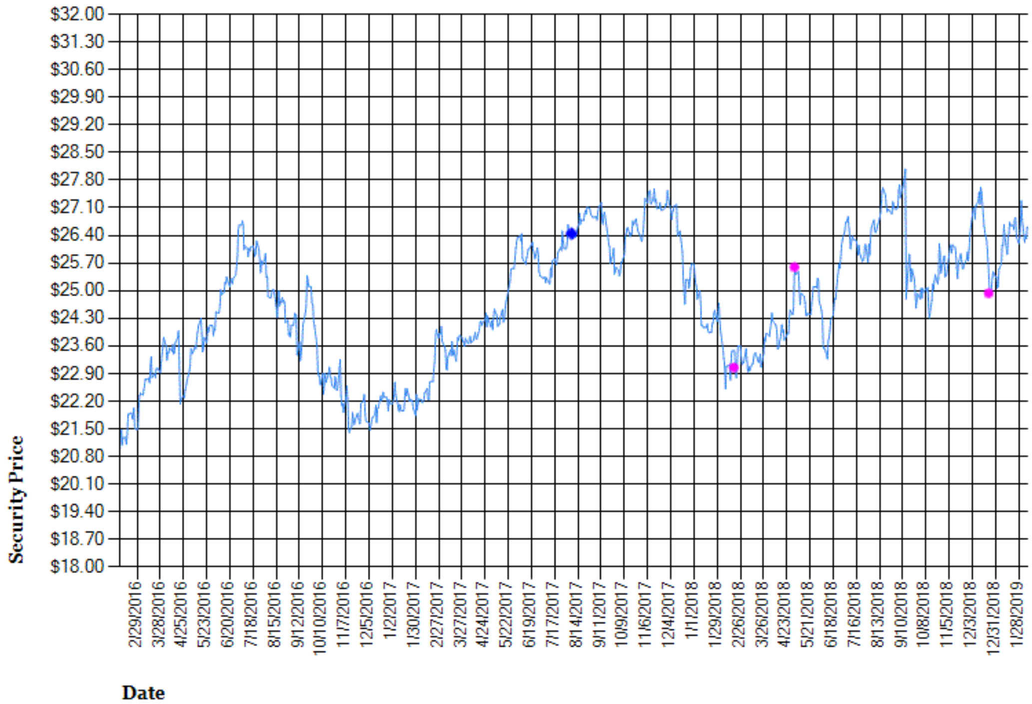
We rate shares Outperform. We believe the current valuation overly discounts the risks associated with the MA gas fire/explosion incidents. Further, we are attracted to NI's robust capital plan, constructive regulatory treatment, prudent strategy, and shareholder-friendly management team.

Company Description

Based in Merrillville, Indiana, NiSource, Inc. is a holding company with regulated gas (64%) and electric (36%) utility operations across seven states. The company's Gas Distribution Operations serve 3.4 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. The Electric Operations consist of a vertically-integrated utility serving nearly 500 thousand customers in northern Indiana. On July 1, 2015, NiSource completed the separation of Columbia Pipeline Group (CPG) from NiSource via the distribution of one share of CPG common stock for every share of NI common stock.

Required Disclosures

NiSource Inc. (NI) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
	8/9/2017		Akers				
◆	8/9/2017	26.32	1	30	NE	NE	26.38
●	2/20/2018	22.99	1	26	NE	NE	23.02
●	5/3/2018	25.38	1	28	NE	NE	25.57
●	12/24/2018	26.05	1	29	NE	NE	24.89

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- □ Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Additional Information Available Upon Request

I certify that:
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- Wells Fargo Securities, LLC or its affiliates has a significant financial interest in NiSource Inc..

NI: Risks include material shareholder liabilities associated with the 9/13/18 MA gas incidents, unfavorable regulatory developments, a potential rise in interest rates (financing costs and sector valuation), and lower than expected sales growth.

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2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING
O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING
V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: February 13, 2019

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J.P.Morgan

North America Equity Research
01 March 2019

NiSource Inc.

Model Update

Overweight

NI, NI US

Price: $26.91

Price Target: $29.00
Previous: $28.00

We are updating our model to account for Q4 earnings results. Please see changes below.

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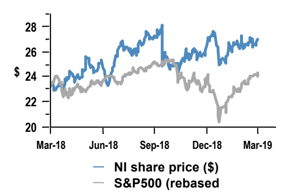
Price Performance



	YTD	1m	3m	12m
Abs	6.2%	0.4%	1.9%	16.1%
Rel	-5.6%	-3.2%	0.3%	11.4%

NiSource Inc. (NI;NI US)

Year-end Dec ($)	FY17A	FY18A	FY19E (Prev)	FY19E (Curr)	FY20E (Prev)	FY20E (Curr)	FY21E (Prev)	FY21E (Curr)
Revenue ($ mn)	4,905	5,084	4,955	5,263	5,070	5,374	5,202	5,512
Adj. EBITDA ($ mn)	1,531	1,549	1,658	1,698	1,750	1,785	1,868	1,896
EBITDA margin	31.2%	30.5%	33.5%	32.3%	34.5%	33.2%	35.9%	34.4%
Adj. net income ($ mn)	398	463	512	490	559	537	617	588
Adj. EPS ($)	1.21	1.30	1.35	1.29	1.42	1.38	1.52	1.47
BBG EPS ($)	1.19	1.28	-	1.32	-	1.40	-	1.51
Reported EPS ($)	1.21	1.30	1.35	1.29	1.42	1.38	1.52	1.47
DPS ($)	0.70	0.78	0.83	0.80	0.88	0.85	0.95	0.92
Dividend yield	2.6%	2.9%	3.1%	3.0%	3.3%	3.2%	3.5%	3.4%
Adj. P/E	22.3	20.7	20.0	20.8	18.9	19.6	17.6	18.3

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	369
52-week range ($)	28.11-22.74
Market cap ($ mn)	9,929.79
Exchange rate	1.00
Free float(%)	99.6%
3M - Avg daily vol (mn)	3.18
3M - Avg daily val ($ mn)	84.1
Volatility (90 Day)	20
Index	S&P 500 - NYSE
BBG BUY|HOLD|SELL	7|9|0
Date of price	01-Mar-19
Price target end date	31-Dec-19

See page 4 for analyst certification and important disclosures.

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Investment Thesis, Valuation and Risks

NiSource Inc. *(Overweight; Price Target: $29.00)*

Investment Thesis

We see an overhang for NI shares persisting following the September MA incident, and do not rule out the possibility of additional headline risk before a recovery. The number of people impacted along with the historically higher-risk MA political operating environment are differentiating negatives. These factors put the accident at the higher-end of the risk spectrum for recent gas infrastructure incidents and make it difficult to quantify ultimate shareholder exposure. However we see shares as pricing in a cushion for both direct costs and ongoing risk moving forward. We view one of the stronger growth stories in our coverage as delayed but still intact, and the core IN, PA and OH jurisdictions as unaffected. Patience is required for at least 6 more months as the situation takes steps toward full containment, and NI's operational history is scrutinized, but we nonetheless reiterate our OW rating.

Valuation

We raise our December 2019 price target to $29/share, from prior $28. Our price target is based on a sum-of-the-parts analysis and uses our 2020 electric and gas segment EPS forecasts. We value the gas segment using a 21.7x P/E multiple, a discount to gas utility peers due to growth prospect offset by lack of M&A takeout potential and fine risk from the MA gas accident, and we value the electric segment using an 20.3x P/E multiple, a modest premium to pure regulated electric utility peers due to favorable rate construct in IN. The higher price target is due to increased peer average multiples versus prior.

Risk to Rating and Price Target

- Regulated electric transmission and distribution earnings are vulnerable to mild weather, as regulated revenues are calculated based on energy volumes sold. Extreme or mild temperatures may cause future earnings to differ materially from our current forecasts.
- Achievement of NiSource's long-term rate base and EPS CAGR targets are heavily dependent on robust capital investments, regulatory support, and favorable ratemaking mechanism. Any deferral of spending could put the company at risk of falling short of the LT rate base and earnings growth CAGR in any one year.
- Regulated electric and gas utilities are subject to federal and state regulations, including determinations of allowed revenues. Positive or negative changes to the regulatory environments may cause future earnings potential to differ materially from current expectations.

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North America Equity Research
01 March 2019

J.P.Morgan

NiSource Inc.: Summary of Financials

Income Statement - Annual	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	**4,905**	**5,084**	**5,263**	**5,374**	**5,512**
COGS	(1,519)	(1,759)	(1,760)	(1,760)	(1,760)
Gross profit	**3,386**	**3,325**	**3,503**	**3,614**	**3,752**
SG&A	(1,846)	(1,794)	**(1,845)**	**(1,869)**	**(1,896)**
Adj. EBITDA	**1,531**	**1,549**	**1,698**	**1,785**	**1,896**
D&A	(570)	(600)	(626)	(652)	(679)
Adj. EBIT	**961**	**949**	**1,072**	**1,132**	**1,217**
Net Interest	(353)	(353)	(357)	(353)	(369)
Adj. PBT	**608**	**596**	**715**	**780**	**848**
Tax	(210)	(118)	(170)	(188)	(205)
Minority Interest	0	(15)	(55)	(55)	(55)
Adj. Net Income	**398**	**463**	**490**	**537**	**588**
Reported EPS	1.21	1.30	1.29	1.38	1.47
Adj. EPS	**1.21**	**1.30**	**1.29**	**1.38**	**1.47**
DPS	**0.70**	**0.78**	**0.80**	**0.85**	**0.92**
Payout ratio	58.0%	60.0%	61.8%	61.7%	62.2%
Shares outstanding	329	357	379	390	399

Income Statement - Quarterly	1Q19E	2Q19E	3Q19E	4Q19E
Revenue	**1,820**	**1,040**	**906**	**1,498**
COGS	(725)	(313)	(222)	(500)
Gross profit	**1,095**	**726**	**684**	**998**
SG&A	(480)	(440)	(418)	(507)
Adj. EBITDA	**625**	**296**	**276**	**501**
D&A	(154)	(156)	(157)	(159)
Adj. EBIT	**471**	**140**	**119**	**343**
Net Interest	(90)	(89)	(90)	(88)
Adj. PBT	**380**	**52**	**28**	**255**
Tax	(91)	(12)	(6)	(61)
Minority Interest	(14)	(14)	(14)	(14)
Adj. Net Income	**276**	**26**	**8**	**180**
Reported EPS	0.74	0.07	0.02	0.47
Adj. EPS	**0.74**	**0.07**	**0.02**	**0.47**
DPS	**0.20**	**0.20**	**0.20**	**0.20**
Payout ratio	27.1%	290.7%	925.8%	42.6%
Shares outstanding	374	377	380	383

Balance Sheet & Cash Flow Statement	FY17A	FY18A	FY19E	FY20E	FY21E
Cash and cash equivalents	38	121	0	0	0
Accounts receivable	899	1,059	1,059	1,059	1,059
Other current assets	826	876	956	1,042	1,127
Current assets	**1,763**	**2,055**	**2,015**	**2,100**	**2,186**
PP&E	14,360	15,543	16,520	17,582	18,617
Other non current assets	3,839	4,206	3,365	3,403	3,453
Total assets	**19,962**	**21,804**	**21,900**	**23,085**	**24,256**
Short term borrowings	1,206	1,977	802	1,100	1,050
Payables	626	884	884	884	884
Other short term liabilities	1,347	1,176	1,326	1,676	1,126
Current liabilities	**3,178**	**4,037**	**3,012**	**3,660**	**3,059**
Long-term debt	7,512	7,105	7,525	7,375	8,475
Other long term liabilities	4,951	4,911	5,081	5,269	5,474
Total liabilities	**15,642**	**16,053**	**15,618**	**16,304**	**17,009**
Shareholders' equity	4,320	5,751	6,282	6,781	7,247
Minority interests	-	-	-	-	-
Total liabilities & equity	**19,962**	**21,804**	**21,900**	**23,085**	**24,256**
BVPS	**12.82**	**15.44**	**16.32**	**17.16**	**17.97**
y/y Growth	*1.8%*	*20.5%*	*5.7%*	*5.2%*	*4.7%*
Net debt/(cash)	8,680	8,962	8,328	8,476	9,525
Cash flow from operating activities	**742**	**540**	**2,047**	**1,253**	**1,336**
o/w Depreciation & amortization	570	600	626	652	679
o/w Changes in working capital	(57)	110	(80)	(86)	(86)
Cash flow from investing activities	**(1,809)**	**(1,926)**	**(1,604)**	**(1,714)**	**(1,714)**
o/w Capital expenditure	(1,696)	(1,818)	(1,604)	(1,714)	(1,714)
as % of sales	*34.6%*	*35.8%*	*30.5%*	*31.9%*	*31.1%*
Cash flow from financing activities	**1,069**	**1,469**	**611**	**163**	**428**
o/w Dividends paid	(229)	(273)	(304)	(332)	(367)
o/w Net debt issued/(repaid)	1,113	75	570	200	550
Net change in cash	**2**	**83**	**1,054**	**(298)**	**50**
Adj. Free cash flow to firm	**(723)**	**(995)**	**715**	**(193)**	**(98)**
y/y Growth	*61.8%*	*37.6%*	*(171.9%)*	*(127.0%)*	*(49.3%)*

Ratio Analysis	FY17A	FY18A	FY19E	FY20E	FY21E
Gross margin	69.0%	65.4%	66.6%	67.3%	68.1%
EBITDA margin	31.2%	30.5%	32.3%	33.2%	34.4%
EBIT margin	19.6%	18.7%	20.4%	21.1%	22.1%
Net profit margin	8.1%	9.1%	9.3%	10.0%	10.7%
ROE	9.5%	9.2%	8.1%	8.2%	8.4%
ROA	2.1%	2.2%	2.2%	2.4%	2.5%
ROCE	5.1%	5.5%	5.6%	5.8%	5.8%
SG&A/Sales	37.6%	35.3%	35.1%	34.8%	34.4%
Net debt/equity	2.0	1.6	1.3	1.2	1.3
P/E (x)	22.3	20.7	20.8	19.6	18.3
P/BV (x)	2.1	1.7	1.6	1.6	1.5
EV/EBITDA (x)	9.8	10.1	9.1	9.0	8.8
Dividend Yield	2.6%	2.9%	3.0%	3.2%	3.4%
Sales/Assets (x)	0.3	0.2	0.2	0.2	0.2
Interest cover (x)	4.3	4.4	4.8	5.1	5.1
Operating leverage	82.3%	(33.9%)	368.2%	267.1%	289.4%
Revenue y/y Growth	8.9%	3.7%	3.5%	2.1%	2.6%
EBITDA y/y Growth	6.1%	1.1%	9.6%	5.1%	6.2%
Tax rate	34.6%	19.7%	23.8%	24.1%	24.2%
Adj. Net Income y/y Growth	13.3%	16.6%	5.7%	9.5%	9.5%
EPS y/y Growth	10.7%	7.7%	(0.5%)	6.3%	7.0%
DPS y/y Growth	9.4%	11.4%	2.6%	6.0%	8.0%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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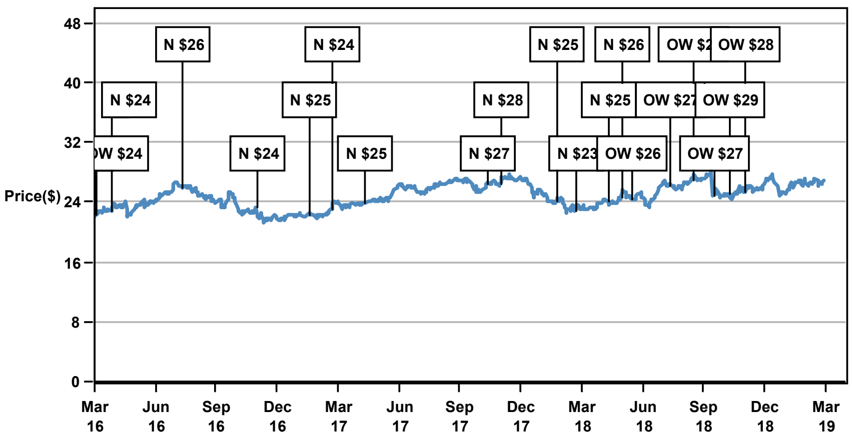
NiSource Inc. (NI, NI US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Share Price ($)	Price Target ($)
04-Mar-16	OW	22.34	24.00
29-Mar-16	N	22.92	24.00
13-Jul-16	N	25.86	26.00
01-Nov-16	N	23.26	24.00
18-Jan-17	N	22.35	25.00
22-Feb-17	N	22.99	24.00
11-Apr-17	N	23.74	25.00
12-Oct-17	N	26.42	27.00
01-Nov-17	N	26.37	28.00
24-Jan-18	N	24.17	25.00
22-Feb-18	N	22.80	23.00
10-Apr-18	N	24.15	25.00
02-May-18	N	24.52	26.00
17-May-18	OW	24.40	26.00
11-Jul-18	OW	26.24	27.00
15-Aug-18	OW	26.96	28.00
17-Sep-18	OW	24.79	27.00
09-Oct-18	OW	25.05	29.00
01-Nov-18	OW	25.36	28.00

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IB clients*	53%	47%	37%
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US Electric Utilities & IPPs

First Thoughts on 1Q: ETR nuke deals, NI cost hikes, SO affirmation, FTS progress

Earnings Review

Bank of America Merrill Lynch

Equity | 01 May 2019

SO: No change in Vogtle costs is positive

The Vogtle Units 3 & 4 rebaselining led to *no change* in cost estimates, and a reaffirmation of the in-service regulatory dates of November 2021 and November 2022 for Units 3 & 4 respectively. Management noted 6 months of margin to November in-service dates which implies a ~2 month slip off the accelerated April in-service dates. We believe this should have been largely expected by the street and still see the update as positive given wider concerns on Vogtle costs. Slides note earned above 100khrs should provide margin to regulatory approved in-service dates, though the aggressive plan calls for a ramp to 160k earned hours in late summer '19 through spring '20. Management is currently operating at 130k earned hours YTD, and we look for further commentary on the call to discuss execution against this updated timeline. Bottom line, we still see the update as positive to future de-risking of SO shares, though reiterate our Neutral rating giving ongoing project risk.

NI: Quarter comes in strong as Mass cost continues to rise

NI posted 1Q19 results of $0.82/sh, beating our $0.80/sh estimate and consensus of $0.77/sh. More importantly, the company provided an update on its expected costs related to the MA incident, with total costs rising ~19% sequentially, following a ~70% increase in 4Q18. While we recently downgraded NI to Neutral based on expectations for costs estimates to rise another 10%, the increase was greater than we expected. Third-party claims, in particular rose ~27% (+$212mn), with replacement of the gas system and other costs rising 9% (+$20mn) and 8% (+$28mn), respectively. Moreover, commentary in the slide deck suggested that casualty insurance claims are expected to significantly increase as claims are filed with insurers, yet another cautious data point. With total estimated costs exceeding insurance levels of ~$1.1b, we continue to believe it will be an overhang on shares and expect to see a difficult regulatory environment, particularly around the MA Department of Public Utilities' definition of prudent vs. imprudent spending. We see a risk to eventual recovery. We maintain our Neutral rating; we expect a cautious reaction today to the update.

ETR: Miss due to weather, cash flows slightly lower

ETR reported 1Q19 results of $0.82/sh vs. our $0.85/sh estimate with the miss largely due to weather as unfavorable conditions was a headwind of $0.12/sh, exceeding our expectations. ETR adjusted EBITDA at Entergy Wholesale Commodities (EWC) did not change, including retention/severance payments, nor were there any material updates to EWC capital plan despite the commitment to sell down its Indian Point units to Holtec in '21. We flag the -$240 Mn Net Loss now recorded in '21 appears non-cash. We emphasize that almost all other variables have not changed. We see the mere affirmation of previous outlook inclusive of change in ownership (including retention initiatives) as itself a small positive. Meanwhile we see FFO/debt at 11.1% in 1Q, meaningfully below its'19 target but we see this likely as a timing issue due to weather and potentially from the unplanned outage at Indian Point (and exclusive of the return of unprotected accumulated deferred income taxes - ~15% on an adjusted basis). Focus on upside opportunity from TX legislation in coming weeks & potential benefits to earned ROEs as well as longer-dated opportunities around de-risking. We emphasize the process to sell down IP appears to have been quite competitive. Maintain BUY.

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Timestamp: 01 May 2019 08:52AM EDT

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FTS: In-line print: Focus on execution

FTS announced in-line results $0.74 EPS vs. Cons $0.74 / BofAML $0.73 as energy infra and share dilution partially offset core ratebase growth at utilities. We expect management to highlight continued execution on its $17.3Bn capital plan this year, with wind announcements in AZ (Osa Grande) adding $150mn of incremental capital, and the recent leave-to-construct application for the Wataynikaneyap project approved by the OEB. We look for further updates on large capital projects, such as pipeline spend related to the Woodfibre LNG project. We maintain our Buy rating on shares.

Table 1: Tickers

BofAML Ticker	Bloomberg ticker	Company name	Price	Rating
ETR	ETR US	Entergy Corp.	US$ 96.9	B-1-7
FTS	FTS US	Fortis	US$ 37	B-1-7
YFTS	FTS CN	Fortis	C$ 49.52	B-1-7
NI	NI US	NiSource Inc	US$ 27.78	B-2-7
SO	SO US	Southern Company	US$ 53.22	B-2-7

Source: BofA Merrill Lynch Global Research

Price objective basis & risk

Entergy (ETR)

Our $107 PO is SOTP based. We assign P/E multiples [peer multiple of 18.9x] for 2021E on most segments in line with peer multiples due to similar growth], and strip out 50% of the holdco senior notes. The Merchant business is also added as a DCF (10% discount rate, no terminal value). Both electric peer P/E multiple is grossed up for a year to 2019 by 5% to reflect capital appreciation across the sector.
Downside risks: 1) Regulatory outcomes or earned ROE's could worsen, 2) Rate making mechanisms could change in the future, 3) Failure to get trackers or ROE adjustment mechanisms could hurt realized ROE, 4) weather can affect operations and earnings, 5) Interest rate risk affects cost of capital, 6) Consumer advocates or utility staff may focus more on issues that challenge the company ROE, 7) ETR has had safety issues in the past, which have affected regulatory relationships and company liabilities, 8) Exit from the competitive business could present unforeseen challenges.

Fortis (YFTS / FTS)

Our PO is C$55 / US$41.67. We assign a 2021E forward base peer P/E multiple of 18.3x to the US utility business with a premium of 1.0x for UNS Energy (AZ), 2.0x for ITC, and an in-line multiple for Central Hudson (NY). Our premium in AZ represents upside in renewable-driven capital spend as well as positive load growth in AZ. Our premium for ITC is for above average ROEs and our expectation for a reacceleration of capital spend. For Central Hudson we apply an inline multiple seeing NY regulatory environment as challenging despite the 3-year rate stay out.
For Canadian utilities, we assign a base peer 2020E P/E multiple of 15.2x. Lower ratebase growth profiles and generally lower authorized equity layers/ROEs, paired with a more challenging regulatory environment, will continue to warrant a discount to US peers, in our view.
At Caribbean utilities, we apply 60% ownership share to the publically listed subsidiaries' current market cap.
We assign a 7.0x EV/EBITDA multiple to FTS's non-regulated segment seeing the contracted nature of its non-regulated segment positively offset lower growth opportunities.

Downside risks include: 1) higher interest rates, 2) lower USD/CAD exchange rate given FTS has substantial unhedged exposure to the US, 3) FTS operates as a highly levered utility HoldCo, and unforeseen events could cause management to issue unforeseen equity, 4) unfavorable regulatory actions, and 5) natural disasters which could impact utility operating systems

NiSource Inc (NI)
Our $30 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2021 forward P/E multiples of 21.1x for gas utilities and 18.9x for electric utilities with a 1.0x premium to reflect NiSource's utilities strong growth rates and earned ROEs. We note that both electric and gas peer P/E multiples are grossed up for a year to 2019 by 5% to reflect capital appreciation across the sector. We then subtract the value of excess holding company debt at the parent not supporting the utility opcos. This multiple is slightly below the LDC peer average but above the small-mid cap electric utility average. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its inline-ish multiple versus peers. We add in Columbia Gas of MA but discount the jurisdiction by 3.0x due to Andover challenges.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, and challenging steel production economics in Indiana.

Southern Company (SO)
We have a $57 PO on SO using SoTP approach. We use a P/E valuation approach on 2021 and use peer multiples 18.0x for electric and 20.1x for gas (with discounts/premiums applied per asset depending on growth/risk). Finally we subtract the 50% of the 2021 parent interest expense multiple by an electric P/E peer multiple to reflect parent leverage supporting the utilities. We subtract the remaining 50% of the debt on a per share basis. Both electric and gas peer P/E multiples are grossed up to 2019 by 5% to reflect capital appreciation across the sector.
Upside risks are: 1) Regulatory outcomes or ROE's could be better than expectations, particularly since exposed to multiple state jurisdictions 2) Additional riders and capital trackers can help the company achieve better than expected ROE, but failure to get riders would hurt SO 3) The natural gas related businesses are relatively new and could prove more or less able to earn an ROE in line with or different from their allowed ROE, 4) high capital forecasts and subsequent earnings streams than our current assumptions Downside risks are: 1) Regulatory outcomes or ROE's could be worse than expectations, particularly since exposed to multiple state jurisdictions, 2) SO has exposure to a number of problematic projects (Vogtle and Kemper) which could shift earnings, 3) Weather patterns could influence usage or natural disasters could affect system reliability 4) Utilities are subject to interest rate risk.

Analyst Certification

We, Julien Dumoulin-Smith and Nicholas Campanella, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Goldman Sachs | Equity Research

1 May 2019 | 8:09AM EDT

NiSource Inc. (NI): First Take: Beats on 1Q2019, focus likely on higher disclosed MA costs

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NiSource Inc. (NI, Buy) reported 1Q2019 operating EPS of $0.82 versus GS/FactSet consensus both at $0.77, with the beat versus our estimate is largely driven by higher gross margin. The company also reiterated its 2019 EPS guidance range of $1.27-$1.33 ($1.30 mid-point) versus GS/consensus of $1.30 and $1.31 respectively, as well as its capital plan of $1.6-$1.7bn in 2019 and $1.6-$2.0bn annually in 2020-2022, respectively. However, we note that management increased their total MA incident cost estimate by $230mn (at the mid-point) to $1.32-$1.38bn, versus around $1.09-$1.13bn prior, which we believe could pressure the stock today.

Key takeaways from NI's release include:

- **During the quarter, NI's electric segment beat GS, reporting $95.4m of operating income vs GS at $90.6mn, with gas also higher at $397.7mn vs GS at $372.3mn.** We note the gas segment beat the GS estimate primarily given higher gross margin, partly offset by higher O&M and D&A at the segment.
- **NI maintained its 2020-2022 annual capital investment guidance of $1.6-$2.0bn ($1.8bn mid-point),** including its 2019 capital spending range to $1.6-$1.7bn. Along with NI's capex plan, the company expects to grow operating EPS and dividend by 5%-7% annually.
- **Management increased the expected third-party claims and other expenses (from the MA incident) by $230mn to $1.32-$1.38bn from $1.09-$1.13bn prior,** with most of the increase coming from third-party claims; NI recorded $235mn recovery recorded as of 1Q19. We note that the company has a $1.1bn in total insurance limit ($800mn casualty, $300mn property). They maintained the previously guided financing plan of no bulk equity and $200-$300mn in annual ATM in 2019/2020, while maintaining 2019/2020 FFO/Debt targets of 14-15%. Our current estimates assume $600mn of equity in 2019-2021, with FFO/debt of 14.0%/14.5%/14.6%.
- **We also highlight two key regulatory updates, with (1) Columbia Gas of MA receiving approval for its Gas System Enhancement Plan (GSEP) and (2) NIPSCO electric reaching a partial settlement in its base rate case.** NI notes $64mn of planned GSEP spending in 2019, consistent with 4Q2018 disclosure.

NIPSCO electric's partial settlement most notably allows for a 9.9% RoE vs current authorized of ~9.98%.

Key topics to monitor on NI's earnings call include (1) additional color on expected timing of MA incident insurance recoveries as well as items driving the increased total cost estimate, (2) updated forecast on debt/equity financing, and (3) management's thoughts on recent efforts in Indiana to place a moratorium on new generation build and any potential impact to NI's plans. We derive our 12-month target price of $29 using a 20x blended P/E multiple on 2020E EPS. Key risks include (1) legal and regulatory risks, (2) system damages related to the recent MA natural gas incident, (3) higher than expected O&M, (4) electricity demand and customer growth, and (5) financing.

NI	12m Price Target: **$29.00**	Price: **$27.78**	Upside: **4.4%**

Buy

Market cap: $9.1bn
Enterprise value: $19.3bn
3m ADTV: $80.6mn
United States
America-Regulated Utilities
M&A Rank: 3

GS Forecast

	12/18	12/19E	12/20E	12/21E
Revenue ($ mn)	5,114.5	5,316.3	5,469.4	5,593.0
EBITDA ($ mn)	725.5	1,725.9	1,864.4	1,975.8
EBIT ($ mn)	125.9	1,065.4	1,156.5	1,217.6
EPS ($)	1.30	1.30	1.43	1.50
P/E (X)	19.3	21.3	19.4	18.6
EV/EBITDA (X)	26.0	12.0	11.5	11.2
FCF yield (%)	(14.3)	(3.1)	(0.9)	(2.4)
Dividend yield (%)	3.1	2.9	3.1	3.2
Net debt/EBITDA (X)	12.4	5.0	5.0	4.9

	12/18	3/19E	6/19E	9/19E
EPS ($)	0.39	0.77	0.04	0.06

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 30 Apr 2019 close.

UBS | Global Research | 1 May 2019

First Read

NiSource Inc.

Puts and Takes

Greater Lawrence Costs Continue to Increase Above Insurance Limit

Despite stronger than expected 1Q19 EPS, management maintained 2019 EPS guidance and noted higher expenses related to Greater Lawrence incident. Third-party claim estimate was increased by over $200MM to $961MM-$1,010MM and other expenses and pipeline replacement expenses increased by ~8-9% (other expenses: $360-$370MM, pipe replacement: $240-$250MM). Notably, insurance limit is $1.1B (casualty of $800MM and property of $300MM) and as a result we see a risk that some expenses will not be recovered. NI continues to expect to make a decision on a filing in MA to recovery replacement expenses in late 2019-early 2020. During the call management said there is a risk that costs could increase further. Notably, in its 10K filing NI noted pending investigations conducted by NTSB, SEC (related to disclosures prior to MA incident), and U.S. Dept of Justice. NI also spent time discussing progress in Indiana on electric side. Wind farms filings are pending at IURC and the decision is expected in 3Q19. Those projects will add nameplate capacity of 800MW by the end of 2020.

Results: NI Reported 1Q19 EPS Above UBSe/Consensus

NI reported 1Q19 EPS of $0.82, above UBSe/Consensus. Adj. gas utilities op income of $397.7MM was above UBSe, driven by higher operating margin, partially offset by higher than expected O&M and D&A. Electric op income was $95.4MM below UBSe, driven by lower operating margin and higher D&A, offset by lower O&M. Interest expense was modestly higher than expected.

Increasing Estimates

We are increasing our 2019/2020/2021 EPS estimates to $1.33/$1.41/$1.49 from $1.31/$1.40/$1.48 to reflect stronger than expected gas utility margins in 1Q19.

Valuation:

We maintain our Neutral rating and our $29 PT. Our price target is based on sum-of-the-parts P/E.

Equities

Americas
Gas Utilities

12-month rating	**Neutral**
12m price target	**US$29.00**
Price	**US$27.78**

RIC: NI.N **BBG:** NI US

Trading data and key metrics	
52-wk range	US$28.82-23.27
Market cap.	US$10.3bn
Shares o/s	369m (COM)
Free float	99%
Avg. daily volume ('000)	834
Avg. daily value (m)	US$22.9
Common s/h equity (12/19E)	US$5.14bn
P/BV (12/19E)	2.0x
Net debt / EBITDA (12/19E)	5.9x

EPS (UBS, diluted) (US$)

	12/19E			
	From	To	% ch	Cons.
Q1	0.70	0.82	17	0.77
Q2E	0.08	0.04	-49	0.08
Q3E	0.03	0.02	-21	0.10
Q4E	0.51	0.46	-11	0.39
12/19E	1.31	1.33	2	1.31
12/20E	1.40	1.41	1	1.40
12/21E	1.48	1.49	1	1.48

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Highlights (US$m)	12/16	12/17	12/18	12/19E	12/20E	12/21E	12/22E	12/23E
Revenues	4,505	4,905	5,095	5,503	5,672	5,873	6,066	6,267
EBIT (UBS)	894	964	942	1,081	1,153	1,232	1,306	1,384
Net earnings (UBS)	351	398	463	506	549	595	635	680
EPS (UBS, diluted) (US$)	1.09	1.21	1.30	1.33	1.41	1.49	1.56	1.64
DPS (US$)	0.66	0.72	0.79	0.84	0.89	0.95	1.01	1.07
Net (debt) / cash	(7,883)	(8,973)	(9,924)	(10,444)	(10,920)	(11,453)	(12,051)	(12,608)

Profitability/valuation	12/16	12/17	12/18	12/19E	12/20E	12/21E	12/22E	12/23E
EBIT margin %	19.8	19.7	18.5	19.6	20.3	21.0	21.5	22.1
ROIC (EBIT) %	8.9	8.6	7.7	8.1	8.1	8.1	8.0	7.9
EV/EBITDA (core) x	9.3	9.8	10.6	10.4	9.9	9.9	9.7	9.2
P/E (UBS, diluted) x	21.3	20.9	19.4	20.8	19.7	18.6	17.8	17.0
Equity FCF (UBS) yield %	(9.0)	(11.6)	(14.5)	(3.7)	(3.6)	8.3	334.6	9027.3
Net dividend yield %	2.8	2.9	3.1	3.0	3.2	3.4	3.6	3.8

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$27.78 on 30 Apr 2019 19:35 EDT

www.ubs.com/investmentresearch

Figure 1: NI 1Q19 Results vs. UBSe

$ in millions	Actual 1Q19	UBSe 1Q19e	% variance	Actual 1Q18	YoY % change
Financial Data					
Revenues	$1,858.9	$1,841.1	*1.0%*	$1,752.2	*6.1%*
Cost of Sales	($680.3)	($748.0)	*(9.1%)*	($724.4)	*(6.1%)*
Operating & Maintenance Expenses	($418.8)	($409.3)	*2.3%*	($402.5)	*4.0%*
Depreciation & Amortization	($175.1)	($161.7)	*8.3%*	($144.7)	*21.0%*
Total Expenses	($681.5)	($654.3)	*4.2%*	($626.1)	*8.8%*
Interest Expense	($95.6)	($94.9)	*0.8%*	($93.1)	*2.7%*
Net Income	$307.7	$260.8	*18.0%*	$259.7	*18.5%*
EPS	$0.82	$0.70	*17.6%*	$0.77	*7.6%*
Diluted Shares Outstanding	$374.7	$372.2	*0.7%*	$338.0	*10.9%*
Dividend Per Share	$0.205	$0.205	*0.0%*	$0.195	*5.1%*
Segment Operating Income					
Gas Distribution	$397.7	$346.3	*14.8%*	$320.2	*24.2%*
Electric Operations	$95.4	$98.3	*(3.0%)*	$86.0	*10.9%*
Total	$497.1	$438.8	*13.3%*	$401.7	*23.7%*
Operating Data					
Customers (000)					
Gas Utilities Customers	3,494.7	3,493.6	*0.0%*	3,467.4	*0.8%*
Electric Customers	472.5	471.5	*0.2%*	469.2	*0.7%*

Source: UBSe, Company Release

Figure 2: NI Summary Model

NiSource Inc (NI) ($ in Millions)	2017	2018	1Q19	2Q19e	3Q19e	4Q19e	2019e	2020e	2021e	2022e	2023e
Operating Data											
Customers (000)											
Gas Utilities Customers	3,455	3,482	3,495	3,460	3,722	3,509	3,509	3,541	3,573	3,606	3,639
Electric Customers	469	472	472	472	473	474	474	477	479	481	484
Income Statement											
Revenues	**$ 4,904.8**	**$ 5,095.1**	**$ 1,858.9**	**$ 1,122.1**	**$ 985.4**	**$ 1,536.5**	**$ 5,502.9**	**$ 5,672.2**	**$ 5,872.7**	**$ 6,066.5**	**$ 6,266.8**
Operating costs & expenses											
(Cost of Sales)	$ (1,518.7)	$ (1,759.5)	$ (680.3)	$ (365.8)	$ (241.0)	$ (528.6)	$ (1,815.7)	$ (1,855.7)	$ (1,918.7)	$ (1,979.0)	$ (2,041.5)
(Operating & Maintenance Expenses)	$ (1,589.2)	$ (1,963.4)	$ (418.8)	$ (382.9)	$ (385.7)	$ (424.1)	$ (1,611.5)	$ (1,637.8)	$ (1,660.5)	$ (1,683.4)	$ (1,706.0)
(Depreciation & Amortization)	$ (570.3)	$ (596.6)	$ (175.1)	$ (172.0)	$ (175.2)	$ (172.5)	$ (694.8)	$ (717.0)	$ (743.6)	$ (771.4)	$ (800.3)
Gain on the Sale of Assets	$ (5.5)	$ (0.7)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
(Other Taxes)	$ (257.2)	$ (275.0)	$ (87.6)	$ (73.3)	$ (63.2)	$ (76.2)	$ (300.3)	$ (308.5)	$ (317.6)	$ (326.2)	$ (335.2)
Equity Earnings in Unconsolidated Affilates	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	**$ (2,422.2)**	**$ (2,835.7)**	**$ (681.5)**	**$ (628.2)**	**$ (624.1)**	**$ (672.8)**	**$ (2,606.6)**	**$ (2,663.3)**	**$ (2,721.7)**	**$ (2,781.0)**	**$ (2,841.6)**
Operating Income By Division											
Gas Distribution	$ 586.9	$ 564.6	$ 397.7	$ 45.8	$ (30.1)	$ 232.4	$ 645.9	$ 687.1	$ 732.6	$ 773.5	$ 817.0
Transmission & Storage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Electric Operations	$ 376.6	$ 381.2	$ 95.4	$ 87.2	$ 147.5	$ 96.2	$ 426.3	$ 466.0	$ 505.6	$ 545.4	$ 585.1
Corporate & Eliminations	$ 0.4	$ (3.9)	$ 4.0	$ (4.5)	$ 2.8	$ 6.5	$ 8.9	$ 1.1	$ (6.0)	$ (12.4)	$ (18.4)
Total Operating Income	**$ 963.9**	**$ 941.9**	**$ 497.1**	**$ 128.6**	**$ 120.2**	**$ 335.2**	**$ 1,081.1**	**$ 1,154.1**	**$ 1,232.3**	**$ 1,306.4**	**$ 1,383.8**
EBITDA	**$ 1,534.2**	**$ 1,538.5**	**$ 672.2**	**$ 300.6**	**$ 295.5**	**$ 507.6**	**$ 1,775.8**	**$ 1,871.1**	**$ 1,975.9**	**$ 2,077.8**	**$ 2,184.1**
Other expenses											
Interest Expense	$ (353.2)	$ (353.3)	$ (95.6)	$ (95.6)	$ (96.7)	$ (99.0)	$ (386.8)	$ (403.0)	$ (423.8)	$ (447.0)	$ (467.7)
Other Expense (Income)	$ (2.8)	$ (96.5)	$ (0.7)	$ -	$ -	$ -	$ (0.7)	$ -	$ -	$ -	$ -
Total Other Expenses	**$ (356.0)**	**$ (449.8)**	**$ (96.3)**	**$ (95.6)**	**$ (96.7)**	**$ (99.0)**	**$ (387.5)**	**$ (403.0)**	**$ (423.8)**	**$ (447.0)**	**$ (467.7)**
Income from Before Income Taxes	**$ 607.9**	**$ 477.1**	**$ 387.0**	**$ 19.2**	**$ 9.8**	**$ 222.4**	**$ 638.4**	**$ 696.0**	**$ 753.4**	**$ 804.3**	**$ 861.0**
Income Taxes	$ (210.4)	$ (13.8)	$ (79.3)	$ (4.0)	$ (2.1)	$ (46.7)	$ (132.1)	$ (146.2)	$ (158.2)	$ (168.9)	$ (180.8)
Effective Tax Rate	34.6%	2.9%	20.5%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Net income	**$ 397.5**	**$ 463.3**	**$ 307.7**	**$ 15.2**	**$ 7.7**	**$ 175.7**	**$ 506.3**	**$ 549.9**	**$ 595.1**	**$ 635.4**	**$ 680.2**
Diluted Weighted Avg Number of Common Units	$ 329.4	$ 356.4	$ 373.4	$ 376.4	$ 379.3	$ 381.9	$ 377.7	$ 388.0	$ 397.5	$ 406.3	$ 414.7
EPS	**$ 1.21**	**$ 1.30**	**$ 0.82**	**$ 0.04**	**$ 0.02**	**$ 0.46**	**$ 1.33**	**$ 1.41**	**$ 1.49**	**$ 1.56**	**$ 1.64**
Balance Sheet Summary											
Assets											
Cash and Cash Equivalents	$ 29.0	$ 121.1	$ 160.8	$ 48.9	$ 62.6	$ 76.4	$ 76.4	$ 131.5	$ 186.6	$ 241.7	$ 296.8
Property, Plant and Equipment	$ 14,359.5	$ 15,542.5	$ 15,741.4	$ 16,001.5	$ 16,258.4	$ 16,518.0	$ 16,518.0	$ 17,551.0	$ 18,657.4	$ 19,836.0	$ 20,985.7
Investment in affiliates	$ 82.0	$ 86.5	$ 134.0	$ 134.0	$ 134.0	$ 134.0	$ 134.0	$ 134.0	$ 134.0	$ 134.0	$ 134.0
Total Assets	**$ 19,961.7**	**$ 21,804.0**	**$ 21,889.9**	**$ 22,038.1**	**$ 22,308.7**	**$ 22,582.1**	**$ 22,582.1**	**$ 23,670.2**	**$ 24,831.7**	**$ 26,065.5**	**$ 27,270.2**
Liabilities & Partners' Capital											
Long Term Debt	$ 7,512.2	$ 7,105.4	$ 7,110.1	$ 8,446.8	$ 8,683.6	$ 8,735.2	$ 8,735.2	$ 9,273.2	$ 9,863.5	$ 10,512.7	$ 11,125.2
Partners' Equity	$ 4,320.1	$ 5,750.9	$ 5,779.6	$ 5,797.4	$ 5,807.1	$ 5,978.5	$ 5,978.5	$ 6,480.8	$ 6,999.1	$ 7,524.8	$ 8,061.9
Total Liabilities & Partners' Capital	**$ 19,961.7**	**$ 21,804.0**	**$ 21,889.9**	**$ 22,038.1**	**$ 22,308.7**	**$ 22,582.1**	**$ 22,582.1**	**$ 23,670.2**	**$ 24,831.7**	**$ 26,065.5**	**$ 27,270.2**
Cash Flow Summary											
Changes in Working Capital	$ (56.5)	$ 110.2	$ (53.0)	$ -	$ -	$ -	$ (53.0)	$ -	$ -	$ -	$ -
Net cash provided by operating activities	$ 742.2	$ 540.1	$ 399.1	$ 205.0	$ 198.8	$ 408.7	$ 1,211.5	$ 1,322.0	$ 1,393.9	$ 1,461.9	$ 1,535.6
Capital Expenditues	$ (1,695.8)	$ (1,818.2)	$ (353.7)	$ (432.1)	$ (432.1)	$ (432.1)	$ (1,650.0)	$ (1,750.0)	$ (1,850.0)	$ (1,950.0)	$ (1,950.0)
Net cash provided by investing activities	$ (1,808.5)	$ (1,926.1)	$ (375.4)	$ (432.1)	$ (432.1)	$ (432.1)	$ (1,671.7)	$ (1,750.0)	$ (1,850.0)	$ (1,950.0)	$ (1,950.0)
Net cash provided by financing activities	$ 1,068.7	$ 1,468.7	$ 16.0	$ 115.2	$ 247.1	$ 37.2	$ 415.5	$ 483.1	$ 511.2	$ 543.2	$ 469.5
Net change in cash	**$ 2.4**	**$ 82.7**	**$ 39.7**	**$ (111.9)**	**$ 13.8**	**$ 13.8**	**$ (44.7)**	**$ 55.1**	**$ 55.1**	**$ 55.1**	**$ 55.1**
Dividend											
Dividend Per Share	**$ 0.72**	**$ 0.79**	**$ 0.21**	**$ 0.21**	**$ 0.21**	**$ 0.22**	**$ 0.84**	**$ 0.89**	**$ 0.95**	**$ 1.01**	**$ 1.07**
Payout Ratio	59.7%	60.9%	25.0%	509.8%	1008.4%	48.0%	62.5%	63.2%	63.3%	64.5%	65.1%

Source: UBSe, Company Release

May 1, 2019 | Equity Research

WELLS FARGO SECURITIES

NiSource Inc.

NI: Strong Q1 Results, But Another Lawrence Cost Revision Weighs On Shares

Outperform/$31

Natural Gas LDCs
Market Weight

Price Target Change

- **Summary.** NI affirmed 2019 EPS guidance of $1.27-1.33 along with the 5-7% annual EPS and dividend growth targets through 2022 and 2019/2020 financing plans. While Greater Lawrence costs increased by nearly 20% from the YE update, management remains confident in the outlook given strong Q1 results and continued constructive regulatory outcomes. No change to our ’19-21E EPS of $1.31, $1.40 & $1.48. With shares trading at 8-9% P/E and EV/EBITDA discounts to blended Gas/Electric peers on ’20 & ’21 estimates, we consider this to be an attractive entry point and reiterate our Outperform rating. We increase our 12-18 month price target to $31/share from $30/share reflecting higher peer group multiples.
- **Lawrence Update.** We were disappointed by the nearly 20% increase in total Lawrence-related costs to ~$1.6B, which exceeds insurance limits of $1.1B ($235mm recorded through 3/31). The biggest increase was to third party claims, which includes estimated amounts to be paid via settlements and is subject to further revisions. There were no updates on the company’s regulatory recovery strategy in MA (we estimate current lag of ~$0.06 based on the pulling of the rate case and unrecovered capex), but management expects to provide more clarity in late 2019/early 2020. Lastly, on the operational side, implementation of the Safety Management System (SMS) is underway across all seven states and NI established an independent quality review board (QRB) to enhance governance on the new system.
- **Regulatory Update.** NI settled the two pending rate cases including the gas case in VA (order 2H’19) and the NIPSCO electric case (partial settlement including 9.9% ROE, revenue requirement, tax reform and depreciation for accelerated coal retirements; rate design and industrial tariff issues remain outstanding – order 2H’19). NIPSCO electric also has pending wind proposals in Indiana (order 3Q’19) and intends announce additional renewable projects and commence a second round of RFPs later this year. Lastly, in conjunction with various ongoing rider/enhanced recovery programs across the platform, management will file a new gas TDSIC in Q3’19 (current plan runs through 2020) and is evaluating whether to file a new electric plan (current through 2022) in light of the passage of House Bill 1470 which could afford more flexibility around the inclusion of advanced grid investments among other items.

$ EPS	2018A	2019E Curr.	2019E Prior	2020E Curr.	2020E Prior
Q1 (Mar.)	0.77	**0.82 A**	**0.75**	NE	
Q2 (June)	0.07	**0.05**	**0.09**	NE	
Q3 (Sep.)	0.10	**0.05**	**0.08**	NE	
Q4 (Dec.)	0.38	0.39	NC	NE	
FY	1.30	1.31	NC	1.40	NC
CY	1.30	1.31		1.40	
FY P/EPS	21.1x	20.9x		19.6x	
Rev.(MM)	5,084	5,305		5,442	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile
Net Operating Earnings

Ticker	NI
Price Target/Prior:	**$31/$30**
Price (05/01/2019)	**$27.41**
52-Week Range:	$23-29
Shares Outstanding: (MM)	372.5
Market Cap.: (MM)	$10,210.2
S&P 500:	2,945.56
Avg. Daily Vol.:	2,536,140
Dividend/Yield:	$0.80/2.9%
LT Debt: (MM)	$7,110.0
LT Debt/Total Cap.:	47.3%
ROE:	9.0%
3-5 Yr. Est. Growth Rate:	6.0%
CY 2019 Est. P/EPS-to-Growth:	3.5x
Last Reporting Date:	05/01/2020 Before Open

NC = No Change
Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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<u>Acronyms</u>
NIPSCO – Northern Indiana Public Service Company
RFP – Request For Proposal
TDSIC – Transmission, Distribution and Storage System Improvement Charge

Price Target

Price Target: $31 from $30

Our price target is based on a P/E multiple analysis (~21X our '21E EPS of $1.48 reflecting a 2-3% discount to blended Gas/Electric peers). Risks include greater than expected shareholder liabilities associated with the 9/13/18 MA gas incident, unfavorable regulatory developments, a potential rise in interest rates (financing costs and sector valuation), and lower than expected sales growth.

Investment Thesis

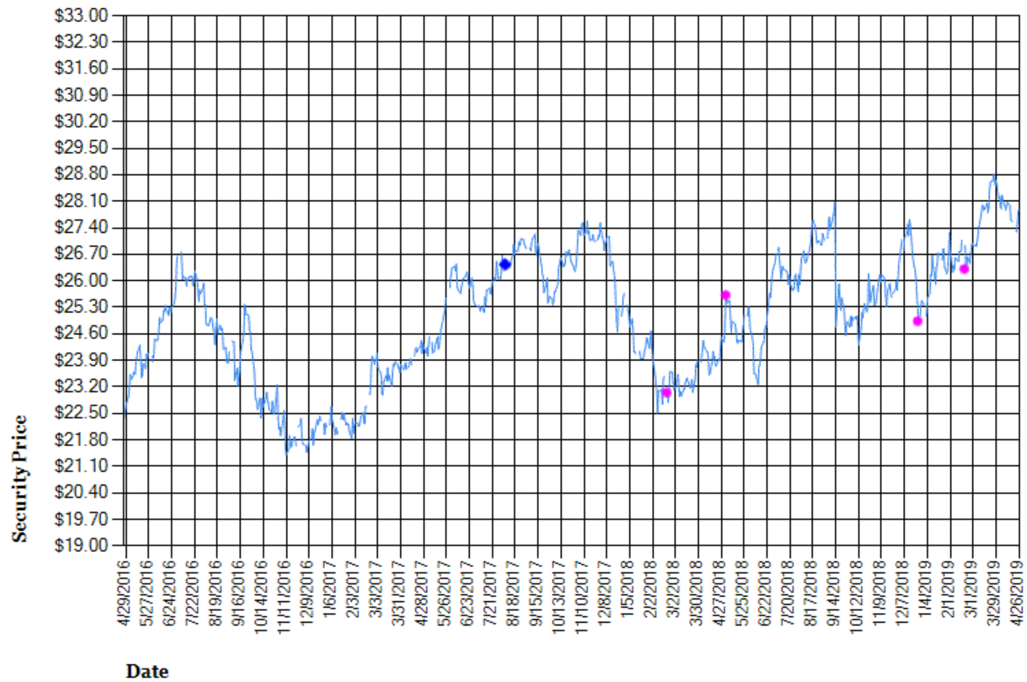
We rate shares Outperform. We believe the current discounted valuation provides an attractive entry point to a company with robust long-term infrastructure growth opportunities and supportive regulatory treatment.

Company Description

Based in Merrillville, Indiana, NiSource, Inc. is a holding company with regulated gas (64%) and electric (36%) utility operations across seven states. The company's Gas Distribution Operations serve 3.5 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. The Electric Operations consist of a vertically-integrated utility serving nearly 500 thousand customers in northern Indiana. On July 1, 2015, NiSource completed the separation of Columbia Pipeline Group (CPG) from NiSource via the distribution of one share of CPG common stock for every share of NI common stock.

Required Disclosures

NiSource Inc. (NI) 3-yr. Price Performance



Date	Published Price ($)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
8/9/2017		Akers				
◆ 8/9/2017	26.32	1	30	NE	NE	26.38
• 2/20/2018	22.99	1	26	NE	NE	23.02
• 5/3/2018	25.38	1	28	NE	NE	25.57
• 12/24/2018	26.05	1	29	NE	NE	24.89
• 2/20/2019	26.28	1	30	NE	NE	26.28

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- • Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- □ Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Additional Information Available Upon Request

I certify that:
1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

- NiSource Inc. currently is, or during the 12 month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided investment banking services to NiSource Inc..
- Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from NiSource Inc. in the past

NI: Solid Regulatory Picture,...

Rating

CORE

BARCLAYS

Equity Research | Instant Insights

1 May 2019

Eric Beaumont, CFA +1 212 526 8334 eric.beaumont@barclays.com BCI, US Completed: 01-May-19, 18:41
Released: 01-May-19, 18:41

NiSource, Inc.

NI: Solid Regulatory Picture, MA Costs Increase

Stock Rating/Industry View: Equal Weight/Neutral
Price Target: USD 28.00
Price (30-Apr-2019): USD 27.78
Potential Upside/Downside: 1%
Tickers: NI

NI has made solid strides in regulatory proceedings, resulting in high levels of contemporaneous return. Above-average LT earnings growth combined with the regulatory picture justifies our 10% premium valuation to the group average. Given the uncertainty of ultimate costs and recovery of costs in Massachusetts, we continue to see the name as fairly valued.

Regulatory Updates

Management highlighted good outcomes or settlements in regulatory filings in OH, VA, MA, and IN
Additionally Indiana legislation is a potential tailwind

- HB1470 – cleans up legal challenges on TDISC, has potential to result in incremental capex recovery from TDISC from grid modernization spending
- SB472 – which would have created a moratorium on new CPCNs failed to pass

Massachusetts Update

Post potential regulatory recovery, settlement and negotiations with claimants, and final insurance recovery, shareholders will be paying a material amount as a result of the Greater Lawrence event.

- Event related costs and expenses increase by $249-$270M in total from Q4, with the largest increase coming from third-party claims
- Third-party claims are currently estimated at $961M-$1.01B
- Pipeline replacement and restoration costs are currently estimated at $240-$250M
- Other Expenses are currently estimated at $360-$370M
- Total expenses are currently estimated at $1.561-$1.63B which is in excess of the $1.1B of insurance ($800M casualty, $300M property)

Solid quarter: NI reported $0.82, ahead of consensus, and reiterated 2019 guidance of $1.27-$1.33 and long term growth of 5-7%

GUGGENHEIM

May 1, 2019

NI: Solid Beat; Guidance Reaffirmed – Still a Lot of Questions Around MA Including LT Regulatory (and Strategic) Options

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NI — BUY

NiSource Inc.
Sector: Power, Utilities & Alternative Energy

Earnings Release

Share Price	$27.78
Price Target	$29.00

EPS ($) (FY DEC)	1Q	2Q	3Q	4Q	FY
2019	0.82	0.12E	0.06E	0.33E	1.32E
Prior	*0.73*	—	*0.10E*	*0.38E*	—
P/E					21.1x
2020	0.77E	0.12E	0.10E	0.39E	1.37E
P/E					20.2x
2021	0.82E	0.13E	0.11E	0.42E	1.47E
P/E					18.9x

Market Data

52-Week Range	$23.23 - $28.85
Dividend	$0.81
Dividend Yield	2.9%
Market Cap (M)	$10,361
Shares Out (M)	373.0
ADV (3 mo; 000)	2,876

Key Message: Solid beat, guidance reaffirmed and CapEx remains healthy. Good start but uncertainties still remain around MA situation and thus, any incremental equity needs beyond current plan. A key question is sell MA or file rate case. Mgmt. displayed some confidence with updated 3rd party claim projections which could point to a settlement with key claimants in the works.

Quick take – Solid beat, outlook, financing plan and growth trajectory reiterated. NI reports Q1 2019 EPS of $0.82 vs consensus/Guggenheim estimate of $0.77/$0.73, respectively. For 2019, Mgmt. reiterates $1.27-$1.33, in line with our estimate of $1.32; CapEx guide of ~$1.7Bn vs. our $1.8Bn. Through 2022, we continue to model ~ $2bn per year in regulated CapEX for gas and electric which is essentially at the top end of Mgmt. updated capital guidance range which we still deem as somewhat conservative given projected spending needs. 2019-22 EPS growth for 5-7% is also generally in-line with our 6.3% assumption through our 2022 trajectory though YoY can be lumpy with timing of CapEx/insurance recovery. Generally, good execution despite higher expenses from MA gas explosion year-over-year.

2019 expectations remain as is... Our estimates continue to account for modest drag from pension but more materially, regulatory lag at Columbia Gas of MA (AKA Bay State Gas) stemming from the September 2018 explosion. We continue to assume material regulatory lag in the state driven by (1) a slower recovery of insurance proceeds over the next 12-18m as they work through the various towers and the reality that they may not get full proceeds vs our prior assumptions; (2) timing for recoveries for their pipeline replacement program where we still expect a GRC filing in early 2020 with rates in effect in 2021, which is more delayed than initially expected when process started; (3) higher drag from property taxes and depreciation among other minor items. Following today's results, no reasons we see to change our thoughts from when we re-based in our 2/6 note (see HERE),

... but uncertainties still remain. Insurance recoveries for MA are key NT items to watch as we could see some changes to NT equity needs but still no large block deals expected – internal plans suffice. As a reminder, NiSource has ~$800mm for liability insurance, ~ $300mm for property insurance vs. the now ~20% higher cost and expenses related to the MA gas explosion – the increase vs the prior ~$1.1Bn estimate reported at YE was mainly driven by higher 3rd party claims. Tone on call from Mgmt. seemed to assert a certain level of confidence that a material amount of costs should be recovered from providers and the current updated 3rd party claim figures should now be a more accurate reflection – **we wonder whether Mgmt's confidence around the latest 3rd party claim estimates could be a precursor for a large claim settlement in the works.**

Still assessing timing of a Bay State rate filing. We also question whether the timing of the rate case is predicated on attaining more accuracy around truing-up regulatory lag from the recently pulled settlement as well as gaining more precision with the latest gas explosion expenditures and insurance recoveries or **Mgmt. grappling with a potential strategic move out of MA through a sale which would preempt a GRC for obvious reasons. As we have discussed in the past (HERE), we believe a potential sale of the jurisdiction to a player like ES (Neutral, $71.66) could be a very viable path/solution and manageable for ES given their balance sheet capacity (EV of Bay State ~$700-800mm).**

CapEx remains healthy through the trajectory with renewable opportunities supporting plan post 2022 – that said, CapEx guide could prove NT conservative given somewhat of a politically sensitive time for NI. For the NT outlook, growth driven by (1) the electric business as coal shifts towards renewables, (2) infrastructure investments for incremental gas line capacity in Ohio to account for better than expected customer growth and (3) IT spending to modernize the system.

Valuation

We derive our regulated utility group target multiple of 17x from our regression model, which uses the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years, and now ascribe a two turn premium to reflect several externalities (e.g., macro/geopolitical uncertainties) that continue to support the group trading beyond fundamentals and forward yield expectations. We arrive at our valuation utilizing a sum-of-the parts analysis, based on: (1) ~$10/share for the regulated electric utility; (2) ~$22/share value for the regulated gas segment utilizing our regulated electric P/E multiple plus a premium to account for the historical gas LDC spread above electric counterparts; and (3) (~$2)/share for other adjustments for Corp and Other. We then discount our valuation back by two years to arrive at our $29 PT. There is ~8% upside to our price target from current levels, but we maintain our BUY rating based on our expectation that Bay State could have incremental upside potential from our conservative forecast due to better than expected regulatory outcomes at the DPU or strategic moves.

EPS($)	1Q	2Q	3Q	4Q	FY
2019E	0.82A	0.12E	0.06E	0.33E	**1.32E**
Prior	*0.73E*	*0.12E*	*0.10E*	*0.38E*	*1.32E*
2020E	0.77E	0.12E	0.10E	0.39E	**1.37E**
Prior	*0.77E*	*0.12E*	*0.10E*	*0.39E*	*1.37E*
2021E	0.82E	0.13E	0.11E	0.42E	**1.47E**
Prior	*0.82E*	*0.13E*	*0.11E*	*0.42E*	*1.47E*
2022E	0.88E	0.14E	0.11E	0.45E	**1.58E**
Prior	*0.88E*	*0.14E*	*0.11E*	*0.45E*	*1.58E*

Risk

The primary risk on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model

Jefferies

EQUITY RESEARCH
NiSource Inc. (NI)

Greater Liabilities Overshadow Strong 1Q Results

May 1, 2019

Key Takeaway

NI 1Q adj. EPS of 82¢ crushed our 73¢ forecast & outpaced the 77¢ Street mean est.; op income of ~$497mm exceeded JEFe by 13.4% as better margins & below-forecast O&M propelled Gas Distribution (+12.2% vs JEFe) & Electric (+7% vs JEFe) results. NI's est. of Greater Lawrence incident costs rose ~20%, to $1.6B, while its insurance coverage remains $1.1B. 2019 EPS guidance of $1.27-$1.33 was affirmed and, against TTM EPS of $1.38, implies lower y/y 2Q-4Q results.

Better operating margins, lower O&M drive segment results

Gas Distribution: Op. income of ~$398mm crushed our ~$355mm est. as significantly better operating margins were only partially offset by higher costs (O&M, DD&A, and other taxes). Though NI sensitizes for non-normal weather, 1Q HDDs were ~1.2% above normal & up ~2.6% y/y. **Electric Operations:** Segment revenues were broadly in-line with JEFe, but lower than anticipated O&M ($121.7mm vs $127.8mm JEFe) helped drive 1Q op. income of ~$95mm surpassing our ~$89mm expectation. In aggregate, 1Q operating income exceeded JEFe by ~13%, driving a comparable beat in Net Income and EPS. 1Q capex of $354mm was ~9% above JEFe though mgmt affirmed its $1.6-$1.7B 2019 capital program while also coordinating Greater Lawrence restoration work.

Greater Lawrence costs continue to rise

NI excluded ~$134mm in costs related to the 2018 Greater Lawrence, MA, gas explosions from its 1Q results; it also raised its midpoint estimate for the total cost of the incident to ~$1.60B, from ~$1.34B. Revised estimates now include Pipeline Replacement & Restoration work of $240-$250mm (vs $220-$230mm), 3rd-Party Claims of $961mm-$1.01B (vs $757-$790mm), and Other Expenses of $360-$370mm (vs $330-$345mm). On its call, mgmt cited final billings for construction, emergency response, and adjustments for legal, liability, and settlement expenses as reason for the higher estimates; casualty insurance recoveries recorded through 1Q19 increased to $235mm and NI's combined limit remains $1.1B. Financing plans remain unchanged though mgmt noted the timing & magnitude of certain expenses and insurance recoveries will determine when/how it will access additional capital; incremental preferred equity remains a possibility this year.

YTD regulatory activity

On April 19th, Columbia Gas of VA filed a unanimous settlement agreement that includes a $9.5mm annual increase ($1.3mm net of infrastructure trackers), down from the original $22.2mm request ($14.2mm net of infrastructure trackers). On April 24th, Columbia Gas of Ohio received approval from the PUCO to begin recovery of ~$199.6mm of infrastructure investments made in 2018. Finally, on April 30th, CMA received approval from the Mass. Dept. of Public Utilities for its 2019 GSEP, which seeks recovery of ~ $64mm in 2019 capital investments with new rates effective in May.

2019 guidance affirmed, long-term targets also remain intact

NI reiterated its 2019 non-GAAP EPS target of $1.27-$1.33 & capex forecast of $1.6-$1.7B; with strong 1Q performance and a TTM EPS of $1.38, 2019 guidance suggests ~15% lower y/y 2Q-4Q results. Annual 2019-22 EPS & DPS growth targets remain 5-7%.

Exhibits 1-2 offer more detail on 1Q results and regulatory & expansion initiatives

FLASH NOTE

RATING	HOLD
TICKER	NI
PRICE	$27.78^
PRICE TARGET (PT)	$27.00
MARKET CAP	$10.3B

^Prior trading day's closing price unless otherwise noted.

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EQUITY RESEARCH
NiSource Inc. (NI)

Exhibit 1 - NI 1Q19 Results Review

Operating Income by Division	Actual 1Q19A	JEF Expectations 1Q19E		Year-over-Year 1Q18A	
Gas Distribution	$397.7	$354.5	12.2%	$320.2	24.2%
Electric Operations	$95.4	$89.2	7.0%	$86.0	10.9%
Corporate, Other, and Eliminations	$4.0	($5.3)	-175.5%	($4.5)	NM
Total Operating Income	**$497.1**	**$438.4**	**13.4%**	**$401.7**	**23.7%**
Depreciation	($175.1)	($148.8)	17.6%	($144.7)	21.0%
Other Income / (Expenses)	($0.7)	$5.7	NM	$10.1	NM
Interest Expense	($95.6)	($94.1)	1.6%	($93.1)	2.7%
Income Tax Benefit (Expense)	($79.3)	($64.7)	22.5%	($59.0)	34.4%
Preferred Dividend	($13.8)	($13.8)	NM	$0.0	NM
Recurring Net Income	**$307.7**	**$271.5**	**13.4%**	**$259.7**	**18.5%**
Avg Diluted Shares Outstanding	373.4	373.2	0.0%	339.0	10.1%
EPS (Non-GAAP, Diluted)	**$0.82**	**$0.73**	**13.3%**	**$0.77**	**7.6%**
EBITDA ($MM)	**$672**	**$593**	**13.3%**	**$557**	**20.7%**
Capex & Affiliate Investments	**$354**	**$325**	**8.8%**	**$370**	**-4.4%**

Source: NI reports, Jefferies estimates

Exhibit 2 - NI Regulatory Backlog

Company/Filing	Summary	Timeline
NIPSCO Gas - PHMSA Compliance Plan 2	Recovery of Federally Mandated Pipeline Safety Compliance Plan; Includes ~$230mm of capital through 2023	Filed: 12/31/2018; Order Expected 2H2019
Columbia Gas of Ohio Capital Expenditure Program Annual Rider Update	Recovery of certain capital investments and related deferred expenses not recovered through the IRP tracker; includes $122.1mm of capital investments made in 2018	Filed: 2/28/2019; Order Expected Aug. 2019; New rates effective Sept. 2019
Columbia Gas of Virginia - Base Rate Case	Unanimous settlement includes $9.5mm of annual revenue increase; $1.3mm net of infrastructure trackers	Filed: 8/28/2018; Settlement filed 4/19/19; Order Expected 2H2019
Columbia Gas of Ohio IRP Annual Rider Annual	Supports continued infrastructure replacement investments; Filing includes $199.6mm of capital investments made in 2018	Filed: 2/28/2019; Order Received 4/24/19; New rates effective May 1st 2019
Columbia Gas of Mass. Gas System Enhancement Plan	Priority pipline replacement program; filing includes $64mm of capital investments to be made during 2019	Filed: 10/31/2018; Order Received 4/30/19; New rates effective May 2019
Wind CPCN Filings	Seeking approval for 20-yr PPAs to purchase 100% output from Jordan Creek (400MW*) and Roaming Bison (300MW*) & approval for BTA for Rosewater (100MW*), a JV between NIPSCO and EDP renewables; all 3 projects expecting construction by end 2020	Filed: 2/1/2019; Order expected in 3Q2019
Electric System Modernization Program	Focused on electric transmission & distribution investments designed to improve system reliability & safety; TDSIC 5 semi-annual tracker update covering ~$58.8mm in investments from June 2018 - Nov 2018	Filed: 1/29/2019; Order expected 2Q2019
Environmental Upgrades	Addresses requirements under Effluent Limitation Guidelines (ELG) and Coal Combustion Residuals (CCR) rules; Settlement covers CCR-related investments of ~$193mm; ELG-related investments moved to later proceeding	Filed Nov. 1 2016; CCR Settlement filed June 9 2017 & approved Dec. 13 2017; Construction substantially complete 1Q19
Base Rate Case	Seeks changes to depreciation schedules related to the early retirements of coal-fired generation plants called for in the IRP; Proposes changes to tariffs to provide service flexibility for industrial customers; partial settlement that addresses revenue requirement, federal tax reform & depreciation schedules and allows for 9.9% ROE	Filed: 10/31/2018; Partial Settlement on 4/26/19; Order expected 2H2019

Source: NI reports

Company Description

NiSource Inc.

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4 million US customers. The Company operates through three segments: Gas Distribution, Columbia Pipeline Group, and Electric. The Gas Distribution operations provide natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. Columbia Pipeline Group offers gas transportation and storage services for Local distribution companies, marketers and industrial and commercial customers located in Northeastern, Mid-Atlantic, Midwestern and Southern states. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

Company Valuation/Risks

NiSource Inc.

Our $27 PT and Hold recommendation are derived via Target P/E, Target Yield, DCF, and DDM approaches. Unexpected regulatory outcomes, deviations in customer growth, and project execution present risks to our estimates & PT.

Analyst Certification:

I, Christopher Sighinolfi, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Vikram Bagri, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Ryan Conlin, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published	May 1, 2019 , 15:41 ET.
Recommendation Distributed	May 1, 2019 , 15:41 ET.

Explanation of Jefferies Ratings

Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Underweight
Gas/Power Infrastructure – Market Overweight

May 1, 2019

NISOURCE

(NI US Equity – $27.40 – Outperform)

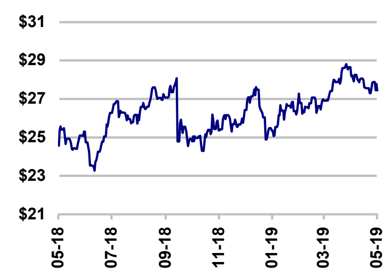
On track despite another MA cost increase

- **$260M cost increase related to incident in MA…**Heading into the Q1 call, we expected a much more modest cost increase; our expectation proved optimistic as NI now expects a 20% increase from the amount provided just a couple months ago. NI recently reached a settlement on what is likely one of its larger claims, thus taking some risk off the table for large future increases. But there is still a fair amount of uncertainty that remains concerning what's embedded in estimations for claims yet to be settled / litigated (class action, wrongful death, municipalities); footnote language related to the possibility for further increases makes us a bit weary as well. We would be remiss if not admit that mgmt's credibility is taking a bit of a hit with respect to this issue.
- **…but 2019 guidance and L-T growth commitments remain intact.** Despite the cost increase, NI reaffirmed 2019 guidance of $1.27-1.33 (WRe $1.31) and its targeted annual 5-7% EPS / dividend growth from 2019 through 2022. Strong underlying performance of the business and continued constructive regulatory outcomes are largely to thank. NI's 1Q19 EPS of $0.82 handily beat consensus expectations of $0.77 (WRe $0.79). We also sense that when originally re-setting expectations at YE, mgmt gave itself some wiggle room and took a conservative stance on the timing of insurance recoveries. NI's financing plans were unchanged, but there is some optionality on the timing of its planned DRIP equity (i.e. more in '19 vs '20) and the potential for preferreds in order to assure hitting its targeted credit metrics.
- **Confident with generation plans in Indiana.** In light of the IURC's recent decision to reject CNP's 850 MW proposed CCGT, mgmt reiterated confidence in its plans to accelerate the retirement of NI's remaining coal facilities and replace the capacity with a mix of wind / solar / storage. A key differentiator that mgmt pointed out was NI's broad stakeholder participation in its IRP and that its RFP contemplated all resource types.
- **PT to $30, maintain O/P rating.** We maintain our Outperform rating despite the continued frustration related to MA. Importantly, there is no collateral damage to the underlying business and it appears that NI has levers to pull if need be to stay on its projected path. We also think a sale of Columbia MA later this year is still more probable than not. Our PT moves up $2 to $30 on higher group multiples. We extended our model to 2022 and see EPS of $1.59.

Estimates / Valuation				
(US$)	2019E	2020E	2021E	2022E
EPS	$1.31	$1.39	$1.48	$1.59
Consensus	$1.31	$1.39	$1.48	$1.58
P/E	20.9x	19.7x	18.5x	17.3x
Dividend Yield	2.8%	2.9%	3.1%	3.3%

Trading and Fundamental Data	
Price Target	**$ 30**
Current Price	27.4
52-Week Range	$23-$29
Market Cap. (MM)	10,220
Enterprise Value (MM)	20,110
Shares Out. (MM)	373.0
Dividend Yield	2.92%
Dividend Payout Ratio	61.3%
ROE	-1.4%
Debt to Cap	61.4%
Avg. Daily Vol. (000)	3,372

Price Performance	YTD	LTM
NI US Equity	8%	12%
Utility Index	11%	13%
S&P 500	17%	10%



Source: FactSet/Wolfe Research

Key Changes		
Year	New	Old
PT	$30	$28
2022E	$1.59	NA

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NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2019E	2020E	2021E	2022E
EPS	$1.31	$1.39	$1.48	$1.59
Diluted Shares Outstanding	362	373	384	395
Dividends Per Share	$0.80	$0.85	$0.90	$0.95
Dividend Yield	2.9%	3.1%	3.3%	3.5%
Dividend Payout Ratio	61%	61%	61%	60%
Equity Ratio	37%	37%	38%	39%
FFO/Net Debt	13%	13%	13%	14%
Valuation Metrics				
P/E	20.9x	19.7x	18.5x	17.3x
Price/Book	1.9x	1.8x	1.7x	1.6x
Segment EPS				
Gas Distribution	$1.13	$1.19	$1.25	$1.33
Electric	$0.62	0.63	0.65	0.67
Parent & Other	($0.44)	(0.43)	(0.42)	(0.41)
Total EPS	**$1.31**	**$1.39**	**$1.48**	**$1.59**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2019E	2020E	2021E	2022E
Total Capital Spending by Segment ($M)				
Gas Distribution	$1,080	$1,125	$1,125	$1,125
Electric	570	650	650	650
Parent	0	25	25	25
Total Capex	**$1,650**	**$1,800**	**$1,800**	**$1,800**
Financings ($M)				
Total Equity Issued/(Repurchased)	$298	$298	$298	$298
Total Preferred Equity Issued/(Repurchased)	$0	$0	$0	$0
Total Debt Issued/(Repurchased)	$475	$505	$465	$445

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland and Massachusetts.

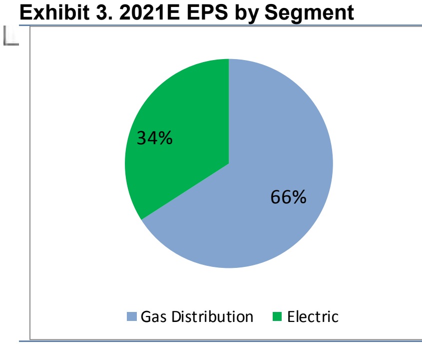
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of investment with recovery largely through trackers and balanced regulatory environments. Additionally, we see the gas business getting larger over time. NI appears attractive at current levels.

Valuation

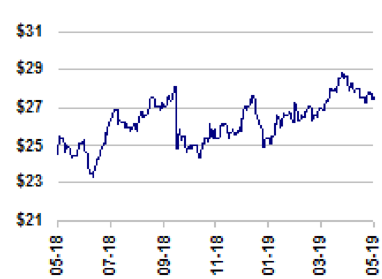
Our $30 price target is on a SOTP target P/E valuation. We apply a one-turn discount to the 20.5x group LDC multiple given the Massachusetts overhang. For its electric utility earnings, we ascribe a one-turn premium to our 18x group multiple given the constructive regulatory environment. Risks for NiSource are 1) further cost increases in MA 2) regulatory outcomes and 3) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer growth

Exhibit 3. 2021E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: FactSet

Investment Conclusion

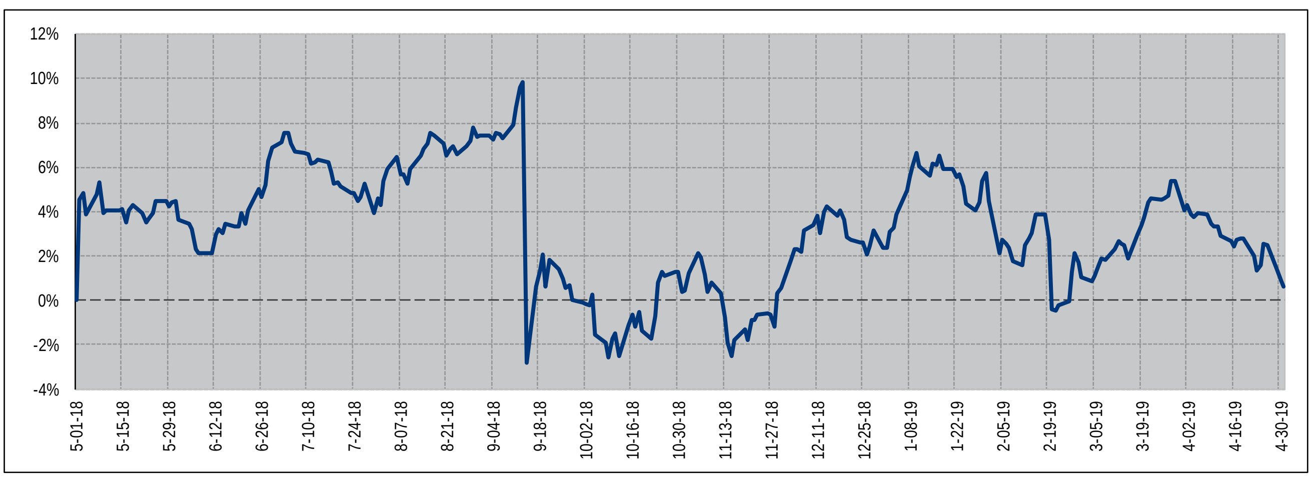
We are Outperform rated on NI. The company's $30B capital investment backlog will drive its 5-7% annual earnings target well into the future, most of which is recovered with minimal lag via tracking mechanisms. NI has also established a track record of reaching constructive regulatory settlements in its various jurisdictions. The event at its MA subsidiary last September has unfortunately overshadowed an otherwise solid business – we believe the company would be best served to exit the state for a couple reasons 1) there are natural buyers, most likely being ES or Nat Grid and 2) a sale would allow NI to get out from under the political microscope in MA and claw back its gas LDC premium at a fast pace. We believe a sale of the business is more likely than not and maintain our Outperform rating as we believe this would be a positive catalyst for the stock.

Exhibit 5: LDC gas comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E Multiple 2018E	2019E	2020E	2021E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Atmos Energy	ATO	$101.99	117	$11,922	25.5x	23.7x	22.2x	20.8x	2.1%	7.7%	68%	2.4	57%
Southwest Gas	SWX	82.36	53	4,374	22.4x	21.1x	19.6x	18.4x	2.5%	4.3%	71%	1.9	50%
ONE Gas	OGS	87.57	53	4,614	26.9x	25.3x	24.3x	23.0x	2.3%	0.0%	89%	2.3	56%
NiSource	NI	27.40	373	10,219	21.1x	21.0x	19.6x	18.5x	2.9%	0.0%	85%	2.1	39%
New Jersey Resources	NJR	49.56	89	4,400	18.1x	24.9x	22.7x	21.3x	2.4%	1.7%	66%	3.1	49%
Northwest Natural Gas	NWN	66.60	29	1,929	28.6x	28.2x	26.3x	25.5x	2.9%	0.7%	83%	2.5	44%
UGI Corp	UGI	54.07	174	9,414	19.7x	22.2x	17.6x	17.0x	1.9%	9.9%	52%	2.6	45%
Spire Inc.	SR	85.04	51	4,315	22.9x	22.8x	21.9x	21.3x	2.8%	0.5%	74%	1.9	46%
Average					**23.1x**	**23.6x**	**21.8x**	**20.7x**	**2.5%**	**3.1%**	**74%**	**2.3x**	**48%**
Average - electric utilities					*20.9x*	*20.3x*	*19.1x*	*18.0x*	*3.2%*	*5.2%*	*65%*	*2.1x*	*44%*

Source: Wolfe Research, FactSet

Exhibit 6: NI vs the Regulated Average



NiSource Inc

Reiterating Neutral amid increased MA costs, with IN upsides eventually

Reiterate Rating: NEUTRAL | PO: 29.00 USD | Price: 27.40 USD

Bank of America Merrill Lynch

Equity | 02 May 2019

Reiterate Neutral: Higher (and climbing) MA incident costs

NI updated its expected costs related to the MA incident by +19% – following the ~70% increase in 4Q18 – and went further to highlight that costs could continue to increase due to settlements with injured individuals, class action suits, and communities (updates to be expected quarterly). While we downgraded NI to Neutral based on expectations for costs estimates to rise 10%, the increase was greater than we expected: Third-party claims rose ~27% (+$212mn), replacement of the gas system rose 9% (+$20mn) and other costs 8% (+$28mn). We assume another $90mn of costs as a starting point given commentary around perhaps incremental $50-100mn outstanding (easily exceeding insurance levels of ~$1.1b). While too early to confirm, mgmt. acknowledged there is at least a potential it pursues incremental financing in '19 in an effort to ensure FFO/debt metrics are at the 14-15% range (with options including issuing preferred equity and accelerating more of its $500mn at-the-market (ATM) issuance program into '19 versus '20). We expect more costs and potential financing plan updates will be an overhang on shares and expect to see a difficult regulatory environment, particularly around the MA Department of Public Utilities' definition of prudent vs. imprudent spending (where we see a risk to eventual recovery). We maintain our Neutral rating at a -$1/sh lower PO (now $29/sh), update our discount to 1.0x across the gas utilities (previously -0.5x) to reflect overhang, reduce our EPS by up to $0.03/sh to reflect underearning in MA, and update peer multiples to 19.2x and 21.4x for electric and gas.

Some positive datapoints: Quarterly est. and NIPSCO RFP

NI posted 1Q19 results of $0.82/sh, beating our $0.80/sh estimate and consensus of $0.77/sh. Given NI sees roughly 2/3 of its annual earnings in the first quarter, this places NI in a good position to reach its annual non-GAAP guidance of $1.27-1.33/sh (our '19E of $1.30/sh is within guidance). Furthermore, we see two wins and upside potential in Indiana: NIPSCO recently settled the first half of its base rate case (gaining a key accelerated depreciation schedule for its retiring coal units) and House Bill 1470 was passed (eliminating noise for NI's TDSIC filings and opening the company to longer-dated investment upside opportunity in the electric biz for smart grid). Finally, NI's second RFP (details by YE19) should see more renewable ownership than its first.

Estimates (Dec)

(US$)	2017A	2018A	2019E	2020E	2021E
EPS	1.21	1.30	1.30	1.35	1.46
GAAP EPS	0.39	1.30	1.30	1.35	1.46
EPS Change (YoY)	14.2%	7.4%	0%	3.8%	8.1%
Consensus EPS (Bloomberg)			1.31	1.39	1.49
DPS	0.73	0.79	0.83	0.88	0.94

Valuation (Dec)

	2017A	2018A	2019E	2020E	2021E
P/E	22.6x	21.1x	21.1x	20.3x	18.8x
GAAP P/E	70.3x	21.1x	21.1x	20.3x	18.8x
Dividend Yield	2.6%	2.9%	3.0%	3.2%	3.4%
EV / EBITDA*	17.1x	16.5x	14.6x	13.9x	13.0x
Free Cash Flow Yield*	-9.3%	-12.5%	-5.3%	-7.4%	-6.3%

* For full definitions of *iQmethod* SM measures, see page 10.

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Refer to important disclosures on page 11 to 13. Analyst Certification on page 8. Price Objective Basis/Risk on page 8. 11994758

Timestamp: 02 May 2019 07:13AM EDT

Key Changes

(US$)	Previous	Current
Price Obj.	30.00	29.00
2019E EPS	1.31	1.30
2020E EPS	1.36	1.35
2021E EPS	1.49	1.46
2019E EBITDA (m)	1,742.6	1,739.2
2020E EBITDA (m)	1,835.3	1,827.8
2021E EBITDA (m)	1,963.7	1,947.3

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Stock Data

Price	27.40 USD
Price Objective	29.00 USD
Date Established	2-May-2019
Investment Opinion	B-2-7
52-Week Range	23.23 USD - 28.85 USD
Mrkt Val (mn) / Shares Out (mn)	10,223 USD / 373.1
Average Daily Value (mn)	70.72 USD
BofAML Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2019E)	9.7%
Net Dbt to Eqty (Dec-2018A)	156.7%

RFP- request for proposal

TDSIC- Transmission, Distribution and Storage System Improvement Charge

iQprofile SM NiSource Inc

iQmethod SM – Bus Performance*

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Return on Capital Employed	2.6%	3.9%	4.1%	4.0%	4.0%
Return on Equity	9.5%	10.1%	9.7%	9.5%	9.8%
Operating Margin	18.7%	18.3%	20.4%	20.9%	21.7%
Free Cash Flow	(954)	(1,278)	(544)	(754)	(640)

iQmethod SM – Quality of Earnings*

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash Realization Ratio	1.9x	1.2x	2.3x	2.3x	2.2x
Asset Replacement Ratio	3.0x	3.0x	2.4x	2.7x	2.5x
Tax Rate	71.0%	19.7%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	207.7%	156.7%	154.3%	155.7%	155.1%
Interest Cover	2.6x	2.6x	3.0x	3.1x	3.3x

Income Statement Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Sales	4,875	5,084	5,150	5,270	5,420
% Change	8.5%	4.3%	1.3%	2.3%	2.9%
Gross Profit	3,356	3,325	3,586	3,681	3,808
% Change	8.2%	-0.9%	7.9%	2.7%	3.4%
EBITDA	1,481	1,531	1,739	1,828	1,947
% Change	5.4%	3.4%	13.6%	5.1%	6.5%
Net Interest & Other Income	(468)	(335)	(353)	(360)	(362)
Net Income (Adjusted)	398	463	496	530	591
% Change	15.6%	16.6%	7.1%	6.9%	11.4%

Free Cash Flow Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Net Income from Cont Operations (GAAP)	129	463	496	530	591
Depreciation & Amortization	570	600	690	728	769
Change in Working Capital	(415)	110	(186)	(186)	(186)
Deferred Taxation Charge	307	(188)	117	124	137
Other Adjustments, Net	152	(445)	0	0	0
Capital Expenditure	(1,696)	(1,818)	(1,661)	(1,951)	(1,951)
Free Cash Flow	-954	-1,278	-544	-754	-640
% Change	-41.9%	-34.0%	57.4%	-38.6%	15.1%

Balance Sheet Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash & Equivalents	29	121	133	133	133
Trade Receivables	945	1,147	1,333	1,519	1,706
Other Current Assets	790	787	787	787	787
Property, Plant & Equipment	14,360	15,543	16,513	17,736	18,918
Other Non-Current Assets	3,839	4,206	4,206	4,206	4,206
Total Assets	19,962	21,804	22,973	24,382	25,750
Short-Term Debt	1,490	2,027	2,283	2,474	2,647
Other Current Liabilities	1,688	2,010	2,010	2,010	2,010
Long-Term Debt	7,512	7,105	7,438	8,063	8,624
Other Non-Current Liabilities	4,951	4,911	5,028	5,152	5,289
Total Liabilities	15,642	16,053	16,758	17,699	18,570
Total Equity	4,320	5,751	6,215	6,683	7,180
Total Equity & Liabilities	19,962	21,804	22,973	24,382	25,750

* For full definitions of *iQmethod* SM measures, see page 10.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

NI's positives including 5-7% earnings/dividend growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries with earned ROEs consistently near the allowed.However, we see increased regulatory lag associated with the MA incident. Moreover, with the outcome of Department of Justice investigation still unclear, we believe an overhang on shares will persist. Bottom line, we see more balanced risk/reward profile and as such we rate NI Neutral.

Stock Data

Average Daily Volume	2,581,190

Quarterly Earnings Estimates

	2018	2019
Q1	0.77A	0.82E
Q2	0.08A	0.09E
Q3	0.10A	0.27E
Q4	0.38A	0.14E

Merrimack costs: Room for more & financial implications

Costs increased again, and there could still be more to come

As anticipated, mgmt. provided another incremental update on Merrimack cost estimates. However, the increased costs were larger than we expected: closer to a further 19% higher than prior estimates compared to our anticipated +10% increase (which we had estimated to be around $0.01 neg to estimates to finance the uncovered exposure). Note that this +19% is on top of NI's last +70% adjustment made in 4Q.

Furthermore, mgmt. made clear that there still room for *more* incremental adjustments possible to the total Merrimack costs, and that updates on the cost front will be provided quarterly. The company has settled with at least one of the severely injured parties and is in the midst of settlement discussions with remaining injured individuals, class action lawsuits, as well as communities for costs incurred. We anticipate we could see at least another $50-100mn of incremental costs as a result given limited details, meaning this could lead to a total of up to $0.03 neg to estimates relative to adjustments made in 4Q if we assume a total of 25% delta for all of 2019 adjustments and a 4% cost of debt. In the table below, we assume the updated costs provided on the 1Q call (third-party claims +$212mn, replacement of the gas system +$20mn, and other costs +$28mn) and an additional 5% increase on top of each to account for further announcements.

Table 1: Estimated increased costs for MA incident relative to 4Q18 midpoint

Fines/Costs ($mn)	4Q18 Midpoint	1Q19 Update	Delta	% chg	Spend (incl. in range)	% of est. total	Remaining est. spend
Replacement of Gas System	$225	$257	$32	14%	$167	65%	$90
Third Party Claims/Costs	$774	$1,035	$261	34%	$757	73%	$278
Other Costs (e.g. response)	$338	$384	$46	14%	$266	69%	$118
Regulatory Fines*	$20	$20	$0	0%	$0	0%	$20
Total fines/costs ($mn)	$1,356	$1,696	$340	25%	$1,190	70%	$506
2018 Insurance Recoveries					$135		
Costs excl. insurance recoveries ($mn)					$1,055	62%	
*Maximum cap from DPU							

Insurance Policy	
Casualty	$800
Property	$300
Total ($mn)	$1,100
2018 Insurance Recoveries ($mn)	$135

Source: BofA Merrill Lynch Global Research estimates, company data

Impact on company's financial planning: Preferred of ATM are options if needed

While *not* confirmed on the call, we highlight there is at least a potential that NI pursues incremental financing in 2019. NI noted that the Merrimack incident has many dimensions and that currently, it is too early to update the company's financing plan. Dimensions include the pace of insurance distribution; NI currently conservatively estimates it collects half of the insurance this year, and the other half next year. If the company were able to achieve more up front, this could offset some of the cost adjustments. Another dimension is the status of settlement discussions with injured individuals and communities; some conversations are in earlier stages than others and are too far out to anticipate the result. If costs going forward were increased to the point that NI chose to pursue incremental financing in '19, we would expect options considered to include issuing preferred equity or accelerating more of its $500mn at-the-market (ATM) issuance program into '19 versus '20 (currently anticipated at $200-300 per year in '19 and '20). Note that any financing plan update would be made in an effort to ensure FFO/debt metrics are at the 14-15% range in '19 and beyond.

Other complications: SMS implementation, awaiting year end announcements

Separately, we highlight another cautious datapoint: We expect the company's Safety Management System (SMS) push to result in a more complicated change in corporate culture, considering this is to be an opportunity pursued across all jurisdictions.

Moreover, with the DoJ investigation still ongoing and details from the National Transportation of Safety Board (NTSB) yet to be revealed as well as the ongoing SEC investigation, we see headline risks ahead. While we believe the company will likely look to strategic options around the Bay State Gas subsidiary, including a potential sale that would likely be accretive, we believe it will be 4Q earliest to decide to make a call (pending the outcome of regulatory developments through the balance of 2019).

Not all negative: First MA DPU litmus test approved

We saw some color around the first regulatory environment litmus test: the MA Dept of Public Utilities (DPU) gave regulatory approval for NI's '19 Gas System Enhancement Program. This authorizes recovery of incremental capital investments and priority pipe replacement of $64mn for 2019 (Greater Lawrence incident not included). We continue to watch to see how the DPU defines prudent vs. imprudent spending, given we expect this could pose a risk to eventual recovery to the Greater Lawrence event.

Estimates

We present our EPS estimates below, which we slightly tweak downward to reflect the again incremental costs NI is to face in response to the Merrimack incident and potential financing plan update; in other words, expectations around earned ROEs at Columbia Gas of Massachusetts are a bit further below authorized. We continue to expect NI meets its 2019 EPS guidance of $1.27-$1.33/sh (BofAMLe $1.30/sh) as well as '19-'22 EPS/DPS annualized growth of 5-7% (BofAMLe 6.5% EPS CAGR) given the 1Q19 results beat our expectation slightly and NI's weight on 1Q results is roughly 2/3 of the full year. If the company can capitalize on owning incremental renewable opportunities in Indiana, we could see some upside here.

Table 2: EPS Estimates for NI

NI EPS Estimates		2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Gas		0.96	0.94	1.00	1.04	1.12	1.21	1.28	1.34	1.40
Electric		0.56	0.60	0.61	0.63	0.65	0.67	0.68	0.69	0.70
Parent/Other		-0.32	-0.23	-0.31	-0.31	-0.32	-0.31	-0.30	-0.29	-0.28
EPS		1.21	1.30	1.30	1.35	1.46	1.57	1.66	1.74	1.81
Previous EPS		1.21	1.30	1.31	1.36	1.49	1.59			
-										
Guidance		1.17-1.20	1.26-1.32	1.27-1.33						
Consensus		1.19	1.28	1.31	1.39	1.49	1.58			
Consensus '17-21 CAGR	*5.5%*									
5%-7% CAGR EPS guidance	High End			1.33	1.39	1.49	1.59	1.70		
	Mid-Point			1.30	1.38	1.46	1.55	1.64		
	Low End			1.27	1.37	1.43	1.50	1.58		
BAML CAGR 2019-2022	6.5%									
5%-7% CAGR EPS guidance	High End	1.20	1.28	1.30	1.39	1.49	1.59	1.70		
	Mid-Point	1.19	1.26	1.30	1.38	1.46	1.55	1.64		
	Low End	1.17	1.23	1.30	1.37	1.43	1.50	1.58		
BAML CAGR 2017-2021	4.9%									
DPS		0.73	0.79	0.83	0.88	0.94	0.99	1.05	1.12	1.18
		$0.70								
5%-7% CAGR DPS guidance	High End	0.70	0.75	0.80	0.86	0.92	0.98	1.05		
	Mid-Point	0.70	0.74	0.79	0.83	0.88	0.94	0.99		
	Low End	0.70	0.74	0.77	0.81	0.85	0.89	0.94		
BAML CAGR 2017-2021	6.6%									
Share Count		329	357	381	393	405	429	429	441	453

Source: BofA Merrill Lynch Global Research estimates, company report

NIPSCO Rate Case Settlement: Halfway there

Part One: The most critical accomplished

Last week, NiSource's subsidiary Northern Indiana Public Service Co (NIPSCO) filed a Settlement Agreement on Less Than All the Issues for its electricity base rate case (Cause No: 45159, filed Oct '18); a status update was provided on April 30. Most intervenors are participating in the settlement including: the United States Steel Corporation, Walmart, Indiana Municipal Utilities Group, NLMK Indiana, Indiana Office of Utility Consumer Counselor, Citizens Action Coalition of Indiana, Northern Indiana Commuter Transportation District, NIPSCO Industrial Group, and Sierra Club. Parties *not* on board with the settlement are the Indiana Coal Council, the LaPorte County Board of Commissioners, and Dennis Rackers. We see the filings positively for NIPSCO, given that the partial settlement resolves the most important revenue requirement issues, such as fixing its depreciation (both increasing depreciation and ensuring the schedule is more in line with accelerated coal retirements) and passing back deferred taxes to help offset that. Rather than the 10.8% ROE that NI originally asked for, the settlement proposes a 9.9% ROE consistent with today's; net operating income also was proposed to increase to $289mn from $255mn, and the settlement calls for $271mn instead. We see the settlement as earnings neutral to only slightly positive (albeit cash positive due to accelerated depreciation), but important to NI given it has seen the rate case more as a policy fix from day one.

Part Two: Cherry on top still in the works

We highlight that the parties are still working on another settlement to address the more contentious proposed Rate 831 that allows most sophisticated industrials to buy through MISO for electricity needs (but through NIPSCO for backup/maintenance power). Parties are also still looking to fully address revenue allocation. In terms of when this might be resolved, we note that the procedural schedule for this rate case was extended to account for these further negotiations. While the Commission typically resolves rate cases in ~300 days, an extension to 360 days is allowed. Settling parties must now file testimony May 10th, non-settling parties by May 31st, replies must be filed by June 14th, and then the updated hearing timeline is July 16th to August 2nd. We highlight that on the call, mgmt. noted this remaining portion on Rate 831 and revenue allocation may ultimately be resolved in the litigated case. Look to 3Q19 for more closure on this front.

NIPSCO RFPs 1 and 2: Replacing Bailly and Schahfer

We highlight that NIPSCO's first request for proposal (RFP) associated with NI's previously filed 2018 integrated resource plan (IRP) resulted with NI selecting three wind farms (Jordan Creek, Roaming Bison, and Rosewater) to replace the already-retired Bailly generating facility. NIPSCO is only to own half of the 100MW Rosewater facility through a build-own transfer. NI filed for the projects' certificates of public convenience and necessity (CPCNs) in February and the Commission should issue an order in 3Q19.

The second RFP will kick of later this year (perhaps into early next year) in efforts to replace the Schahfer generating facility (to retire in '23). NIPSCO looks to own more of the renewables selected through this second RFP, noting that it would characterize success as owning ~half of the projects. We see NI as using the first build-own-transfer project from RFP 1 as an educational process to help ensure success in RFP 2.

TDSIC bill passes: Perhaps small LT capex upside

We highlight another Indiana bill (signed into law April 24th) that cleans up language around what can be included in NI's transmission, distribution, and storage system improvements charge (TDSIC) plans for both its electric and gas businesses: House Enrolled Act 1470. While not a large incremental update in the near-term, we highlight that NI sees the bill's passing as eliminating noise (eg, cumbersome filings to file a budget for every pole replaced) as well as putting an end to the high number of law suits the company has previously encountered from industrials on TDSIC filings. It also smoothing out the transition between TDSIC plans and allows them to range from 5-9 years (rather than just 7 previously). Most importantly, we note that the TDSIC program includes some language around smart grid investment, meaning we could see some longer-dated (~2023) investment upside opportunity in the electric biz. We note that NI intends to file a new gas TDSIC plan in 3Q19 (given the current plan runs through 2020) and is determining next steps for filing a new electric plan (given the current plan runs through 2022).

Valuation

We move our Price Objective to $29 from $30/sh previously after marking to market our most recent peer utility multiples of 19.2x for electric (previously 18.9x) and 21.4x for gas (previously 21.1x) - both assuming a group '18-'22 CAGR of 5% for electric and 5.1% for gas.

We continue to use a -3.0x discount for Columbia Gas of MA in our valuation and continue to include the parent EPS drag - ex-interest expense - given expectations for continued lag associated with the MA incident. Meanwhile, we update our discount to NI's remaining gas utilities to -1.0x (previously -0.5x) given the overall overhang we expect to persist on shares as the company updates the Street quarter by quarter on incremental costs and resulting impact on its financing plan. We stress applying a premium relative to an inflated gas utility multiple vs other utilities was always a point of recent contention - and we acknowledge the equity is less favorably positioned vs. many peer gas smids to benefit from a wider M&A 'boost'. Bottom line, we see risk/reward as less compelling given ongoing risks associated with Columbia Gas of MA.

Finally, we apply a +1.0x premium to NIPSCO electric to reflect upside potential around the second RFP, which should be announced later this year. NIPSCO aims to own part of these projects, perhaps up to half of the total capacity selected.

Table 3: NI SOTP VAluation

	Metric			P/E Multiple				Equity Value		
	2021E EPS	Low	Peer	Prem/ Discount	Base	High	-	Low	Base	High
Group Peer Multiple - Gas	-	-	20.4x	-	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Gas	-	-	5.10%	-	-	-	-	-	-	-
	-	-		-	-	-	-	-	-	-
Gas Utilities		- -	21.4x	-	-	-	-	-	-	-
Columbia Gas of OH	$0.50	19.4x	21.4x	-1.0x	20.4x	21.4x		$9.66	$10.16	$10.66
Columbia Gas of PA	$0.23	19.4x	21.4x	-1.0x	20.4x	21.4x		$4.40	$4.63	$4.85
NIPSCO Gas	$0.21	19.4x	21.4x	-1.0x	20.4x	21.4x		$4.04	$4.24	$4.45
Columbia Gas of MA	$0.06	17.4x	21.4x	-3.0x	18.4x	19.4x		$0.97	$1.03	$1.08
Columbia Gas of VA	$0.08	19.4x	21.4x	-1.0x	20.4x	21.4x		$1.49	$1.57	$1.64
Columbia Gas of KY	$0.04	19.4x	21.4x	-1.0x	20.4x	21.4x		$0.84	$0.88	$0.93
Columbia Gas of MD	$0.02	19.4x	21.4x	-1.0x	20.4x	21.4x		$0.33	$0.35	$0.37
Group Peer Multiple - Electric			18.3x							
Group EPS '18-'22 CAGR - Electric			5.00%							
Electric Utilities			19.2x							
NIPSCO Electric	$0.65	19.2x	19.2x	1.0x	20.2x	21.2x		$12.48	$13.13	$13.78
Total Utility	$1.77	*19.3x*			*20.3x*	*21.3x*		$34.22	$35.99	$37.77
-Parent EPS Drag (ex-Interest Expense)	-$0.10	19.3x	0.0x		19.9x	20.9x		-$1.95	-$2.01	-$2.11
Total EPS *(incl. debt drag)*	$1.46									
Midpoint of 5-7% EPS	*$1.46*									
Holdco Debt @ Parent, *not* allocated to Utilities										
(50% Netting out Debt)				-$2,000	50%			-$1,000	-$1,000	-$1,000
(50% P/E multiple on Interest Exp)				5.5%	50%			-$838	-$882	-$925
Grand Total Equity Value								$27.73	$29.34	$30.90
Shares Outstanding 2021E									405	
Total Equity Value								$28.00	$29.00	$31.00
Implied Consolidated P/E										
Dividend Yield (2019E)									3.0%	

Table 3: NI SOTP VAluation

	Metric	P/E Multiple	Equity Value
Total Return			8.9%

Source: BofA Merrill Lynch Global Research estimates, company report, Bloomberg

Recent BofA Merrill Lynch Global Research Reports

Title: NI	Primary Author	Date Published
NiSource Inc: Downgrading to Neutral: Less Merrimack Recovery Upside	Julien Dumoulin-Smith	22 April 2019
NiSource Inc: Skipping a Year: Reflecting on Implications from a new 5-7% Baseline	Julien Dumoulin-Smith	22 February 2019
NiSource Inc: Eyes on Massachusetts recovery: Reiterate the Buy Opportunity	Julien Dumoulin-Smith	02 November 2018

Price objective basis & risk

NiSource Inc (NI)

Our $29 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2021 forward P/E multiples of 21.4x for gas utilities and 19.2x for electric utilities with a 1.0x premium to reflect NiSource's electric utility's strong growth rates and earned ROEs. We note that electric / gas peer P/E multiples are grossed up for a year to 2019 by 5% / 5.1% to reflect capital appreciation across the sector. We then subtract the value of excess holding company debt at the parent not supporting the utility opcos. This multiple is slightly below the LDC peer average but above the small-mid cap electric utility average. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its inline-ish multiple versus peers. We add in Columbia Gas of MA but discount the jurisdiction by -3.0x due to Andover challenges. We also adjust other gas utilities to a -1.0x discount to reflect overhang of shares.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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2 May 2019

NiSource, Inc.

Less Mass(achusetts), More Value?

Assuming the use of NOLs, we estimate that a potential sale of the Massachusetts operations would be accretive to NI by year 2 at a price of $1.125B, or above $1.5B without using NOLs. (When asked about a potential sale of MA, NiSource states that it does not comment on M&A.) This is premised upon the calculation that 46.5% of the year-end 2018 rate base of $991M is debt and that amount of debt would be extinguished. It also assumes a $0M tax basis, and either no use of NOLs to offset tax leakage or up to $500M of NOLs to offset tax leakage. We also assume that net proceeds after taxes and associated debt paydown is used to retire corporate debt, resulting in a lower debt/cap reducing or eliminating equity needs over the forecast period.

There are varied opinions on whether NI should divest its MA operations given fallout from the Lawrenceville over-pressurization event: We look at potential sale valuation scenarios, use of proceeds and ultimate accretion/dilution. The quantitative analysis comes to the conclusion that it is all about sale price. The qualitative is more complex and is examined in detail. The potential decision and timing of any sale is likely dependent upon finalizing financial liability from the Greater Lawrence over-pressurization event as well as getting past the associated criminal investigation.

The overall range of hypothetical sale prices and accretion/dilution can be found in Figures 1, 2, and 3: Ultimately, the potential range of sale prices evaluated goes from $950M (based on book value) to $1.9B (based on 2x book and consistent with the 2015 Piedmont transaction and the 2018 Gulf Power transaction).

We reiterate our Equal Weight rating, update our estimates, and increase our price target by $1 to $29, but highlight the potential value associated with the MA option: Based on the implied accretion from several of the sale scenarios, our price target methodology would suggest up to $2/share of additional value for NI based solely on EPS uplift.

NI: Quarterly and Annual EPS (USD)

	2018	2019			2020			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2019	2020
Q1	0.77A	0.81E	0.82A	0.77E	N/A	N/A	0.76E	6%	N/A
Q2	0.07A	0.04E	0.04E	0.08E	N/A	N/A	0.11E	-43%	N/A
Q3	0.10A	0.07E	0.07E	0.10E	N/A	N/A	0.09E	-30%	N/A
Q4	0.38A	0.38E	0.38E	0.39E	N/A	N/A	0.43E	0%	N/A
Year	1.30A	1.30E	1.31E	1.31E	1.38E	1.39E	1.40E	0.77%	6%
P/E	21.4		21.3			20.0			

Source: Barclays Research.

Consensus numbers are from Refinitiv received on 01-May-2019; 13:35 GMT

Stock Rating	EQUAL WEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 29.00 raised 4% from USD 28.00

Price (30-Apr-2019)	USD 27.78
Potential Upside/Downside	+4.4%
Tickers	NI

Market Cap (USD mn)	10361
Shares Outstanding (mn)	372.97
Free Float (%)	99.60
52 Wk Avg Daily Volume (mn)	3.2
52 Wk Avg Daily Value (USD mn)	82.13
Dividend Yield (%)	2.9
Return on Equity TTM (%)	-1.43
Current BVPS (USD)	13.08

Source: Refinitiv

Price Performance	Exchange-NYSE
52 Week range	USD 28.85-23.23

Link to Barclays Live for interactive charting

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 6.

North America Power & Utilities — **Industry View: NEUTRAL**

NiSource, Inc. (NI)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2018A	2019E	2020E	2021E	CAGR
Revenue	5,115	5,264	5,406	5,544	2.7%
EBITDA (adj)	682	1,567	1,701	1,830	39.0%
EBIT (adj)	84	882	971	1,055	132.1%
Pre-tax income (adj)	-231	659	717	783	N/A
Net income (adj)	463	493	537	588	8.3%
EPS (adj) ($)	1.30	1.31	1.39	1.48	4.5%
Diluted shares (mn)	356.5	377.4	387.2	396.2	3.6%
DPS ($)	0.78	0.80	0.85	0.90	4.8%

Margin and return data					Average
EBITDA (adj) margin (%)	13.3	29.8	31.5	33.0	26.9
EBIT (adj) margin (%)	2.4	18.4	19.6	20.6	15.3
Pre-tax (adj) margin (%)	-4.5	12.5	13.3	14.1	8.9
Net (adj) margin (%)	9.1	9.4	9.9	10.6	9.7
ROIC (%)	1.0	6.7	7.0	7.1	5.5
ROA (%)	2.3	2.3	2.3	2.5	2.3
ROE (%)	10.7	8.6	8.6	8.7	9.1

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	15,543	16,656	17,874	19,048	7.0%
Cash and equivalents	113	616	-346	-100	N/A
Total assets	21,804	23,420	23,677	25,096	4.8%
Short and long-term debt	7,105	8,120	8,294	8,731	7.1%
Other long-term liabilities	4,911	4,723	4,535	4,347	-4.0%
Total liabilities	16,053	17,162	16,894	17,767	3.4%
Shareholders' equity	5,751	6,259	6,783	7,330	8.4%
Net debt/(funds)	6,993	7,504	8,640	8,831	8.1%
Change in working capital	-566	220	-708	-378	N/A
Cash flow from operations	540	984	1,072	1,168	29.3%
Capital expenditure	-1,818	-1,650	-1,800	-1,800	N/A
Free cash flow	-1,278	-666	-728	-632	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	21.4	21.3	20.0	18.7	20.4
EV/EBITDA (adj) (x)	25.4	11.4	11.2	10.5	14.6
EV/EBIT (adj) (x)	205.5	20.2	19.6	18.2	65.9
FCF yield (%)	-7.4	-3.7	-3.8	-3.3	-4.6
P/BV (x)	1.7	1.7	1.6	1.5	1.6
Dividend yield (%)	2.8	2.9	3.1	3.2	3.0
Net debt/EBITDA (adj) (x)	10.3	4.8	5.1	4.8	6.2

Selected operating metrics					Average
Payout ratio (%)	60.0	61.3	61.1	60.6	60.7
Interest cover (x)	0.4	2.7	2.7	2.8	2.2
Regulated (%)	100.0	100.0	100.0	100.0	100.0

Price (30-Apr-2019)	USD 27.78
Price Target	USD 29.00

Why Equal Weight? We view NI as a quality utility with a well-defined rate base growth strategy from gas and electric infrastructure modernization, which we see as relatively low risk. However, because of premium valuation we do not see material upside to our price target.

Upside case USD 34.00

Our upside case reflects a 25% premium to the 2021 utility group average P/E multiple of 17.5x applied to higher earnings driven by additional rate base growth and favorable rate case outcomes and an accretive sale of Massachusetts.

Downside case USD 24.00

Our downside case reflects a 5% premium to the 2021 utility group average P/E multiple applied to lower earnings driven by slower rate base growth and unfavorable Maryland, Massachusetts, and Pennsylvania rate case outcomes.

Upside/Downside scenarios

Source: Company data, Barclays Research
Note: FY End Dec

Sale of Columbia Gas of Massachusetts Scenario Analysis

There are several main assumptions that underpin our scenario analysis of the hypothetical sale of the MA jurisdiction by NI. These base assumptions are as follows:

- The tax basis of the subsidiary is $0.
- $500M in NOLs exist, which can be used to offset tax leakage.
- The allocated debt of the subsidiary is 46.5% of rate base ~$460M of debt.
- The net proceeds are assumed to pay down corporate debt.
- The delevering of the balance sheet allows for avoidance of equity.
- For simplicity, our accretion/dilution analysis assumes the MA subsidiary would grow net income at 7%.
- For accretion/dilution beyond 2021. we assume an EPS growth rate of 7%.
- Capex and associated debt for MA subsidiary is avoided beginning in 2021.
- Debt is issued above plan in lieu of equity until 80% of the proceeds have been issued as debt in excess of plan.
- The financial liabilities from the Greater Lawrence pressurization event are finalized, and for the scenarios are assumed to be in line with company expectations.

FIGURE 1
Range of MA Subsidiary Valuations

Valuation Metric	Multiplier	Valuation ($ Millions)
Book Value		
1 X	1	$950
1.5X	1.5	$1,425
2X	2	$1,900
P/E		
Group Average	25	$1,586
Gulf Power	30	$1,811
Piedmont	31	$1,856

Source: Barclays Research, Company filings, Refinitiv
For illustrative purposes

FIGURE 2
Year 1 Accretion/Dilution Scenario Analysis

Valuation ($Millions)	Use NOLs to offset tax leakage?	Tax Leakage	Net Proceeds ($Millions)	Debt/Cap	EPS from MA	EPS uplift (year 1)	EPS Accretion (year 1)
No Sale	Yes	0	0	62%	$0.12	$0.00	$0.00
$950	Yes	$0	$480	62%	$0.12	$0.08	($0.04)
$1,125	Yes	$0	$655	60%	$0.12	$0.10	($0.02)
$1,250	Yes	$0	$780	60%	$0.12	$0.11	($0.01)
$1,425	Yes	$0	$955	59%	$0.12	$0.13	$0.01
$1,500	Yes	$0	$1,030	58%	$0.12	$0.13	$0.01
$1,586	Yes	$0	$1,116	58%	$0.12	$0.14	$0.02
$1,811	Yes	$0	$1,341	56%	$0.12	$0.16	$0.04
$1,900	Yes	$0	$1,430	56%	$0.12	$0.17	$0.05
No Sale	No	0	0	62%	$0.12	$0.00	$0.00
$950	No	$238	$243	63%	$0.12	$0.05	($0.07)
$1,125	No	$281	$374	62%	$0.12	$0.07	($0.05)
$1,250	No	$313	$468	62%	$0.12	$0.08	($0.04)
$1,425	No	$356	$599	61%	$0.12	$0.09	($0.03)
$1,500	No	$375	$655	60%	$0.12	$0.10	($0.02)
$1,586	No	$397	$720	60%	$0.12	$0.10	($0.02)
$1,811	No	$453	$888	59%	$0.12	$0.12	($0.00)
$1,900	No	$475	$955	59%	$0.12	$0.13	$0.01

Source: Barclays Research, Company filings
For illustrative purposes

FIGURE 3
Multiyear Accretion/Dilution Scenario Analysis

Valuation ($Millions)	Use NOLs to offset tax leakage?	Year 1 EPS Accretion	Year 2 EPS Accretion	Year 3 EPS Accretion	Year 4 EPS Accretion	Year 5 EPS Accretion
$950	Yes	($0.04)	($0.03)	($0.03)	($0.03)	($0.03)
$1,125	Yes	($0.02)	$0.00	$0.00	$0.00	$0.00
$1,250	Yes	($0.01)	$0.02	$0.03	$0.03	$0.03
$1,425	Yes	$0.01	$0.04	$0.06	$0.06	$0.06
$1,500	Yes	$0.01	$0.05	$0.08	$0.08	$0.08
$1,586	Yes	$0.02	$0.05	$0.09	$0.10	$0.10
$1,811	Yes	$0.04	$0.07	$0.11	$0.14	$0.14
$1,900	Yes	$0.05	$0.08	$0.12	$0.16	$0.16
$950	No	($0.07)	($0.07)	($0.07)	($0.07)	($0.07)
$1,125	No	($0.05)	($0.05)	($0.05)	($0.05)	($0.05)
$1,250	No	($0.04)	($0.03)	($0.03)	($0.03)	($0.03)
$1,425	No	($0.03)	($0.01)	($0.01)	($0.01)	($0.01)
$1,500	No	($0.02)	$0.00	$0.00	$0.00	$0.00
$1,586	No	($0.02)	$0.02	$0.02	$0.02	$0.02
$1,811	No	($0.00)	$0.03	$0.05	$0.05	$0.05
$1,900	No	$0.01	$0.04	$0.06	$0.06	$0.06

Source: Barclays Research, Company filings
For illustrative purposes

Benefits of a Sale

Qualitative

There are several qualitative reasons that selling MA makes sense.

- Derisking the overall business by removing a large overhang.
- At the right price allows for accretion, higher EPS growth and significant improvement in the capital efficiency metric (EPS growth/rate base growth).
- Simplifies the business, allowing for more resources and focus on remaining subsidiaries.
- Improves the balance sheet.

Quantitative

Here it all comes down to numbers. As shown in Figure 3, any sale at or above $1.125B utilizing NOLs and $1.5B absorbing the tax leakage is neutral longer term, while avoiding equity needs for 1-2 years. The higher the price, the higher the potential accretion, which we estimate drives a growth rate from the 6-7% range to the 8-9% range through 2021 at the high end of valuation. The higher the price, the further out in time the higher growth continues as equity needs can potentially be avoided for up to four years. The difference in EPS growth from 2019 through 2021 assuming a sale by year-end 2019 can be as much as a 2.5% increase in CAGR over the period for a sale at $1.9B.

Benefits of Keeping Columbia Gas of Massachusetts

Qualitative

There are several qualitative reasons that keeping MA makes sense.

- Employee morale – selling any subsidiary tends to call company loyalty into question.
- Regulatory perception – will the company sell at the first sign of rough seas or work with regulators to rebuild relationships?
- Continues to provide a large platform to the extent supply chain savings benefit from a larger system as well as corporate functions are amortized over more subsidiaries.

Quantitative

Again, it all comes down to numbers. As shown in Figure 3, we estimate that any sale at or above $1.25B value could be accretive beyond year 2, while avoiding equity needs for 1-2 years. Hence, any price that does not result in accretion should arguably not be pursued from a purely quantitative standpoint.

Valuation

Our new $29 valuation is premised upon a 10% premium to the group average 2021 P/E of 17.5 applied to our updated 2021 EPS estimate of $1.48.

Our previous $28 valuation was premised upon a 10% premium to the group average 2021 PE of 17.5 applied to our previous 2021 EPS estimate of $1.46.

Goldman Sachs | Equity Research

1 May 2019 | 8:05PM EDT

Americas Utilities: NI: Valuation upside remains despite lingering MA overhang; PNW: discount multiple reflects regulatory uncertainty

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Updating Two Smid Cap Utilities Post 1Q2019

We remain Buy rated NI as we still see upside to consensus estimates and potential for multiple expansion, but acknowledge NI increasing its disclosure of Greater Lawrence damages could delay the re-rate near-term. We continue to use premium multiples of 21.25x/17.5x 2020 P/E for gas/electric (vs baselines of 20x/17x) given above average rate base growth, and highlight a consolidated 2019-2021 EPS CAGR of 7.8% vs smid-cap regulated utility peer average of ~6% - although we note 2018-2021 EPS CAGR of ~5% given MA related costs in 2019. We also highlight that our estimates already incorporate conservative cost recovery expectations (2/3 recovery over next ~18 months).

We remain Neutral rated PNW and update our estimates modestly higher 2019-2021 from $4.83/5.02/5.26 to $4.85/5.02/5.29, reflecting a number of items including (1) weather, (2) Ocotillo deferral magnitude and timing, (3) mid-year 2021 rate relief, (4) capex, and (5) financing assumptions. We continue to see slight downside risk to consensus 2021 estimates, given increasing uncertainty around RoEs and the regulatory climate in AZ. However, we reiterate our Neutral view given that PNW trades at a discount to other Smid-Cap Utilities under coverage at 19.0x/18.0x 2020/2021 EPS, compared to 20.7x/18.9x for peers — with the 1x 2021 discount largely reflecting this regulatory uncertainty already.

NI: Above average growth at a discount, but increased MA cost estimate could limit multiple expansion near-term

Additional disclosed costs in MA creates uncertainty on the final cost level. NI increased its Greater Lawrence cost estimate disclosure by $250mn at the midpoint (likely delaying multiple expansion), but didn't change its financing guidance. However, we note guidance for preferred equity financing remains TBD - potentially plugging the financing gap related to incremental cash outflows due to the Greater Lawrence incident. We highlight our estimates for ~$1.1bn of LT debt issuances through 2021 (vs guidance of up to $500mn/year) and $660mn of common equity financing through 2021 (vs guidance of up to $360mn/year of ATM, employee stock purchase plan, and other). We assume NI meets its incremental cash needs through 2021 with $465mn of additional preferred equity financing.

We update our 2019-2021 EPS estimates to $1.29/$1.43/$1.49 from $1.30/$1.43/$1.50. Our revised estimates reflect (1) 1Q2019 results, (2) increased cash outflows related to the Greater Lawrence incident - partly offset by increased insurance recoveries, (3) tweaks to our base rate case assumptions for Columbia Gas of VA and NIPSCO electric, and (4) updated financing assumptions - largely driven by the revised Greater Lawrence damages guidance. We note our estimates remain above FactSet consensus in 2020/2021, and imply a consolidated EPS growth rate of 7.8% for 2019-2021.

We remain Buy rated with a $29 12-month price target, derived with a 20x P/E multiple on 2020E EPS. Key risks for NI include utility regulation, litigation, damages related to the Greater Lawrence incident, O&M management, and financing.

PNW: Regulatory uncertainty overshadows solid rate base growth, for now

We update our PNW estimates modestly higher 2019-2021 from $4.83/5.02/5.26 to $4.85/5.02/5.29, reflecting a host of items including (1) weather, (2) Ocotillo deferral magnitude and timing, (3) mid-year 2021 rate relief, (4) capex, and (5) financing assumptions. We continue to see slight downside risk to consensus 2021 estimates, given increasing uncertainty around RoEs and the regulatory climate in AZ. However, we reiterate our Neutral view given that PNW trades at a discount to other Smid-Cap Utilities under coverage at 19.0x/18.0x 2020/2021 EPS compared to 20.7x/18.9x for peers — with the 1x 2021 discount largely reflecting this regulatory uncertainty already.

Regulatory risk remains high for PNW as the Arizona Corporation Commission (ACC) Staff is scheduled to file its APS Rate Review results on May 3, although they could request an extension. We note that a rate audit is not a common regulatory proceeding, which gives us pause. As we have previously written, we estimate outcomes ranging from fairly benign – where ACC regulated earnings range from RoEs of 9.7% to 10.1%, near the authorized RoE level of 10% — to more bearish – where ACC earned returns reach as high as 12%, largely due to the use of the last authorized (2017) rate base in the calculation. A negative Staff recommendation likely would lead to a call for an ACC vote to force APS into a rate case earlier than anticipated (currently planned for 2020), and would increase the regulatory pressure and uncertainty surrounding PNW.

We maintain our $89 12-month price target, derived from a 17.75x 2020 P/E multiple based on a 0.75x premium to our 17.0x industry baseline multiple. The premium better reflects PNW's above average rate base growth (~7%) and leverage to a secular trend in renewable and the related electric infrastructure investment. Key upside and downside risks include the upcoming earnings review, renewable/storage project awards, plant outages and cost management, load/customer growth, and regulatory or legislative changes.

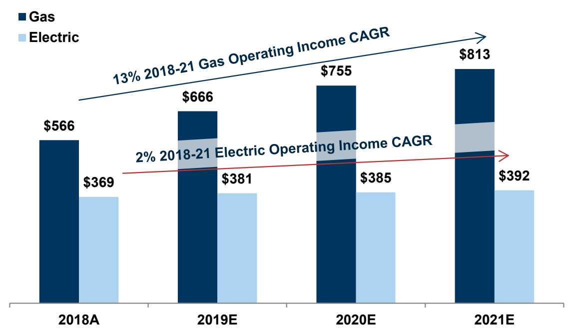
NI in charts

Exhibit 1: We make minor adjustments to estimates following 1Q2019 earnings, continuing to see upside to consensus in 2020/2021...
EPS new vs old vs consensus

	EPS Estimates			% Difference	
	GS-New	GS-Old	Cons.	vs. Old	vs. Cons.
2019E	$1.29	$1.30	$1.31	(1%)	(2%)
2020E	$1.43	$1.43	$1.39	(0%)	3%
2021E	$1.49	$1.50	$1.48	(0%)	1%
CAGR	7.8%	NA	6.3%	NA	1%

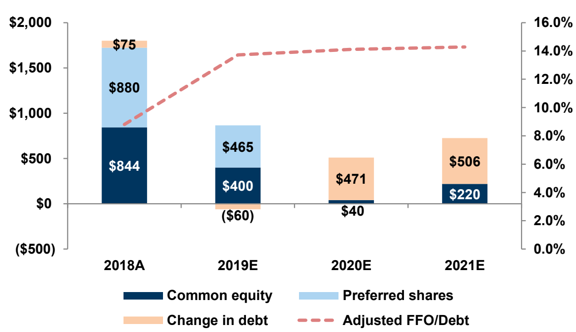
Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 2: ...with strong earnings growth driven by the regulated gas business...
Operating income by segment ($mn)



Source: Goldman Sachs Global Investment Research

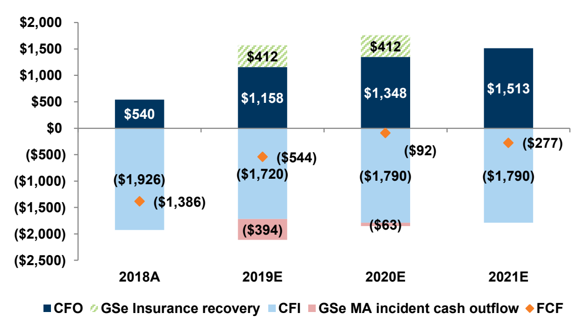
Exhibit 3: ...helping offset financing heawinds as NI funds payments for claims related to the Greater Lawrence incident while maintaining adjusted FFO/debt above 14% in 2020/2021...
Financing by type ($mn) and adjusted FFO/debt



Our 2019 FFO adjusts for ~$135mn of insurance receivables

Source: Goldman Sachs Global Investment Research

Exhibit 4: ...and we highlight meaningful FCF headwinds in 2018/2019 due to the incident, partly offset by insurance recoveries in 2019/2020
Cash from operations, cash from investing, and free cash flow ($mn)



Source: Goldman Sachs Global Investment Research

Exhibit 5: We maintain our $29 12-month target price - derived with a 20x blended P/E multiple - and note total return of 7% to our target, well above peer average at (3%)
NI blended P/E valuation

NI valuation			
Deriving Blended Multiple			
	Gas	Electric	Total
2020 EBIT	755.0	385.0	1,139.9
% 2020 EBIT	66.2%	33.8%	
Target Multiple	21.25x	17.50x	20.0x
Price Target			
2020 EPS			$1.43
Target Multiple			20.0x
Price Target			**$29**
Total Return			**7%**
Smid-cap Average Total Return			**(3%)**

Source: Goldman Sachs Global Investment Research, FactSet

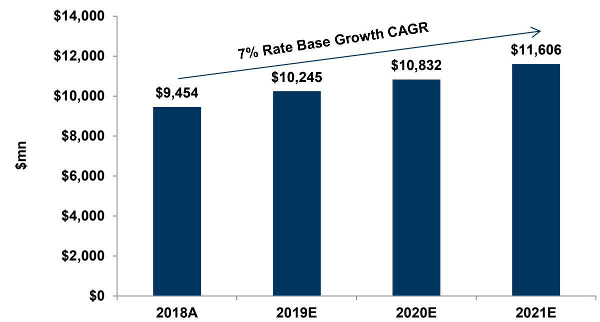
PNW in Charts

Exhibit 6: We update our estimates and continue to see modest downside to consensus 2021 EPS.

	EPS Estimates			% Difference	
	GS-New	GS-Old	Cons.	vs. Old	vs. Cons.
2019E	$4.85	$4.83	$4.86	0%	(0%)
2020E	$5.02	$5.02	$5.07	(0%)	(1%)
2021E	$5.29	$5.26	$5.33	1%	(1%)

Source: Thomson Reuters, Goldman Sachs Global Investment Research

Exhibit 7: While we highlight that PNW offers an attractive rate base CAGR of ~7% vs peers at 5-6%...
APS rate base growth, GSe



Source: Company data, Goldman Sachs Global Investment Research, ACC

Exhibit 8: ...regulatory uncertainty remains, as we calculate modest risk from the earnings review based on APS's disclosed 9.5% earned ROE in 2018 and a few adjustments...
2018 Earned ROE based on Shareholder's Equity

2018 Earned ROE based on Shareholder's Equity			
APS Net Income ($mn)	$570	$570	$570
% Attributable to ACC (estimated)	81%	81%	81%
Implied ACC Net Income ($mn)	$462	$462	$462
Adjustments (all in $mn)			
Plus: Weather impact (vs. normal)	-	$15	$15
Plus: Fossil fuel generation costs (SCRs, fuel outage)	-	-	$21
Total Adjustments ($mn)	**$0**	**$15**	**$36**
Tax Rate	20%	20%	20%
Adj. Net Income ($mn)	$462	$475	$491
2018YE Implied ACC Equity ($mn)	$4,868	$4,868	$4,868
Earned ROE (based on Shareholder's Equity)	**9.5%**	**9.7%**	**10.1%**
Accretion/(Dilution) on 2018 EPS if Earned RoE = 10%	*5%*	*2%*	*-1%*

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 9: ...yet using last authorized rate base implies an earned ROE range of 9.7% to 12.2%, potentially posing double digit downside to EPS...

2018 Earned RoE based on Rate Base

2018 Earned RoE based on Rate Base				
Implied ACC Net Income ($mn)	$462	$462	$462	$462
Adjustments (all in $mn)				
Less: Estimated AFUDC	-	-$42	-$42	-$42
Plus: Weather impact (vs. normal)	-	-	$15	$15
Plus: Fossil fuel generation costs (SCRs, fuel outage)	-	-	-	$21
Total Adjustments ($mn)	**$0**	**-$42**	**-$27**	**-$6**
Tax Rate	20%	20%	20%	20%
Adj. Net Income ($mn)	$462	$428	$440	$457
2018YE Rate Base ($mn)	$7,876	$7,876	$7,876	$7,876
2017 Authorized Rate Base ($mn)	$6,800	$6,800	$6,800	$6,800
Equity Layer	55.8%	55.8%	55.8%	55.8%
Earned ROE (based on 2018YE)	**10.5%**	**9.7%**	**10.0%**	**10.4%**
Accretion/(Dilution) on 2018 EPS if Earned RoE = 10%	*-5%*	*2%*	*0%*	*-4%*
Earned ROE (based on 2017 Authorized)	**12.2%**	**11.3%**	**11.6%**	**12.1%**
Accretion/(Dilution) on 2018 EPS if Earned RoE = 10%	*-16%*	*-10%*	*-13%*	*-15%*

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 10: ...which currently weighs on PNW's multiple already, given that the Utility trades at a discount to Regulated Smid-Caps despite above average rate base growth

GS Regulated Utility comparables

Regulated Utilities Comparable Analysis			Close	12-Mo	Tot Ret	EPS				P/E			Dividend	Dividend CAGR
	Ticker	Rating	4/30/19	Px. Tgt	to Target	2018A	2019E	2020E	2021E	2019E	2020E	2021E	Yield	2018A-21E
Large-Cap														
American Electric Power	AEP	Neutral	$85.55	$77	(7%)	$3.95	$4.06	$4.32	$4.68	21.1x	19.8x	18.3x	3.1%	5.7%
Duke Energy	DUK	Sell	$91.12	$78	(10%)	$4.72	$4.81	$4.96	$5.09	18.9x	18.4x	17.9x	4.1%	3.0%
Consolidated Edison	ED	Neutral	$86.16	$79	(5%)	$4.31	$4.36	$4.62	$4.72	19.7x	18.6x	18.3x	3.3%	3.9%
Edison International	EIX	Buy	$63.77	$70	14%	$4.15	$4.14	$4.64	$4.63	15.4x	13.7x	13.8x	3.8%	2.1%
Evergy	EVRG	Sell	$57.82	$52	(7%)	$2.67	$2.96	$3.17	$3.28	19.5x	18.3x	17.6x	3.3%	7.8%
Eversource Energy	ES	Buy	$71.66	$70	0%	$3.25	$3.46	$3.72	$3.93	20.7x	19.3x	18.3x	2.8%	6.5%
FirstEnergy	FE	Buy	$42.03	$42	4%	$2.59	$2.64	$2.51	$2.62	15.9x	16.7x	16.1x	3.6%	5.2%
PPL Corp	PPL	Neutral	$31.21	$30	1%	$2.41	$2.44	$2.50	$2.57	12.8x	12.5x	12.1x	5.3%	3.8%
Southern Company	SO	Sell	$53.22	$46	(9%)	$3.05	$3.01	$3.04	$3.17	17.7x	17.5x	16.8x	4.5%	3.5%
WEC Energy Group	WEC	Sell	$78.43	$69	(9%)	$3.34	$3.50	$3.67	$3.93	22.4x	21.4x	20.0x	3.0%	5.9%
Large-Cap Mean					**(3%)**					**18.4x**	**17.6x**	**16.9x**	**3.3%**	**4.7%**
Large-Cap Median					**(6%)**					**19.2x**	**18.3x**	**17.8x**	**3.3%**	**4.5%**
Mid & Small-Cap														
Ameren	AEE	Neutral	$72.77	$69	(3%)	$3.37	$3.29	$3.51	$3.85	22.1x	20.7x	18.9x	2.6%	6.1%
CMS Energy	CMS	Neutral	$55.55	$53	(2%)	$2.33	$2.50	$2.68	$2.88	22.3x	20.7x	19.3x	2.8%	7.2%
NiSource Inc.	NI	Buy	$27.78	$29	7%	$1.30	$1.29	$1.43	$1.49	21.6x	19.5x	18.6x	2.9%	4.8%
Pinnacle West Capital	PNW	Neutral	$95.27	$89	(3%)	$4.54	$4.85	$5.02	$5.29	19.6x	19.0x	18.0x	3.1%	6.0%
Portland General Electric	POR	Sell	$52.31	$44	(13%)	$2.37	$2.44	$2.51	$2.68	21.5x	20.8x	19.5x	2.9%	6.5%
Small / Mid-Cap Mean					**(3%)**					**21.4x**	**20.1x**	**18.9x**	**2.9%**	**6.1%**
Small / Mid-Cap Median					**(3%)**					**21.6x**	**20.7x**	**18.9x**	**2.9%**	**6.1%**
Regulated Utilities Mean					**(4%)**					**20.1x**	**19.1x**	**18.1x**	**3.3%**	**5.6%**
Regulated Utilities Median					**(5%)**					**20.2x**	**19.1x**	**18.3x**	**3.1%**	**6.0%**

Source: FactSet, Company data, Goldman Sachs Global Investment Research

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.40 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

NiSource's FVE Unchanged as Estimated Claims From Boston Gas Explosion Continue to Rise

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The primary analyst covering this company does not own its stock.

Research as of 01 May 2019
Estimates as of 10 Apr 2019
Pricing data through 01 May 2019 00:00
Rating updated as of 01 May 2019 00:00

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 01 May 2019

We are reaffirming our $27 per share fair value estimate after narrow-moat NiSource reported 2019 first-quarter operating EPS of $0.82 versus $0.77 in the same period last year.

However, operating earnings exclude roughly $0.30 per share of estimated costs related to the tragic natural gas explosion north of Boston in September 2018. We suspect some of these expenses may be recovered by insurance claims or regulatory relief and reversed later.

Third-party claims and other expenses have climbed to about $1.35 billion net of insurance recoveries from about $1.1 billion at 2018 year-end. We had thought most of the claims had been identified, but it appears more difficult to quantify some of the third-party claims for personal injury and property damage than we had suspected.

NiSource's insurance policies have a combined limit of $1.1 billion ($800 million of casualty and $300 million of property), but even if some of the $250 million of incremental claims and other expenses in the recently ended quarter are not recovered, we doubt it would have a material impact on our fair value estimate.

NiSource reaffirmed 2019 operating earnings guidance of $1.27-$1.30 per share and our estimate of $1.30 per share is unchanged. The utility also reaffirmed its 2019 capital expenditure guidance of $1.6 billion to $1.7 billion. Our estimate of $1.7 billion remains at the top end of the guidance.

We believe annual EPS growth will return to management's 5%-7% target after 2020 and our EPS growth rate estimate from 2020-23 equals 6.1%. We also expect annual dividend increases to average 6% starting next year after

Vital Statistics

Market Cap (USD Mil)	10,361
52-Week High (USD)	28.85
52-Week Low (USD)	23.23
52-Week Total Return %	17.1
YTD Total Return %	11.2
Last Fiscal Year End	31 Dec 2018
5-Yr Forward Revenue CAGR %	5.0
5-Yr Forward EPS CAGR %	4.7
Price/Fair Value	1.03

Valuation Summary and Forecasts

Fiscal Year:	2017	2018	*2019(E)*	*2020(E)*
Price/Earnings	21.2	19.5	*21.4*	*20.3*
EV/EBITDA	11.6	25.6	*11.2*	*10.4*
EV/EBIT	18.9	147.3	*18.2*	*16.7*
Free Cash Flow Yield %	-11.0	-13.5	*-4.0*	*-2.1*
Dividend Yield %	2.7	3.1	*2.9*	*3.1*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2017	2018	*2019(E)*	*2020(E)*
Revenue	4,875	5,115	*5,356*	*5,638*
Revenue YoY %	8.5	4.9	*4.7*	*5.3*
EBIT	916	126	*1,115*	*1,213*
EBIT YoY %	6.9	-86.3	*785.8*	*8.8*
Net Income, Adjusted	400	463	*495*	*539*
Net Income YoY %	13.8	16.0	*6.9*	*8.8*
Diluted EPS	1.21	1.30	*1.30*	*1.37*
Diluted EPS YoY %	11.2	7.6	*0.1*	*5.4*
Free Cash Flow	-971	-1,337	*-722*	*-240*
Free Cash Flow YoY %	61.4	37.7	*-46.0*	*-66.8*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewables.

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.40 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

shareholders received only a 2.6% increase last quarter.

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.40 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2016	2017	2018	*Forecast* 2019	*Forecast* 2020	5-Year Proj. CAGR
Revenue	*3.2*	-3.4	8.5	4.9	*4.7*	*5.3*	*5.0*
EBIT	*-46.0*	7.0	6.9	-86.3	*785.8*	*8.8*	*64.4*
EBITDA	*-18.2*	5.9	5.9	-51.2	*149.4*	*7.5*	*26.8*
Net Income	*15.7*	17.4	13.8	16.0	*6.9*	*8.8*	*8.6*
Diluted EPS	*11.6*	16.1	11.2	7.6	*0.1*	*5.4*	*4.7*
Earnings Before Interest, after Tax	*-156.0*	6.8	-10.8	-118.4	*-952.5*	*8.2*	—
Free Cash Flow	*-171.0*	-116.1	61.4	37.7	*-46.0*	*-66.8*	—

Profitability	3-Year Hist. Avg	2016	2017	2018	*2019*	*2020*	5-Year Proj. Avg
Operating Margin %	*13.5*	19.1	18.8	2.5	*20.8*	*21.5*	*22.1*
EBITDA Margin %	*25.3*	31.3	30.5	14.2	*33.8*	*34.5*	*35.1*
Net Margin %	*8.4*	7.8	8.2	9.1	*9.2*	*9.6*	*10.0*
Free Cash Flow Margin %	*-19.8*	-13.4	-19.9	-26.1	*-13.5*	*-4.3*	*-2.2*
ROIC %	*3.8*	5.5	6.4	-0.6	*5.7*	*5.7*	*5.8*
Adjusted ROIC %	*4.3*	6.2	7.2	-0.7	*6.3*	*6.3*	*6.4*
Return on Assets %	*0.7*	1.8	0.7	-0.3	*2.2*	*2.3*	*2.4*
Return on Equity %	*3.3*	8.4	3.1	-1.4	*9.7*	*9.6*	*9.7*

Leverage	3-Year Hist. Avg	2016	2017	2018	*2019*	*2020*	5-Year Proj. Avg
Debt/Capital	*0.65*	0.66	0.68	0.61	*0.62*	*0.62*	*0.61*
Total Debt/EBITDA	*8.09*	5.63	6.06	12.59	*5.64*	*5.60*	*5.38*
EBITDA/Interest Expense	*3.43*	4.02	4.21	2.05	*4.62*	*4.50*	*4.54*

Valuation Summary and Forecasts

	2017	2018	*2019(E)*	*2020(E)*
Price/Fair Value	1.03	0.98	—	—
Price/Earnings	21.2	19.5	*21.4*	*20.3*
EV/EBITDA	11.6	25.6	*11.2*	*10.4*
EV/EBIT	18.9	147.3	*18.2*	*16.7*
Free Cash Flow Yield %	-11.0	-13.5	*-4.0*	*-2.1*
Dividend Yield %	2.7	3.1	*2.9*	*3.1*

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	6.0
Long-Run Tax Rate %	25.0
Stage II EBI Growth Rate %	7.0
Stage II Investment Rate %	100.0
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-563	-2.9	-1.46
Present Value Stage II	—	—	—
Present Value Stage III	20,059	102.9	52.12
Total Firm Value	**19,496**	**100.0**	**50.66**
Cash and Equivalents	421	—	1.09
Debt	-9,133	—	-23.73
Preferred Stock	-880	—	-2.29
Other Adjustments	300	—	0.78
Equity Value	**10,205**	**—**	**26.51**
Projected Diluted Shares	385		
Fair Value per Share (USD)	**27.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.40 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2016	2017	2018	*2019*	*2020*
Revenue	**4,493**	**4,875**	**5,115**	***5,356***	***5,638***
Cost of Goods Sold	1,390	1,519	1,761	*1,677*	*1,765*
Gross Profit	**3,102**	**3,356**	**3,353**	***3,679***	***3,872***
Selling, General & Administrative Expenses	1,454	1,612	2,353	*1,613*	*1,661*
Other Operating Expense (Income)	244	257	275	*268*	*276*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	547	570	600	*684*	*722*
Operating Income (ex charges)	**857**	**916**	**126**	***1,115***	***1,213***
Restructuring & Other Cash Charges	-1	6	1	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**858**	**911**	**125**	***1,115***	***1,213***
Interest Expense	350	353	353	*391*	*433*
Interest Income	2	-114	-2	*10*	*11*
Pre-Tax Income	**510**	**443**	**-231**	***734***	***792***
Income Tax Expense	182	315	-180	*183*	*198*
Other After-Tax Cash Gains (Losses)	3	0	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	-15	*-55*	*-55*
Net Income	**332**	**129**	**-66**	***495***	***539***
Weighted Average Diluted Shares Outstanding	324	331	357	*381*	*393*
Diluted Earnings Per Share	**1.02**	**0.39**	**-0.18**	***1.30***	***1.37***
Adjusted Net Income	351	400	463	*495*	*539*
Diluted Earnings Per Share (Adjusted)	**1.09**	**1.21**	**1.30**	***1.30***	***1.37***
Dividends Per Common Share	0.64	0.70	0.78	*0.80*	*0.85*
EBITDA	**1,405**	**1,481**	**724**	***1,810***	***1,946***
Adjusted EBITDA	**1,404**	**1,486**	**726**	***1,810***	***1,946***

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.40 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2016	2017	2018	*Forecast 2019*	*Forecast 2020*
Cash and Equivalents	36	38	121	*117*	*168*
Investments	—	—	—	—	—
Accounts Receivable	847	899	1,059	*954*	*1,004*
Inventory	494	471	423	*528*	*556*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	385	355	453	*400*	*425*
Current Assets	**1,762**	**1,763**	**2,055**	***1,999***	***2,153***
Net Property Plant, and Equipment	13,068	14,360	15,543	*16,559*	*17,633*
Goodwill	1,691	1,691	1,691	*1,691*	*1,691*
Other Intangibles	243	232	221	*210*	*199*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,637	1,625	2,002	*2,288*	*2,338*
Long-Term Non-Operating Assets	292	292	293	*293*	*293*
Total Assets	**18,692**	**19,962**	**21,804**	***23,039***	***24,305***
Accounts Payable	539	626	884	*689*	*726*
Short-Term Debt	1,851	1,490	2,027	*1,500*	*1,500*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,062	1,063	1,126	*1,100*	*1,200*
Current Liabilities	**3,452**	**3,178**	**4,037**	***3,289***	***3,426***
Long-Term Debt	6,058	7,512	7,105	*8,700*	*9,400*
Deferred Tax Liabilities (Long-Term)	2,528	1,293	1,331	*1,501*	*1,680*
Other Long-Term Operating Liabilities	1,265	2,737	2,519	*2,250*	*2,000*
Long-Term Non-Operating Liabilities	1,317	921	1,061	*1,061*	*1,061*
Total Liabilities	**14,621**	**15,642**	**16,053**	***16,801***	***17,567***
Preferred Stock	—	—	880	*880*	*880*
Common Stock	3	3	4	*4*	*4*
Additional Paid-in Capital	5,154	5,529	6,404	*6,704*	*7,004*
Retained Earnings (Deficit)	-972	-1,073	-1,399	*-1,209*	*-1,003*
(Treasury Stock)	-89	-96	-100	*-100*	*-100*
Other Equity	-25	-43	-37	*-41*	*-46*
Shareholder's Equity	**4,071**	**4,320**	**5,751**	***6,238***	***6,738***
Minority Interest	—	—	—	—	—
Total Equity	**4,071**	**4,320**	**5,751**	***6,238***	***6,738***

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.40 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2016	2017	2018	*Forecast 2019*	*Forecast 2020*
Net Income	332	129	-51	*550*	*594*
Depreciation	547	570	600	*684*	*722*
Amortization	—	—	—	*11*	*11*
Stock-Based Compensation	47	40	29	*40*	*42*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	182	307	-188	*170*	*180*
Other Non-Cash Adjustments	-12	76	42	—	—
(Increase) Decrease in Accounts Receivable	-188	-52	-186	*105*	*-50*
(Increase) Decrease in Inventory	39	19	41	*-106*	*-28*
Change in Other Short-Term Assets	-251	-396	-14	*53*	*-25*
Increase (Decrease) in Accounts Payable	109	49	268	*-195*	*36*
Change in Other Short-Term Liabilities	—	—	—	*-26*	*100*
Cash From Operations	**804**	**742**	**540**	***1,287***	***1,581***
(Capital Expenditures)	-1,475	-1,696	-1,818	*-1,700*	*-1,796*
Net (Acquisitions), Asset Sales, and Disposals	—	—	—	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-108	-113	-108	*-555*	*-300*
Cash From Investing	**-1,583**	**-1,809**	**-1,926**	***-2,255***	***-2,096***
Common Stock Issuance (or Repurchase)	14	330	844	*300*	*300*
Common Stock (Dividends)	-206	-229	-273	*-304*	*-333*
Short-Term Debt Issuance (or Retirement)	921	-282	772	*-527*	—
Long-Term Debt Issuance (or Retirement)	62	1,251	-742	*1,595*	*700*
Other Financing Cash Flows	—	—	868	*-95*	*-97*
Cash From Financing	**791**	**1,069**	**1,469**	***967***	***570***
Exchange Rates, Discontinued Ops, etc. (net)	-1	0	0	*-4*	*-5*
Net Change in Cash	**11**	**2**	**83**	***-4***	***51***

Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

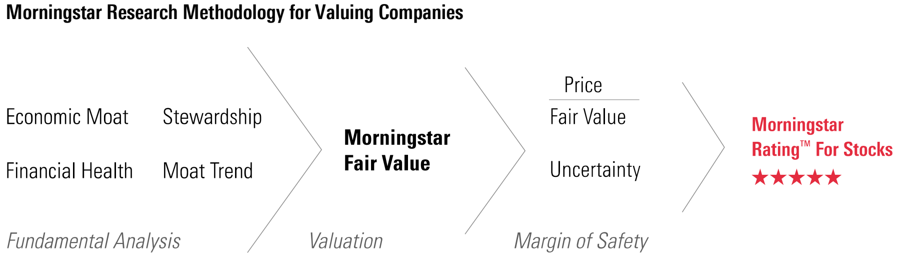
To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies



Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

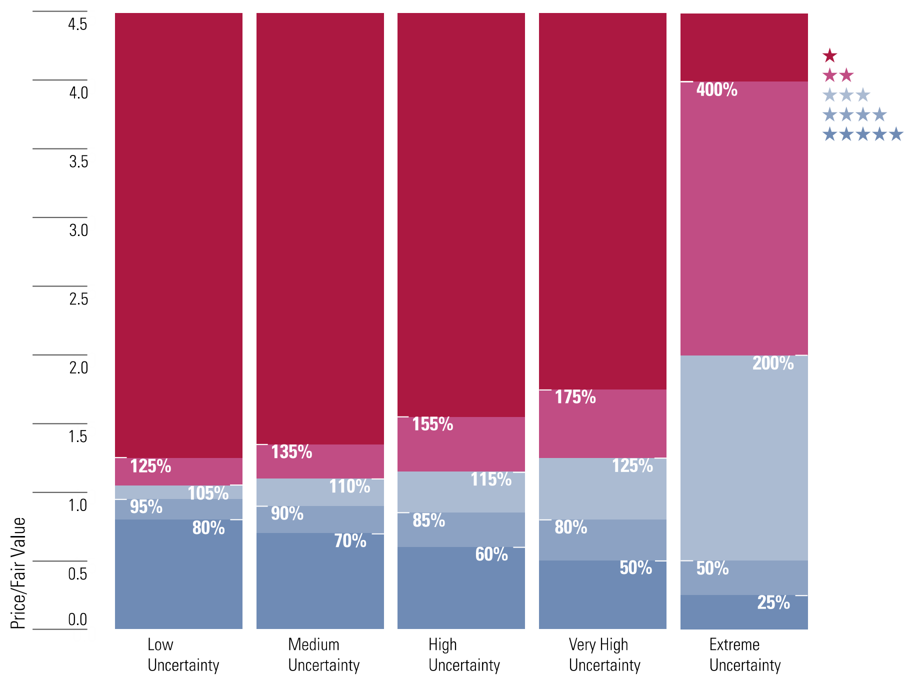
Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.
Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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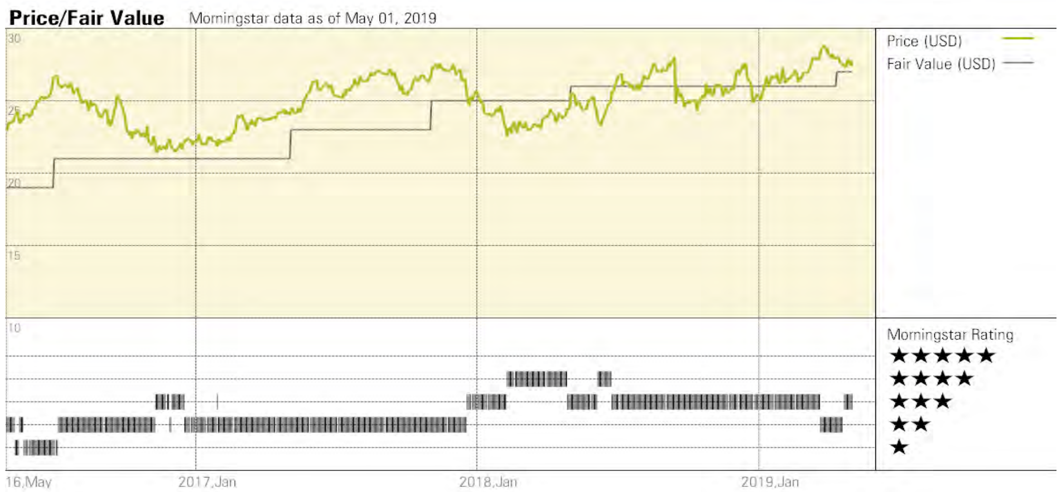

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.40 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

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June 17, 2019 | Equity Research

WELLS FARGO SECURITIES

Flash Comment

Natural Gas LDCs

NI: Shares Pop On Bloomberg Report Of Potential MA Sale

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Rena Wang, Associate Analyst (314) 875-2049

Sector Rating: Natural Gas LDCs, Market Weight

Intra-day on 6/17, shares of NI are up 1.9% versus the S&P Utilities -0.1% following a Bloomberg report stating that the company is planning to sell the division tied to the 9/13/18 Merrimack Valley gas explosion outside of Boston. NI has not commented as of the writing of this publication. News of a sale would not come as a major surprise as management has not ruled out the consideration of strategic alternatives in recent conversations, though the focus remains on final restoration work. We previously expected the timing of such an announcement would follow the final NTSB (National Transportation Safety Board) report expected this fall.

We would view a sale favorably – assuming a reasonable price – as it would allow investors to refocus on NI's attractive gas infrastructure growth story. Shares currently trade at 4-6% discounts to blended gas/electric peers on our '20E & '21E EPS of $1.40 & $1.48, respectively. Just prior to the explosion, shares were at slight premium. The divestiture of the MA system – which represented 8% of consolidated rate base as of YE'18 – could serve as a clearing event that we expect would support further multiple appreciation on a substantially similar EPS outlook (given the MA system is experiencing regulatory lag, we do not expect EPS dilution). Reiterate Outperform ($29.30).

Of note, the Bloomberg report indicated that the system "Is said to be worth about $2B," which strikes us as reasonable (implies an EV/rate base of ~1.8X on 2020E). No potential suitors have been mentioned – we note that local players include Eversource Energy (ES/Outperform/$76.86), which was the utility that Governor Barker put in charge of operations in the immediate aftermath of the incident, Avangrid, Inc. (AGR/Market Perform/$51.45) and UK-based National Grid (NGG/Not Covered/$52.24).

NiSource Inc. (NI)/Outperform (1)
Price as of 6/17/2019: $29.30
FY 19 EPS: $1.31
FY 20 EPS: $1.40
Shares Out.: 372.5 MM
Market Cap.: $10,914.25 MM

Eversource Energy (ES)/Outperform (1)
Price as of 6/17/2019: $76.86
FY 19 EPS: $3.45
FY 20 EPS: $3.65
Shares Out.: 317.3 MM
Market Cap.: $24,389.26 MM

Please see page 3 for rating definitions, important disclosures and required analyst certifications.
All estimates/forecasts are as of 06/17/19 unless otherwise stated. 06/17/19 15:57:27 ET

AVANGRID Inc. (AGR)/Market Perform (2)
Price as of 6/17/2019: $51.45
FY 19 EPS: $2.30
FY 20 EPS: $2.60
Shares Out.: 309.0 MM
Market Cap.: $15,898.05 MM

Rating Basis Information:
NI Thesis: We rate shares Outperform. We believe the current discounted valuation provides an attractive entry point to a company with robust long-term infrastructure growth opportunities and supportive regulatory treatment.

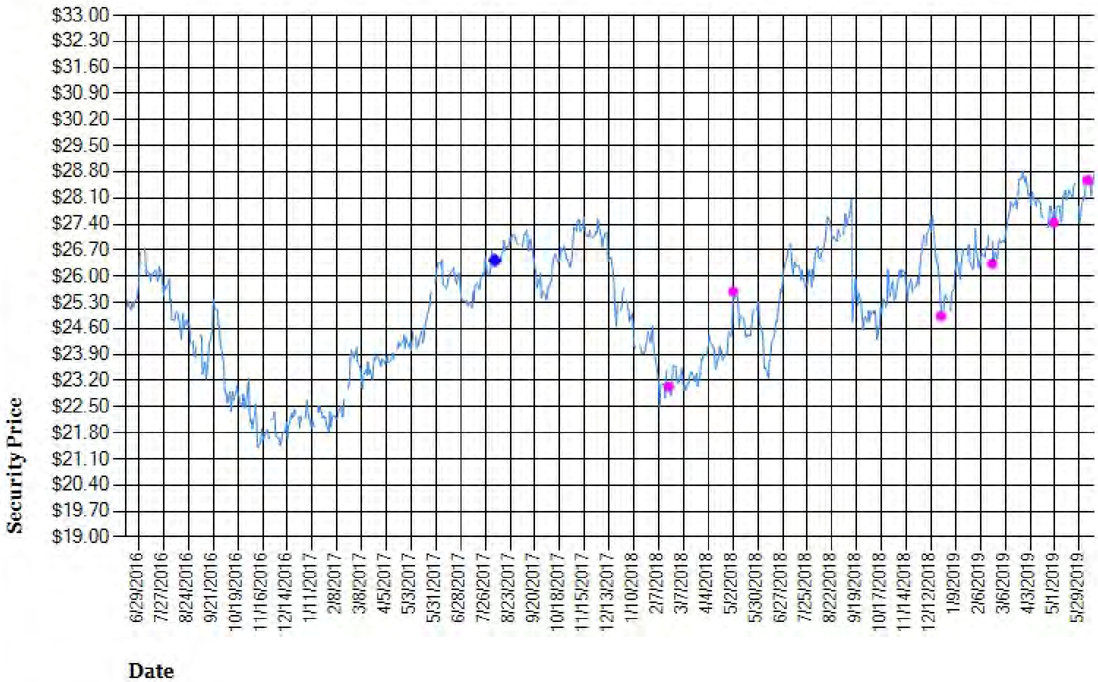
ES Thesis: We believe shares of ES warrant a 5% premium P/E given an above average EPS & DPS growth profile, heavy concentration of FERC-regulated earnings, proven management team and strong financial position.

AGR Thesis: Our Market Perform rating primarily reflects concerns around AGR's ability to hit targeted EPS growth goals in light of recent execution issues. AGR’s features include strong EPS growth potential, relatively predictable earnings (90% regulated/contracted) and a large U.S. renewable franchise.

DISCLOSURE APPENDIX

Required Disclosures

NiSource Inc. (NI) 3-yr. Price Performance



Date	Published Price ($)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
8/9/2017		Akers				
8/9/2017	26.32	1	30	NE	NE	26.38
2/20/2018	22.99	1	26	NE	NE	23.02
5/3/2018	25.38	1	28	NE	NE	25.57
12/24/2018	26.05	1	29	NE	NE	24.89
2/20/2019	26.28	1	30	NE	NE	26.28
5/1/2019	27.41	1	31	NE	NE	27.40
6/9/2019	28.54	1	32	NE	NE	28.54

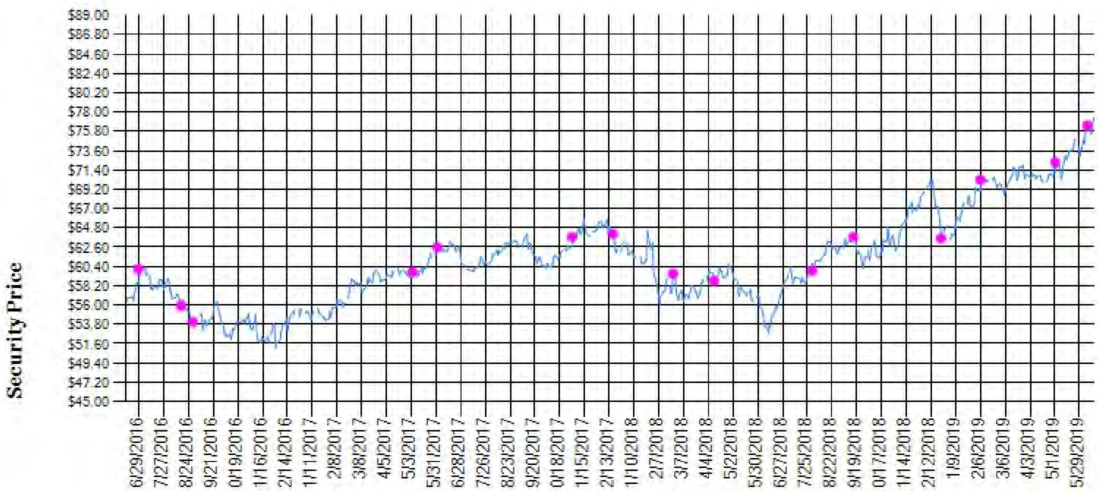
Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Eversource Energy (ES) 3-yr. Price Performance



Date	Published Price ($)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
6/14/2016		Kalton				
6/14/2016	NA	1	NE	61.00	63.00	57.29
• 6/30/2016	59.39	1	NE	66.00	68.00	59.90
• 8/17/2016	55.77	1	NE	64.00	66.00	55.77
• 8/31/2016	53.64	1	NE	62.00	64.00	53.97
• 5/5/2017	59.49	1	NE	64.00	65.00	59.55
• 6/2/2017	62.35	1	67	NE	NE	62.37
• 11/3/2017	63.23	1	69	NE	NE	63.54
• 12/18/2017	64.62	1	72	NE	NE	63.91
• 2/25/2018	59.47	1	65	NE	NE	59.47
• 4/12/2018	58.64	1	66	NE	NE	58.64
• 8/1/2018	59.74	1	67	NE	NE	59.74
• 9/16/2018	63.53	1	71	NE	NE	63.53
• 12/24/2018	66.47	1	74	NE	NE	63.38
• 2/8/2019	69.72	1	77	NE	NE	70.05
• 5/3/2019	71.52	1	79	NE	NE	72.08
• 6/9/2019	76.30	1	86	NE	NE	76.30

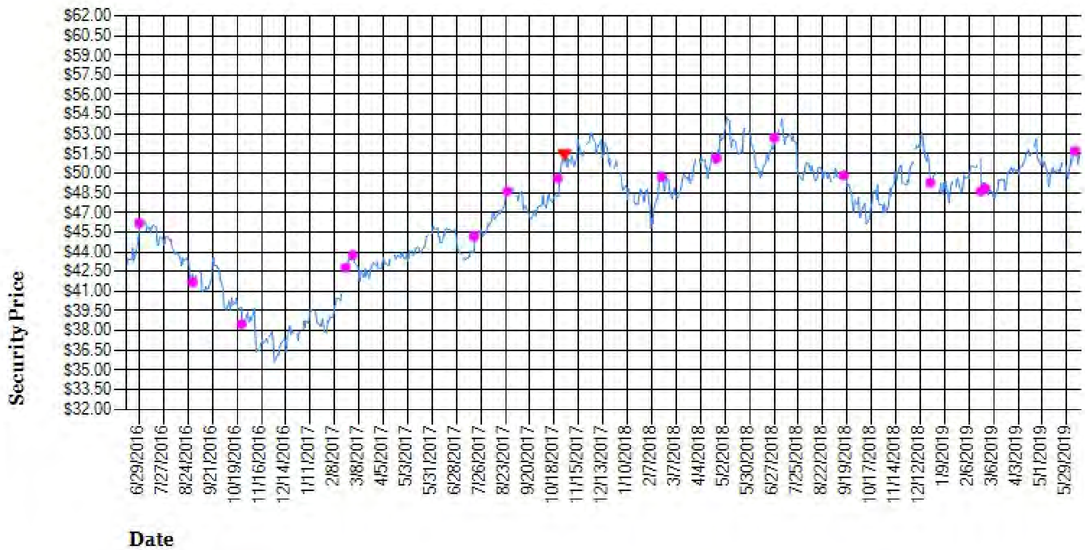
Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- • Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

AVANGRID Inc. (AGR) 3-yr. Price Performance



Date	Published Price ($)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
6/14/2016		Kalton				
6/14/2016	NA	1	NE	47.00	48.00	43.68
6/30/2016	46.10	1	NE	51.00	52.00	46.06
8/31/2016	41.71	1	NE	49.00	50.00	41.60
10/25/2016	38.41	1	NE	44.00	46.00	38.41
2/21/2017	42.69	1	NE	48.00	49.00	42.63
3/2/2017	43.67	1	NE	49.00	50.00	43.67
7/19/2017	45.09	1	50	NE	NE	45.15
8/27/2017	48.56	1	53	NE	NE	48.56
10/24/2017	49.30	1	54	NE	NE	49.50
11/1/2017	51.73	2	54	NE	NE	51.27
2/20/2018	49.58	2	51	NE	NE	49.58
4/23/2018	50.90	2	52	NE	NE	51.07
6/28/2018	52.59	2	54	NE	NE	52.59
9/16/2018	49.71	2	55	NE	NE	49.71
12/24/2018	51.07	2	54	NE	NE	49.15
2/20/2019	48.51	2	53	NE	NE	48.51
2/26/2019	48.70	2	51	NE	NE	48.70
6/9/2019	51.64	2	55	NE	NE	51.64

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

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NI: Risks include greater than expected shareholder liabilities associated with the 9/13/18 MA gas incident, unfavorable regulatory developments, a potential rise in interest rates (financing costs and sector valuation), and lower than expected sales growth.
ES: Risks to our price target include potential development issues related to offshore wind (new to the U.S.) along with unfavorable regulatory developments.
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2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

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M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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As of: June 17, 2019

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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Underweight
Gas/Power Infrastructure – Market Overweight

June 17, 2019

NISOURCE

(NI US Equity – $29.16 – Outperform)

Come sale away, come sale away, sale away with MA

- **NiSource reported to consider sale of Columbia MA.** Today during market hours, *Bloomberg* reported that NI has received bids and is considering a sale of its MA subsidiary. The report indicated that a sale of Columbia MA could fetch up to $2B (~2x total rate base). In our view, a sale of MA makes sense and was the primary reason we stuck with our Outperform rating following the gas explosions last fall. A sale would remove the MA overhang on an otherwise solid investment story. We believe a natural suitor to be ES who could buy the property at a decent price, making it a win-win for both parties. NI outperformed the UTY by 180bps on the day following the news.

- **Reported $2B sale price higher than we assume.** We believe a $2B sale price could be a little high given that the rate base number reported ($1B) for Columbia MA includes money spent on the expediated pipeline replacement effort. NI is not earning on that amount and will attempt to get recovery of the cash via a property insurance filing later this year. While the reported sale price is possible, we think a more likely price would be closer to $1.7-1.8B, assuming the property sells for 2x the rate base that NI is allowed to earn on.

- **We see a sale dilutive initially, modest accretion by 2022.** Earnings power associated with the MA subsidiary is $0.11-0.12/sh, which comprises roughly 8% of total earnings. Assuming a $1.75B sale price, we allocate proceeds via the following – eliminate ATM equity needs in '20-'22 ($900M) and layer in $100M of new capex per year given NI's extensive backlog. In doing so, we see ~$0.08 / $0.01 of EPS dilution in 2020 / 2021. By 2022, We see $0.04 of EPS accretion largely due to the lower share count. It is our understanding that there would be no tax leakage given NI's deferred tax asset position.

- **Multiple re-rating is the most compelling piece.** Prior to the Merrimack Valley incident, NiSource traded at a 2x premium to the electric average. As of today's close, NI trades just below a 1x premium. We believe a sale of Columbia MA will allow NI to re-rate at a faster pace, reasserting itself amongst the highest quality names in the sector. Separately, we raise out PT by $1 to $31 to reflect higher group multiples – this includes a full-turn discount on NI's gas LDC segment given the MA overhang.

Estimates / Valuation				
(US$)	2019E	2020E	2021E	2022E
EPS	$1.31	$1.39	$1.48	$1.59
Consensus	$1.31	$1.39	$1.48	$1.59
P/E	22.3x	21.0x	19.7x	18.4x
Dividend Yield	2.7%	2.7%	2.9%	3.1%

Trading and Fundamental Data	
Price Target	**$ 31**
Current Price	29.16
52-Week Range	$24-$29
Market Cap. (MM)	10,880
Enterprise Value (MM)	20,840
Shares Out. (MM)	373.1
Dividend Yield	2.74%
Dividend Payout Ratio	61.3%
ROE	-1.4%
Debt to Cap	61.5%
Avg. Daily Vol. (000)	2,393

Price Performance	YTD	LTM
NI US Equity	15%	22%
Utility Index	14%	23%
S&P 500	15%	4%

Source: FactSet/Wolfe Research

Key Changes		
Year	New	Old
PT	$31	$30

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WOLFE RESEARCH

NiSource

June 17, 2019

NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2019E	2020E	2021E	2022E
EPS	$1.31	$1.39	$1.48	$1.59
Diluted Shares Outstanding	362	373	384	395
Dividends Per Share	$0.80	$0.85	$0.90	$0.95
Dividend Yield	2.7%	2.9%	3.1%	3.3%
Dividend Payout Ratio	61%	61%	61%	60%
Equity Ratio	37%	39%	39%	40%
FFO/Net Debt	15%	15%	14%	14%
Valuation Metrics				
P/E	22.3x	21.0x	19.7x	18.4x
Price/Book	2.0x	1.9x	1.8x	1.7x
Segment EPS				
Gas Distribution	$1.13	$1.20	$1.27	$1.36
Electric	$0.58	0.59	0.60	0.61
Parent & Other	($0.41)	(0.40)	(0.39)	(0.38)
Total EPS	**$1.31**	**$1.39**	**$1.48**	**$1.59**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2019E	2020E	2021E	2022E
Total Capital Spending by Segment ($M)				
Gas Distribution	$1,225	$1,337	$1,337	$1,337
Electric	425	463	463	463
Parent	25	25	25	25
Total Capex	**$1,675**	**$1,825**	**$1,825**	**$1,825**
Financings ($M)				
Total Equity Issued/(Repurchased)	$298	$298	$298	$298
Total Preferred Equity Issued/(Repurchased)	$0	$0	$0	$0
Total Debt Issued/(Repurchased)	$350	$400	$350	$350

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland and Massachusetts.

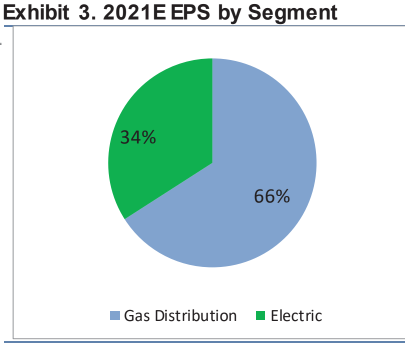
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of investment with recovery largely through trackers and balanced regulatory environments. Additionally, we see the gas business getting larger over time. NI appears attractive at current levels.

Valuation

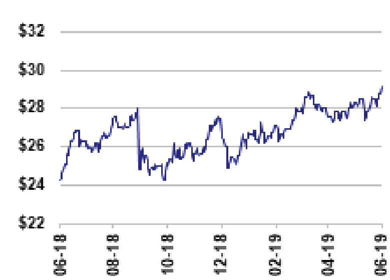
Our $31 price target is on a SOTP target P/E valuation. We apply a one-turn discount to the 21x group LDC multiple given the Massachusetts overhang. For its electric utility earnings, we ascribe a one-turn premium to our 19x group multiple given the constructive regulatory environment. Risks for NiSource are 1) further cost increases in MA 2) regulatory outcomes and 3) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer growth

Exhibit 3. 2021E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: FactSet

WOLFE RESEARCH

NiSource

June 17, 2019

Investment Conclusion

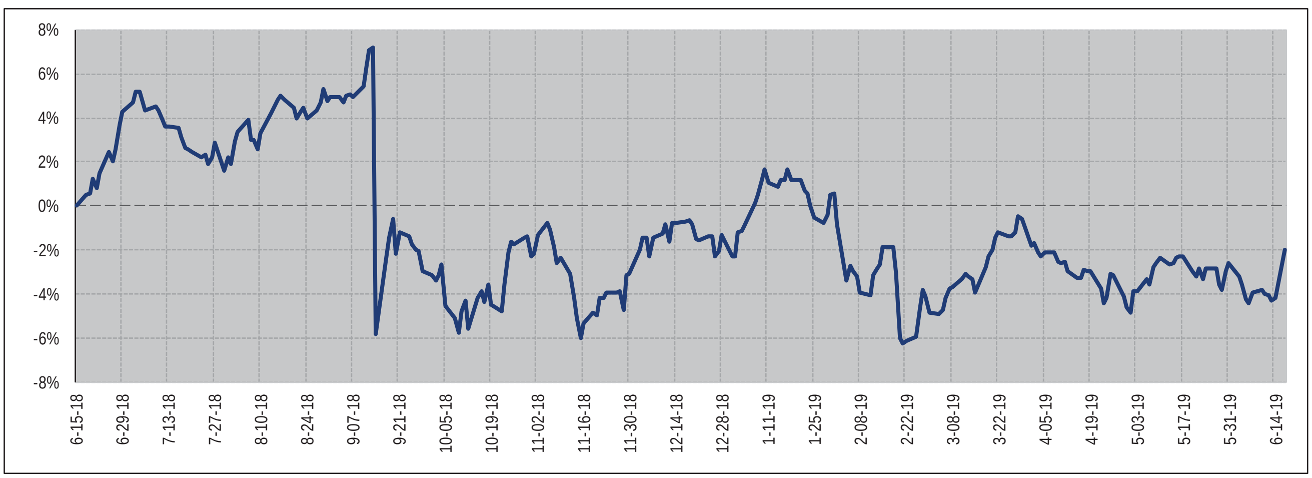
We are Outperform rated on NI. The company's $30B capital investment backlog will drive its 5-7% annual earnings target well into the future, most of which is recovered with minimal lag via tracking mechanisms. NI has also established a track record of reaching constructive regulatory settlements in its various jurisdictions. The event at its MA subsidiary last September has unfortunately overshadowed an otherwise solid business – we believe the company would be best served to exit the state for a couple reasons 1) there are natural buyers, most likely being ES or Nat Grid and 2) a sale would allow NI to get out from under the political microscope in MA and claw back its gas LDC premium at a fast pace. We believe a sale of the business is more likely than not and maintain our Outperform rating as we believe this would be a positive catalyst for the stock.

Exhibit 5: LDC gas comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E Multiple 2019E	2020E	2021E	2022E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Atmos Energy	ATO	$104.75	117	$12,254	24.2x	22.8x	21.2x	NA	2.0%	7.7%	68%	2.4	57%
Southwest Gas	SWX	87.80	53	4,688	22.3x	20.8x	19.5x	18.0x	2.5%	-0.5%	75%	2.1	50%
ONE Gas	OGS	91.01	53	4,795	26.3x	25.2x	23.9x	NA	2.2%	0.0%	89%	2.3	56%
NiSource	NI	29.16	373	10,880	22.3x	20.9x	19.7x	18.4x	2.7%	0.0%	85%	2.2	39%
New Jersey Resources	NJR	49.89	89	4,451	24.9x	22.7x	20.8x	19.6x	2.3%	1.7%	66%	3.1	49%
Northwest Natural Gas	NWN	69.09	30	2,102	28.9x	27.4x	26.2x	25.5x	2.8%	0.6%	83%	2.6	44%
UGI Corp	UGI	52.64	174	9,169	21.9x	17.1x	16.3x	NA	2.3%	-4.7%	60%	2.5	45%
Spire Inc.	SR	84.22	51	4,274	22.5x	21.6x	20.7x	19.1x	2.8%	0.3%	74%	1.9	46%
Average					**24.2x**	**22.3x**	**21.0x**	**20.1x**	**2.5%**	**0.6%**	**75%**	**2.4x**	**48%**
Average - electric utilities					*21.3x*	*20.0x*	*18.9x*	*18.0x*	*3.1%*	*5.2%*	*65%*	*2.2x*	*44%*

Source: Wolfe Research, FactSet

Exhibit 6: NI vs the Regulated Average



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Important Disclosures:

Price Chart with Ratings and Target Price History

Note: OP = Outperform; PP = Peer Perform; UP = Underperform

Wolfe Research, LLC Fundamental Valuation Methodology:

Company:	Fundamental Valuation Methodology:
NI US Equity	Forward P/E

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:	Risks That May Impede Achievement of the Recommendation, Rating or Target Price:
NI US Equity	Economy, cost increases from MA gas explosion, regulatory outcomes, project execution

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
NI US Equity	None

Other Disclosures:

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Outperform (OP):	The security is projected to outperform analyst's industry coverage universe over the next 12 months.
Peer Perform (PP):	The security is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.
Underperform (UP):	The security is projected to underperform analyst's industry coverage universe over the next 12 months.

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Market Weight (MW):	Expect the industry to perform approximately in line with the primary market index for the region (S&P 500 in the U.S.) over the next 12 months.
Market Underweight (MU):	Expect the industry to underperform the primary market index for the region (S&P 500 in the U.S.) by at least 10% over the next 12 months.

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Outperform:	44%	1% Investment Banking Clients
Peer Perform:	41%	1% Investment Banking Clients
Underperform:	15%	0% Investment Banking Clients

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NiSource Inc

Bay State Gas Accretion: Potential Sale has Merit

Reiterate Rating: NEUTRAL | PO: 29.00 USD | Price: 29.10 USD

Bank of America Merrill Lynch

Equity | 18 June 2019

NI Ridding of Mass Biz? See strategic rationale as positive

Yesterday, widespread media articles (eg, Bloomberg) reported that NI is considering the sale of its MA subsidiary Columbia Gas at a value of $2bn; this is not a surprise following previous commentary from mgmt. weighing its options. Following the biz's Merrimack incident and subsequent series of additional costs that have far exceeded $1.1bn of insurance coverage, we see this possibility as a positive. We have viewed MA as NI's largest uncertainty given the company will likely need to ask to recover costs exceeding insurance – which the MA Commission could very well argue is imprudent. Even so, we see the transaction value Bloomberg and other articles have cited as too high to be realistic. Columbia Gas's reported ratebase (YE18) was $991mn meaning an over 2x transaction multiple; *and if factoring out unrecoverable costs associated with the MA incident (eg, pipe replacement) this figure is closer to $750mn* meaning $2bn would equate to a 2.67x multiple – which looks too high in our view. In fact, we think a more realistic purchase price would be less than $1.5bn – to reflect only recoverable rate base given our expectation the MA Commission will not take it easy on the company. Note we see a sale happening sooner than we initially anticipated (2H19). Reiterate Neutral rating.

Accretion / Dilution of potential sale

All in all, off a $750mn YE18 ratebase we see a deal as $0.04/sh accretive. Given the company has $509mn of net operating losses (NOLs) we see this as being able to offset any tax leakage with a sale. We believe it is likely a suitor would pay a premium for a deeply discounted utility given the under-earning. Assuming NI can garner about a 23x P/E for the asset, considering another suitor would not be penalized and would likely be able to turn the asset around and earn closer to allowed returns. This would imply $882mn in cash proceeds on $38mn of income. We assume around $750mn debt paydown at 4% interest given our assumed $50mn of offsetting equity need. Further, we assume remaining proceeds are invested back into the other subsidiaries, earning an approximate 9% ROE. This would imply 1.4x ratebase on its current asset base, and would be a clear valuation uplift by $1 /sh+ compared to the $0.8/sh we assume in our SOTP analysis. We see the article indicating a potential sale as potentially illustrative of our underlying concerns on recovery in a stand-alone NI/Bay State gas rate case.

Estimates (Dec)

(US$)	2017A	2018A	2019E	2020E	2021E
EPS	1.21	1.30	1.30	1.35	1.46
GAAP EPS	0.39	1.30	1.30	1.35	1.46
EPS Change (YoY)	14.2%	7.4%	0%	3.8%	8.1%
Consensus EPS (Bloomberg)			1.31	1.39	1.49
DPS	0.73	0.79	0.83	0.88	0.94

Valuation (Dec)

	2017A	2018A	2019E	2020E	2021E
P/E	24.0x	22.4x	22.4x	21.6x	19.9x
GAAP P/E	74.6x	22.4x	22.4x	21.6x	19.9x
Dividend Yield	2.5%	2.7%	2.9%	3.0%	3.2%
EV / EBITDA*	17.5x	17.0x	14.9x	14.2x	13.3x
Free Cash Flow Yield*	-8.8%	-11.8%	-5.0%	-6.9%	-5.9%

* For full definitions of *iQmethod* SM measures, see page 6.

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4. **12012009**

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Stock Data

Price	29.10 USD
Price Objective	29.00 USD
Date Established	2-May-2019
Investment Opinion	B-2-7
52-Week Range	24.18 USD - 29.35 USD
Mrkt Val (mn) / Shares Out (mn)	10,857 USD / 373.1
Average Daily Value (mn)	80.68 USD
BofAML Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2019E)	9.7%
Net Dbt to Eqty (Dec-2018A)	156.7%

iQprofile SM NiSource Inc

iQmethod SM – Bus Performance*

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Return on Capital Employed	2.6%	3.9%	4.1%	4.0%	4.0%
Return on Equity	9.5%	10.1%	9.7%	9.5%	9.8%
Operating Margin	18.7%	18.3%	20.4%	20.9%	21.7%
Free Cash Flow	(954)	(1,278)	(544)	(754)	(640)

iQmethod SM – Quality of Earnings*

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash Realization Ratio	1.9x	1.2x	2.3x	2.3x	2.2x
Asset Replacement Ratio	3.0x	3.0x	2.4x	2.7x	2.5x
Tax Rate	71.0%	19.7%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	207.7%	156.7%	154.3%	155.7%	155.1%
Interest Cover	2.6x	2.6x	3.0x	3.1x	3.3x

Income Statement Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Sales	4,875	5,084	5,150	5,270	5,420
% Change	8.5%	4.3%	1.3%	2.3%	2.9%
Gross Profit	3,356	3,325	3,586	3,681	3,808
% Change	8.2%	-0.9%	7.9%	2.7%	3.4%
EBITDA	1,481	1,531	1,739	1,828	1,947
% Change	5.4%	3.4%	13.6%	5.1%	6.5%
Net Interest & Other Income	(468)	(335)	(353)	(360)	(362)
Net Income (Adjusted)	398	463	496	530	591
% Change	15.6%	16.6%	7.1%	6.9%	11.4%

Free Cash Flow Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Net Income from Cont Operations (GAAP)	129	463	496	530	591
Depreciation & Amortization	570	600	690	728	769
Change in Working Capital	(415)	110	(186)	(186)	(186)
Deferred Taxation Charge	307	(188)	117	124	137
Other Adjustments, Net	152	(445)	0	0	0
Capital Expenditure	(1,696)	(1,818)	(1,661)	(1,951)	(1,951)
Free Cash Flow	-954	-1,278	-544	-754	-640
% Change	-41.9%	-34.0%	57.4%	-38.6%	15.1%

Balance Sheet Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash & Equivalents	29	121	133	133	133
Trade Receivables	945	1,147	1,333	1,519	1,706
Other Current Assets	790	787	787	787	787
Property, Plant & Equipment	14,360	15,543	16,513	17,736	18,918
Other Non-Current Assets	3,839	4,206	4,206	4,206	4,206
Total Assets	19,962	21,804	22,973	24,382	25,750
Short-Term Debt	1,490	2,027	2,283	2,474	2,647
Other Current Liabilities	1,688	2,010	2,010	2,010	2,010
Long-Term Debt	7,512	7,105	7,438	8,063	8,624
Other Non-Current Liabilities	4,951	4,911	5,028	5,152	5,289
Total Liabilities	15,642	16,053	16,758	17,699	18,570
Total Equity	4,320	5,751	6,215	6,683	7,180
Total Equity & Liabilities	19,962	21,804	22,973	24,382	25,750

* For full definitions of *iQmethod* SM measures, see page 6.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

NI's positives including 5-7% earnings/dividend growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries with earned ROEs consistently near the allowed.However, we see increased regulatory lag associated with the MA incident. Moreover, with the outcome of Department of Justice investigation still unclear, we believe an overhang on shares will persist. Bottom line, we see more balanced risk/reward profile and as such we rate NI Neutral.

Stock Data

Average Daily Volume	2,772,388

Quarterly Earnings Estimates

	2018	2019
Q1	0.77A	0.82E
Q2	0.08A	0.09E
Q3	0.10A	0.27E
Q4	0.38A	0.14E

Accretion/Dilution of Columbia Gas of MA

We assume the $750mn rate base at YE18 after factoring out unrecoverable costs associated with the MA, and apply the equity ratio and allowed ROE to come up with the total potential net income proceeds of $38mn. We then apply a 23x multiple to come up with total potential proceeds of $882mn. We see a clear potential for in-state buyers (i.e. ES or National Grid) to socialize the cost impacts across a wider base and also bring back local control of the utility. Bottom line, we see real merit to this move and believe it would be accretive from both an EPS and valuation standpoint.

Table 1: Accretion assumptions

Columbia Gas of MA Transaction ($Mn)			
Columbia Gas of MA Proceed Assumptions	Bear P/E	Base P/E	Bull P/E
Transaction multiple (P/E)	21.0x	23.0x	25.0x
Columbia Gas of MA Gross Proceeds ($Mn)	805	882	959
Tax Basis ($Mn)	300	300	300
Taxable Gain	505	582	659
Taxes Rate (21%)	21%	21%	21%
Taxes ($Mn)	106	122	138
NOLs ($Mn)	509	509	509
Net Proceeds ($Mn)	805	882	959
2018 Year-end Rate Base			750
Equity Layer			53.54%
ROE			9.55%
Sale Net Income Proceeds			38
	Bear	Base	Bull
Equity Proceeds	805	882	959
Assumed Debt	460	460	460
Total Enterprise Value	1266	1342	1419
Assumed Rate Base ($Mn)	991	991	991
Rate Base Multiple	1.3x	1.4x	1.4x

Columbia Gas of MA Transaction ($Mn)	
Starting 2021 Net Income	587
Loss of Net Income	-17
Debt Paydown	24
Capital Investment	7
Pro Forma NI	601
2021E S/O	405
Less avoided equity issuance	-2
Pro Forma S/O	403
Pre Transaction EPS (2021E)	$1.45
Post Transaction EPS (2021E)	$1.49
Accretion/Dilution	$0.04

Assumptions	
Proceeds	882
Debt Paydown	750
Capital Investment	82
Offsetting equity need	50
Int Rate	4%
Tax Shield	21%
Share Price	29.16
Incremental Capital Investment	
ROE	9%

Source: BofA Merrill Lynch Global Research estimates, company report

Price objective basis & risk

NiSource Inc (NI)

Our $29 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2021 forward P/E multiples of 21.4x for gas utilities and 19.2x for electric utilities with a 1.0x premium to reflect NiSource's electric utility's strong growth rates and earned ROEs. We note that electric / gas peer P/E multiples are grossed up for a year to 2019 by 5% / 5.1% to reflect capital appreciation across the sector. We then subtract the value of excess holding company debt at the parent not supporting the utility opcos. This multiple is slightly below the LDC peer average but above the small-mid cap electric utility average. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its inline-ish multiple versus peers. We add in Columbia Gas of MA but discount the jurisdiction by -3.0x due to Andover challenges. We also adjust other gas utilities to a -1.0x discount to reflect overhang of shares.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Pipelines, MLPs, and Gas Utilities Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Atmos Energy Corporation	ATO	ATO US	Dennis P. Coleman, CFA
	Brookfield Infrastructure Partners LP	BIP	BIP US	Dennis P. Coleman, CFA
	Crestwood Equity Partners LP	CEQP	CEQP US	Dennis P. Coleman, CFA
	DCP Midstream, LP	DCP	DCP US	Dennis P. Coleman, CFA
	Enable Midstream Partners, LP	ENBL	ENBL US	Dennis P. Coleman, CFA
	Enbridge Inc	ENB	ENB US	Dennis P. Coleman, CFA
	Enbridge Inc.	YENB	ENB CN	Dennis P. Coleman, CFA
	Energy Transfer LP	ET	ET US	Dennis P. Coleman, CFA
	Enterprise L.P.	EPD	EPD US	Dennis P. Coleman, CFA
	Kinder Morgan, Inc.	KMI	KMI US	Dennis P. Coleman, CFA
	MPLX LP	MPLX	MPLX US	Dennis P. Coleman, CFA
	NGL Energy Partners, LP	NGL	NGL US	Dennis P. Coleman, CFA
	Noble Midstream Partners LP	NBLX	NBLX US	Dennis P. Coleman, CFA
	ONEOK, Inc.	OKE	OKE US	Dennis P. Coleman, CFA
	Plains All American	PAA	PAA US	Dennis P. Coleman, CFA
	Plains GP Holdings, LP	PAGP	PAGP US	Dennis P. Coleman, CFA
	Rattler Midstream, LP	RTLR	RTLR US	Dennis P. Coleman, CFA
	Targa Resources Corp.	TRGP	TRGP US	Dennis P. Coleman, CFA
	TC Energy Corp.	TRP	TRP US	Dennis P. Coleman, CFA
	TC Energy Corp.	YTRP	TRP CN	Dennis P. Coleman, CFA
	The Williams Companies, Inc.	WMB	WMB US	Dennis P. Coleman, CFA
	UGI Corporation	UGI	UGI US	Dennis P. Coleman, CFA
NEUTRAL				
	EnLink Midstream, LLC	ENLC	ENLC US	Dennis P. Coleman, CFA
	EQM Midstream Partners LP	EQM	EQM US	Derek Walker
	Equitrans Midstream Corporation	ETRN	ETRN US	Derek Walker
	Magellan Midstream Partners, LP	MMP	MMP US	Dennis P. Coleman, CFA
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NuStar Energy L.P.	NS	NS US	Dennis P. Coleman, CFA
	Phillips 66 Partners LP	PSXP	PSXP US	Dennis P. Coleman, CFA
	South Jersey Industries	SJI	SJI US	Dennis P. Coleman, CFA
	Spire, Inc	SR	SR US	Dennis P. Coleman, CFA
	USD Partners, LP	USDP	USDP US	Derek Walker
	Western Midstream Partners, LP	WES	WES US	Dennis P. Coleman, CFA
UNDERPERFORM				
	BP Midstream Partners, LP	BPMP	BPMP US	Dennis P. Coleman, CFA
	Kinder Morgan Canada Ltd	YKML	KML CN	Dennis P. Coleman, CFA
	New Jersey Resources Corp	NJR	NJR US	Dennis P. Coleman, CFA
	Northwest Natural Holding Co	NWN	NWN US	Dennis P. Coleman, CFA
	ONE Gas, Inc.	OGS	OGS US	Dennis P. Coleman, CFA
	Shell Midstream Partners, L.P.	SHLX	SHLX US	Dennis P. Coleman, CFA
	Southwest Gas Holdings, Inc	SWX	SWX US	Dennis P. Coleman, CFA
	Sunoco LP	SUN	SUN US	Dennis P. Coleman, CFA
	Tallgrass Energy, LP	TGE	TGE US	Dennis P. Coleman, CFA
	TC PipeLines LP	TCP	TCP US	Dennis P. Coleman, CFA
RSTR				
	Buckeye Partners	BPL	BPL US	Dennis P. Coleman, CFA

***iQ**method* [SM] **Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod [SM] is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

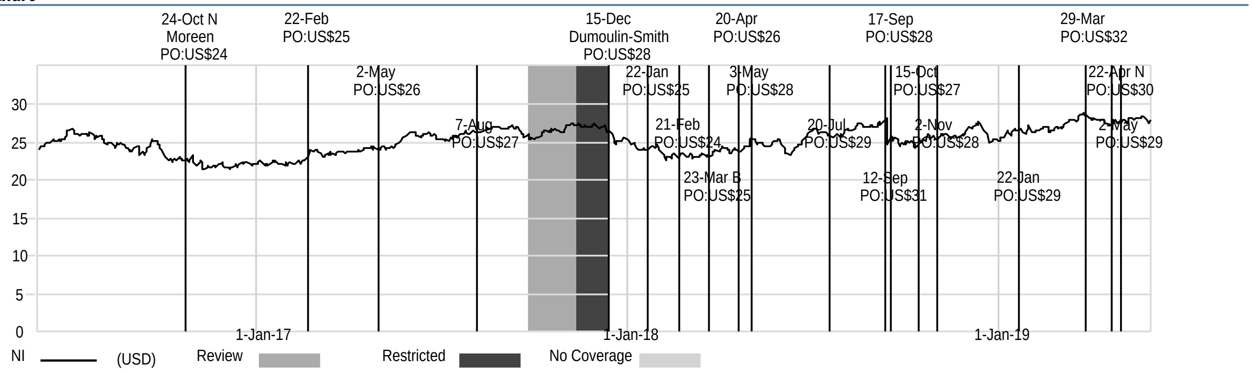
iQdatabase® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Merrill Lynch.

Bank of America Merrill Lynch

Disclosures

Important Disclosures

NI Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of May 31, 2019 or such later date as indicated.

Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	99	56.57%	Buy	73	73.74%
Hold	37	21.14%	Hold	23	62.16%
Sell	39	22.29%	Sell	22	56.41%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	59	42.75%	Buy	46	77.97%
Hold	44	31.88%	Hold	31	70.45%
Sell	35	25.36%	Sell	26	74.29%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1519	51.39%	Buy	954	62.80%
Hold	701	23.71%	Hold	443	63.20%
Sell	736	24.90%	Sell	362	49.18%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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Goldman Sachs | Equity Research

18 June 2019 | 10:17AM EDT

Buy

NiSource Inc. (NI)

Potential MA sale could provide earnings/multiple uplift; remain Buy

NI	12m Price Target: **$29.00**	Price: **$29.16**	Downside: **0.5%**

Following a Bloomberg article on the potential sale of NI's MA gas utility, we run a scenario analysis highlighting the potential EPS and multiple upside from a sale. We reiterate our $29 12-month price target and remain Buy rated.

On Monday, June 17, Bloomberg reported NI (Buy) is considering selling Columbia Gas of MA, which we estimate makes up roughly 10% of the company's rate base/earnings power. We note that Columbia Gas of MA pipelines were involved in an explosion in September 2018, resulting in third party claims and other expenses estimated at $1.32bn-$1.38bn (per company disclosure).

Our scenario analysis suggests NI could receive ~$1.15bn-$1.8bn in cash for the assets, assuming NI remains liable for third party claims and other expenses related to the MA incident. In recent large transactions, gas utilities have sold for 1.9x-2.1x of year-end rate base; in Exhibit 2, we also show scenarios at 1.5x and 1.7x year-end rate base given Columbia Gas of MA may sell at a discount to recent transactions due to the regulatory overhang related to the incident (i.e. the potential for unrecoverable capex). We apply the 1.5x-2.1x range of multiples to our estimated year-end rate base of ~$1.1bn for Columbia Gas of MA. While we take no view on the likelihood of a potential transaction and acknowledge that other outcomes exist outside those we present, our scenario analysis suggests an enterprise value of ~$1.64bn-$2.3bn. Given Columbia Gas of MA's 53.5% equity layer, this implies potential cash proceeds to NI of ~$1.15bn-$1.8bn. We estimate MA book value of ~$575mn at 2019YE; given an NOL of $760mn disclosed at 2018YE and a maximum gain on the sale in our scenario analysis of ~$1.2bn, we would not expect NI to pay any cash taxes related to a sale.

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Key Data

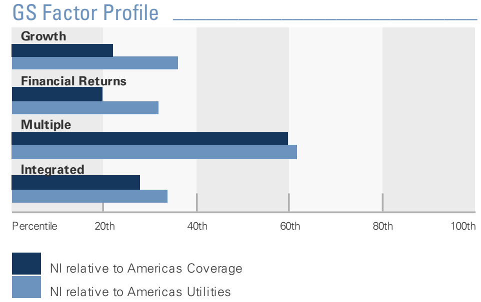
Market cap: $9.5bn
Enterprise value: $19.9bn
3m ADTV: $75.7mn
United States
America-Regulated Utilities
M&A Rank: 3

GS Forecast

	12/18	12/19E	12/20E	12/21E
Revenue ($ mn)	5,114.5	5,316.6	5,467.5	5,591.2
EBITDA ($ mn)	725.5	1,618.5	1,869.5	1,981.6
EBIT ($ mn)	125.9	943.6	1,161.5	1,223.4
EPS ($)	1.30	1.29	1.43	1.49
P/E (X)	19.3	22.7	20.4	19.5
EV/EBITDA (X)	26.0	13.3	11.9	11.5
FCF yield (%)	(14.3)	(4.7)	(0.7)	(2.3)
Dividend yield (%)	3.1	2.7	2.9	3.1
Net debt/EBITDA (X)	12.4	5.6	5.1	5.1

	3/19	6/19E	9/19E	12/19E
EPS ($)	0.82	0.03	0.05	0.40

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

NiSource Inc. (NI)

Buy

Rating since Apr 7, 2019

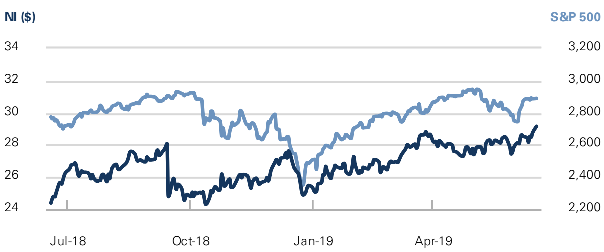
Ratios & Valuation

	12/18	12/19E	12/20E	12/21E
P/E (X)	19.3	22.7	20.4	19.5
EV/EBITDA (X)	26.0	13.3	11.9	11.5
EV/sales (X)	3.7	4.0	4.1	4.1
FCF yield (%)	(14.3)	(4.7)	(0.7)	(2.3)
EV/DACF (X)	37.2	14.0	11.0	12.4
CROCI (%)	2.1	6.1	7.4	6.4
ROE (%)	(1.4)	7.7	10.3	10.3
Net debt/EBITDA (X)	12.4	5.6	5.1	5.1
Net debt/equity (%)	156.8	137.6	139.1	137.2
Interest cover (X)	0.4	2.5	3.0	3.0
Inventory days	92.6	67.8	44.9	44.6
Receivable days	69.8	75.2	75.6	73.9
Days payable outstanding	156.4	165.6	140.7	139.7

Growth & Margins (%)

	12/18	12/19E	12/20E	12/21E
Total revenue growth	4.9	4.0	2.8	2.3
EBITDA growth	(51.2)	123.1	15.5	6.0
EPS growth	7.9	(1.0)	10.9	4.8
DPS growth	11.4	2.6	6.0	6.0
Gross margin	65.6	67.7	68.0	68.4
EBIT margin	2.5	17.7	21.2	21.9

Price Performance



	3m	6m	12m
Absolute	4.6%	9.5%	20.2%
Rel. to the S&P 500	2.1%	(3.6)%	15.6%

Source: FactSet. Price as of 17 Jun 2019 close.

Income Statement ($ mn)

	12/18	12/19E	12/20E	12/21E
Total revenue	5,114.5	5,316.6	5,467.5	5,591.2
Cost of goods sold	(1,761.3)	(1,718.6)	(1,751.6)	(1,764.0)
SG&A	(2,352.9)	(1,696.2)	(1,558.9)	(1,554.0)
R&D	0.0	0.0	0.0	0.0
Other operating inc./(exp.)	(274.8)	(283.4)	(287.5)	(291.7)
EBITDA	**725.5**	**1,618.5**	**1,869.5**	**1,981.6**
Depreciation & amortization	(599.6)	(674.8)	(708.0)	(758.2)
EBIT	**125.9**	**943.6**	**1,161.5**	**1,223.4**
Net interest inc./(exp.)	(353.3)	(380.9)	(381.1)	(402.0)
Income/(loss) from associates	–	–	–	–
Pre-tax profit	**(230.6)**	**564.4**	**782.3**	**823.3**
Provision for taxes	180.0	(112.0)	(144.7)	(152.3)
Minority interest	–	–	–	–
Preferred dividends	(15.0)	(64.8)	(82.3)	(82.3)
Net inc. (pre-exceptionals)	**(65.6)**	**387.6**	**555.3**	**588.7**
Net inc. (post-exceptionals)	**463.3**	**490.2**	**555.3**	**588.7**
EPS (basic, pre-except) ($)	**(0.18)**	**1.02**	**1.43**	**1.50**
EPS (diluted, pre-except) ($)	**(0.18)**	**1.02**	**1.43**	**1.49**
EPS (ex-ESO exp., dil.) ($)	**--**	**--**	**--**	**--**
DPS ($)	0.78	0.80	0.85	0.90
Div. payout ratio (%)	(423.9)	78.4	59.3	60.0
Wtd avg shares out. (basic) (mn)	356.5	379.9	388.1	392.8
Wtd avg shares out. (diluted) (mn)	356.5	381.2	389.4	394.1

Balance Sheet ($ mn)

	12/18	12/19E	12/20E	12/21E
Cash & cash equivalents	112.8	3.8	10.9	21.0
Accounts receivable	1,058.5	1,132.1	1,132.1	1,132.1
Inventory	422.5	215.7	215.7	215.7
Other current assets	461.6	417.0	417.0	417.0
Total current assets	**2,055.4**	**1,768.6**	**1,775.7**	**1,785.8**
Net PP&E	15,542.5	16,586.6	17,668.3	18,699.9
Net intangibles	1,690.7	1,690.7	1,690.7	1,690.7
Total investments	206.1	210.6	210.6	210.6
Other long-term assets	2,309.3	2,331.4	2,331.4	2,331.4
Total assets	**21,804.0**	**22,587.9**	**23,676.7**	**24,718.4**
Accounts payable	883.8	675.2	675.2	675.2
Short-term debt	1,977.2	1,930.0	1,860.0	1,860.0
Current lease liabilities	–	–	–	–
Other current liabilities	1,125.8	1,208.6	1,208.6	1,208.6
Total current liabilities	**3,986.8**	**3,813.8**	**3,743.8**	**3,743.8**
Long-term debt	7,155.4	7,150.9	7,691.7	8,197.5
Non-current lease liabilities	–	–	–	–
Other long-term liabilities	4,910.9	5,028.8	5,380.8	5,464.6
Total long-term liabilities	**12,066.3**	**12,179.7**	**13,072.4**	**13,662.1**
Total liabilities	**16,053.1**	**15,993.5**	**16,816.2**	**17,405.9**
Preferred shares	880.0	1,345.0	1,345.0	1,345.0
Total common equity	**4,870.9**	**5,249.4**	**5,515.5**	**5,967.5**
Minority interest	–	–	–	–
Total liabilities & equity	**21,804.0**	**22,587.9**	**23,676.7**	**24,718.4**
BVPS ($)	15.44	17.02	17.64	18.43

Cash Flow ($ mn)

	12/18	12/19E	12/20E	12/21E
Net income	(50.6)	452.4	637.6	671.0
D&A add-back	599.6	674.8	708.0	758.2
Minority interest add-back	–	–	–	–
Net (inc)/dec working capital	110.2	(53.0)	–	–
Others	(119.1)	101.9	360.0	91.9
Cash flow from operations	**540.1**	**1,176.2**	**1,705.5**	**1,521.0**
Capital expenditures	(1,818.2)	(1,698.6)	(1,789.7)	(1,789.7)
Acquisitions	(104.3)	(25.3)	–	–
Divestitures	0.0	–	–	–
Others	(3.6)	3.6	–	–
Cash flow from investing	**(1,926.1)**	**(1,720.3)**	**(1,789.7)**	**(1,789.7)**
Dividends paid	(273.3)	(304.1)	(329.3)	(356.6)
Share issuance/(repurchase)	844.2	400.0	40.0	220.0
Inc/(dec) in debt	29.4	(64.2)	470.8	505.8
Others	–	–	–	–
Cash flow from financing	**600.3**	**31.8**	**181.5**	**369.2**
Total cash flow	**83.8**	**(109.0)**	**7.0**	**10.2**
Free cash flow	(1,278.1)	(522.4)	(84.2)	(268.7)
Free cash flow per share ($)	(3.59)	(1.38)	(0.22)	(0.68)

Source: Company data, Goldman Sachs Research estimates.

We estimate $0.01-$0.07 (~1%-5%) accretion to our 2021E EPS if NI were to use potential asset sale proceeds to offset financing needs largely related to the MA incident. Our base case estimates assume $465mn of preferred equity and ~$660mn of common equity will be raised through 2021. We note that all of our scenarios imply NI could offset its common and preferred equity financing needs through the asset sale, with any remaining cash used to reduce debt financing needs.

In our view, multiple expansion potential exists for NI as well, with the company trading at 20.4x 2020E P/E vs CMS/AEE (NI's closest comps) at 21.8x/21.5x on GS estimates. We expect NI may continue to trade at a discount to CMS/AEE, although less so as investors return to fully appreciating NI's gas heavy business (~2/3 of earnings) — historically a premium business relative to electric utilities. Based on our 2020E EPS, we highlight every 0.5x of multiple expansion implies ~$1/share of value.

We remain Buy rated with a $29 12-month price target, derived from a 20x P/E multiple on 2020E EPS. Key risks for NI include utility regulation, litigation, damages related to the Greater Lawrence incident, O&M management, and financing.

Exhibit 1: Recent gas utility transactions imply EV/year-end rate base of 1.9x-2.1x
Recent Gas LDC Transactions ($mn)

Recent Gas Utility Transactions				
Involved Parties	Announcement Date	Estimated Closing YE Rate Base	Purchase Price	Mutliple of Year End Rate Base
WTR/Peoples Gas	10/23/2018	$2,200	$4,275	1.9x
SJI/SO (Elizabethtown Gas and Elkton Gas)	10/16/2017	$810	$1,700	2.1x

Source: Company data, Goldman Sachs Global Investment Research

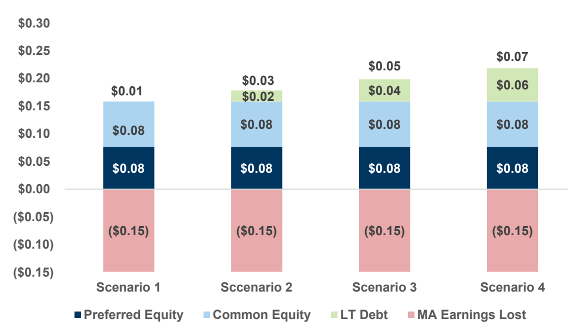
Exhibit 2: Assuming a range of multiples for the sale of NI's MA utility would imply ~$1.15bn-$1.8bn of cash proceeds...
Illustrative scenario analysis: cash proceeds to NI ($mn)

Cash Proceeds to NiSource Scenario Analysis				
Scenario	EV/Rate Base	Enterprise Value	LT Debt Estimate	Cash Proceeds
1	1.5x	$1,636	$484	$1,152
2	1.7x	$1,854	$484	$1,370
3	1.9x	$2,120	$484	$1,636
4	2.1x	$2,289	$484	$1,805

LT debt reflects Columbia Gas of MA's 46.5% authorized debt component of rate base

Source: Goldman Sachs Global Investment Research

Exhibit 3: ...implying $0.01-$0.07 (~1%-5%) of accretion on 2021E EPS if NI were to use the cash proceeds to offset financing needs
Columbia Gas of MA sale EPS impact



Source: Goldman Sachs Global Investment Research

Exhibit 4: We note potential for multiple expansion exists as NI trades at a discount to CMS/AEE - its closest peers

Smid-cap Regulated Utilities comparable analysis

Regulated Utilities Comparable Analysis						EPS				P/E			Dividend	Dividend CAGR
	Ticker	Rating	Close 6/17/19	12-Mo Px. Tgt	Tot Ret to Target	2018A	2019E	2020E	2021E	2019E	2020E	2021E	Yield	2018A-21E
Mid & Small-Cap														
Ameren	AEE	Neutral	$76.20	$70	(6%)	$3.37	$3.33	$3.54	$3.87	22.9x	21.5x	19.7x	2.5%	6.1%
CMS Energy	CMS	Neutral	$58.37	$53	(7%)	$2.33	$2.50	$2.68	$2.88	23.4x	21.8x	20.3x	2.6%	7.2%
NiSource Inc.	NI	Buy	$29.16	$29	2%	$1.30	$1.29	$1.43	$1.49	22.7x	20.4x	19.5x	2.7%	4.8%
Pinnacle West Capital	PNW	Neutral	$97.02	$89	(5%)	$4.54	$4.85	$5.02	$5.29	20.0x	19.3x	18.3x	3.0%	6.0%
Portland General Electric	POR	Sell	$55.41	$44	(18%)	$2.37	$2.44	$2.51	$2.68	22.7x	22.0x	20.7x	2.8%	6.5%
Small / Mid-Cap Mean					**(7%)**					**22.3x**	**21.0x**	**19.7x**	**2.7%**	**6.1%**
Small / Mid-Cap Median					**(6%)**					**22.7x**	**21.5x**	**19.7x**	**2.7%**	**6.1%**
Regulated Utilities Mean					**(8%)**					**20.9x**	**19.8x**	**18.7x**	**3.2%**	**5.4%**
Regulated Utilities Median					**(7%)**					**21.2x**	**19.9x**	**18.9x**	**3.0%**	**5.8%**

Source: Goldman Sachs Global Investment Research, FactSet

Disclosure Appendix

Reg AC

We, Insoo Kim, CFA, Michael Lapides, David Fishman, CFA, Jack Pearl, Sarah Davis and Chitra Narayan Mahale, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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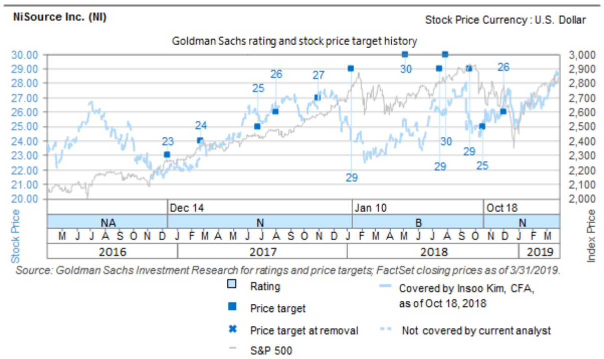

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GUGGENHEIM

Power, Utilities & Alternative Energy June 18, 2019

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Ticker	Price	Rating
CWEN	16.30	Sell
D	76.42	Buy
DTE	129.74	Buy
DUK	87.95	Buy
ED	88.13	Neutral
ES	76.50	Neutral
NI	29.16	Buy
PPL	30.94	Neutral

The Guggenheim Daily Transmission: PPL, FERC, Policy/MD/PA, Policy, NI, CWEN, ED, DTE

For Guggenheim's NDR schedule please scroll down

D/DUK/ED/NEE: MVP News Not A Read-Through for ACP (see our note HERE)

NI – Potential path forward for Columbia Gas of Massachusetts

PPL – KY PSC determines EV infrastructure is outside of its purview

FERC – Chair Chatterjee in Twitter spat with E&E News reporter

Policy – Supreme Court rules in favor of Virginia in uranium mining case

MD/PA/Policy – Maryland moves to address PA-generated smog

CWEN – Clearway announces wind repowering investments in TX, setting up for CAFD growth of $12M in 2020

ED – Notice of scheduled settlement talks filed in CECONY Rate Case

DTE – DTE Integrated Resource Plan public comment filed, discovery continues

NI – Potential path forward for Columbia Gas of Massachusetts

- Bloomberg News reported that NI is considering a path forward for Columbia Gas of Massachusetts (Bay State Gas).
- NI has reportedly retained an advisor to evaluate bids that it had received for the business.

Guggenheim takeaway: *This is a welcomed development and we have noted in various notes/discussions that this would be an immediate NT catalyst for the stock. The potential divestiture of Bay State Gas would (1) provide better clarity into the rest of the business, and (2) remove the drag on the stock caused by the uncertainty around the explosion costs and insurance recoveries.* ***For further details, see our Outlook note (HERE) and our 1Q19 note (HERE). As we highlighted in these notes, we believe ES may be the most logical buyer given past interest in the Gas LDC before NI purchased.***

PPL – KY PSC determines EV infrastructure is outside of its purview

- "*The Kentucky Public Service Commission (PSC) ruled today that electric vehicle (EV) charging stations are not utilities and therefore should not be subject to regulation. The ruling, contained in an order issued today, is intended to remove any ambiguity over the legal status of EV charging stations and pave the way for the deployment of more such stations in Kentucky. The PSC noted in the order that Kentucky has lagged behind neighboring states in the availability of public EV charging stations, with only 94 in the state thus far.*"
- PSC press release HERE.

Guggenheim takeaway: *Positive development for future EV deployment in the state, where the deployment of advanced technologies has continued to lag behind neighbors (e.g. EVs in TN, or AMI in OH/PA). We continue to look out for potential movement on AMI.*

FERC – Chair Chatterjee in Twitter spat with E&E News reporter

- In a series of tweets, Chair Chatterjee called the reporter an "irresponsible journalist."

- Also see HERE, HERE, and HERE.

Guggenheim takeaway: *Beltway drama. The spat appears to emanate from E&E's claim that Chatterjee was involved in the failure of David Hill's nomination to FERC.*

Policy – Supreme Court rules in favor of Virginia in uranium mining case

- In a 4-3 decision, SCOTUS ruled that the Atomic Energy Act does not preempt a ban on uranium mining in Virginia, with tangential read-through to the FPA and ZEC, per Harvard's Peskoe.

- Opinion HERE.

Guggenheim takeaway: *Minor FYI and interesting legal data point.*

MD/PA/Policy – Maryland moves to address PA-generated smog

- Maryland has reportedly requested that the 13-state Ozone Transport Commission recommend to the EPA that PA coal plants run pollution controls more frequently.

Guggenheim takeaway: *Cross state air pollution remains a potent issue for many eastern states, and another headwind for coal. The problem is not contained to the coast – we continue to look out for modifications to Illinois' Multi-Pollutant Standards (MPS).*

CWEN – Clearway announces wind repowering investments in TX, setting up for CAFD growth of $12M in 2020

- On June 17, CWEN announced a binding agreement with Clearway Group (project sponsor) on a $111M investment in repowering existing Wildorado and Elbow Creek wind assets.

- The repowering will extend/replace existing contracts and provide opportunities for improved operational profile through increased capacity factors and new service agreements.

- The repowering includes 283 MW: 161 MW Wildorado Wind Project and the 122 MW Elbow Creek, both located in Texas.

Guggenheim takeaway: *This announcement confirms growth in 2020 at a headline attractive yield: $12M / $111M ~ 10.8%, assuming a $111M equity-only investment. This is an interesting datapoint on CWENs project pipeline coming to fruition as projects advance through development phases. The repowering projects were previously committed and targeted a 2019 COD.*

ED – Notice of scheduled settlement talks filed in CECONY Rate Case

- On June 17, ED filed a notice confirming that ED, NY PSC Staff and other parties to the CECONY rate case have agreed to enter into settlement negotiations.

- An initial meeting to discuss possible settlement will be on Thursday, June 27.

- Docket: 19-00317/19-E-0065

Guggenheim takeaway: *This filing is made pursuant to NY disclosure rules, but given the initial sets of testimony and rebuttals, the parties have already gathered significant information around what the regulatory bid-ask could look like. Nonetheless, this formal process kick-off is a constructive data point for rate case resolution.*

DTE – DTE Integrated Resource Plan public comment filed, discovery continues

- Intervenors continue discovery requests into DTE's proposed IRP application (namely MSPC staff).

See pages 10 - 11 for analyst certification and important disclosures.

- Additionally, a public comment petition was filed with 800 individuals co-signed, seeking to increase the amount of renewables deployed in Detroit / Michigan.

- Docket: U-20471

Guggenheim takeaway: *On public comment – while the comment is negative towards the current plan and the use of gas fired generation, the high-level implications of increased renewable development would have increased costs associated with it from a consumer standpoint.*

See pages 10 - 11 for analyst certification and important disclosures.

Guggenheim's Power & Utility Comp Sheet

ice as of Close Saturday, June 15, 2019

Regulated Electric Utilities (1)		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('20E) Yield	Dividend ('20E) Payout	Diluted Shares	Guggenheim EPS '19E	'20E	'21E	'22E	Guggenheim P/E '19E	'20E	'21E	'22E	Consensus EPS '19E	'20E	'21E	'22E	Consensus P/E '19E	'20E	'21E	'22E
AEP	American Electric Power	44.7	Neutral	$78	$90.58	3.0%	62%	493	4.20	4.44	4.71	4.93	21.6	20.4	19.2	18.4	4.13	4.40	4.67	4.94	21.9	20.6	19.4	18.3
ALE	ALLETE	4.4	Neutral	$82	$84.93	3.0%	65%	52	3.65	3.91	4.20	4.30	23.3	21.7	20.2	19.8	3.59	3.85	4.11	4.30	23.6	22.1	20.6	19.8
AVA	Avista*	2.9	Neutral	$41	$44.10	3.7%	80%	66	1.89	2.05	2.23	2.41	23.3	21.5	19.8	18.3	2.17	2.04	2.22	2.41	20.4	21.6	19.9	18.3
CMS	CMS Energy	16.7	Neutral	$53	$58.75	2.8%	61%	284	2.50	2.69	2.88	3.08	23.5	21.8	20.4	19.1	2.50	2.67	2.87	3.07	23.5	22.0	20.5	19.1
DUK	Duke Energy	64.0	Buy	$94	$87.87	4.5%	75%	728	5.00	5.26	5.57	5.91	17.6	16.7	15.8	14.9	4.91	5.18	5.43	5.79	17.9	17.0	16.2	15.2
ED	Consolidated Edison	29.0	Neutral	$86	$88.54	3.4%	66%	327	4.36	4.60	4.75	4.92	20.3	19.2	18.6	18.0	4.36	4.57	4.76	4.89	20.3	19.4	18.6	18.1
ES	Eversource Energy	24.6	Neutral	$72	$77.41	2.9%	62%	321	3.49	3.68	3.86	4.05	22.2	21.0	20.1	19.1	3.47	3.66	3.87	4.08	22.3	21.1	20.0	19.0
ETR	Entergy	19.4	Buy	$100	$102.04	3.7%	69%	190	5.30	5.53	5.91	6.31	19.3	18.5	17.3	16.2	5.29	5.49	5.82	6.16	19.3	18.6	17.5	16.6
EVRG	Evergy	14.9	Buy	$61	$60.67	3.4%	67%	244	2.93	3.14	3.32	3.52	20.7	19.3	18.3	17.2	2.91	3.16	3.32	3.49	20.9	19.2	18.3	17.4
FE	FirstEnergy	23.4	Buy	$46	$43.97	3.6%	63%	531	2.56	2.51	2.66	2.81	17.2	17.5	16.5	15.6	2.57	2.49	2.64	2.79	17.1	17.6	16.7	15.8
LNT	Alliant Energy	11.9	Neutral	$41	$50.00	3.0%	64%	236	2.26	2.37	2.50	2.69	22.1	21.1	20.0	18.6	2.25	2.42	2.53	2.66	22.2	20.6	19.7	18.8
PNW	Pinnacle West	10.9	Neutral	$98	$97.48	3.3%	63%	112	4.84	5.04	5.28	5.63	20.1	19.3	18.5	17.3	4.86	5.07	5.32	5.62	20.1	19.2	18.3	17.3
POR	Portland General Electric	5.0	Neutral	$47	$55.53	2.9%	63%	89	2.45	2.54	2.68	2.75	22.7	21.9	20.7	20.2	2.45	2.56	2.71	2.76	22.6	21.7	20.5	20.2
PPL	PPL Corporation	22.7	Neutral	$29	$31.45	5.8%	71%	722	2.44	2.58	2.74	2.85	12.9	12.2	11.5	11.0	2.43	2.54	2.53	2.85	12.9	12.4	12.4	11.0
SO	Southern Company	57.9	Neutral	$52	$55.65	4.6%	81%	1041	3.05	3.15	3.31	3.46	18.2	17.7	16.8	16.1	3.03	3.15	3.27	3.49	18.4	17.7	17.0	15.9
WEC	WEC Energy	26.6	Buy	$76	$84.31	3.0%	67%	315	3.52	3.73	3.98	4.26	24.0	22.6	21.2	19.8	3.51	3.74	3.97	4.25	24.0	22.6	21.3	19.8
***Average (Excl. PPL for P/E)**						**3.4%**	**67%**						**21.1**	**20.0**	**18.9**	**17.9**					**21.0**	**20.1**	**19.0**	**18.0**

Regulated Gas Utilities (2)		Market ($bn)	Rating	Target Price	Current Price	Dividend ('20E) Yield	Dividend ('20E) Payout	Diluted Shares	Guggenheim EPS '19E	'20E	'21E	'22E	Guggenheim P/E '19E	'20E	'21E	'22E	Consensus EPS '19E	'20E	'21E	'22E	Consensus P/E '19E	'20E	'21E	'22E
NI	NiSource	10.7	Buy	$29	$28.75	2.8%	61%	373	1.32	1.37	1.47	1.58	21.8	21.0	19.6	18.2	1.31	1.39	1.48	1.59	22.0	20.6	19.4	18.1
NJR	New Jersey Resources	4.4	Sell	$39	$49.86	2.4%	60%	89	1.99	2.19	2.36	2.54	25.1	22.8	21.1	19.6	2.00	2.20	2.40	2.54	24.9	22.7	20.8	19.6
NWN	NW Natural Gas	2.0	Sell	$49	$68.78	2.7%	77%	30	2.44	2.58	2.68	2.71	28.2	26.7	25.7	25.4	2.39	2.52	2.64	2.71	28.8	27.3	26.1	25.4
SJI	South Jersey Industries	3.1	Buy	$35	$33.72	3.5%	104%	92	1.12	1.60	1.74	1.90	30.1	21.1	19.4	17.7	1.11	1.60	1.75	-	30.5	21.0	19.3	-
SR	Spire	4.3	Neutral	$85	$84.72	2.8%	63%	51	3.78	3.98	4.13	4.41	22.4	21.3	20.5	19.2	3.74	3.91	4.07	4.41	22.6	21.7	20.8	19.2
Average						**2.8%**	**73%**						**25.5**	**22.6**	**21.2**	**20.0**					**25.8**	**22.7**	**21.3**	**20.6**

Integrated Utilities (3)		Market ($bn)	Rating	Target Price	Current Price	Dividend ('20E) Yield	Dividend ('20E) Payout	Diluted Shares	Guggenheim EPS '19E	'20E	'21E	'22E	Guggenheim P/E '19E	'20E	'21E	'22E	Consensus EPS '19E	'20E	'21E	'22E	Consensus P/E '19E	'20E	'21E	'22E
EXC	Exelon	49.3	Buy	$53	$50.80	2.8%	45%	971	3.16	3.25	3.17	3.21	16.1	15.6	16.0	15.8	3.15	3.17	3.18	3.31	16.1	16.0	16.0	15.4
PEG	PSEG	30.7	Buy	$62	$60.96	3.1%	58%	505	3.25	3.60	3.70	3.87	18.8	16.9	16.5	15.8	3.26	3.52	3.66	3.87	18.7	17.3	16.7	15.8
Average						**3.0%**	**52%**						**17.4**	**16.3**	**16.3**	**15.8**					**17.4**	**16.7**	**16.3**	**15.6**

Independent Power Producers (IPPs) (4)		Market ($bn)	Rating	Target Price	Current Price	Dividend ('20E) Yield	Dividend ('20E) Payout	Diluted Shares	Guggenheim Adjusted EBITDA '19E	'20E	'21E	'22E	Guggenheim EV / EBITDA '19E	'20E	'21E	'22E	Consensus Adjusted EBITDA '19E	'20E	'21E	'22E	Consensus EV / EBITDA '19E	'20E	'21E	'22E
NRG	NRG Energy	9.3	Buy	$51	$34.78	0.3%	0%	267	1,975	1,858	1,900	1,936	7.5	7.7	7.2	7.1	2,024	1,973	1,852	1,936	7.1	7.3	7.4	NA
VST	Vistra Energy	11.5	Buy	$39	$23.77	2.1%	0%	483	3,367	3,434	3,508	3,656	6.7	6.4	6.1	5.7	3,385	3,355	3,174	3,733	6.2	6.1	5.9	NA
Average													**7.1**	**7.1**	**6.7**	**6.4**					**6.7**	**6.7**	**6.7**	**NA**

Multi-Industry Utilities (5)		Market ($bn)	Rating	Target Price	Current Price	Dividend ('20E) Yield	Dividend ('20E) Payout	Diluted Shares	Guggenheim EPS '19E	'20E	'21E	'22E	Guggenheim P/E '19E	'20E	'21E	'22E	Consensus EPS '19E	'20E	'21E	'22E	Consensus P/E '19E	'20E	'21E	'22E
CNP	CenterPoint	14.9	Buy	$33	$29.62	4.0%	69%	502	1.70	1.89	2.02	2.13	17.4	15.7	14.7	13.9	1.65	1.81	1.93	2.08	18.0	16.4	15.4	14.2
D	Dominion	61.5	Buy	$82	$76.66	4.8%	87%	802	4.24	4.44	4.68	4.92	18.1	17.3	16.4	15.6	4.20	4.41	4.65	4.90	18.2	17.4	16.5	15.6
DTE	DTE Energy	23.7	Buy	$127	$129.54	2.9%	60%	183	6.26	6.72	7.21	7.63	20.7	19.3	18.0	17.0	6.25	6.57	7.04	7.50	20.7	19.7	18.4	17.3
NEE	NextEra	99.1	Buy	$205	$206.96	2.4%	58%	479	8.63	9.19	9.91	10.52	24.0	22.5	20.9	19.7	8.39	9.06	9.79	10.46	24.7	22.8	21.1	19.8
OGE	OGE Energy	8.7	Neutral	$41	$43.40	3.5%	70%	200	2.14	2.30	2.41	2.51	20.3	18.9	18.0	17.3	2.14	2.30	2.42	2.52	20.3	18.9	17.9	17.3
SRE	Sempra Energy	37.7	Buy	$133	$137.76	2.8%	64%	274	6.10	7.26	7.66	7.96	22.6	19.0	18.0	17.3	6.06	6.99	7.70	7.96	22.7	19.7	17.9	17.3
Average						**3.3%**	**68%**						**20.5**	**18.8**	**17.6**	**16.8**					**20.8**	**19.1**	**17.9**	**16.9**

Other		Market ($bn)	Rating	Target Price	Current Price	Dividend ('20E) Yield	Dividend ('20E) Payout	Diluted Shares	Guggenheim EPS '19E	'20E	'21E	'22E	Guggenheim P/E '19E	'20E	'21E	'22E	Consensus EPS '19E	'20E	'21E	'22E	Consensus P/E '19E	'20E	'21E	'22E
AWK	American Water Works	22.6	Neutral	$96	$118.27	1.6%	54%	181	3.61	3.96	4.27	4.60	32.8	29.9	27.7	25.7	3.59	3.89	4.22	4.74	32.9	30.4	28.0	25.0

		Market ($bn)	Rating	Target Price	Current Price	Dividend ('20E) Yield	Dividend ('20E) Payout	Diluted Shares	Guggenheim Adjusted EBITDA '19E	'20E	'21E	'22E	Guggenheim EV / EBITDA '19E	'20E	'21E	'22E	Consensus Adjusted EBITDA '19E	'20E	'21E	'22E	Consensus EV / EBITDA '19E	'20E	'21E	'22E
CWEN	Clearway Energy	3.5	Sell	$11	$16.11	5.0%	NA	183	1,026	1,056	1,063	1,076	9.3	9.4	9.3	9.6	985	1,060	1,105	NA	8.9	8.2	7.5	-
NEP	NextEra Energy Partners	2.6	Buy	$56	$46.55	4.4%	NA	56	1,359	1,528	1,775	1,934	8.1	7.8	7.5	0.0	1,133	1,347	1,608	1,934	9.8	8.9	8.3	NA

Note: We are currently restricted on EIX and PCG

(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.

(2) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).

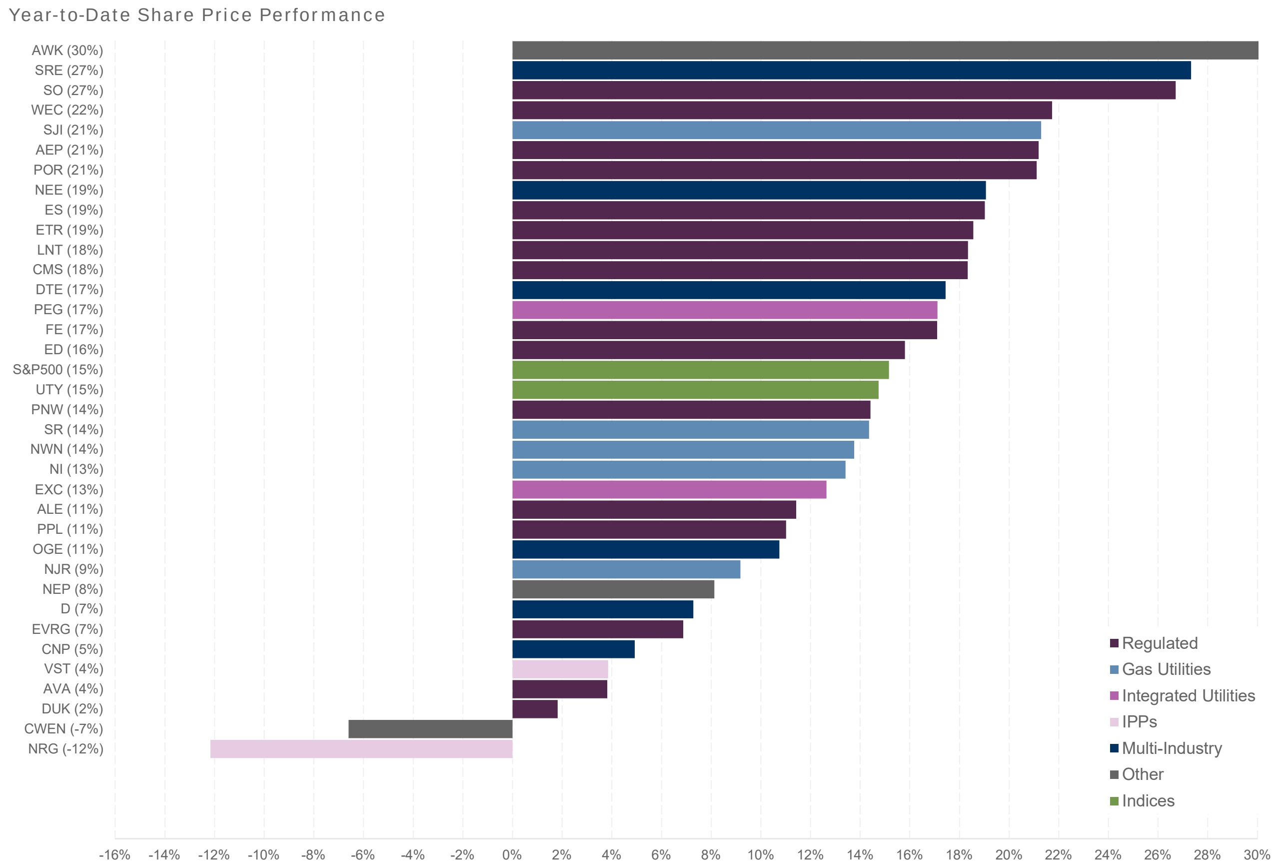
(3) Integrated utilities own and operate regulated T&D franchises, as well as un-regulated power generation with commodity exposure.

(4) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.

(5) Mult-Industry Utilities operate some comibination of regulated electric and/or gas utilities, in addtion to substantial non-power unregulated activities (i.e. midstream, renewable development, energy trading, etc.).

Source: Bloomberg, Guggenheim Securities, LLC estimates.

Share Price Performance (Year-to-Date)



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Source: Bloomberg, Guggenheim Securities, LLC estimates.

Guggenheim 2019 Non Deal Roadshow Schedule

Ticker	Dates	Regions
Commissioner Roundtable	1/23	NYC
FE	1/22-1/23	Boston/NYC
D	2/25-2/26	Boston/NYC
WEC	2/28-3/1	West Coast
EXC	3/7-3/8	Dallas/Houston
PNW	3/11-3/13	Midwest
ALE	4/2-4/4	West Coast
DTE	4/5	Boston
ED	4/24	NYC
POR	4/29-4/30	West Coast
VST	5/8-5/9	West Coast
PPL	5/22-5/23	NYC
DTE	5/29-5/30	NYC
LNT	6/4	Boston

Ticker	Dates	Regions
DUK	6/6-6/7	Midwest
CWEN	6/13-6/14	Midwest
SJI	6/19	NYC/NJ/CT
PEG	6/24-6/26	Midwest
AWK	7/9-7/10	Midwest
SRE	7/17-7/19	West Coast
EVRG	8/20-8/21	Midwest
ED	8/22	Boston
SJI	9/4	NYC
SJI	9/5	Boston
ETR	9/12-9/13	TBD
NEE	10/3-10/4	Midwest
CMS	11/21-11/22	Texas

MORE TO BE ADDED…

See pages 10 - 11 for analyst certification and important disclosures.

Key Events Calendar - Week of 6/10

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/13	ERCOT	PUCT Open Meeting	-	TX	-	Open Meeting
06/14	ED	Electric/Gas Rate Case	CECONY	NY	19-E-0065	Rebuttal Testimony
06/17	EXC	Electric Rate Case	Pepco MD	MD	D-9602	Briefs due
06/20	NWN	Gas Rate Case	NW Natural	WA	D-UG-181053	Settlement conference to be held
06/20	CMS	DR Proceeding	Consumers Energy Co.	MI	U-20164	PFD Target Date
06/25	CMS	Gas Rate Case	Consumers Energy Co.	MI	C-U-20322	Reply briefs due in gas rate case
06/27	ERCOT	PUCT Open Meeting	-	TX	-	Open Meeting
Mid '19	NI	Analyst Day	Nisource	MA	NA	Potential Analyst Day
07/02	CNP	AR FRP	CenterPoint Energy AR	AR	17-010-FR	Staff/Intervenors' Objections
07/09	EXC	Electric Rate Case	Pepco MD	MD	D-9602	ALJ proposed decision expected
07/15	ED	Electric/Gas Rate Case	CECONY	NY	19-E-0065	Start of Evidentiary Hearings
07/17	CNP	AR FRP	CenterPoint Energy AR	AR	17-010-FR	CEA Response to Objections
07/18	ERCOT	PUCT Open Meeting	-	TX	-	Open Meeting
07/22	NWN	Gas Rate Case	NW Natural	WA	D-UG-181053	Company rebuttal due
07/24	DTE	IRP	DTE Electric	MI	U-20471	Testimony (Staff/Intervenor)
07/24	EXC	Electric Rate Case	Pepco MD	MD	D-9602	Response to ALJ proposal
07/29	CNP	AR FRP	CenterPoint Energy AR	AR	17-010-FR	Expiration of Discovery Period
07/31	CNP	AR FRP	CenterPoint Energy AR	AR	17-010-FR	Stipulation or Settlement Filed
08/01	CMS	Gas Rate Case	Consumers Energy Co.	MI	C-U-20322	ALJ proposed decision expected in gas rate case
08/01	LNT	Electric Rate Case	IPL - Electric	IA	RPU-2019-0001	OCA & Intervenor Direct Testimony
08/02	CNP	AR FRP	CenterPoint Energy AR	AR	17-010-FR	Response of Non-participating Parties
08/08	CNP	AR FRP	CenterPoint Energy AR	AR	17-010-FR	Hearing (at least 50 days before rates)
08/13	EXC	Electric Rate Case	Pepco MD	MD	D-9602	Final order due
8/14/8/15	NWN	Gas Rate Case	NW Natural	WA	D-UG-181053	Evidentiary Hearings
08/15	LNT	Gas Rate Case	IPL - Gas	IA	RPU-2019-0002	OCA & Intervenor Direct Testimony
08/22	DTE	IRP	DTE Electric	MI	U-20471	Rebuttal Testimony
08/26	DTE	IRP	DTE Electric	MI	U-20471	Motions to Strike
08/26	DTE	IRP	DTE Electric	MI	U-20471	Cost Estimate Update
06/30	EXC	Electric Rate Case	Atlantic City Electric	NJ	D-ER18080925	Decision Expected
08/30	DTE	IRP	DTE Electric	MI	U-20471	Responses to Motions
08/30	DTE	IRP	DTE Electric	MI	U-20471	Responses to Cost Update
08/30	LNT	Electric Rate Case	IPL - Electric	IA	RPU-2019-0001	IPL Reply Testimony

More dates to be added…

Source: Company filings, Guggenheim Securities, LLC.

Key Research

Guggenheim's Forward Commodity Curves

- Forward Commodity Curves for Power & Utility Modeling

Key Industry Research

1. **ERCOT: Guggenheim Texas Power Market Luncheon Recap**
2. Illinois Policy: In the Land of Lincoln, Uncertainty Reigns
3. Policy Speaker Series Recap on Energy and Capacity: Perpetual State of Reforms Same as It Ever Was
4. Open Dialogue with MO, WA Commissioners - Walking Away Incrementally Positive on Both Jurisdictions
5. Major Change at CPUC Cometh? Follow Up on Potential CPUC Movements, Governor's Chance to Reset CPUC Agenda
6. 2019 Utility Outlook: We Didn't Hear A Bell… "Nothing's Over 'Til It's Over;" One More Round for Utilities
7. California Wildfire Wrap – You Can Check Out, but You Can Never Leave
8. Guggenheim's 2018 EEI Summary
9. Guggenheim EEI Takeaways - Day 3
10. Guggenheim EEI Takeaways - Day 2
11. Guggenheim EEI Takeaways - Day 1
12. Guggenheim EEI - Investor Question Bank
13. PJM: No Country for Common Ground; Reply Briefs Land at FERC
14. PJM: You May Ask Yourself, Well How Did I Get Here? Back to the Commission for the Main Show
15. Coal/Nuclear: Will Politics "Trump" Reality
16. *CA Policy Crash Course: Don't Hold Your Breath For a Wildfire Resolution….*
17. *February Meter Reading - Yield "Almost" Catching Up with Utility Valuations; Lowering Our PTs and Looking Beyond Bond Surrogates*
18. *PJM Capacity Auction: Introducing Prelim-2021/22 Pricing Forecasts – Well…It's Not Getting Much Worse, Projected Pricing Mixed*
19. *Guggenheim-Hosted Power Brunch with State Utility Commissioners*
20. *Checking for a "Pulse" - Regulated Utility Valuations Losing Altitude, Now Fairly Valued vs. Bond Yields, and Showing Subsector Variance*
21. *2018 Outlook: An Absolute Shop Thinking in Relative Terms*
22. *Yo, Adrian! DOE Gets Knocked Down, But Power Market Reform Not Out – One More Round*

Key Company Research

1. SJI: Revising to BUY - Back In Jersey's Hands & Steering The Ship Into Calmer (Mostly Regulated) Waters
2. **LNT: For a Good Night's Sleep, Take Alliant**
3. NRG: More Down'Stream' Retail Expansion
4. **VST NDR - What's with All the Fuss… We Would Be Aggressive Buyers Here**
5. **ED NDR: Ripe in the Big Apple… - Solid Utility? Yes… But Undervalued? That's Debatable**
6. D: Guggenheim Policy Speaker, Atlantic Coast Pipeline Discussion | The Project Will Be Built
7. **ALE NDR: TA-CO-NITE! Winds of Change Are Blowing in the Right Direction…**
8. **DTE – On the Road with Mgmt. – 80/20 Rule Need Not Apply; Solid Strategy, Supported by Good People**
9. CMS – MPSC Telegraphing Constructive Regulatory Signals in CMS Gas Rate Case – Solid Footing
10. SRE: Simplicity is the Ultimate Sophistication…
11. VST: Another Day, Another Illinois Policy Proposal
12. D: Msg Delivered on Time/on Budget; Inline Analyst Day Cements Solid Base to Work Off Of--Execution/Patience is Key
13. VST: Clearing the Air in Illinois: MPS Resolution Draws Closer
14. **PNW NDR: It's Just Another Political Cycle – Agendas More Aligned: Relationships Will Be Re-"Stored"**
15. D: Guggenheim Policy Speaker, Millstone Discussion | Connecticut Un-Quarked: They Will Likely Get It Done, We Are Holding Our Breath
16. **EXC NDR: State Rescue Cometh - Deeper Dive**
17. **WEC NDR: Putting the WEC in WECC; Western NDR Highlights a Premium Utility with Valuation Concerns on Back Burner**
18. **D: NDR – Coming Out Party Well Received - March Madness Continues**
19. PEG 4Q Preview and Mini Drill-Down - Looking Good from All Angles
20. VST: Bulking Up the Integrated Model with Some Eastern Retail: VST Acquires Crius Energy
21. **FE NDR: Time Is the Furthest Distance Between Two Points…**
22. **POR: Bringing Portland to the Heartland: Capex, Policy, and RFPs Dominate Our NDR**
23. D/SCG: Global Settlement Reached; Upgrading SCG to BUY On Improved Merger Outlook
24. SRE: Another Day, Another Dollar: Buying Low; Selling High
25. **NRG: The Texas Two Step - Front Seat for a Sizable Buyback Show? Past the Debut; We're Now Here for the Climax**
26. **NEE – Mgmt. Roadshow: Rising Interest Rates? No Problem. Raising Valuation? Why Not…**
27. Michigan Bus Tour: Motoring from Jackson to Detroit in Style
28. NYLD Mgmt. Call – Conservative Growth Guidance, Managing Expectations; Should Over-Deliver - Visibility Will Be Key
29. "Summer Nights" Means New Summer Flings – Tell Me About It; Upgrading, Downgrading and Making an M&A Call

30. **SR Mgmt. Roadshow – Pathway for LT Growth Now More Visible; M&A? No Longer in Acquisition Mode**
31. **DUK Mgmt. Roadshow – Growth Concerns? Nothing to See Here, But Some Value Left on the Sidelines**
32. **CMS Mgmt. Roadshow – Consistent Showing: Another Day, Another Dollar; A Key Name We Are Watching**
33. SRE – Follow-up Mgmt. Meeting - Crystal Clear Upside and “Active” Optimization Plan…Eventually: the Re-rating Will Come
34. SRE – Analyst Day - It’s the Simple Things in Life: One Way or Another, Actively Seeing a Re-Rating Story
35. **PEG - Mgmt. NDR: Jersey Strong through the Midwest**
36. D/SCG – Testing Dominion’s Patience? May Stick This Out…For Now... but Policy-Makers Playing a Dangerous Game
37. ***LNT - Mgmt. Roadshow: In Messy Times Everyone Appreciates a “Clean Story”….***
38. *ETR – No Introduction Needed: Analyst Day Highlights Above Avg., Undervalued, Regulated Growth Story w/ Upside*
39. *SRE – “Active” Analyst Day Preview: Keys to Unlocking Value Within Reach?*
40. *OGE/AEP – Okie Dokie in Oklahoma? Depends Which Way the Wind Blows*
41. *EVRG – Click, Click, There’s No Place Like Home: Top-tier Growth w/ Buybacks & Solid Risk-Adjusted Upside vs Peers*
42. *VST - Inline Analyst Day Comes with Buybacks, NT Deleveraging - Remains a Step Function, Catalyst Driven Story*
43. ***NJR – Management Roadshow: Growth Concerns? Nothing to See Here; M&A? Hmm…***
44. *PEG Analyst Day: Solid Analyst Day Left No Surprises – Steady As She Goes with Upside Generally Within Expectations*
45. *NEE / SO: Great Minds Think Alike – This Deal Makes a Lot of Sense For Everyone, with Room for More*
46. *FE – “Can’t Always Get What You Want, Get What You Need”: Above Avg. Growth, Deep Discount Generating Vast Interest*
47. *D – Southern Charming on Madison Avenue…Any Bargain Shoppers?*
48. ***ALE Management Roadshow – Solid Growth; Pieces Are Fitting Together – No…Not a Willing Seller***
49. PEG - Jersey Strong - Quick Takeaways from Meetings with NJ Regulators and PEG Sr. Mgmt.
50. *CNP/VVC – Paying the Price Above the “Premium” Watermark We Expected But w/Marginal Accretion and Large Equity Slug*
51. ***PNW NDR – Grid Mod., Tech & the Utility 2.0; Awaiting Visibility into AZ Renewable Proposals for Inflection Point***
52. *VST: Introducing Estimates for the Combined Company: A “Prospective” View Bookended by Dividends; Raising PT to $37*

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			IB Serv./ Past 12Mos.	
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NEUTRAL	162	42.86%	5	3.09%
SELL	9	2.38%	0	0.00%

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June 26, 2019 | Equity Research

Flash Comment

Utilities

Utility & Infrastructure Daily

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Quick thoughts from Wells Fargo Securities, LLC Utility & Infrastructure Team:

Updated Thoughts on Columbia Gas of MA (Akers/Kalton) – Yesterday (6/25), we met with Eversource (ES/Outperform) and we recently caught up with NiSource (NI/Outperform) regarding the composition of the MA system rate base ($991mm at YE'18). Both discussions temper our expectations on the potential sale price for Columbia Gas of MA, which Bloomberg reported was being considered in a 6/17/19 report (NI has not formally commented). The Bloomberg article cited a $2B sale price (enterprise value). While this would not be out of line with recent transactions (implies 1.8X 2020E rate base), we expect the ultimate transaction price could be closer to $1.5B+ considering (1) $200-250mm of the rate base is not yet in rates and relates to the Merrimack Valley system rebuild and (2) political/regulatory considerations may not be conducive to a price-based auction process. On the last point, we expect MA would be highly skeptical of non-traditional buyers (infrastructure players, Canadian pension money, etc.), which have shown a willingness to bid more aggressively than strategic buyers (U.S. utilities) in recent deals. In our estimation, the regulatory risk in getting such a deal approved likely outweighs price. Further on that point, ES indicated no interest in participating in an auction process and suggested a highly disciplined approach given complications introduced by the explosion and the existence of other attractive organic investment opportunities including offshore wind. As a reminder, Governor Barker appointed ES to oversee operations in the immediate aftermath of the incident. Other local players include Avangrid, Inc. (AGR/Market Perform) and UK-based National Grid (NGG/Not Covered).

For NI, even at a lower price of at least $1.5B, we would view a sale favorably. While there would likely be initial EPS dilution to the tune of $0.03-0.05, or 2-3%, we expect it would be neutral to slightly positive to the EPS outlook over time through the avoidance of equity issuances, which we currently estimate at $300-350mm annually. Further, a sale would serve as a clearing event and allow investors to refocus on NI's attractive gas infrastructure growth story.

Eversource Energy (ES)/Outperform (1)
Price as of 6/25/2019: $76.98
FY 19 EPS: $3.45
FY 20 EPS: $3.65
Shares Out.: 317.3 MM
Market Cap.: $24,425.75 MM

Please see page 3 for rating definitions, important disclosures and required analyst certifications.
All estimates/forecasts are as of 06/26/19 unless otherwise stated. 06/26/19 05:30:09 ET

NiSource Inc. (NI)/Outperform (1)
Price as of 6/25/2019: $29.34
FY 19 EPS: $1.31
FY 20 EPS: $1.40
Shares Out.: 372.5 MM
Market Cap.: $10,929.15 MM

AVANGRID Inc. (AGR)/Market Perform (2)
Price as of 6/25/2019: $51.17
FY 19 EPS: $2.25
FY 20 EPS: $2.48
Shares Out.: 309.0 MM
Market Cap.: $15,811.53 MM

Rating Basis Information:
ES Thesis: We believe shares of ES warrant a 5% premium P/E given an above average EPS & DPS growth profile, heavy concentration of FERC-regulated earnings, proven management team and strong financial position.

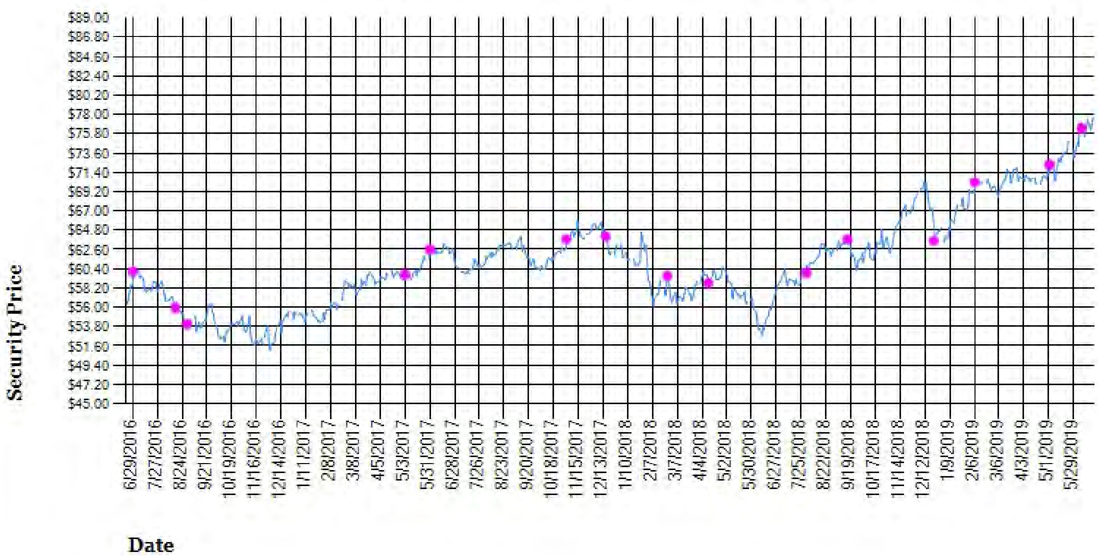
NI Thesis: We rate shares Outperform. We believe the current discounted valuation provides an attractive entry point to a company with robust long-term infrastructure growth opportunities and supportive regulatory treatment.

AGR Thesis: Our Market Perform rating primarily reflects concerns around AGR's ability to hit targeted EPS growth goals in light of recent execution issues. AGR’s features include strong EPS growth potential, relatively predictable earnings (90% regulated/contracted) and a large U.S. renewable franchise.

DISCLOSURE APPENDIX

Required Disclosures

Eversource Energy (ES) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
	6/21/2016		Kalton				
	6/21/2016	NA	1	NE	61.00	63.00	57.03
•	6/30/2016	59.39	1	NE	66.00	68.00	59.90
•	8/17/2016	55.77	1	NE	64.00	66.00	55.77
•	8/31/2016	53.64	1	NE	62.00	64.00	53.97
•	5/5/2017	59.49	1	NE	64.00	65.00	59.55
•	6/2/2017	62.35	1	67	NE	NE	62.37
•	11/3/2017	63.23	1	69	NE	NE	63.54
•	12/18/2017	64.62	1	72	NE	NE	63.91
•	2/25/2018	59.47	1	65	NE	NE	59.47
•	4/12/2018	58.64	1	66	NE	NE	58.64
•	8/1/2018	59.74	1	67	NE	NE	59.74
•	9/16/2018	63.53	1	71	NE	NE	63.53
•	12/24/2018	66.47	1	74	NE	NE	63.38
•	2/8/2019	69.72	1	77	NE	NE	70.05
•	5/3/2019	71.52	1	79	NE	NE	72.08
•	6/9/2019	76.30	1	86	NE	NE	76.30

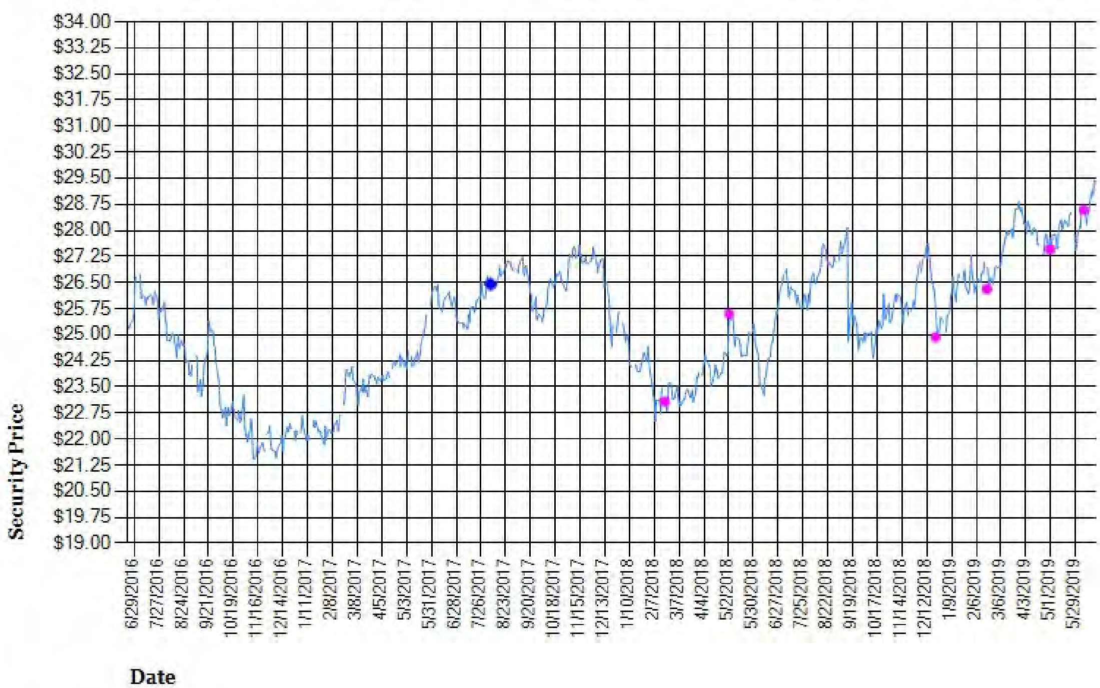
Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- • Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

NiSource Inc. (NI) 3-yr. Price Performance



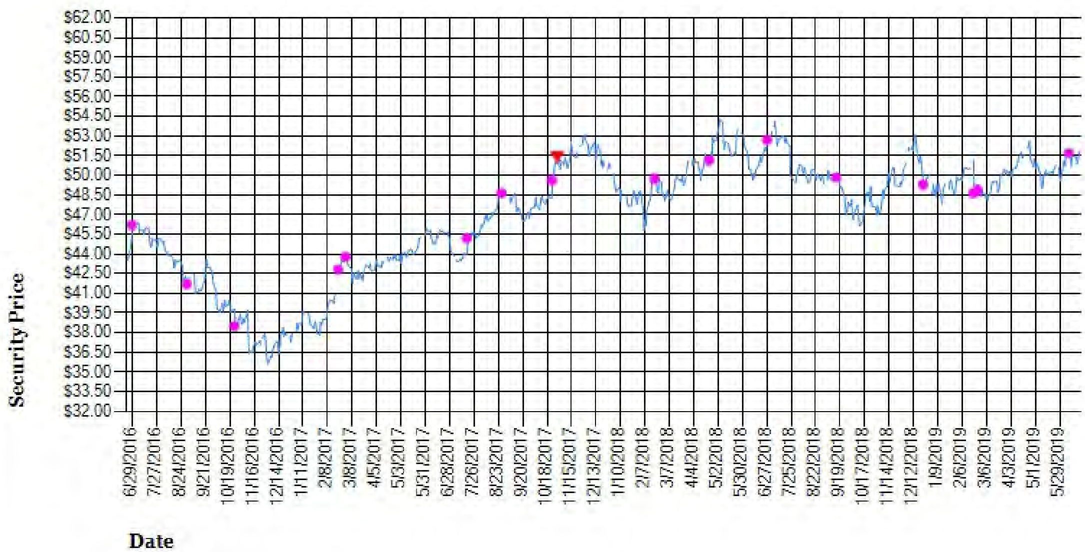
	Date	Published Price ($)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
	8/9/2017		Akers				
◆	8/9/2017	26.32	1	30	NE	NE	26.38
•	2/20/2018	22.99	1	26	NE	NE	23.02
•	5/3/2018	25.38	1	28	NE	NE	25.57
•	12/24/2018	26.05	1	29	NE	NE	24.89
•	2/20/2019	26.28	1	30	NE	NE	26.28
•	5/1/2019	27.41	1	31	NE	NE	27.40
•	6/9/2019	28.54	1	32	NE	NE	28.54

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- • Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate



Date	Published Price ($)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
6/22/2016		Kalton				
6/22/2016	NA	1	NE	47.00	48.00	43.31
6/30/2016	46.10	1	NE	51.00	52.00	46.06
8/31/2016	41.71	1	NE	49.00	50.00	41.60
10/25/2016	38.41	1	NE	44.00	46.00	38.41
2/21/2017	42.69	1	NE	48.00	49.00	42.63
3/2/2017	43.67	1	NE	49.00	50.00	43.67
7/19/2017	45.09	1	50	NE	NE	45.15
8/27/2017	48.56	1	53	NE	NE	48.56
10/24/2017	49.30	1	54	NE	NE	49.50
11/1/2017	51.73	2	54	NE	NE	51.27
2/20/2018	49.58	2	51	NE	NE	49.58
4/23/2018	50.90	2	52	NE	NE	51.07
6/28/2018	52.59	2	54	NE	NE	52.59
9/16/2018	49.71	2	55	NE	NE	49.71
12/24/2018	51.07	2	54	NE	NE	49.15
2/20/2019	48.51	2	53	NE	NE	48.51
2/26/2019	48.70	2	51	NE	NE	48.70
6/9/2019	51.64	2	55	NE	NE	51.64

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- • Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

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ES: Risks to our price target include potential development issues related to offshore wind (new to the U.S.) along with unfavorable regulatory developments.
NI: Risks include greater than expected shareholder liabilities associated with the 9/13/18 MA gas incident, unfavorable regulatory developments, a potential rise in interest rates (financing costs and sector valuation), and lower than expected sales growth.
AGR: Risks include an increasingly competitive renewables landscape, adverse regulatory decisions and below average share liquidity due to Iberdrola's 80% share stake.

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2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING
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M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
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7 April 2019 | 7:51PM EDT

Americas Utilities

More cautious on Utilities - Downgrade OGE, WEC, AEP; Remove NEE from CL; Upgrade NI and AGR

Given stretched valuations across the utility sector we move to a cautious view on the group, and see (2%) total return across our utilities coverage. Following the XLU's ~11% outperformance vs the S&P since the start of 4Q18 the group now trades at a 20% premium to the market while current UST 10-year yields imply it should trade at a much more modest premium to the market. Given expectations for yields to rise over the NTM (GS/forwards at 2.9%/2.6%), we expect the sector's relative premium realigns closer to its historically implied level. Additionally, the sector screens expensive on several other key metrics including absolute P/E multiples, yield vs IG credit, and yield vs midstream (which GS remains positive on).

We also shuffle ratings for a handful of stocks:

- **Remove NEE from the CL but remain Buy-rated, $194 12-month price target, 5% upside**
- **NI from Neutral to Buy, $29 12-month price target, 7% upside**
- **OGE from Neutral to Sell, $37 12-month price target, (10%) downside**
- **WEC from Neutral to Sell, $70 12-month price target, (7%) downside**
- **AGR from Sell to Neutral, $47 12-month price target, (4%) downside**
- **AEP from Buy to Neutral, $78 12-month price target, (2%) downside**

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PM Summary

We view the utilities sector as largely overvalued following the XLU's strong outperformance relative to the S&P since the start of 4Q2018, and a shift in expectations for UST 10-year yields and S&P P/E in the NTM. We note the XLU outperformed the S&P by ~15% in 4Q2018 and has underperformed YTD by ~(7%). On consensus estimates, Regulated Utilities now trade at 18.5x 2020 P/E, near peak absolute multiples. Relative to the S&P, utilities trade at a ~20% premium on consensus 2020 EPS estimates. Given current UST 10-year yields of 2.5%, and expectations for yields to remain around or below 3% (GS/forwards at 2.9%/2.6%)

over the NTM - based on the historic relationship between utility relative valuation to the S&P - expectations imply the group should trade at just a slight premium to the market.

We make a host of ratings changes in this note:

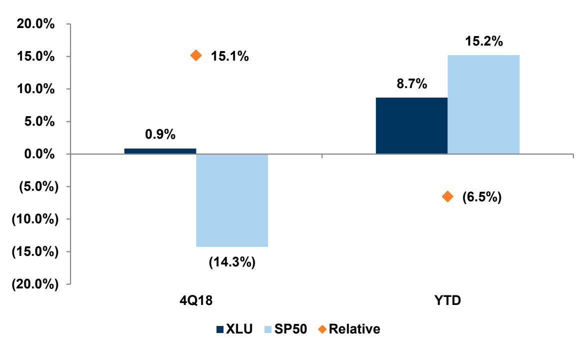
- **Removing NEE from the Conviction List but remain Buy-rated** following 17% outperformance since adding to the CL in October 2017. We continue to expect tailwinds for NEE resulting from its exposure to the U.S. renewable market, spare balance sheet capacity, and ability to recycle capital effectively through NEP, but now view upside as more limited following meaningful outperformance.
- **NI from Neutral to Buy** as (1) our revised estimates imply upside to consensus – despite baking in conservative outcomes related to the Greater Lawrence incident, (2) we see less uncertainty regarding the Greater Lawrence incident, and (3) we no longer believe the stock deserves a discount multiple on the gas business as a result – driving 7% return vs peers at (2%).
- **OGE from Neutral to Sell** as (1) we see valuation downside – (10%) return – following the stock's 14% outperformance vs the XLU over the LTM, (2) our analysis implies the Regulated Utility operations – or OGE ex. midstream – trades at a 0.5x premium to peers, which we view as unwarranted, and (3) we no longer apply an M&A premium to our OGE valuation as we view the company's risk profile, due to its midstream exposure at ENBL, a likely headwind.
- **WEC from Neutral to Sell** given (1) the stock's 9% outperformance vs the XLU over the LTM limiting valuation upside, (2) WEC's upcoming rate cases for all three Wisconsin utilities may create an overhang on the stock as we've seen in the past, and (3) we view potential gas demand upside as largely priced in following WEC raising both demand growth and related capital spending guidance.
- **AGR from Sell to Neutral** given (1) meaningful underperformance of 8% YTD as the shares now appear to reflect more conservatism related to major projects NECEC and Vineyard Wind, (2) improved valuation as AGR now trades at a more moderate 6% premium to Infrastructure Utility peers, and (3) total return of (4%), just below our coverage median of (2%).
- **AEP from Buy to Neutral** on (1) ~7% outperformance over the last 6 months drives some valuation downside, (2) revised estimates now slightly below consensus in 2020 – our valuation year, and (3) a lack of clear positive catalysts ahead.

We continue to value our Regulated Utility coverage with a 17x baseline P/E multiple on 2020E EPS, a slight premium to the GS portfolio strategists' forecast that the S&P trades at ~16.5x 2020 P/E at 2019YE - although a more significant premium to consensus at ~15.5x (based on consensus forecasts for 2019YE S&P pricing and Factset bottoms up consensus S&P 2020 EPS). We see some downside potential to our 17x baseline multiple as blending GS and consensus estimates (our historic methodology) implies the group should trade just below 17x 2020 P/E at 2019YE - but we see no major catalysts to the group re-rating.

We continue to use 2020 estimates for valuation - historically rolling forward valuation years mid-summer - but highlight that the group doesn't screen meaningfully better on 2021. Our estimates imply Regulated Earnings growth of ~4% vs consensus implying ~3.75% - discounting our 17x multiple for GS/consensus EPS growth from 2020 to 2021 implies a baseline 2021 multiple of ~16.5x. For illustrative purposes, we rolled forward valuation of our Regulated Utilities coverage and the illustrative price targets implied only 1%-2% of incremental return.

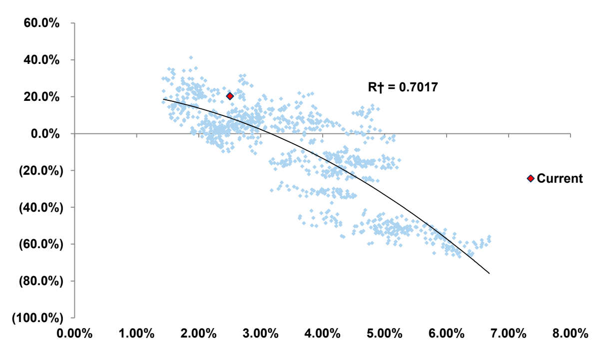
Very limited return for the group as well as risk/reward skewed to the downside - despite no clear negative sector catalysts - drive a cautious sector view. We compare this to our call mid-year 2017 to go cautious utilities as tax reform ultimately created meaningful headwinds for the group relative to the market. In particular (1) utility earnings power did not benefit from a lower tax rate as tax remains a pass through in customer rates and (2) tax reform led to a large portion of our coverage requiring incremental equity financing given lower tax shields (also creating slight earnings drag). We expect a slower grind lower for the sector as rates rise, the yield curve steepens, and investors shift towards more cyclical and growth oriented sectors.

Exhibit 1: We highlight the XLU's strong outperformance in 4Q2018 relative to the S&P - with ~(6.5%) underperformance vs market since then...
XLU and S&P performance



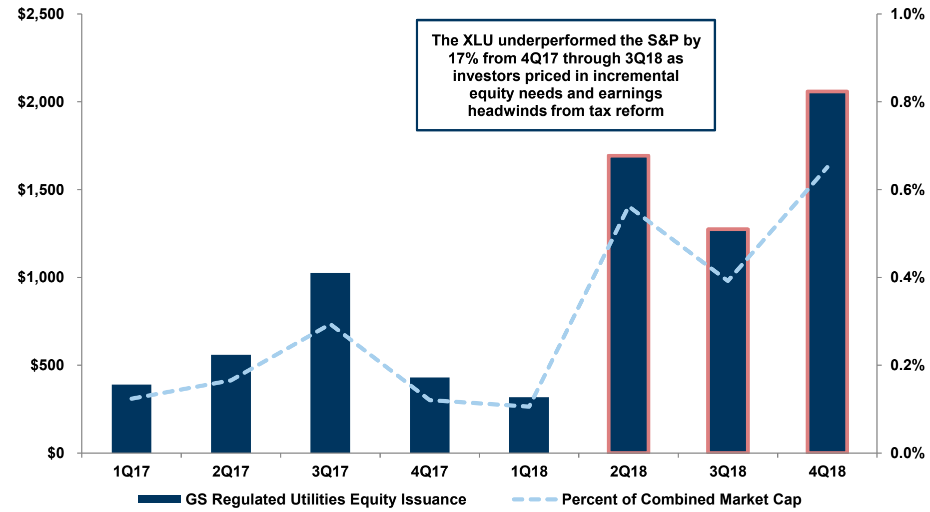
Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 2: ...leaving the group at a 20% premium to the market - well above expectations given current UST 10-year yields around 2.5%...
Utilities FY2 P/E premium/(discount) to the S&P vs UST 10-year yields



Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 3: ...but we note - unlike late 2017 when we were cautious the group - we see no major catalysts to the group re-rating
GS Regulated Utility coverage equity issuances, $mn and as a percent of the combined market cap



Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 4: We make a host of ratings changes...
GS Utilities coverage ratings grid

	Regulated Utilities	Diversified Utilities	IPPs
Buy	EIX, ES NI	CNP, DTE ETR, FE NEE, SRE*	NRG, NEP
Neutral	AEE, AEP AWK, CMS ED, PNW PPL	AGR, D PEG	CWEN
Sell	DUK, EVRG POR, SO WEC	EXC, OGE	
Rating Suspended	PCG		

*Part of our Americas Conviction List

Source: Goldman Sachs Global Investment Research

Exhibit 5: ...and continue to favor capital allocation leaders and utilities with upside to consensus or attractive valuation
Sector Buys and Sells summary

		Capital Allocators	Low Multiples / Consensus Upside	Consensus Risk	High Multiples
Buy Rated	CNP		✓		
	DTE		✓		
	EIX		✓		
	ES		✓		
	ETR		✓		
	FE		✓		
	NEE	✓	✓		
	NI		✓		
	NRG	✓	✓		
	NEP	✓	✓		
	SRE*	✓	✓		
Sell Rated	DUK			✓	
	EVRG			✓	✓
	EXC			✓	
	OGE			✓	✓
	POR			✓	✓
	SO			✓	
	WEC			✓	✓

*Part of our Americas Conviction List

Source: Goldman Sachs Global Investment Research

Stretched valuations without a negative catalyst

We maintain our 17x 2020E EPS baseline multiple for utility valuation, derived by analyzing utilities' historic premium/(discount) to the market in different UST 10-year yield environments. We then use GS portfolio strategists'/consensus forecasts for the S&P/UST 10-year to back in to a baseline multiple for the group. Combining GS/consensus forecasts implies at 2019YE the S&P trades around 16x 2020E EPS and UST 10-year yields remain around 2.6%-2.9% (GS at 2.9% and the forward curve at 2.6%) - implying utilities should trade at a modest premium to the market.

- **Bull case utility valuation implies the group could trade at 17.75x 2020 P/E (still below the 18.5x the group currently trades at)** based on the GS portfolio strategists' forecast the market trades at about 16.5x 2020 EPS and the forward curve implying UST 10-year yields remain relatively low over the NTM, rising to just 2.6% (driving a ~1.25x premium for utilities relative to the market). We note increasing our baseline multiple to 17.75x only drives Regulated Utilities average return to 0% vs (2%) on 17x.
- **We see more downside risk as our bear case scenario implies the group could trade as low as 16x 2020 P/E** using consensus estimates for the S&P to trade at just 15.5x 2020 EPS and GS economists' expectation the UST 10-year yield climbs back to 2.9%. While our bull case scenario implies 2% incremental return for our Regulated Utilities coverage, our bear case implies as much as ~(4%) of incremental downside.

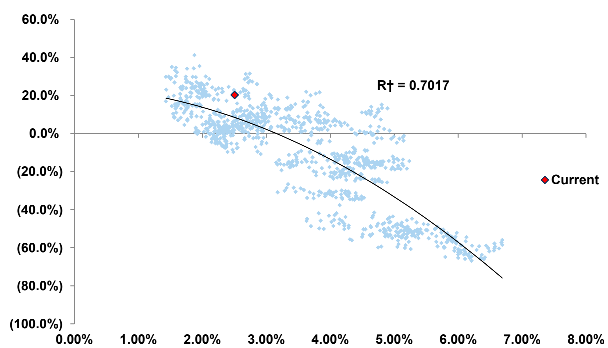
Utilities look expensive on a relative and absolute basis, in particular we see:

1. **Relative valuation at a 20% FY2 P/E premium to the S&P 500,** well above our expectations given current UST 10-year yields implying just a ~8.5% premium.
2. **Absolute valuation returned to near peak levels,** with utilities now trading at 18.5x/17.9x FY2/FY3 P/E multiples.
3. **Utility yield spreads to IG credit yields and midstream yields appeared stretched relative to history,** with spreads to midstream the widest since early 2016 and spreads to IG credit appearing expensive relative to the average since 2013.
4. **GDP growth levels likely remain strong NTM based on GS economist forecasts,** historically a driver of utility relative underperformance as utilities generally underperform more cyclical sectors during periods of healthy economic growth (as highlighted by the (54%) correlation between utility relative performance and GDP YoY percent changes).

Infrastructure Utilities remain an attractive "total income return" (dividend yield + growth) option with a relatively low beta in comparison to other energy infrastructure options, as previously highlighted in our Dividend Diamonds notes. However, Regulated Utilities and Diversified Utilities remain (1) lower total income sectors relative to our Midstream and Infrastructure Utilities coverage and (2) don't have meaningfully lower betas - with our Midstream MLP coverage beta coming in below that of Regulated Utilities and Diversified Utilities (while also offering higher total income return). Relative to other defensive/income oriented sectors utilities screen largely in line on EV/EBITDA, but appear more expensive on dividend yield.

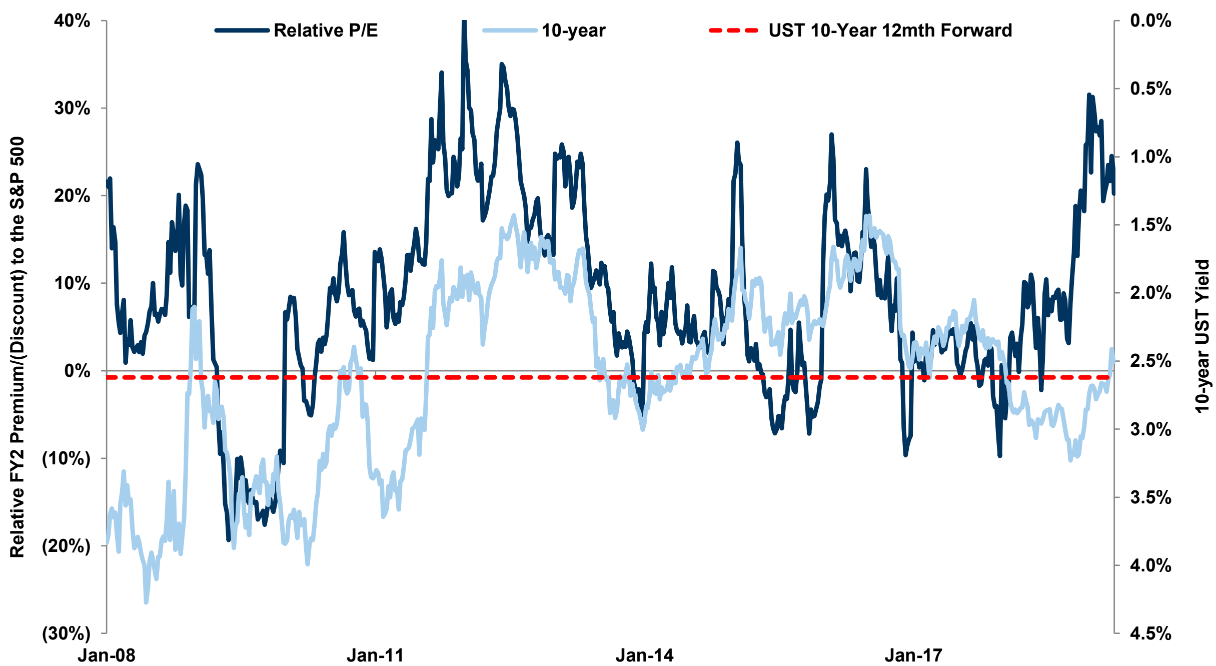
As valuation appears stretched and upside limited, we become increasingly cautious the utilities sector, but we see no clear negative catalysts for the group. We previously were cautious utilities in late 2017 - but at the time saw tax reform as a potential negative catalyst for the sector given. Both GS economists and the forward curve imply yield curve steepening, which could cause the group to grind lower. Additionally, rates rising over time and economic growth remaining strong in the NTM should lead to utilities relative premium moving lower.

Exhibit 6: We view the group as relatively expensive given current UST 10-year yields and S&P500 P/E expectations...
Utilities FY2 P/E premium/(discount) to the S&P vs UST 10-year yields



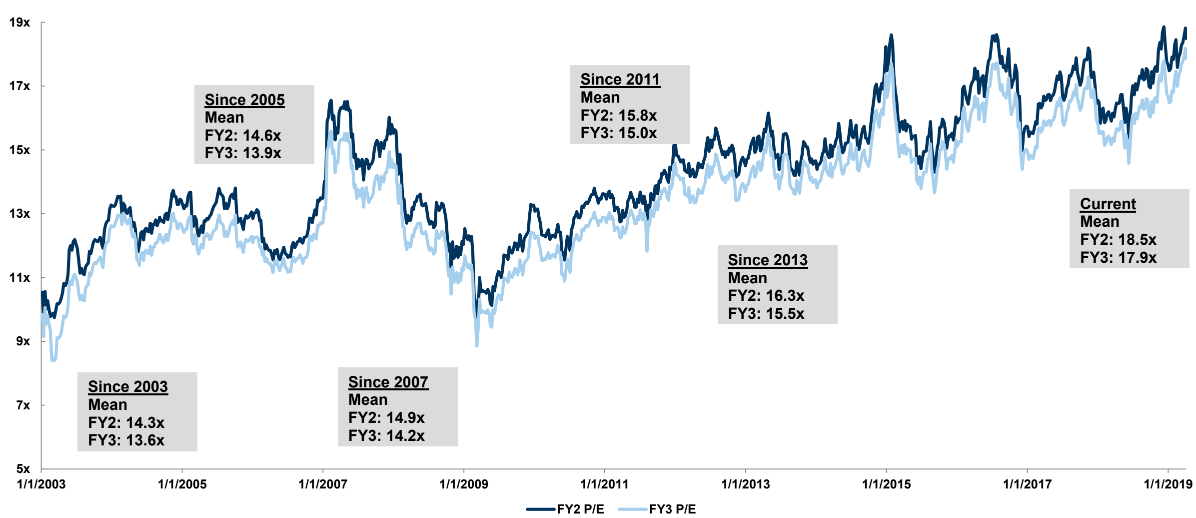
Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 7: ...as the group now trades at a 20% premium to the market while current UST 10-year yields imply it should trade at just a slight premium...
Utilities P/E premium/(discount) vs UST 10-year



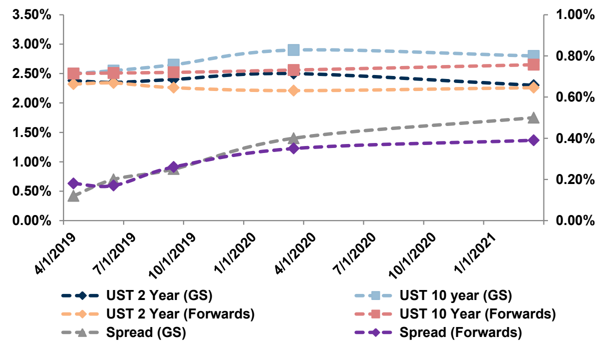
Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 8: ...and highlight the group has returned to peak absolute multiples as well
Utilities absolute P/E multiples



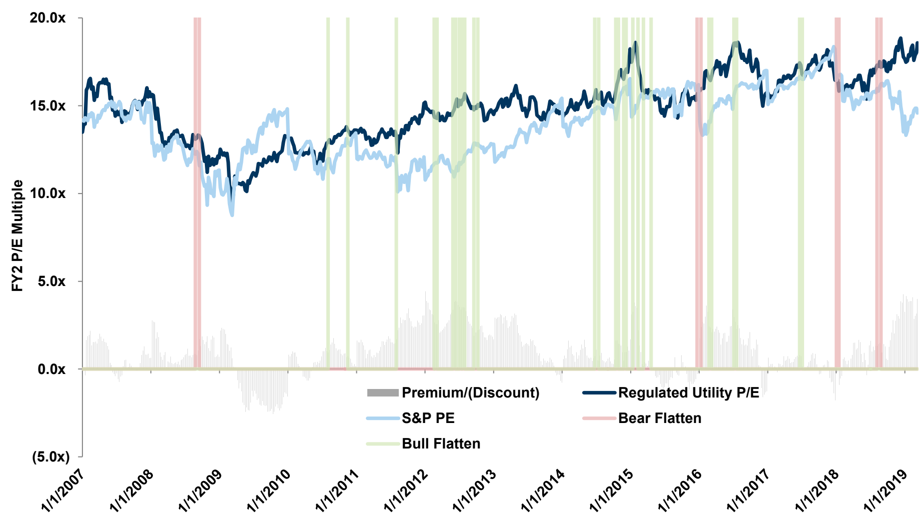
Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 9: We note GS and the forward curve differ only slightly on implied yield curve steepening...
UST 10-year yields, UST 2-year yields, and the 2-year to 10-year spread (RHS)



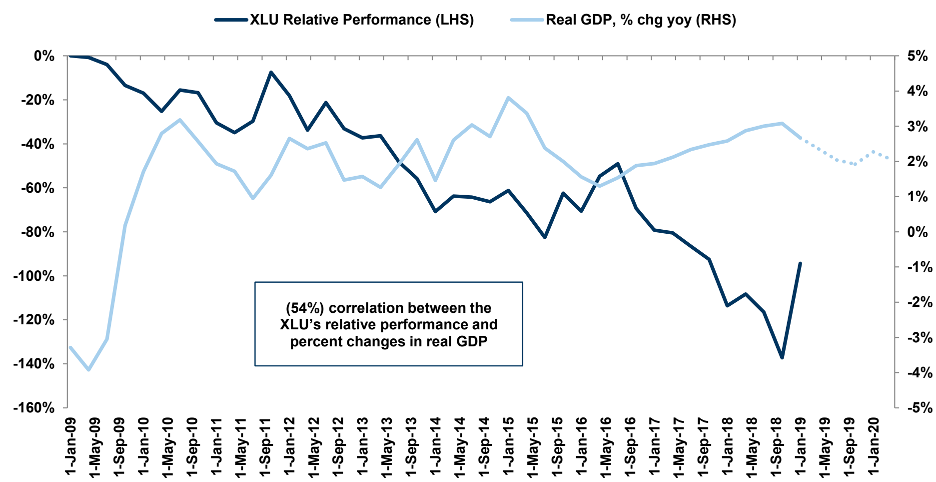
Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 10: ...and utilities have historically traded at a meaningful premium when the yield curve flattens - particularly in bull flattening scenarios
Regulated Utility P/E vs S&P P/E during periods of bear and bull flattening



Source: Goldman Sachs Global Investment Research, FactSet

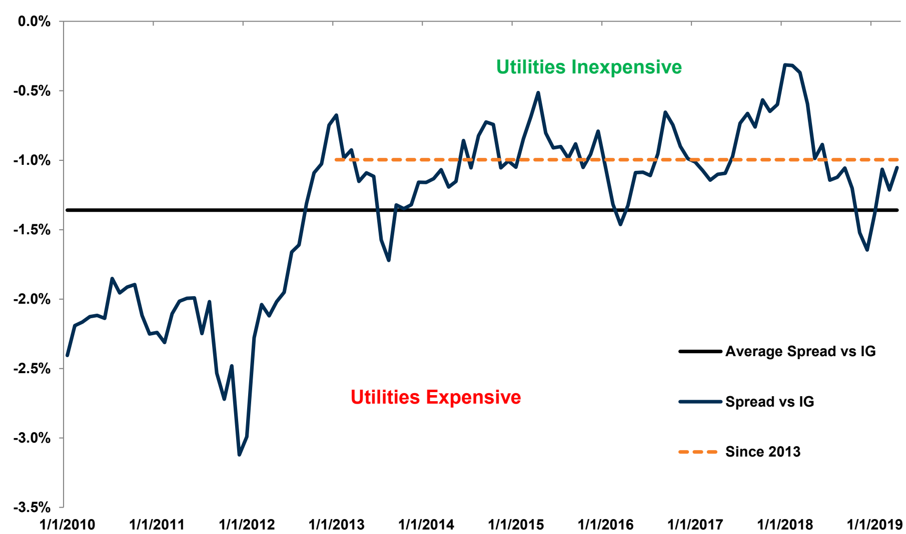
Exhibit 11: Utility relative performance has a strong inverse correlation with GDP, a potential headwind for the sector given GS expectations for stable GDP growth...
XLU relative performance vs. real GDP % change YoY



GS forecast for GDP begins 1/2019 (dotted line)

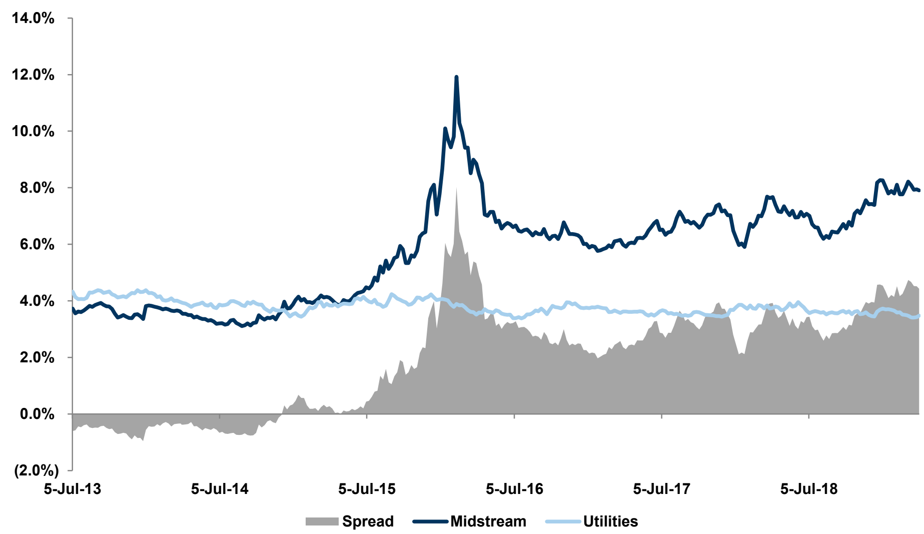
Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 12: ...and the group now screens as somewhat expensive relative to IG credit when comparing current yields to the average since 2013...
Utilities yield vs IG bonds



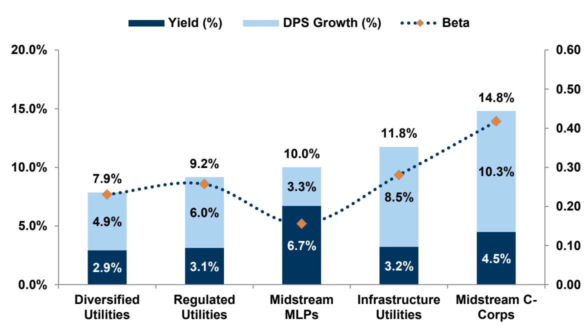
Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 13: ...and relative to midstream yields - with the spread between the two sectors' yields reaching relative peak levels since early 2016.
Utility vs midstream yields



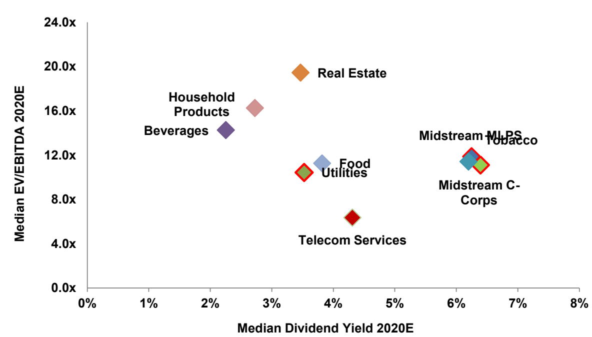
Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 14: Our Infrastructure Utilities coverage remains an attractive total income return sector while Diversified Utilities and Regulated Utilities appear more expensive without a meaningfully lower beta...



Source: Goldman Sachs Global Investment Research, Thomson Reuters

Exhibit 15: ...and utilities as a whole screen relatively average on EV/EBITDA but somewhat expensive in terms of yield relative to other defensive sectors
Yield vs 2020 EV/EBITDA across defensive/income oriented sectors



Source: Goldman Sachs Global Investment Research, FactSet

Remain Buy-rated on NEE but remove from the CL following meaningful outperformance

We remain Buy-rated on NEE but remove the shares from the Conviction List following 17%/12% outperformance (NEE +23% vs XLU +6%/S&P 500 +13%) since adding to the CL in October 2017. We continue to expect tailwinds for NEE resulting from its leverage to the rapidly growing US renewable market, combined with $4-6bn of excess balance sheet capacity and the ability to effective recycle capital through drop-down transactions with NEP, though we now view upside as more limited following meaningful outperformance vs. the XLU (17%). While we do not see NEE's late 2019 analyst day as a major catalyst, we note mild near-term risk exists related to the ongoing regulatory challenges filed by several customer groups to FP&L's current rate structure. We estimate a 25bps reduction in the earned RoE at FP&L would impact our 2020 consolidated EPS estimate by $0.12, all else equal. We see 5% upside to our $194, 12 month price target vs -3% coverage average.

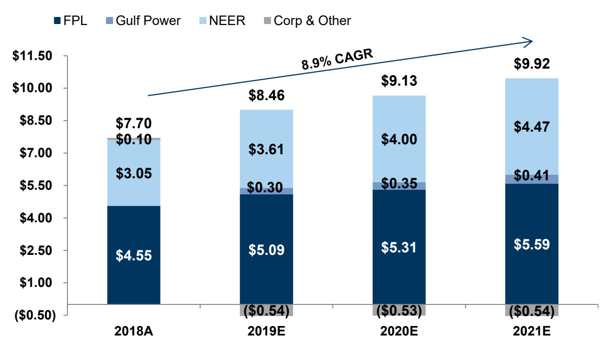
We revise our 2019-2021 EPS estimates for NEE modestly to $8.46/$9.13/$9.92 from $8.48/$9.14/$9.94 previously to incorporate (1) recently published NEP estimate revisions and (2) minor adjustments to financing. Our estimates imply 1-2% upside to FactSet Consensus, driven by our view that the company's renewable growth profile over the next several years comes in at the high end of guided ranges – and cost management across all businesses helps as well, particularly at Gulf Power. We also increase our 12-month price target to $194 (from $193 previously) to reflect a higher NEP target price. Key risks for NEE include Florida utility regulation, lower than expected renewable development growth and lower than expected cost management levels.

Exhibit 16:
New vs Old vs Consensus estimates

	EPS			% Difference	
	GS- New	GS- Old	Cons	vs Old	vs Cons
2019E	$8.46	$8.48	$8.40	(0%)	1%
2020E	$9.13	$9.14	$9.06	(0%)	1%
2021E	$9.92	$9.94	$9.75	(0%)	2%

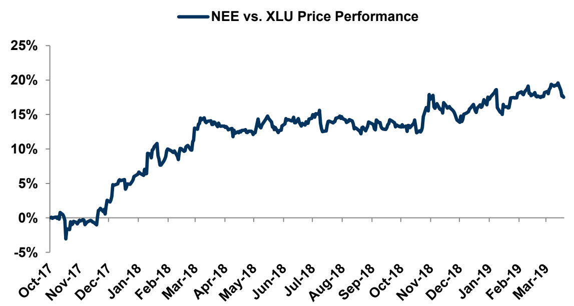
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 17: ...and we continue to expect robust 9% annual consolidated earnings growth...
NEE EPS by segment



Source: Goldman Sachs Global Investment Research

Exhibit 18: ...though we remove NEE from the CL following outperformance of 17% since October 2017...
NEE vs. XLU price performance



Source: Thomson Reuters, Goldman Sachs Global Investment Research

Exhibit 19: ...as we now view total return as more limited
NEE SOTP

Sum-of-the-Parts	
2020 Consolidated EPS	9.13
2020 Base Multiple	17.00x
Premium	2.50x
Target P/E multiple	19.50x
NEE Value (ex NEP)	**178**
NEP Target Price	49
NEE owned share count (mn)	101
Share Count (mn)	495
NEP LP Value per Share	**10**
NEP 2022 IDR	153
NEE Ke (CAPM)	6.2%
LT Growth	1.5%
NEP GP Value ($mn)	2,769
Share Count (mn)	495
NEP GP Value per Share	**6**
SOTP Value	**194**

Source: Goldman Sachs Global Investment Research

Upgrading NI to Buy on above-consensus growth and reduced concerns on incremental MA incident impact

We upgrade NI given upside to consensus estimates and a reduced overhang related to last year's Greater Lawrence pipeline incident. We previously embedded a discounted multiple at the gas business to account for further potential headwinds related to last year's MA natural gas incident, but we no longer see the discount as warranted. We now believe that potential incremental costs (largely from personal claims) will be more moderate and unlikely to meaningfully impact our above-consensus 7% EPS CAGR from 2019-2021. Although the stock has already recovered some of its relative discount since the 4Q18 earnings release, we expect the multiple to continue to re-rate higher over the coming months, better capturing the company's robust regulated earnings growth profile in largely constructive regulatory jurisdictions.

We revise our 2019-2020 EPS estimates to $1.30/$1.43 from $1.32/1.41 and introduce our 2021 estimate of $1.50. Our revised estimates reflect (1) slightly higher O&M in 2019, followed by more cost management in 2020+, (2) more front-end loaded ATM equity issuances and higher preferred equity issuances in 2019 to maintain FFO/debt levels above 14.0%, and (3) other minor adjustments to financing. Based on NI's 4Q2018 disclosures, we continue to include $275mn of cash payments for the Greater Lawrence incident in 2019 given ~$1.1bn of total claims (for damages related to structures/homes and expertise needed) and management commentary that 75% of claims were already paid out in 2018. Our model also embeds $625mn of non-convertible preferred shares in 2019 to meet financing needs while maintaining adjusted FFO/debt of 14-15% through 2021, and ATM equity issuances totaling $600mn in 2019-2021 compared to the $200-$300mn per year guidance range, with no assumption of bulk equity issuances in our forecast. We assume NI recovers ~2/3 of total damages related to the Greater Lawrence incident through insurance - 1/3 in 2019 and 1/3 in 2020, and include a $75mn penalty to the company paid in 2Q2020. We note NI already recovered $175mn through insurance in 2018, and further upside to our estimates could exist should the company recover a greater amount than our 2/3 estimate.

Despite our, in our view, conservative approach to measuring impacts of the Greater Lawrence incident, we still see strong EPS growth and upside to FactSet Consensus, as our 2019 estimate appears roughly in line with consensus and 2% above in 2020-2021. Overall, we believe our estimates embed a conservative scenario for recovery or non-recovery of costs related to the Greater Lawrence incident, and imply a 2019-2021 EPS CAGR of 7.0% compared to the 5%-7% guidance range off of a 2019 base. We note our estimates do not include any claims related to the 21 injuries caused by the incident, as limited information exists. We estimate, for illustrative purposes only, that costs between $1mn-$10mn per injury (as has been observed in similar incidents) would result in a range of $21mn-$210mn in additional claims. This range represents 0.1%-1.2% of the company's EV, and would create up to $0.02 of drag on our 2022 EPS estimate, though we note claims paid out may be spread out over time, moderating impact to any given year. Assuming any injury-related claims are paid out entirely with incremental debt financing, we estimate additional claims could reach up to $450mn before the company would fall below the 14.0% FFO/debt threshold in 2021 required by Moody's.

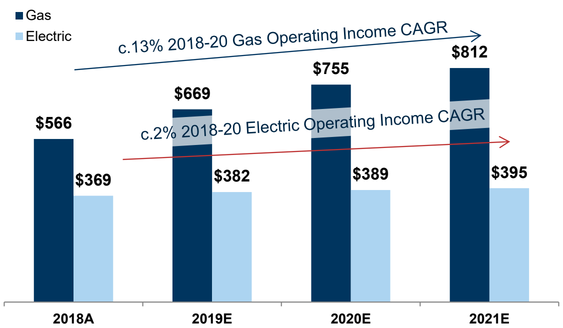
We raise our 12-month price target to $29 from $26 previously, as we now apply a 21.25x multiple to the gas business (vs. 19.25x previously) given best-in-class 10% gas rate base growth combined with our view that the Greater Lawrence incident should no longer act as an overhang on the stock. We also assign a higher 17.5x multiple on the electric business (vs. 17.0x previously) to better reflect the relatively constructive regulatory environment in Indiana. Our revised price target now implies 6% total return compared to a (3%) median for our coverage universe. Key risks for NI include (1) legal and regulatory risks, (2) system damages related to the recent MA natural gas incident, (3) higher than expected O&M, (4) electricity demand and customer growth, and (5) financing.

Exhibit 20: We increase our EPS estimates for NI and now appear 2% above consensus in 2020/2021...
EPS New vs Old vs Consensus

	EPS Estimates			% Difference	
	GS-New	GS-Old	Cons.	vs. Old	vs. Cons.
2019E	$1.30	$1.32	$1.31	(1%)	(0%)
2020E	$1.43	$1.41	$1.40	2%	2%
2021E	$1.50	NA	$1.47	NA	2%
CAGR	7.2%	NA	5.9%	NA	1%

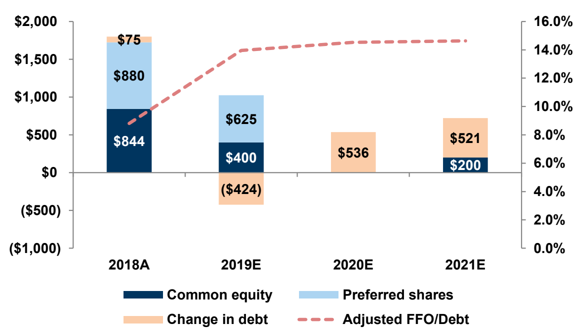
Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 21: ...driven by strong operating income growth at the regulated gas segment...
Operating income by segment, 2018A-2021E



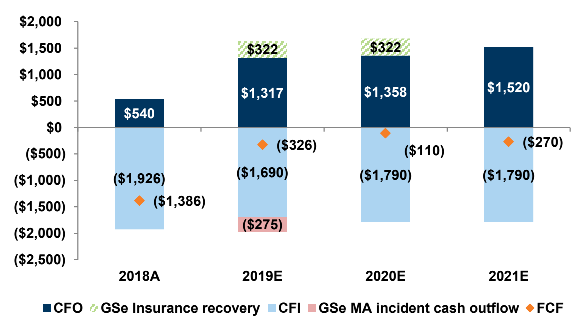
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 22: ...despite external financing required to pay claims and maintain adjusted FFO/debt levels above 14.0%...
Financing ($mn) and adjusted FFO/debt



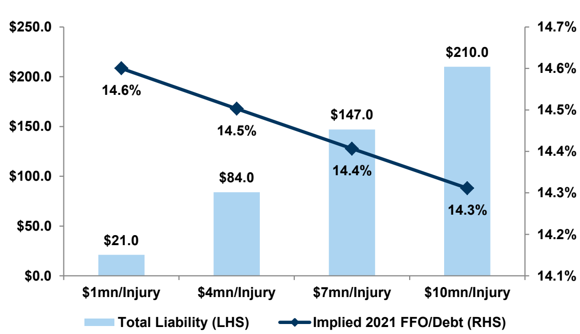
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 23: ...as we expect FCF headwinds persist in 2019 but insurance recoveries in 2020 push FCF upwards...
Cash from operations, cash from investing, and free cash flow ($mn)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 24: …though we note our estimates do not include claims for the 21 injuries sustained
Potential liability ($mn) and 2021 FFO/Debt (%) based on $mn claim per injury



Source: Goldman Sachs Global Investment Research

Exhibit 25: We derive our $28 12-month price target using a blended P/E, now applying modest premiums at both the gas and electric businesses
NI blended P/E valuation

NI valuation			
Deriving Blended Multiple			
	Gas	Electric	Total
2020 EBIT	754.6	388.8	1,143.4
% 2020 EBIT	66.0%	34.0%	
Target Multiple	21.25x	17.50x	19.97x
Price Target			
2020 EPS			$1.43
Target Multiple			20.0x
Price Target			**$29**
Total Return			**7%**
Smid-cap Average Total Return			**(2%)**

Source: FactSet, Goldman Sachs Global Investment Research

Downgrading OGE to Sell largely on valuation and relative outperformance

We downgrade OGE from Neutral to Sell largely on valuation and following 7%/17% outperformance for the last 6/12months. While we continue to view OGE's balance sheet capacity positively, we consider OGE's current premium valuation as unwarranted as we see its industry average ~5% regulated earnings growth profile more than priced into shares. We note that OGE has largely outperformed XLU with OGE currently trading at a 6% premium on our 2020E EPS vs the Diversified Utilities average vs an historical discount of 5-10%. Our $37, 12-month target price denotes a total return potential of (10%) vs diversified/regulated medians at (1%)/(3%).

Valuation fully reflecting growth profile and improving regulatory environment. Our analysis of implied OGE valuation excluding midstream shows OG&E trading at a ~0.5x FY3 P/E premium to regulated peers (Exhibit 30), which we see as somewhat overdone given its industry average regulated growth profile. Also, while we acknowledge some relative improvement in Oklahoma regulatory environment in our view, we do not believe it warrants a premium valuation at the present given a continued use of a historical test year and lack of tracking mechanisms to reduce regulatory lag.

OGE offers stable but average regulated growth along with moderate midstream exposure. OGE's regulated utility Oklahoma Gas & Electric (OG&E), comprising around 75% of consolidated earnings, in recent history spent meaningful funds to decrease its generation fleet's carbon footprint, including building cleaner gas units and installing scrubbers on existing coal plants. Going forward, we do not anticipate any meaningful generation investments over the next few years. We expect OG&E's capital spending to average ~$600mn per year, comprising largely of grid modernization initiatives. Our estimate imply a 5% rate base CAGR from 2018-2021E, which we believe is in-line with the industry average. OGE also remains committed to maintaining its current 25.6% ownership stake in Enable Midstream Partners (ENBL), which we see contributing roughly half of OGE's free cash flow but exposing the company to share volatility during periods of material oil price changes.

Potential upside could arise from capital allocation options but largely factored into current valuations. We see OGE's consolidated FFO/Debt remaining close to 23% through 2021, allowing for some room above the downgrade threshold as stated by Moody's (potential downgrade if FFO/debt approaches 20%). As seen in Exhibit 19, we see around $0.01-$0.06/ $0.02-$0.10 of positive EPS impact assuming buybacks/ incremental rate base investment not reflected in our model. However, we see this largely factored into valuations, while also noting potential limitations on meaningful rate base acceleration due to customer rate impact.

We lower our SOTP valuation to $37 from $39 while lowering our 2019-2021 estimates from $2.20/$2.32/$2.43 to $2.18/$2.29/$2.40 from 2019-2021, largely driven by higher financing costs associated with accumulated deferred tax givebacks (~$35mn annually). We continue to assume OG&E receives full recovery and return of the environmental investments in the Sooners and Muskogee coal plants. We now remove the previously assigned M&A component (15% weight in old price target) given 1) we do not see OGE as a willing seller, 2) the 25.6% stake in ENBL lowers its attractiveness as a take-out candidate in our view, and 3) we see more limited M&A near-term as most potential buyers face balance sheet constraints from tax reform (due to negative cash impact of deferred tax givebacks to ratepayers). However, we still apply a premium to our baseline regulated utility multiple to reflect balance sheet capacity which could be utilized for possible buybacks or regulated growth.

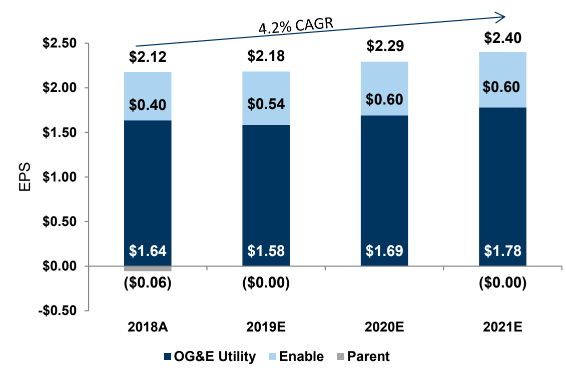
What could make us more positive/upside risks for OGE: (1) OGE may initiate a share buyback program, resulting in $0.01-$0.06 EPS upside as mentioned above, (2) OG&E may announce higher regulated capital spending driving upsized rate base growth and increased earnings growth profile, (2) the company could be a target of a take-out, although we do not see that as likely given its premium valuation and exposure to Enable, (3) Oklahoma may implement favorable rate-making changes in , reducing OG&E's regulatory lag, and (4) OGE's utility jurisdictions could experience increasing customer and demand growth, bolstering OG&E's organic earnings power.

Exhibit 26: We lower our 2019-2021 estimates slightly given adjustments to deferred tax raising our financing costs slightly higher...
GS New vs. Old vs. Consensus, 2018A-2021E

	EPS			Difference	
	GS-New	GS-Old	Cons.	vs. Old	vs. Cons.
2018A	$2.12	$2.12	$2.12	0%	0%
2019E	$2.18	$2.20	$2.14	-1%	2%
2020E	$2.29	$2.32	$2.31	-1%	-1%
2021E	$2.40	$2.43	$2.43	-1%	-1%

Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 27: ... translating to a 4.2% growth CAGR from 2018A-2021E...
EPS by segment 2018A-2021E



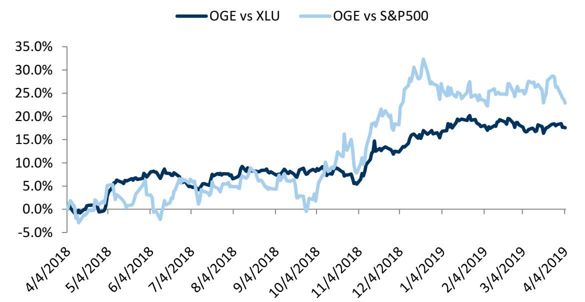
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 28: ... and revise our target price down to $37 from $39 as we remove our M&A premium considering that we no longer see OGE as a potential seller
OGE SOTP Valuation

Valuation	
OGE Utility 2020 EPS	**$1.69**
Weight	100%
GS Regulated Electric Utility Base Multiple	17.00x
Premium	1.00x
Adjusted P/E	**18.00x**
OGE Utility Value	**$30.41**
ENBL market equity value (as of 3/25/2019)	**$6,117**
OGE stake (%)	25.6%
Tax / Liquidity Discount	20%
OGE Diluted shares	*201*
ENBL value for OGE	**$6.24**
OGE Valuation	**$37**

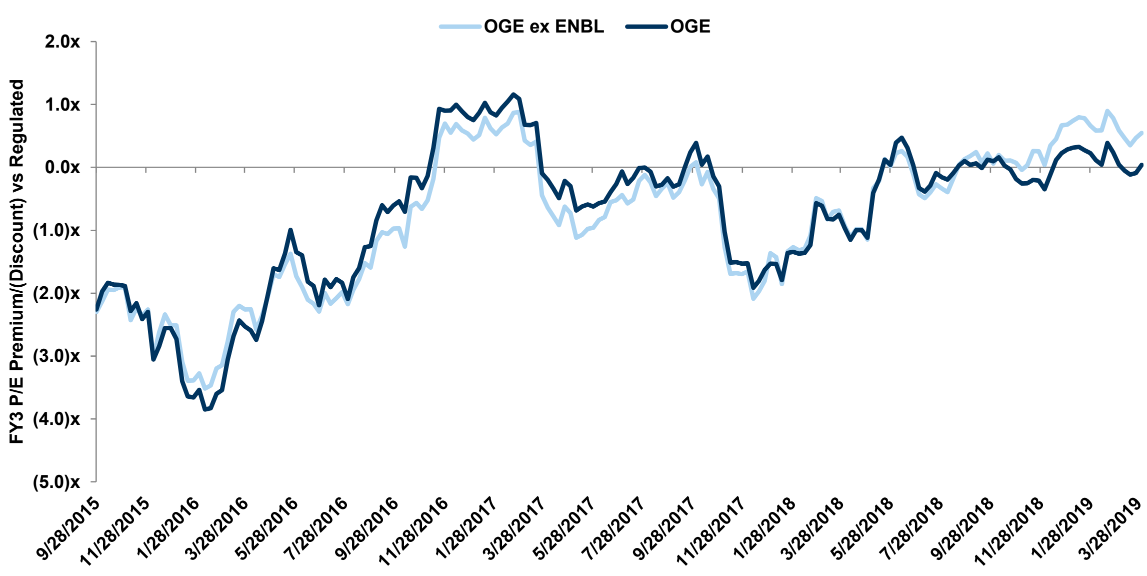
Source: Goldman Sachs Global Investment Research

Exhibit 29: We highlight that OGE has largely outperformed XLU by 7%/17% for the last 6/12months...
OGE stock price performance vs XLU vs S&P500



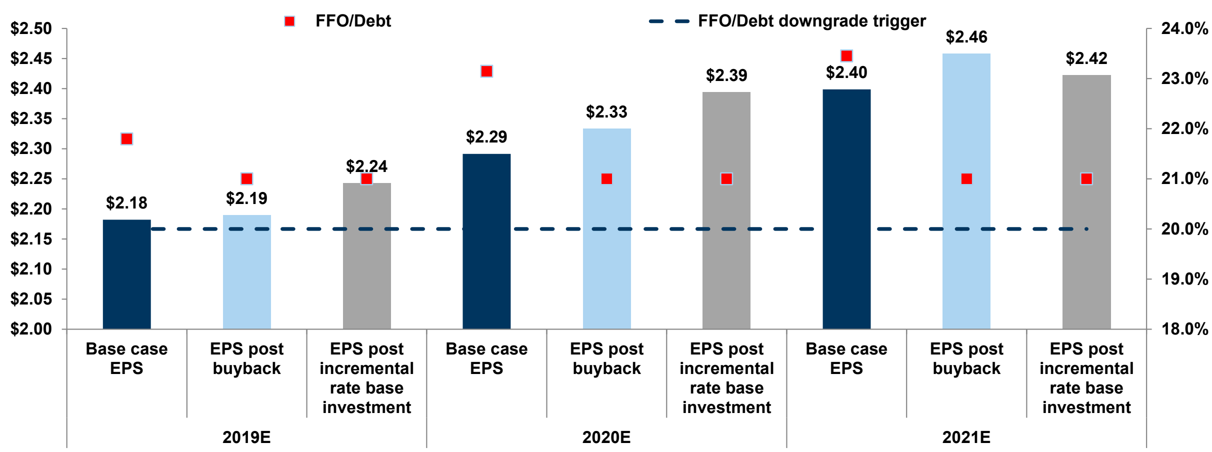
Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 30: ... and see OGE ex-ENBL valuations as overdone given average growth
Implied relative OGE valuation excluding ENBL exposure



Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 31: We see potential EPS accretion of $0.01-$0.06/sh and $0.02-$0.10/sh over 2019-2021 from possible share buybacks/rate base investment but consider that factored into the current valuation
Potential EPS accretion from share buybacks/incremental rate base investment 2019E-2021E



Source: Company data, Goldman Sachs Global Investment Research

Downgrading WEC to Sell on valuation and a potential rate case overhang

We downgrade WEC from Neutral to Sell given valuation that appears stretched following ~9% outperformance relative to the XLU since 2Q2018, limiting valuation upside. We see (7%) downside to our 12-month price target of $70 vs (1%) average downside to our coverage. We previously highlighted strong natural gas demand growth as a positive catalyst and earnings growth driver for WEC, but now view this as largely priced-in following upward guidance revisions made to both the company's natural gas demand forecasts and to related capex levels. We note since 2Q2018, 2020+ estimates have increased slightly, with a more significant increase in the stock's P/E premium - doubling from 6% to 12% on 2020 estimates vs an average FY2 premium of ~10% over the last 4 years. As the utility group multiple contracts, WEC should see more significant multiple compression given its premium to the group, driving incremental downside vs peers.

We continue to view WEC as a premium utility given its above average earnings growth (~6% CAGR for 2018-2021 vs peers around 4%-5%), constructive regulation, and well above average demand growth. WEC's Wisconsin based utilities all benefit from sharing bands (allowing them to earn slightly above authorized RoEs), forward test years to reduce regulatory lag, and strong demand growth driven by economic activity. We note incremental demand growth tailwinds – picking up in 2020-2023 – as a large industrial project comes online in the state. WEC also maintains exposure to a medium-sized regulated gas utility in IL, smaller utilities in MI and MN, and a pure-play transmission utility, all of which benefit from constructive regulation. Additionally, WEC recently began increasing its non-regulated operations through the acquisition of contracted wind and solar plants – although we note this makes up a very small portion of the company's earnings power.

We also expect WEC underperforms regulated utility peers over the coming months as the company historically underperformed in the first few months following a rate case filing. As shown in Exhibit 37, WEC generally underperformed the XLU in April through May during rate case years, with performance from June through the end of the year largely influenced by the rate case outcome. We therefore view the company's upcoming 2019 rate case filing in Wisconsin as a very modest overhang on the stock which we expect to play out over the next several months. We see little potential upside from the rate case outcome as the company intends to request rate increases in line with inflation. We also see significant potential - given the new state governor taking office this past January - for potential turnover at the PSC in WI, driving incremental regulatory uncertainty in a rate case year. The new governor has already announced one commissioner (of a three person commission) would not get reappointed.

We revise our 2019-2020 EPS estimates for WEC to \$3.46/\$3.72 from \$3.50/\$3.78, and introduce our 2021 EPS estimate of \$3.93. Our revised estimates reflect (1) recent 10K filings, (2) an additional \$300mn of energy infrastructure capex for a placeholder wind project, and (3) adjustments to financing. Our 2019E EPS comes in 1-2% below company guidance and FactSet consensus, while our 2020-2021 estimates imply 0-1% downside to consensus.

Given revised EPS estimates, we lower our 12-month target price to \$70 from \$71 previously, derived by applying an 18.75x P/E multiple on 2020E EPS – a 1.75x premium (or ~10%) to our industry baseline, which we continue to view as warranted given (1) an above-average rate base growth CAGR of 9.6% from 2018-2021, (2) favorable regulation at WEC's subsidiaries, and (3) strong demand growth – especially on the gas side – in WEC's service territory. We note our 1.75x premium remains largely in line with WEC's average premium vs regulated peers of 10% over the last 5 years.

What could make us more positive? We highlight a few key items that could make us incrementally more positive on WEC including (1) incremental energy infrastructure investments beyond our expectations/guidance, (2) stronger than expected natural gas demand growth, which could result in upside to the company's 5-year capex guidance-increasing regulated earnings power, and (3) positive regulatory actions related to the 2019 rate case in Wisconsin.

Exhibit 32: We revise our estimates for WEC and see between 0%-2% difference vs. FactSet Consensus...
EPS New vs Old vs Consensus

	EPS			Difference	
	New	Old	Cons	vs Old	vs Cons
2019E	$3.46	$3.50	$3.52	-1%	-2%
2020E	$3.72	$3.80	$3.74	-2%	0%
2021E	$3.93	NA	$3.97	NA	-1%

Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 33: ...seeing slightly lower earnings power in 2020 largely due to financing assumptions - but regulated earnings growth remains strong...
EPS by segment

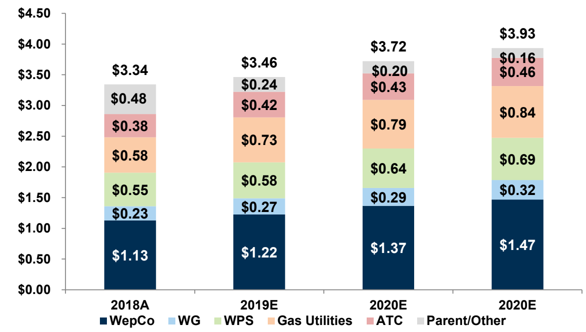
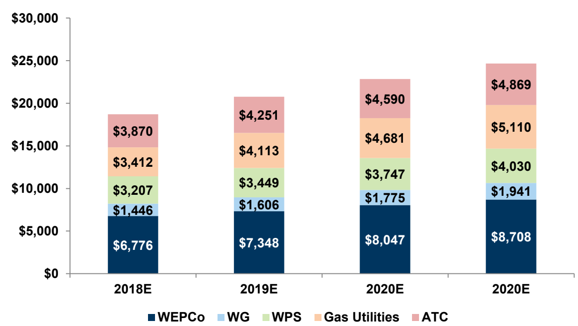
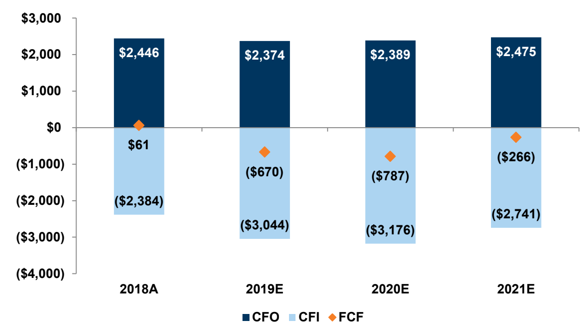


Exhibit 34: ...as we see a strong 9.6% rate base CAGR across WEC's subsidiaries 2018-2021...
Rate base by segment ($mn)



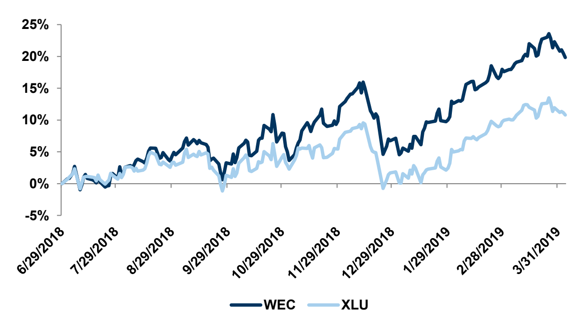
Source: Goldman Sachs Global Investment Research

Exhibit 35: ...but as capital spending steps up in 2019/2020 we see some FCF headwinds
Cash from operations, cash from investing, and free cash flow ($mn)



Source: Goldman Sachs Global Investment Research

Exhibit 36: WEC outperformed the XLU by 9% since the end of 2Q2018...
WEC and XLU share price performance since the end of 2Q18



Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 37: ...and we view the upcoming rate case filing as a potential overhang on the stock as WEC historically underperformed in the months following a rate case filing
WEC relative performance in rate case years

Performance; start of April-end of May				
	2005	2007	2012	2014
WEC	2.4%	(0.2%)	7.6%	(2.3%)
XLU	2.7%	5.4%	2.3%	3.8%
Relative	**(0.2%)**	**(5.6%)**	**5.2%**	**(6.1%)**
Performance; start of June-end of year				
	2005	2007	2012	2014
WEC	5.8%	0.6%	(2.5%)	15.9%
XLU	3.2%	1.7%	(2.2%)	10.5%
Relative	**2.6%**	**(1.1%)**	**(0.3%)**	**5.4%**
Performance; April-end of year				
	2005	2007	2012	2014
WEC	10.2%	0.4%	4.7%	13.2%
XLU	7.3%	6.6%	(0.4%)	14.7%
Relative	**2.9%**	**(6.2%)**	**5.1%**	**(1.5%)**

Source: Goldman Sachs Global Investment Research, FactSet

Upgrading AGR to Neutral - Project risk now better reflected in share price

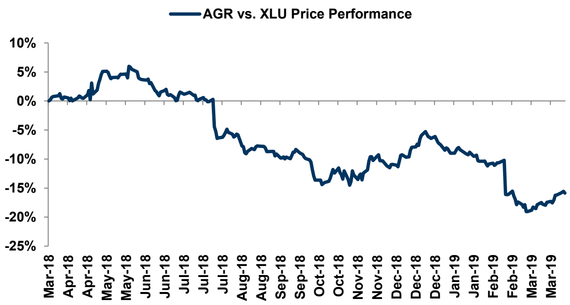
We upgrade AGR from Sell to Neutral following meaningful underperformance YTD, as the stock now appears to reflect more conservatism related to major projects NECEC and Vineyard Wind. Since downgrading to Sell AGR shares are +2% vs the S&P500 +8% and the XLU +8%. AGR now trades at just a 6% premium to Infrastructure Utility peers on our 2021 and 2022 estimates. While we continue to see execution risk, we view uncertainty related to the two major projects as more priced-in, and move to the sidelines.

We continue to see risk to 2022 FactSet Consensus after making modest revisions to our EPS estimates. We revise our 2020-2021 EPS estimates to $2.57/$2.82 from $2.60/$2.86 previously and reiterate our 2019 and 2022 estimates of $2.26 and $2.97 respectively. Our revised estimates reflect (1) recent 10K disclosures, and (2) minor changes to rate increase timing, and (3) adjustments to financing. We forecast a 2018-2022 earnings growth CAGR of 7.7% compared to the 8-10% guidance range, and while our 2019-2021 estimates appear only 0-1% different from FactSet Consensus, we see meaningful downside to consensus in 2022 - roughly 3%, as shown in Exhibit 39 - driven by our assumption that NECEC and Vineyard Wind both experience one year construction delays.

Risk/reward appears more balanced, but a few key items could drive us incrementally more positive. We view any encouraging outcomes in the approval processes related to NECEC or Vineyard Wind as a potential catalyst, given broader investor concern on both projects despite a recent favorable recommendation from the ME Hearing Examiner related to NECEC, and management’s plans to utilize Iberdrola in delivering the Vineyard Wind project on time and on budget. We also see potential upside to utility earnings growth through earned RoE improvement and cost saving initiatives, which we note are currently under review via the Forward 2020 plan. Our EPS estimates incorporate an 9.2%-9.4% average earned RoE in 2019-2022 and roughly flat O&M growth through 2022, and we note every 50bps change in earned RoE/O&M growth impacts our 2022 estimate by $0.11 and $0.04, respectively.

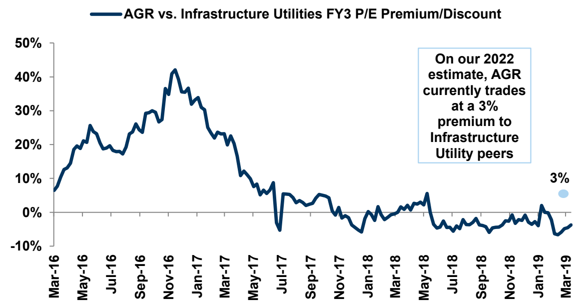
We increase our 12-month price target to $47 from $46 previously using a sum-of-the-parts analysis, now applying a 17.5x P/E to the regulated segments - versus 17.0x prior - to reflect robust growth potential off of reset expectations. We now see (4%) total return for AGR, about (2%) below the median for our utilities coverage. Key risks for AGR include regulation, cost management, major project execution and demand.

Exhibit 38: We upgrade AGR to Neutral following 8% underperformance YTD vs. the XLU...
AGR vs. XLU price performance



Source: Thomson Reuters, data compiled by Goldman Sachs Global Investment Research

Exhibit 39: ...and now see more project risk related to Vineyard Wind and NECEC as priced in, given AGR's modest discount to Infrastructure peers on FY3 P/E
AGR vs. XLU FY3 premium/discount (%)



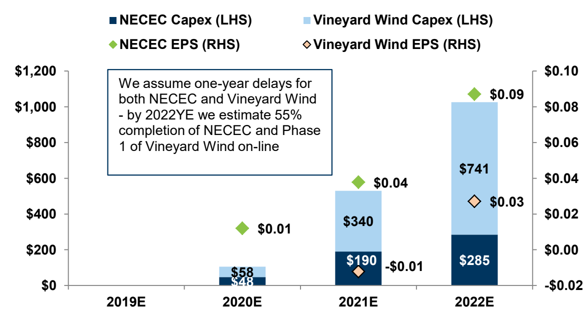
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 40: We make modest EPS estimate revisions and see meaningful downside to 2022 consensus...
GS New vs. Old vs. Consensus

	EPS Estimates			% Difference	
	GS- New	GS- Old	Cons.	vs. Old	vs. Cons.
2019E	$2.26	$2.26	$2.28	0%	(1%)
2020E	$2.57	$2.60	$2.59	(0%)	0%
2021E	$2.82	$2.86	$2.81	(2%)	(0%)
2022E	$2.97	$2.97	$3.06	0%	(3%)

Source: FactSet, Goldman Sachs Global Investment Research

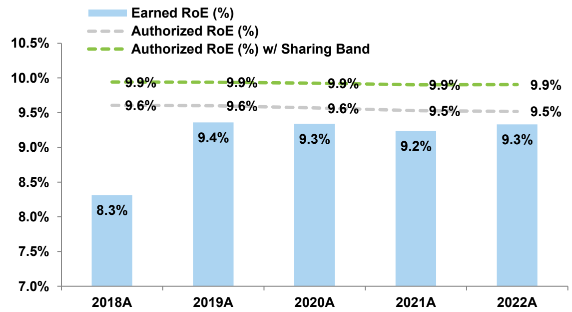
Exhibit 41: ...driven by our assumed delays for major projects NECEC and Vineyard Wind...
NECEC and Vineyard Wind, 2019E-2022E



Source: Goldman Sachs Global Investment Research

Exhibit 42: ...and earned RoE assumptions that come in below authorized levels

Earned vs. Authorized Net Income & RoE, 2017A-2020E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 43: We increase our 12-month price target to $47, now applying a slight premium at the regulated segments

AGR SOTP

Regulated Utilities	
Regulated Utilities EPS - 2020	$2.01
Target P/E Multiple	17.5x
Equity Value Per Share, Regulated Utilities	**$35**
Renewables	
Renewables EBITDA - 2020 ($mn)	$659
Target EV/EBITDA Multiple	9.0x
Renewable Consolidated Enterprise Value ($mn)	**$5,935**
Less: Net Debt Attributable to Renewables	$1,985
Revised Renewable Consolidated Enterprise Value ($mn)	**$3,950**
Share Count (mn)	310
Equity Value Per Share assuming no debt/cash, Renewables	**$13**
Corporate	
Corporate EPS - 2020	($0.16)
Add Back: After tax Renewables Interest Expense	$0.14
Adjusted Corporate EPS - 2020	($0.02)
Target P/E Multiple	17.5x
Equity Value Per Share, Corporate	**($0)**
Consolidated Implied Valuation Price per Share (SOTP)	**$47**

Source: Goldman Sachs Global Investment Research

Downgrading AEP to Neutral; no clear positive catalysts and strong outperformance over the last 6 months

We downgrade AEP from Buy to Neutral as valuation no longer appears attractive. Additionally, we see few if any positive catalysts remaining in the near term for AEP and our revised estimates now come in below consensus on 2020 – our valuation year. Since upgrading to Buy AEP shares are +17% vs the S&P500 +3% and the XLU +9%.

We update our estimates for AEP, slightly decreasing 2020 and adding 2021 estimates. Our updated estimates now include (1) 10K detail, (2) revised cost management assumptions in 2020, and (3) incorporating AEP's planned purchase of a handful of wind plants (AEP expects the transaction closes during 2Q2019), and (4) the financing AEP announced in relation to the purchase. We also raise our target EV/EBITDA multiple on AEP's non-regulated generation segment from 5x 2020E EBITDA to 8.5x 2020E EBITDA as the segment now consists primarily of contracted renewables - higher quality assets than the merchant coal plants AEP owns.

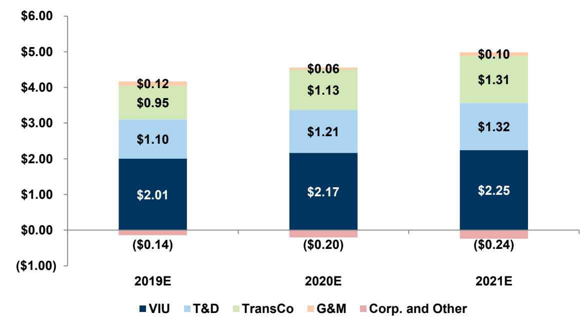
We reiterate our $78 12-month target price, derived using a sum-of-the-parts. Given outperformance over the last 6 months we now see (3%) downside to our target, in line with Regulated Utility peers, driving our downgrade to Neutral. Key upside risks for AEP include power demand and incremental renewables – either in rate base given the cancellation of Wind Catcher or with PPAs similar to those in the recently announced transaction. Key downside risks include cost management, regulation, and financing.

Exhibit 44: We decrease our 2020 estimate and introduce 2021...
EPS new vs old vs consensus

	EPS Estimates			% Difference	
	GS- New	GS- Old	Cons.	GS- Old	Cons.
2019E	$4.03	$4.03	$4.13	0%	(2%)
2020E	$4.35	$4.42	$4.40	(2%)	(1%)
2021E	$4.74	--	$4.68	--	1%

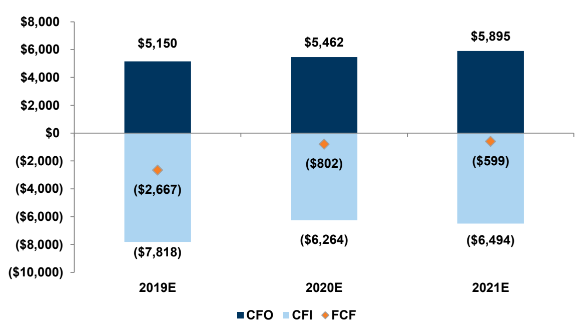
Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 45: ...and continue to see strong earnings growth across AEP's regulated segment - particularly at the TransCo...
EPS by segment



Source: Goldman Sachs Global Investment Research

Exhibit 46: ...but high capital spending to fund regulated earnings power keeps FCF negative through 2021
Cash from operations, cash from investing, and free cash flow ($mn)



Source: Goldman Sachs Global Investment Research

Exhibit 47: Our AEP target price remains unchanged at $78, but we increase our Genco EV/EBITDA multiple from 5x to 8.5x as the segment now consists primarily of contracted renewables...
AEP SOTP

Sum-of-the-Parts	
VIU and T&D 2020 EPS	$3.37
P/E Multiple	17.0x
VIU and T&D Equity Value Per Share	**$57**
Transco 2020 EPS	$1.13
P/E Multiple	19.0x
Transco Equity Value Per Share	**$21**
Genco EBITDA	$156
EV/EBITDA Multiple	8.5x
Genco Enterprise Value ($m)	$1,330
Genco 2020 Net Debt ($m)	$260
2020 Diluted Share Count (m)	495
Genco Equity Value Per Share ($m)	**$3**
Corp & Other EPS	($0.20)
P/E Multiple	17.0x
Corp. & Other Equity Value Per Share	**($3)**
Price Target	**$78**

Source: Goldman Sachs Global Investment Research

Exhibit 48: ...and our target now implies (3%) downside, in line with peers
Regulated utilities comparable analysis

Regulated Utilities Comparable Analysis			Close	12-Mo	Tot Ret	EPS				P/E			Dividend	Dividend CAGR
	Ticker	Rating	4/01/19	Px. Tgt	to Target	2018A	2019E	2020E	2021E	2019E	2020E	2021E	Yield	2018A-21E
Large-Cap														
American Electric Power	AEP	Neutral	$82.86	$78	(3%)	$3.95	$4.03	$4.35	$4.74	20.6x	19.0x	17.5x	3.2%	5.7%
Duke Energy	DUK	Sell	$89.37	$80	(6%)	$4.72	$4.92	$5.09	$5.24	18.2x	17.6x	17.1x	4.2%	3.0%
Consolidated Edison	ED	Neutral	$84.37	$79	(3%)	$4.31	$4.36	$4.62	$4.72	19.3x	18.3x	17.9x	3.4%	3.9%
Edison International	EIX	Buy	$62.80	$67	11%	$4.15	$4.39	$4.60	$4.55	14.3x	13.6x	13.8x	3.9%	2.1%
Evergy	EVRG	Sell	$57.51	$52	(6%)	$2.67	$2.96	$3.17	$3.28	19.4x	18.2x	17.5x	3.3%	7.8%
Eversource Energy	ES	Buy	$70.73	$70	2%	$3.25	$3.46	$3.72	$3.93	20.4x	19.0x	18.0x	2.8%	6.5%
FirstEnergy	FE	Buy	$41.47	$42	5%	$2.59	$2.67	$2.52	$2.63	15.5x	16.4x	15.8x	3.7%	5.2%
PPL Corp	PPL	Neutral	$31.66	$30	(0%)	$2.41	$2.44	$2.50	$2.57	13.0x	12.6x	12.3x	5.2%	3.8%
Southern Company	SO	Sell	$51.36	$46	(6%)	$3.05	$3.00	$3.02	$3.16	17.1x	17.0x	16.2x	4.7%	3.5%
WEC Energy Group	WEC	Sell	$78.17	$70	(8%)	$3.34	$3.46	$3.72	$3.93	22.6x	21.0x	19.9x	2.8%	5.5%
Large-Cap Mean					**(1%)**					**16.8x**	**16.1x**	**15.5x**	**3.4%**	**4.7%**
Large-Cap Mean (ex.EIX and PPL)					**(3%)**					**19.1x**	**18.3x**	**17.5x**	**3.5%**	**5.1%**
Large-Cap Median					**(3%)**					**18.2x**	**17.6x**	**17.1x**	**3.4%**	**4.5%**

*Denotes on Americas Conviction List

Source: Goldman Sachs Global Investment Research, FactSet

Appendix

Exhibit 49: We also make minor changes to ETR and AEE estimates given 10K detail, driving AEE's price target up to $69 from $68

Risks, price target, drivers of change, and methodology

Price Target Methodologies and Key Risks

Ticker	Price Target Methodology	Rating	Price Target (New)	Price Target (Old)	Price 4/4/2019	Total Return (%)	Drivers of Changes	Key Risks Relate To
ETR	SOTP, 12month	Buy	$98	$98	$93.61	8%	10K detail	Regulation, demand, power pricing
AEE	P/E based, 12month,19.64x P/E multiple on 2020E EPS	Neutral	$69	$68	$71.56	(1%)	10K detail	Regulation, demand, construction

Source: Goldman Sachs Global Investment Research, FactSet

Disclosure Appendix

Reg AC

We, Michael Lapides, Insoo Kim, CFA, David Fishman, CFA, Jack Pearl, Sarah Davis and Chitra Narayan Mahale, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

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NiSource Inc

Downgrading to Neutral: Less Merrimack Recovery Upside

Rating Change: NEUTRAL | PO: 30.00 USD | Price: 27.59 USD

Bank of America Merrill Lynch

Equity | 22 April 2019

See increased & ongoing costs as limiting further recovery

We are downgrading NI to Neutral as we see increased risk to capital recovery in Massachusetts (MA) given expectations for costs to increase yet again in 1Q19 following the approximate 70% increase in 4Q18 with total costs likely to exceed insurance levels. Further, we see a difficult regulatory environment to persist putting in doubt the approximate $200 Mn of capital; admittedly offsetting this concern is the growing likelihood for a sale of the Bay State gas unit after last Fall's gas incident given this decline in the regulatory backdrop (mgmt. has been clear on this front – and the prospect would likely prove accretive despite numerous required input assumptions). While our EPS estimates are already about $0.02-$0.03/sh below consensus, we perceive Street estimates could well decline given increased regulatory lag. Moreover, with the Department of Justice (DoJ) investigation still ongoing, we believe an overhang on shares will persist as it remains unclear as to the ultimate outcome. Bottom line, we see more cautious data points ahead with risk/reward increasingly difficult to justify. We move our PO to $30 (from $32) as we assign a 0.5x discount to NI's gas utilities to reflect the persistant overhang.

More to hear from MA: Expect discussion on safety, costs

Even though restoration activity is largely behind NI, we see several cautious data points in MA. We expect Safety Management System to result in a more complicated change in corporate culture (across all jurisdictions), and for mgmt. to provide another incremental update on Merrimack cost estimates. While we do not expect the increased costs to be as large as the last adjustment (4Q's of about 70% increase), we see potential for costs to increase by a further 10% or so (about $100-$150mn) sequentially; this would be around $0.01 neg to estimates to finance this uncovered exposure. Furthermore, we expect to see color around the first regulatory environment litmus test by month's-end: the MA Dept of Public Utilities (DPU) will soon rule on NI's '19 Gas System Enhancement Program asking for more revenue, $2.9mn of which exceeds the cap. We could see first cautious read-throughs here, notably in terms of how the DPU defines prudent vs. imprudent spending. As such, we see a risk to eventual recovery. We *continue to* model 6-7% earned ROEs through '21/22 in our projections; look for a decision on the fate of the business unit by late '19.

Estimates (Dec)

(US$)	2017A	2018A	2019E	2020E	2021E
EPS	1.21	1.30	1.31	1.36	1.49
GAAP EPS	0.39	1.30	1.31	1.36	1.49
EPS Change (YoY)	14.2%	7.4%	0.8%	3.8%	9.6%
Consensus EPS (Bloomberg)			1.31	1.39	1.51
DPS	0.73	0.79	0.83	0.88	0.94

Valuation (Dec)

	2017A	2018A	2019E	2020E	2021E
P/E	22.8x	21.2x	21.1x	20.3x	18.5x
GAAP P/E	70.7x	21.2x	21.1x	20.3x	18.5x
Dividend Yield	2.6%	2.9%	3.0%	3.2%	3.4%
EV / EBITDA*	17.1x	16.6x	14.6x	13.8x	12.9x
Free Cash Flow Yield*	-9.3%	-12.4%	-5.3%	-7.3%	-6.1%

* For full definitions of *iQmethod* SM measures, see page 12.

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Refer to important disclosures on page 13 to 15. Analyst Certification on page 10. Price Objective Basis/Risk on page 10. 11987985

Timestamp: 22 April 2019 06:00AM EDT

Key Changes

(US$)	Previous	Current
Inv. Opinion	B-1-7	B-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	32.00	30.00
2019E EBITDA (m)	1,721.8	1,742.6
2020E EBITDA (m)	1,814.1	1,835.3
2021E EBITDA (m)	1,942.0	1,963.7

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Stock Data

Price	27.59 USD
Price Objective	30.00 USD
Date Established	18-Apr-2019
Investment Opinion	B-2-7
52-Week Range	23.23 USD - 28.85 USD
Mrkt Val (mn) / Shares Out (mn)	10,290 USD / 373.0
Average Daily Value (mn)	66.74 USD
BofAML Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2019E)	9.8%
Net Dbt to Eqty (Dec-2018A)	156.7%

iQprofile SM NiSource Inc

*iQ*method SM – Bus Performance*

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Return on Capital Employed	2.6%	3.9%	4.1%	4.0%	4.1%
Return on Equity	9.5%	10.1%	9.8%	9.6%	9.9%
Operating Margin	18.7%	18.3%	20.4%	21.0%	22.0%
Free Cash Flow	(954)	(1,278)	(541)	(747)	(625)

*iQ*method SM – Quality of Earnings*

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash Realization Ratio	1.9x	1.2x	2.2x	2.2x	2.2x
Asset Replacement Ratio	3.0x	3.0x	2.4x	2.7x	2.5x
Tax Rate	71.0%	19.7%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	207.7%	156.7%	154.2%	155.3%	154.3%
Interest Cover	2.6x	2.6x	3.0x	3.1x	3.3x

Income Statement Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Sales	4,875	5,084	5,154	5,277	5,437
% Change	8.5%	4.3%	1.4%	2.4%	3.0%
Gross Profit	3,356	3,325	3,589	3,689	3,825
% Change	8.2%	-0.9%	8.0%	2.8%	3.7%
EBITDA	1,481	1,531	1,743	1,835	1,964
% Change	5.4%	3.4%	13.8%	5.3%	7.0%
Net Interest & Other Income	(468)	(335)	(353)	(360)	(363)
Net Income (Adjusted)	398	463	499	536	603
% Change	15.6%	16.6%	7.7%	7.5%	12.5%

Free Cash Flow Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Net Income from Cont Operations (GAAP)	129	463	499	536	603
Depreciation & Amortization	570	600	690	728	769
Change in Working Capital	(415)	110	(186)	(186)	(186)
Deferred Taxation Charge	307	(188)	118	125	140
Other Adjustments, Net	152	(445)	0	0	0
Capital Expenditure	(1,696)	(1,818)	(1,661)	(1,951)	(1,951)
Free Cash Flow	-954	-1,278	-541	-747	-625
% Change	-41.9%	-34.0%	57.7%	-38.2%	16.4%

Balance Sheet Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash & Equivalents	29	121	133	133	133
Trade Receivables	945	1,147	1,333	1,519	1,706
Other Current Assets	790	787	787	787	787
Property, Plant & Equipment	14,360	15,543	16,513	17,736	18,918
Other Non-Current Assets	3,839	4,206	4,206	4,206	4,206
Total Assets	19,962	21,804	22,973	24,382	25,750
Short-Term Debt	1,490	2,027	2,282	2,472	2,641
Other Current Liabilities	1,688	2,010	2,010	2,010	2,010
Long-Term Debt	7,512	7,105	7,435	8,055	8,605
Other Non-Current Liabilities	4,951	4,911	5,028	5,154	5,294
Total Liabilities	15,642	16,053	16,755	17,690	18,549
Total Equity	4,320	5,751	6,217	6,692	7,201
Total Equity & Liabilities	19,962	21,804	22,973	24,382	25,750

* For full definitions of *iQmethod* SM measures, see page 12.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

NI's positives including 5-7% earnings/dividend growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries with earned ROEs consistently near the allowed.However, we see increased regulatory lag associated with the MA incident. Moreover, with the outcome of Department of Justice investigation still unclear, we believe an overhang on shares will persist. Bottom line, we see more balanced risk/reward profile and as such we rate NI Neutral.

Stock Data

Average Daily Volume	2,407,855

Quarterly Earnings Estimates

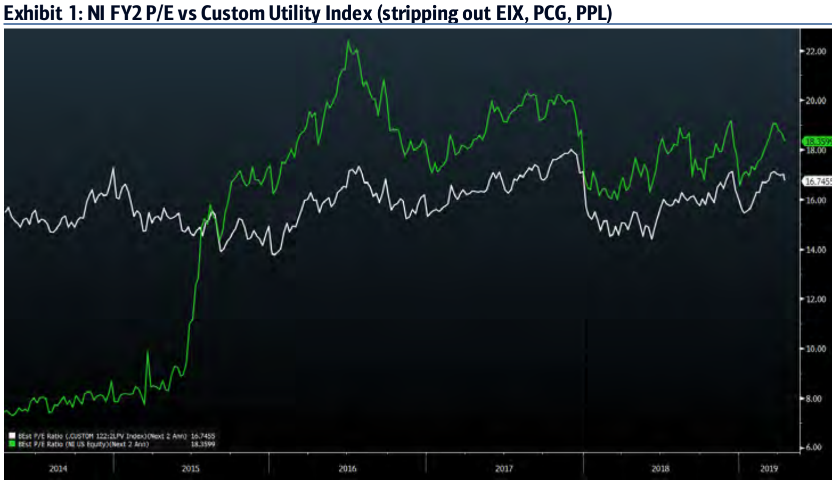
	2018	2019
Q1	0.77A	0.80E
Q2	0.08A	0.13E
Q3	0.10A	0.31E
Q4	0.38A	0.26E

Bank of America Merrill Lynch

What do we think of shares?

NI's premium to the group has come down since YE18, yet is above its February low as shares have rebounded since the disappointing 4Q18 call. That said, we see continued risk in MA as likely weighing on shares, creating a further overhang to the story. MA complications are largely around the Safety Management System process, potential adjustments in cost estimates, and a potentially difficult regulatory environment around the Department of Public Utilities' definition of prudent vs. imprudent spending that could pose a risk to eventual recovery (albeit our low 6-7% earned ROE may largely already account for this outcome). Moreover, with the DoJ investigation still ongoing and details from the National Transportation of Safety Board (NTSB) yet to be revealed as well as the ongoing SEC investigation, we see headline risks ahead. While we believe the company will likely look to strategic options around the Bay State Gas subsidiary, including a potential sale that would likely be accretive, we believe it will be 4Q earliest to decide to make a call (pending the outcome of regulatory developments through the balance of 2019). Moreover, while recent Indiana (IN) legislation failed to gain traction, we see potential risk to steel for fuel conversion overtime; we see the ongoing Northern Indiana Public Service Company LLC (NIPSCO) rate case as still quite critical to execute correctly in order to ensure accelerated depreciation of its coal units is indeed accepted. The NIPSCO request for proposal (RFP) in Indiana could very well provide some upside through a solar ratebase ownership opportunity (albeit likely resulting in ownership awards in '20+); earlier anticipation of an award was ultimately fulfilled with almost entirely power purchase agreements (PPAs) (non-ownership) around 4Q18 results. Bottom line, the risk/reward opportunity is more difficult to justify at this juncture given our view of lingering risks. Finally, we note that shares have indeed recovered in part from the initial downtick and even from its 4Q earnings guidance downtick. We believe opportunities could still emerge around shares should headlines around fire risk emerge that have limited financial impact (we see for instance the initial reaction to gas safety datapoints as illustrative of this sensitivity).

Exhibit 1: NI FY2 P/E vs Custom Utility Index (stripping out EIX, PCG, PPL)



Source: Bloomberg

Expect some more around Merrimack safety and costs

We expect to hear an update on NI's progress in Merrimack Valley on the 1Q19 call, largely related to Safety Management System (SMS) issues and the Quality Review Board it recently put in place. We highlight stakeholders have stressed that SMS is not a simple measure, but instead requires a complicated change in corporate culture. Given that this is part of a NI process of implementing SMS in all jurisdictions across the gas business (rather than merely just its Columbia Gas of Massachusetts subsidiary), we could see this unfold as a challenge for the company in upcoming quarters.

Increased costs estimates expected in the near-term

Outside SMS measures, we expect NI to stress its largest restoration activity is behind it, and that it continues to work with communities to provide support while ensuring it installs slam-shut devices to protect low-pressure systems. That said, we expect another update on cost estimates, where we see it possible that another upward adjustment is made given the potential for claims to still rise, albeit not as large as the last adjustment (perhaps about a 10% increase compared to 4Q's of about a 70%% increase). This could be in the approximate $100-150 Mn range and is a relatively immaterial EPS impact (about $0.01) as this would not be recovered from insurers (above cap) presumably.

Table 1: Estimated increased costs for MA incident

Fines/Costs ($mn)	4Q18 Midpoint	1Q19 Est.	Delta	% chg	4Q18 Spend (incl. in range)	% of est. total	Remaining est. spend
Replacement of Gas System	$225	$248	$23	10%	$167	67%	$81
Third Party Claims/Costs	$774	$851	$77	10%	$757	89%	$94
Other Costs (e.g. response)	$338	$371	$34	10%	$266	72%	$105
Regulatory Fines*	$20	$20	$0	0%	$0	0%	$20
Total fines/costs ($mn)	$1,356	$1,490	$134	10%	$1,190	80%	$300
2018 Insurance Recoveries					$135		
Costs excl. insurance recoveries ($mn)					$1,055	71%	

*Maximum cap from DPU

Insurance Policy	
Casualty	$800
Property	$300
Total ($mn)	$1,100
2018 Insurance Recoveries ($mn)	$135

Source: BofA Merrill Lynch Global Research estimates, company report, Bloomberg

While our $134mn increased cost estimate would not materially impact mgmt.'s guidance as we see incremental debt financing needs translating into a penny of downside vs the base plan (assuming around 4% cost of debt), we see this as likely to add to incremental lag given the amount above insurance will need to be recovered in rates over-time. While we model 6-7% earned ROEs through '21/22 in our projections that largely already account for this outcome, we see Street estimates as not fully capturing this outlook and could see downward EPS revisions.

Risks ahead for capital recovery: this is the underlying rate case risk

We note that we will see results of the first regulatory environment litmus test by month's-end. NI filed a normal Gas System Enhancement Program (GSEP) October 31, 2018 for the year of 2019, which proposed recovery of another $10.7mn of revenue, $2.9mn of which exceeds the GSEP revenue cap provision; as such, the GSEP included a waiver to collect this additional revenue. The Massachusetts Department of Public Utilities will have the final say here, with new rates effective May 1, 2019; we highlight latest datapoints from our conversations with stakeholders indicate caution ahead, specifically around potential MA Commission treatment of prudency of spending around the event (about $200 Mn as best we understand or about $0.02-0.03). We could see MA regulators come down harder on NI as a result, depending on how prudency is defined.

Strategic alternatives seem likely given substantial regulatory lag expected

We note that the company has highlighted that it has continually been open-minded to the evaluation of all of its assets so long as it makes sense to shareholder value. We continue to see a departure from the Massachusetts area as quite likely, consistent with Governor Baker's efforts to have Eversource Energy (ES) take over operational control to address the problems at the time of the event last September (*as an addendum to the widespread perception ES was the favorite to run the Bay State operations – it was in fact the second choice as initial efforts to enlist National Grid were rejected)*. We note this would not be the first departure from the Northeast: In 2008, Unitil acquired Northern Utilities from NI; we see similarities in terms of (1) Unitil committed to enhanced safety and reliability and (2) UTL and Northern Utilities had customer and business synergies.

We see a sale as accretive, although will take some time to play out
While the result of the litmus test are not expected to produce an immediate decision on what to do with the future of Columbia Gas of MA, we believe discussions will likely begin to accelerate in the fall timeframe. Given the company has about $509mn of Net Operating Losses (NOLs), we see this as being able to offset any tax leakage with a sale. We believe it is likely a suitor would pay a premium for a deeply discounted utility given the under-earning. Assuming NI can garner about a 23x P/E for the asset (or about 1.2x rate base), considering another suitor will not be penalized and would likely be able to turn the asset around and earn closer to allowed returns, we see a transaction as around $0.02/sh accretive under conservative assumptions.

Table 2: Accretion/Dilution Assumption of Columbia Gas of MA transaction - $0.01-0.02/sh accretive under conservative assumptions

Columbia Gas of MA Transaction ($Mn)			
Columbia Gas of MA Proceed Assumptions	Bear P/E	Base P/E	Bull P/E
Transaction multiple (P/E)	21.0x	23.0x	25.0x
Columbia Gas of MA Gross Proceeds ($Mn)	741	812	882
Tax Basis ($Mn)	300	300	300
Taxable Gain	441	512	582
Taxes Rate (21%)	21%	21%	21%
Taxes ($Mn)	93	107	122
NOLs ($Mn)	509	509	509
Net Proceeds ($Mn)	741	812	882
	2021E	2021E	2021E
Assumed Rate Base ($Mn)	1,235	1,235	1,235
Debt ($Mn)	574	574	574
Equity Rate Base	661	661	661
Equity Rate Base Multiple	1.1x	1.2x	1.3x

Columbia Gas of MA Transaction ($Mn)	
Starting 2021 Net Income	603
Loss of Net Income	-35
Debt Paydown	2
Capital Investment	26
Pro Forma NI	597
2021E S/O	405
Less avoided equity issuance	-11
Pro Forma S/O	394
Pre Transaction EPS (2021E)	$1.49
Post Transaction EPS (2021E)	$1.51
Accretion/Dilution	$0.02

Assumptions	
Proceeds	812
Debt Paydown	250
Capital Investment	264
Offsetting equity need	298
Int Rate	4%
Tax Shield	21%
Share Price	27.67
Incremental Capital Investment	
ROE	10%

Source: BofA Merrill Lynch Global Research estimates, company report, Bloomberg

- We assume around $250mn debt paydown on about 4% interest leading to around $2mn in interest expense savings after tax. Additionally, we assume it can offset about $300mn in equity needs in '21 that would have been issued through the At the Market (ATM) issuance, avoiding about 11mn shares of additional equity issuance.

- Further, we assume the remaining proceeds of about $264mn are invested back into the other subsidiaries, earning an approximate 10% ROE.

Bottom line, given the difficulties we expect NI to face with regulators, we see a sale as likely the best option to create further shareholder value.

NI Gas Elsewhere: Focus will be low

We highlight that the 1Q call will largely be quiet on NI's gas side of the business outside of Massachusetts. We expect to hear the company reiterate that it is in the midst of a rate case for Virginia, with calls for hearing scheduled this month. Note that rates went into effect February 15th, which are subject to refund in Virginia. We highlight that NI still has the opportunity to strike a settlement, but wait for more details perhaps on the call.

1Q19 NiSource Walk

We forecast 1Q19 adjusted EPS of $0.80 vs. $0.77 in 1Q18 and $0.77 Consensus.

- **Key Drivers**: First quarter is typically strong for NI, which finds annual sales cadence around 50% in 1Q (compared to ~25% in 4Q and the remaining split between 2Q-3Q). For 1Q19, we expect $0.07/sh for gas and electric tracking mechanisms largely offset by -$0.06/sh of dilution.

- **One-time items**: We reiterate that we continue to expect NI to treat legal and communication expenses associated with Columbia Gas of MA as one-time in nature and therefore not impact adjusted results.
- **Other**: We highlight other drivers of the quarter include the Capital Expenditure Program (CEP) in Ohio, pension and Safety Management System (SMS) expenses, and preferred dividend issuance.

Table 3: NiSource 1Q19 Earnings Walk

NI 1Q19 Earnings Walk	EPS
NI 1Q18 EPS	0.77
Gas tracking mechanisms	0.06
Electric tracking mechanisms	0.01
Gas distribution rates	0.04
CEP (Ohio)	0.02
Pension expense, SMS expenses	(0.01)
Preferred div issuance	(0.02)
Dilution	(0.06)
Other	(0.01)
1Q19 BofAMLe Adjusted EPS	0.80
Consensus	0.77
BofAMLe 2019 EPS	1.31
Guidance	1.27-1.33
2019 Consensus	1.31
Shares Outstanding (YE18)	355
Shares Outstanding (YE17)	338
Tax Rate	21%

Source: BofA Merrill Lynch Global Research estimates

Indiana front and center

We perceive modest rate case pushback on NI's proposed depreciation schedule (more in line with accelerated coal retirements) and pass back of deferred taxes. Rather, we see the issue lying with proposed shifts rates between industrial and other customers, allowing industrials under Rate 831 to buy electricity needs through Midcontinent Independent System Operator (MISO). While NI has settled its last three-four electric/ gas cases often before hearings, we see the rate issue as challenging to settle and highlight evidentiary hearings already began (held April 16th – May 1st). As such, we expect to see clarity on results by 3Q.

As for RFPs to replace accelerated coal retirements, we see the first round of wind unscathed by the SB 472 amendment that proposed a 20-month hiatus on regulatory review of generating facilities above 250MW (thrown out last week). We see the second round (likely of solar) as more important for earnings, given most round 1 wind was contracted through PPAs and considering we expect round 2 solar to amount to Build-Own-Transfer projects. If this is not pursued, we see other capex opportunities (likely clarified in 3Q) that include transmission investment, capacity projects in Ohio, IT investment. That said, we believe that recent legislation in Indiana highlights the risk in accelerated coal retirements to be replaced with renewable resources despite the bill ultimately failing.

Electric rate case updates

We reiterate that we see the NIPSCO electricity base rate case (Cause No: 45159, filed Oct '18) as a policy fix due to its focus on setting a depreciation schedule that is more in line with accelerating coal retirements – rather than a focus on a substantial ratebase increase (note the case only requests a net $21.4mn increase). We note here that NI aims to pass back deferred taxes in order to offset the shortened useful life of retiring coal assets. Thus far, we perceive only modest pushback depreciation rates and retirement of coal assets on an expedited basis. We see it critical for mgmt. to manage

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the overall bill such that rate inflation considerations are muted by ongoing cost management.

The other critical part of the case is that it shifts rates between industrial and other customers, allowing most sophisticated industrials under new rate proposed 831 to buy through MISO for electricity needs but through NIPSCO for backup/maintenance power. This is seen by NI as preventing overlap of new generation build and/or future disruption to resi and commercial customers (i.e., many of these about 1/2 dozen customers have the capability of self-generating which could lead to volatility further out). However, it has been one of the more problematic issues in testimony given the wide variety of stakeholders and concern around cost burden for retail customers.

Settlement window pushed out further than historically

We highlight that NI settled its last three-four electric and gas cases; however, we view settling this case as more challenging than in the past given that industrial groups and others will have to agree upon the 831rate issue. Furthermore, we see settling a greater opportunity before hearings commence; note that evidentiary hearings have already begun with the Indiana Utility Regulatory Commission (April 16th – May 1st). As such, we expect to see clarity on results in 3Q. We note that NI originally targeted receiving orders 3Q19 that are effective Sept '19.

IRP Updates: The First (Wind) RFP

NI broke its RFP into two to be able to have wind in the first RFP to take advantage of the full Production Tax Credit (PTC) (i.e. commissioning by YE-2020) while having the second RFP produce projects with commissioning by 2023. The first IRP – like the rate case – was filed Oct '18. Most projects in the first integrated resource plan (RFP) were 20-year PPAs (400MW Jordan Creek wind farm and 300MW Roaming Bison wind farm) but the 100MW Rosewater wind farm affords NI earnings opportunity given its Build Transfer Agreement (BTA) via JV with EDR Renewables (EDPR).

IRP Updates: The Second (Solar) RFP

NI is pursuing its goal of structuring more build-own-transfer projects in its second renewable push. Around the time when there is more clarity in September, the second RFP will be filed; we expect this round will focus on owning solar that commissions in '23. As such, <u>we anticipate NI will provide a capex update to reflect '23 investment at a later time.</u>

Indiana SB 472 amendment struck down

We highlight that earlier this month, an amendment was made to SB 472 that proposed a 20-month moratorium on allowing the Indiana Utility Regulatory Commission to act on any new generation matters for assets over 250MW; this was largely a response to coal retirements and replacement with clean energy. While many stakeholders anticipated this could move forward given regional sentiment, we highlight that the amendment was struck recently, a slight positive for NI as it moves forward with its renewable energy plan via its first RFP. Even if the amendment were to get through, though, we expected it would have only had a small impact on NI via the three projects that won the RFP; we would have expected the 300MW project to decrease in size to 250MW, and the 400MW NextEra project to disaggregate into two smaller projects rather than putting ending the projects. The other 100MW project (with ownership opportunity) would have been under the 250MW cap. We see this as more of a risk to CentrePoint Energy (CNP)'s efforts in the state under its Vectren subsidiary rather than NIPSCO, but sentiment is cautious nonetheless.

Other capex opportunities for NI to keep an eye on

Outside of these NIPSCO projects, we highlight NI is pursuing transmission investment, capacity projects in Ohio, IT investment, and other smaller programmatic projects. We do not expect a capex update for '23 (and thus glimpse into whether NI's 8-10% rate base growth is sustainable) until after the September clarity on these issues.

EPS Estimates

We present our EPS estimates below, which were previously updated to reflect 2019 EPS guidance of $1.27-$1.33/sh as well as '19-'22 EPS/DPS annualized growth of 5-7%. Our estimates point to a 6.7% EPS CAGR from 2019 to 2022, above guidance midpoint. Note that these estimates already have lower expectations around earned ROEs at Columbia Gas of Massachusetts; if the company can capitalize on incremental renewable opportunities in Indiana, we could see some upside here, although recent IN legislation highlights risk in conversion opportunities.

Table 4: EPS Estimates

NI EPS Estimates		2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Gas		0.96	0.94	1.01	1.05	1.16	1.23	1.29	1.36	1.42
Electric		0.56	0.60	0.61	0.63	0.65	0.67	0.68	0.69	0.70
Parent/Other		-0.32	-0.23	-0.31	-0.31	-0.32	-0.31	-0.30	-0.29	-0.28
EPS		1.21	1.30	1.31	1.36	1.49	1.59	1.68	1.76	1.83
Previous EPS		1.21	1.30	1.31	1.36	1.49	1.59			
-										
Guidance		1.17-1.20	1.26-1.32	1.27-1.33						
Consensus		1.19	1.28	1.31	1.39	1.51	1.68			
Consensus '17-21 CAGR	*5.8%*									
5%-7% CAGR EPS guidance	High End			1.33	1.39	1.49	1.59	1.70		
	Mid-Point			1.30	1.38	1.46	1.55	1.64		
	Low End			1.27	1.37	1.43	1.50	1.58		
BofAML CAGR 2019-2022	6.7%									
Share Count		329	357	381	393	405	429	429	441	453

Source: BofA Merrill Lynch Global Research estimates, company report, Bloomberg

Valuation

We move our Price Objective to $30 from $32/sh previously after marking to market our most recent peer utility multiples of 18.9x for electric (previously 19.2x) and 21.1x for gas (previously 21.5x) – both assuming a group '18-'22 CAGR of 5% for electric and 5.1% for gas.

We continue to use a 3.0x discount for Columbia Gas of MA in our valuation and continue to include the parent EPS drag - ex-interest expense - given expectations for continued lag associated with the MA incident. We appreciate this could prove relatively conservative on a sale multiple but caution underlying earnings base could see negative revisions depending on recovery process (we suspect depressed assumptions on any future earnings from this segment to be depressed as reflected through lower ROE as well: this is reflected already in our EPS assumptions below at about 6-7%). Bottom line, even a higher EPS assumption would only nudge valuation incrementally.

Moreover, we apply a 0.5x discount to NI's remaining gas utilities given the overall overhang we expect to persist on shares. We stress applying a premium relative to an inflated gas utility multiple vs other utilities was always a point of recent contention – and we acknowledge the equity is less favorably positioned vs. many peer gas smids to benefit from a wider M&A 'boost'.

Bottom line, we see risk/reward as less compelling given ongoing risks associated with Columbia Gas of MA.

Table 5: NI SOTP Analysis

NI SOP Valuation	Metric	P/E Multiple						Equity Value		
	2021E EPS	Low	Peer	Prem/ Discount	Base	High		Low	Base	High
Group Peer Multiple - Gas	-	-	20.1x	-	-	-	-	-	-	-
Group EPS '18-'22E CAGR - Gas	-	-	5.10%	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Gas Utilities	-	-	21.1x	-	-	-	-	-	-	-
Columbia Gas of OH	$0.50	19.6x	21.1x	-0.5x	20.6x	21.6x		$9.76	$10.25	$10.75
Columbia Gas of PA	$0.23	19.6x	21.1x	-0.5x	20.6x	21.6x		$4.44	$4.67	$4.89
NIPSCO Gas	$0.21	19.6x	21.1x	-0.5x	20.6x	21.6x		$4.08	$4.28	$4.49
Columbia Gas of MA	$0.09	17.1x	21.1x	-3.0x	18.1x	19.1x		$1.49	$1.58	$1.67
Columbia Gas of VA	$0.08	19.6x	21.1x	-0.5x	20.6x	21.6x		$1.50	$1.58	$1.66
Columbia Gas of KY	$0.04	19.6x	21.1x	-0.5x	20.6x	21.6x		$0.85	$0.89	$0.94
Columbia Gas of MD	$0.02	19.6x	21.1x	-0.5x	20.6x	21.6x		$0.34	$0.35	$0.37
Group Peer Multiple - Electric			18.0x							
Group EPS '18-'22E CAGR - Electric			5.00%							
Electric Utilities			18.9x							
NIPSCO Electric	$0.65	18.9x	18.9x	1.0x	19.9x	20.9x		$12.28	$12.93	$13.58
Total Utility	$1.80	*19.2x*			*20.2x*	*21.2x*		$34.73	$36.54	$38.34
-Parent EPS Drag (ex-Interest Expense)	-$0.10	19.2x	0.0x		19.9x	20.9x		-$1.87	-$1.93	-$2.03
Total EPS *(incl. debt drag)*	$1.49									
Midpoint of 5-7% EPS	*$1.46*									
Holdco Debt @ Parent, *not* allocated to Utilities										
(50% Netting out Debt)				-$2,000	50%			-$1,000	-$1,000	-$1,000
(50% P/E multiple on Interest Exp)				5.6%	50%			-$851	-$896	-$940
Grand Total Equity Value								$28.30	$29.93	$31.53
Shares Outstanding 2021E									405	
Total Equity Value								$28.00	$30.00	$32.00
Implied Consolidated P/E										
Dividend Yield (2019E)									3.0%	
Total Return									11.5%	

Source: BofA Merrill Lynch Global Research estimates, company report, Bloomberg

Recent BofA Merrill Lynch Global Research Reports

Title: NI	Primary Author	Date Published
NiSource Inc: Skipping a Year: Reflecting on Implications from a new 5-7% Baseline	Julien Dumoulin-Smith	22 February 2019
NiSource Inc: Eyes on Massachusetts recovery: Reiterate the Buy Opportunity	Julien Dumoulin-Smith	02 November 2018
NiSource Inc: Still Strong: Why We're Still Comfortable: Reiterate Buy, PO to $27	Julien Dumoulin-Smith	15 October 2018

Price objective basis & risk

NiSource Inc (NI)

Our $30 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2021 forward P/E multiples of 21.1x for gas utilities and 18.9x for electric utilities with a 1.0x premium to reflect NiSource's utilities strong growth rates and earned ROEs. We note that both electric and gas peer P/E multiples are grossed up for a year to 2019 by 5% to reflect capital appreciation across the sector. We then subtract the value of excess holding company debt at the parent not supporting the utility opcos. This multiple is slightly below the LDC peer average but above the small-mid cap electric utility average. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its inline-ish multiple versus peers. We add in Columbia Gas of MA but discount the jurisdiction by 3.0x due to Andover challenges.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Pipelines, MLPs, and Gas Utilities Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Atmos Energy Corporation	ATO	ATO US	Dennis P. Coleman, CFA
	Brookfield Infrastructure Partners LP	BIP	BIP US	Dennis P. Coleman, CFA
	Crestwood Equity Partners LP	CEQP	CEQP US	Dennis P. Coleman, CFA
	DCP Midstream, LP	DCP	DCP US	Dennis P. Coleman, CFA
	Enable Midstream Partners, LP	ENBL	ENBL US	Dennis P. Coleman, CFA
	Enbridge Inc	ENB	ENB US	Dennis P. Coleman, CFA
	Enbridge Inc.	YENB	ENB CN	Dennis P. Coleman, CFA
	Energy Transfer LP	ET	ET US	Dennis P. Coleman, CFA
	Enterprise L.P.	EPD	EPD US	Dennis P. Coleman, CFA
	Kinder Morgan, Inc.	KMI	KMI US	Dennis P. Coleman, CFA
	NGL Energy Partners, LP	NGL	NGL US	Dennis P. Coleman, CFA
	Noble Midstream Partners LP	NBLX	NBLX US	Dennis P. Coleman, CFA
	ONEOK, Inc.	OKE	OKE US	Dennis P. Coleman, CFA
	Plains All American	PAA	PAA US	Dennis P. Coleman, CFA
	Plains GP Holdings, LP	PAGP	PAGP US	Dennis P. Coleman, CFA
	Targa Resources Corp.	TRGP	TRGP US	Dennis P. Coleman, CFA
	The Williams Companies, Inc.	WMB	WMB US	Dennis P. Coleman, CFA
	TransCanada Corp	TRP	TRP US	Dennis P. Coleman, CFA
	TransCanada Corp	YTRP	TRP CN	Dennis P. Coleman, CFA
	UGI Corporation	UGI	UGI US	Dennis P. Coleman, CFA
NEUTRAL				
	Buckeye Partners	BPL	BPL US	Dennis P. Coleman, CFA
	EnLink Midstream, LLC	ENLC	ENLC US	Dennis P. Coleman, CFA
	EQM Midstream Partners LP	EQM	EQM US	Dennis P. Coleman, CFA
	Kinder Morgan Canada Ltd	YKML	KML CN	Dennis P. Coleman, CFA
	Magellan Midstream Partners, LP	MMP	MMP US	Dennis P. Coleman, CFA
	MPLX LP	MPLX	MPLX US	Dennis P. Coleman, CFA
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NuStar Energy L.P.	NS	NS US	Dennis P. Coleman, CFA
	Phillips 66 Partners LP	PSXP	PSXP US	Dennis P. Coleman, CFA
	South Jersey Industries	SJI	SJI US	Dennis P. Coleman, CFA
	Spire, Inc	SR	SR US	Dennis P. Coleman, CFA
	USD Partners, LP	USDP	USDP US	Derek Walker
	Western Midstream Partners, LP	WES	WES US	Dennis P. Coleman, CFA
UNDERPERFORM				
	Andeavor Logistics LP	ANDX	ANDX US	Dennis P. Coleman, CFA
	BP Midstream Partners, LP	BPMP	BPMP US	Dennis P. Coleman, CFA
	New Jersey Resources Corp	NJR	NJR US	Dennis P. Coleman, CFA
	Northwest Natural Holding Co	NWN	NWN US	Dennis P. Coleman, CFA
	ONE Gas, Inc.	OGS	OGS US	Dennis P. Coleman, CFA
	Shell Midstream Partners, L.P.	SHLX	SHLX US	Dennis P. Coleman, CFA
	Southwest Gas Holdings, Inc	SWX	SWX US	Dennis P. Coleman, CFA
	Sunoco LP	SUN	SUN US	Dennis P. Coleman, CFA
	Tallgrass Energy, LP	TGE	TGE US	Dennis P. Coleman, CFA
	TC PipeLines LP	TCP	TCP US	Dennis P. Coleman, CFA

***iQ**method* SM **Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod SM is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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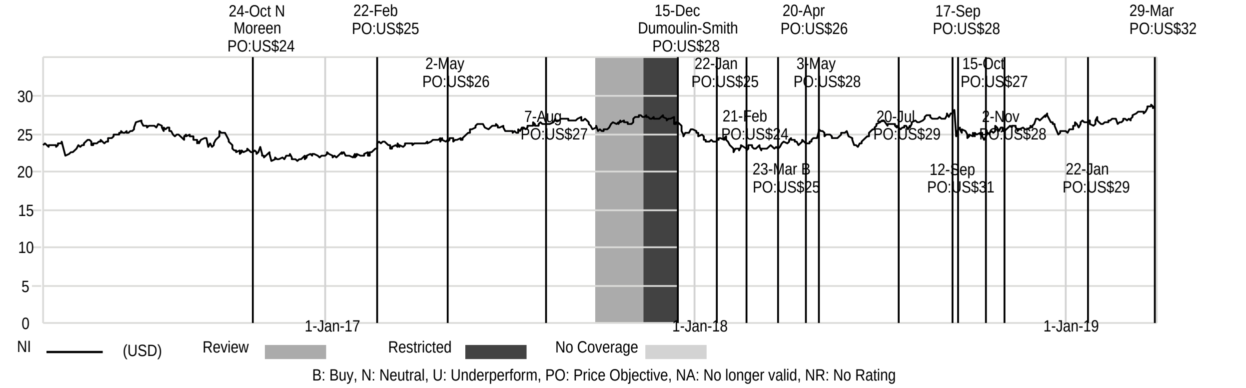
NI Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	99	56.57%	Buy	73	73.74%
Hold	37	21.14%	Hold	23	62.16%
Sell	39	22.29%	Sell	22	56.41%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	59	42.75%	Buy	46	77.97%
Hold	44	31.88%	Hold	31	70.45%
Sell	35	25.36%	Sell	26	74.29%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1519	51.39%	Buy	954	62.80%
Hold	701	23.71%	Hold	443	63.20%
Sell	736	24.90%	Sell	362	49.18%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Rating

CORE

BARCLAYS

Equity Research | Instant Insights

31 July 2019

Eric Beaumont, CFA	+1 212 526 8334	eric.beaumont@barclays.com	BCI, US	Completed: 31-Jul-19, 17:00 G
Ian Rapp	+1 212 526 3492	Ian.Rapp@barclays.com	BCI, US	Released: 31-Jul-19, 17:00 G

NiSource, Inc.

NI: Growth on Horizon, Ready to Move Past MA

Stock Rating/Industry View: Equal Weight/Neutral
Price Target: USD 30.00
Price (30-Jul-2019): USD 29.58
Potential Upside/Downside: 1%
Tickers: NI

Expectation of limited additional cost creep pertaining to Merrimack Valley incident supports NI's ability to meet FY19 targets: We reiterate our EW rating as progress in MA reduces uncertainty and mitigates earnings downside risk. NI's significant investment plan supported by constructive regulatory treatment drives long-term EPS growth of 5-7%.

Merrimack Valley:

- Material future cost additions related to the Massachusetts incident are not expected.
- NI announced 7/29 that 4 major civil claims were resolved, subject to court approval.
- Management affirms progress on realizing $1.1B ($800M casualty, $300M property) in insurance claims, securing recovery of $670M to date from casualty claims.
- We await recovery results on $300M in property claims that are subject to the ongoing NTSB investigation.

SMS:

- We expect increases in O&M forecasts later this year driven by the acceleration of NI's SMS initiatives.
- Cynthia Quarterman, former administrator for pipeline and hazardous material, joined the now six-person QRB in Q2.
- Debra Hirschman, former chair of the National Transportation Safety Board, was appointed to Board of Directors.

Regulatory:

- 2 of 3 20-year wind farm PPA filings approved by IURC.
- 3rd BTA for Rosewater JV between NIPSCO and EDP Renewables remains pending with decision

Goldman Sachs | Equity Research

31 July 2019 | 7:32AM EDT

NiSource Inc. (NI): First Take: 2Q2019 largely in line; 2019 guidance and growth forecast reaffirmed

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NiSource Inc. (NI, Buy) reported 2Q2019 operating EPS of $0.05 versus GS/FactSet consensus at $0.03/$0.05. The company also reiterated its 2019 EPS guidance range of $1.27-$1.33 ($1.30 mid-point) versus GS/consensus of $1.29 and $1.30 respectively, as well as its 5-7% EPS/dividend growth and $1.6-$2.0bn annual capital plan, respectively. MA incident cost estimate remained unchanged from the recently updated amount of ~$1.45bn at the mid-point (vs. $1.35bn prior), with no changes to equity assumptions.

Key takeaways from NI's release include:

- **NI's electric segment reported operating income of $85.8mn vs GS at $81.1mn,** or ~$0.01 per share after-tax, driven by moderately lower O&M and D&A expenses.
- **NI's gas segment reported operating income of $46.8mn vs GS at $40.1mn,** or ~$0.01 per share after-tax, driven by moderately higher gross margins.
- **NI maintained its 2020-2022 annual capital investment guidance of $1.6-$2.0bn ($1.8bn mid-point),** including its 2019 capital spending range to $1.6-$1.7bn. NI also reiterated growing operating EPS and dividend by 5%-7% annually.
- **Management reiterated their total MA incident cost estimate of ~$1.45bn (mid-point)** recently updated from ~$1.35bn prior as part of the MA class action lawsuit settlement news (please our note here). NI reported insurance recoveries of $670mn through 2Q2019 vs. $235mn as of 1Q2019.
- **Equity financing forecast remained unchanged at $200-$300mn of annual ATM;** we do note that NI now estimates ~$500mn of annual incremental long-term debt, versus $0-$500mn prior. Our model currently incorporates $400mn/$40mn/$220mn of equity in 2019-2021, respectively.

Key topics to monitor on NI's earnings call include (1) additional color on potential upside to latest total cost estimate for the MA incident as well as timing of future insurance recoveries, (2) next steps strategically for the MA gas utility, and (3) updated view on incremental regulated investment opportunities. We derive our 12-month target price of $31 using a 21x blended P/E multiple on 2021E EPS. Key risks include (1) legal and regulatory risks, (2) system damages related to the recent

MA natural gas incident, (3) higher than expected O&M, (4) electricity demand and customer growth, and (5) financing.

NI	12m Price Target: **$31.00**	Price: **$29.58**	Upside: **4.8%**

Buy

Market cap: $9.6bn
Enterprise value: $20.1bn
3m ADTV: $73.2mn
United States
America-Regulated Utilities
M&A Rank: 3

GS Forecast

	12/18	12/19E	12/20E	12/21E
Revenue ($ mn)	5,114.5	5,316.6	5,467.5	5,591.2
EBITDA ($ mn)	725.5	1,618.5	1,869.5	1,981.6
EBIT ($ mn)	125.9	943.6	1,161.5	1,223.4
EPS ($)	1.30	1.29	1.43	1.49
P/E (X)	19.3	23.0	20.7	19.8
EV/EBITDA (X)	26.0	13.4	12.0	11.6
FCF yield (%)	(14.3)	(4.6)	(0.7)	(2.3)
Dividend yield (%)	3.1	2.7	2.9	3.0
Net debt/EBITDA (X)	12.4	5.6	5.1	5.1

	3/19	6/19E	9/19E	12/19E
EPS ($)	0.82	0.03	0.05	0.40

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 30 Jul 2019 close.

Jefferies

EQUITY RESEARCH
NiSource Inc. (NI)

NiSource Inc.
Settlements Offer MA Clarity Amid Rising Costs

July 31, 2019

Key Takeaway

NI 2Q adj. EPS of 5¢, a touch below our 6¢ projection & the Street's 6¢ mean est.; the slight miss vs. JEFe resulted from below-forecast Gas Distribution performance and Other Income, which more than offset better than anticipated interest and tax expenses. In May, NI settled with municipalities impacted by the Sept. 2018 Greater Lawrence event for $80mm and, earlier this week, reached an agreement to settle all class action claims resulting from the incident.

Greater Lawrence settlement reached, costs rise further. CG of MA this week announced an agreement in principal to settle all class-action claims stemming from the Sept. 2018 Greater Lawrence incident; NI will pay $143mm into a fund for plaintiffs, including thousands of impacted residents & businesses. Columbia will continue to process claims until the proposed settlement receives court approval. While legal settlements provide clarity on the recovery process, incident-related costs have continued to rise with Pipeline Replacement work now forecast $250-$260mm (vs $240-$250mm), 3rd-Party Claims at $994mm-$1.02B (vs $961-$1.01B), and Other Expenses projected $430-$440mm (vs $360-$370mm); the ~$1.67B total estimate is now ~$570mm above NI's $1.1B insurance policy limit.

Regulatory updates. In May, CG of MD filed a base rate case request with the Maryland PSC to support continued replacement of aging pipelines and the adoption of pipeline safety upgrades. If approved as filed, the request would increase annual revenues by ~$3.7mm, including $1.2mm of current infrastructure tracker revenue; a commission order is expected by YE with new rates effective in January. In June, the VACC approved a settlement agreement in CG of VA's base rate case; the approved settlement, which took effect this month, raises annual revenues by $9.5mm, including $8.2mm of current infrastructure tracker revenue. Also in June, NIPSCO filed its latest tracker update request under its long-term gas infrastructure modernization program, covering $12.4mm in incremental investments made between July 2018 & April 2019; an IURC order is expected in 4Q19 with rates effective in November. In addition, NIPSCO continues to execute on its 7-year electric infrastructure modernization program as, on June 12th, the IURC approved the company's latest tracker update covering $58.5mm in incremental capital investments made from June-Nov 2018.

Guidance affirmed. NI affirmed its 2019 capex guidance of $1.6-$1.7B ($1.675B JEFe) and its non-GAAP EPS range of $1.27-$1.33 ($1.31 JEFe). Mgmt also continues to expect annual non-GAAP EPS & DPS growth of 5-7% through 2022, fueled by yearly capex of $1.6-$2.0B, and remains committed to its existing IG credit ratings. We note that 1H19 adj. OCF (ex-WC fluctuations) of ~$1.01B is the highest since the 2015 spin of Columbia and NI maintained ~$1.0B in net liquidity as of June 30th; however, with ongoing increases to its Greater Lawrence incident cost estimates, which now meaningfully exceed insurance coverage limits, mgmt now anticipates ~$500mm/year in 2019-20 debt placements, up from a previous $0-$500mm annual range.

See Exhibit 1 for greater color on 2Q results & Exhibit 2 for regulatory details.

FLASH NOTE

RATING	HOLD
TICKER	NI
PRICE	$29.58^
PRICE TARGET (PT)	$27.00
MARKET CAP	$11.0B

^Prior trading day's closing price unless otherwise noted.

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EQUITY RESEARCH
NiSource Inc. (NI)

Exhibit 1 - NI 2Q19 Results Review

Operating Income by Division	Actual 2Q19A	Jefferies Expectations 2Q19E		Year-over-Year 2Q18A	
Gas Distribution	$46.8	$55.0	-14.9%	$35.6	31.5%
Electric Operations	$85.8	$82.2	4.4%	$77.3	11.0%
Corporate, Other, and Eliminations	($1.2)	($3.9)	-69.2%	($3.1)	NM
Total Operating Income	**$131.4**	**$133.3**	**-1.4%**	**$109.8**	**19.7%**
Depreciation	($177.9)	($166.1)	7.1%	($144.6)	23.0%
Other Income / (Expenses)	$0.0	$8.3	NM	$12.8	NM
Interest Expense	($94.1)	($98.8)	-4.8%	($88.7)	6.1%
Income Tax Benefit (Expense)	($4.4)	($8.3)	-47.3%	($6.2)	-29.0%
Preferred Dividend	($13.8)	($13.8)	NM	$0.0	NM
Recurring Net Income	**$19.1**	**$20.7**	**-7.6%**	**$26.4**	**-27.7%**
Avg Diluted Shares Outstanding	375.2	375.8	-0.2%	355.2	5.6%
EPS (Non-GAAP, Diluted)	**$0.05**	**$0.06**	**-7.5%**	**$0.07**	**-31.5%**
EBITDA ($MM)	**$309**	**$308**	**0.5%**	**$267**	**15.8%**
Capex & Affiliate Investments	**$490**	**$421**	**16.4%**	**$463**	**5.9%**

Source: NI reports, Jefferies estimates. Note: adjusted results exclude the impact of non-recurring items which for 2Q19 include 1) Greater Lawrence incident related items, 2) weather adjustments, and 3) asset sale impacts.

Exhibit 2 - NI Regulatory Backlog

Company/Filing	Summary	Timeline
NIPSCO Gas - PHMSA Compliance Plan 2	Recovery of Federally mandated pipeline safety compliance Plan; Includes ~$230mm of capital recovery through 2023	Filed: 12/31/2018; Order Expected 2H2019
Columbia Gas of Ohio Capital Expenditure Program Annual Rider Update	Recovery of certain capital investments and related deferred expenses not recovered through the IRP tracker; includes $122.1mm of capital investments made in 2018	Filed: 2/28/2019; Order Expected Aug. 2019; New rates effective Sept. 2019
Columbia Gas of Virginia - Base Rate Case	Unanimous settlement includes $9.5mm of annual revenue increase; $1.3mm net of infrastructure trackers	Filed: 8/28/2018; Settlement filed 4/19/19; Order received 6/12/19; final rates effective July 2019
Columbia Gas of Maryland Base Rate Case	Supports continued infrastructure replacement investments; Requests $3.7mm total annual revenue increase; $2.5mm, net of infrastructure trackers	Filed: 5/22/19; Order expected 4Q19; New rates expected to be effective by Jan 2020
Wind CPCN Filings	Seeking approval for 20-yr PPAs to purchase 100% output from Jordan Creek (400MW*) and Roaming Bison (300MW*) & approval for BTA for Rosewater (100MW*), a JV between NIPSCO and EDP renewables; Jordan Creek & Rosewater expected to be in service by the end of 2020; Roaming Bison expected in service by 2021	Filed: 2/1/2019; PPA's approved 6/5/19; BTA order expected in 3Q19
Electric System Modernization Program	Focused on electric transmission & distribution investments designed to improve system reliability & safety; TDSIC 5 semi-annual tracker update covering ~$58.8mm in investments from June 2018 - Nov 2018	Filed: 1/29/2019; Order received 6/15/19; rates effective June 2019
Integrated Resource Plan	Outlines NIPSCO's plans for meeting customers' long-term electricity needs; 2018 IRP includes plans to retire nearly 80% of NIPSCO's coal-fired generation fleet by 2023 and all remaining units by 2028; replacement options point toward lower-cost renewable energy resources such as wind, solar, battery storage technology; 2nd round of RFP's planned for 4Q19	Submitted 10/31/18
Base Rate Case	Seeks changes to depreciation schedules related to the early retirements of coal-fired generation plants called for in the IRP; Proposes changes to tariffs to provide service flexibility for industrial customers; partial settlement that addresses revenue requirement, federal tax reform & depreciation schedules and allows for 9.9% ROE	Filed: 10/31/2018; Partial Settlement on 4/26/19; Hearing began 7/25/19; Order expected 4Q19; new rates effective 1Q20

Source: NI reports

UBS

Global Research

31 July 2019

First Read

NiSource Inc.

Another Revision to MA Incident Costs

Equities

Americas
Gas Utilities

12-month rating	Neutral
12m price target	US$29.00
Price	US$29.58

RIC: NI.N BBG: NI US

2019 Guidance Reaffirmed; MA Incident Costs Revised Higher

NI reported 2Q EPS roughly inline with Cons and reaffirmed its 2019 EPS and capex guidance. NI reached settlements with class action plaintiffs, municipalities and MA incident costs were revised higher to $1,674-1,720MM up from $1,561-1,630MM, above the insurance coverage of $1.1B ($800MM of casualty insurance and $300MM of property insurance). During the call, we will listen for an update on the capex funding in 2019 and potential for higher ATM than $200-$300MM (forward from 2020 ATM program of $200-$300MM). In 1-2Q19, NI recorded $670MM from casualty insurance recoveries and NI filed a claim with a property insurer.

Results: NI Reported 2Q19 EPS Roughly inline UBSe/Consensus

NI reported 2Q19 EPS of $0.05, $0.01 below UBSe and in-line with Consensus. Adj. gas utilities op income of $46.8MM was below UBSe, driven by higher O&M, while higher operating margin partially offset. Electric op margin was $85.8MM, $1.4MM below UBSe, driven by lower than expected operating margin and higher D&A, offset by lower O&M. Interest expense was ~3% lower than expected.

Adjusting 2019 Estimates

We are modestly lowering our 2019 EPS estimates to $1.31 from $1.32 to reflect higher than expected gas utility O&M in 2Q19. We maintain 2020/2021 EPS estimates.

Valuation:

We maintain our Neutral rating and our $29 PT. Our price target is based on sum-of-the-parts P/E.

Trading data and key metrics

52-wk range	US$29.81-24.31
Market cap.	US$11.1bn
Shares o/s	375m (COM)
Free float	99%
Avg. daily volume ('000)	736
Avg. daily value (m)	US$21.0
Common s/h equity (12/19E)	US$5.49bn
P/BV (12/19E)	2.0x
Net debt / EBITDA (12/19E)	5.7x

EPS (UBS, diluted) (US$)

	12/19E			
	From	To	% ch	Cons.
Q1	0.82	0.82	0	0.82
Q2	0.06	0.05	-10	0.06
Q3E	0.05	0.04	-9	0.08
Q4E	0.40	0.40	NM	0.35
12/19E	1.32	1.31	-1	1.30
12/20E	1.40	1.40	NM	1.39
12/21E	1.48	1.48	NM	1.48

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Highlights (US$m)	12/16	12/17	12/18	12/19E	12/20E	12/21E	12/22E	12/23E
Revenues	4,505	4,905	5,095	5,388	5,573	5,769	5,958	6,154
EBIT (UBS)	894	964	942	1,066	1,141	1,220	1,294	1,371
Net earnings (UBS)	351	398	463	497	545	587	627	676
EPS (UBS, diluted) (US$)	1.09	1.21	1.30	1.31	1.40	1.48	1.55	1.63
DPS (US$)	0.66	0.72	0.79	0.84	0.89	0.95	1.01	1.07
Net (debt) / cash	(7,883)	(8,973)	(9,891)	(10,068)	(10,740)	(11,270)	(11,865)	(12,414)

Profitability/valuation	12/16	12/17	12/18	12/19E	12/20E	12/21E	12/22E	12/23E
EBIT margin %	19.8	19.7	18.5	19.8	20.5	21.1	21.7	22.3
ROIC (EBIT) %	8.9	8.6	7.7	8.1	8.1	8.1	7.9	7.9
EV/EBITDA (core) x	9.3	9.8	10.6	10.8	10.2	10.2	10.0	9.5
P/E (UBS, diluted) x	21.3	20.9	19.4	22.6	21.1	20.0	19.1	18.1
Equity FCF (UBS) yield %	(9.0)	(11.6)	(14.5)	(0.7)	(3.3)	7.6	306.3	8264.3
Net dividend yield %	2.8	2.9	3.1	2.8	3.0	3.2	3.4	3.6

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$29.58 on 30 Jul 2019 19:35 EDT

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Figure 1: NI 2Q19 Results vs. UBSe

$ in millions	Actual 2Q19	UBSe 2Q19e	% variance	Actual 2Q18	YoY % change
Financial Data					
Revenues	$1,011.9	$1,116.3	*(9.3%)*	$995.1	*1.7%*
Cost of Sales	($253.5)	($363.9)	*(30.3%)*	($313.3)	*(19.1%)*
Operating & Maintenance Expenses	($382.7)	($370.5)	*3.3%*	($361.9)	*5.7%*
Depreciation & Amortization	($177.9)	($171.5)	*3.7%*	($144.6)	*23.0%*
Total Expenses	($627.0)	($614.8)	*2.0%*	($572.0)	*9.6%*
Interest Expense	($94.1)	($96.9)	*(2.8%)*	($88.7)	*6.1%*
Net Income	$19.1	$21.3	*(10.3%)*	$26.4	*(27.7%)*
EPS	$0.05	$0.06	*(10.4%)*	$0.07	*(31.5%)*
Diluted Shares Outstanding	$373.9	$373.4	*0.1%*	$354.2	*5.6%*
Dividend Per Share	$0.205	$0.205	*0.0%*	$0.195	*5.1%*
Segment Operating Income					
Gas Distribution	$46.8	$54.8	*(14.6%)*	$35.6	*31.5%*
Electric Operations	$85.8	$87.2	*(1.6%)*	$77.3	*11.0%*
Total	$131.4	$137.6	*(4.5%)*	$109.8	*19.7%*
Operating Data					
Customers (000)					
Gas Utilities Customers	3,465.8	3,460.4	*0.2%*	3,434.4	*0.9%*
Electric Customers	472.8	471.8	*0.2%*	469.4	*0.7%*

Source: UBSe, Company Release

Figure 2: NI Summary Model

NiSource Inc (NI) ($ in Millions)	2017	2018	1Q19	2Q19	3Q19e	4Q19e	2019e	2020e	2021e	2022e	2023e
Operating Data											
Customers (000)											
Gas Utilities Customers	3,455	3,482	3,495	3,466	3,722	3,509	3,509	3,541	3,573	3,606	3,639
Electric Customers	469	472	472	473	473	474	474	477	479	481	484
Income Statement											
Revenues	**$ 4,904.8**	**$ 5,095.1**	**$ 1,858.9**	**$ 1,011.9**	**$ 976.3**	**$ 1,540.6**	**$ 5,387.7**	**$ 5,572.6**	**$ 5,768.5**	**$ 5,958.3**	**$ 6,154.5**
Operating costs & expenses											
(Cost of Sales)	$ (1,518.7)	$ (1,759.5)	$ (680.3)	$ (253.5)	$ (239.2)	$ (530.2)	$ (1,703.2)	$ (1,758.9)	$ (1,817.4)	$ (1,873.8)	$ (1,932.2)
(Operating & Maintenance Expenses)	$ (1,589.2)	$ (1,963.4)	$ (418.8)	$ (382.7)	$ (368.1)	$ (452.7)	$ (1,622.3)	$ (1,646.0)	$ (1,669.2)	$ (1,691.9)	$ (1,714.2)
(Depreciation & Amortization)	$ (570.3)	$ (596.6)	$ (175.1)	$ (177.9)	$ (176.8)	$ (174.0)	$ (703.7)	$ (725.8)	$ (752.7)	$ (780.7)	$ (810.0)
Gain on the Sale of Assets	$ (5.5)	$ (0.7)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
(Other Taxes)	$ (257.2)	$ (275.0)	$ (87.6)	$ (66.4)	$ (62.4)	$ (76.5)	$ (292.8)	$ (300.9)	$ (309.7)	$ (318.2)	$ (327.0)
Equity Earnings in Unconsolidated Affilates	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	**$ (2,422.2)**	**$ (2,835.7)**	**$ (681.5)**	**$ (627.0)**	**$ (607.2)**	**$ (703.2)**	**$ (2,618.9)**	**$ (2,672.7)**	**$ (2,731.6)**	**$ (2,790.8)**	**$ (2,851.2)**
Operating Income By Division											
Gas Distribution	$ 586.9	$ 564.6	$ 397.7	$ 46.8	$ (20.4)	$ 205.7	$ 629.8	$ 673.7	$ 720.0	$ 761.3	$ 805.3
Transmission & Storage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Electric Operations	$ 376.6	$ 381.2	$ 95.4	$ 85.8	$ 147.5	$ 95.0	$ 423.7	$ 463.3	$ 503.0	$ 542.6	$ 582.3
Corporate & Eliminations	$ 0.4	$ (3.9)	$ 4.0	$ (1.2)	$ 2.8	$ 6.5	$ 12.2	$ 4.0	$ (3.5)	$ (10.3)	$ (16.5)
Total Operating Income	**$ 963.9**	**$ 941.9**	**$ 497.1**	**$ 131.4**	**$ 129.9**	**$ 307.2**	**$ 1,065.6**	**$ 1,141.0**	**$ 1,219.5**	**$ 1,293.7**	**$ 1,371.1**
EBITDA	**$ 1,534.2**	**$ 1,538.5**	**$ 672.2**	**$ 309.3**	**$ 306.7**	**$ 481.2**	**$ 1,769.4**	**$ 1,866.7**	**$ 1,972.2**	**$ 2,074.4**	**$ 2,181.1**
Other expenses											
Interest Expense	$ (353.2)	$ (353.3)	$ (95.6)	$ (94.1)	$ (96.5)	$ (98.1)	$ (384.3)	$ (396.0)	$ (421.7)	$ (445.1)	$ (459.7)
Other Expense (Income)	$ (2.8)	$ (96.5)	$ (0.7)	$ (0.3)	$ -	$ -	$ (1.0)	$ -	$ -	$ -	$ -
Total Other Expenses	**$ (356.0)**	**$ (449.8)**	**$ (96.3)**	**$ (94.4)**	**$ (96.5)**	**$ (98.1)**	**$ (385.3)**	**$ (396.0)**	**$ (421.7)**	**$ (445.1)**	**$ (459.7)**
Income from Before Income Taxes	**$ 607.9**	**$ 477.1**	**$ 387.0**	**$ 23.2**	**$ 19.6**	**$ 195.4**	**$ 625.2**	**$ 689.9**	**$ 742.7**	**$ 793.5**	**$ 856.3**
Income Taxes	$ (210.4)	$ (13.8)	$ (79.3)	$ (4.1)	$ (4.1)	$ (41.0)	$ (128.6)	$ (144.9)	$ (156.0)	$ (166.6)	$ (179.8)
Effective Tax Rate	34.6%	2.9%	20.5%	17.7%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Net income	**$ 397.5**	**$ 463.3**	**$ 307.7**	**$ 19.1**	**$ 15.5**	**$ 154.4**	**$ 496.7**	**$ 545.0**	**$ 586.7**	**$ 626.8**	**$ 676.5**
Diluted Weighted Avg Number of Common U	$ 329.4	$ 356.4	$ 373.4	$ 373.9	$ 378.1	$ 386.2	$ 377.9	$ 388.3	$ 395.3	$ 404.2	$ 412.5
EPS	**$ 1.21**	**$ 1.30**	**$ 0.82**	**$ 0.05**	**$ 0.04**	**$ 0.40**	**$ 1.31**	**$ 1.40**	**$ 1.48**	**$ 1.55**	**$ 1.63**
Balance Sheet Summary											
Assets											
Cash and Cash Equivalents	$ 29.0	$ 121.1	$ 160.8	$ 32.4	$ 44.7	$ 58.5	$ 58.5	$ 113.6	$ 168.7	$ 223.8	$ 278.9
Property, Plant and Equipment	$ 14,359.5	$ 15,542.5	$ 15,741.4	$ 16,133.8	$ 16,360.3	$ 16,589.6	$ 16,589.6	$ 17,613.8	$ 18,711.1	$ 19,880.4	$ 21,020.4
Investment in affiliates	$ 82.0	$ 86.5	$ 134.0	$ 146.8	$ 146.8	$ 146.8	$ 146.8	$ 146.8	$ 146.8	$ 146.8	$ 146.8
Total Assets	**$ 19,961.7**	**$ 21,804.0**	**$ 21,889.9**	**$ 21,974.2**	**$ 22,213.0**	**$ 22,456.0**	**$ 22,456.0**	**$ 23,535.4**	**$ 24,687.8**	**$ 25,912.2**	**$ 27,107.3**
Liabilities & Partners' Capital											
Long Term Debt	$ 7,512.2	$ 7,105.4	$ 7,110.1	$ 7,109.7	$ 8,456.3	$ 8,362.8	$ 8,362.8	$ 9,079.4	$ 9,667.2	$ 10,313.7	$ 10,918.7
Partners' Equity	$ 4,320.1	$ 5,750.9	$ 5,779.6	$ 5,976.2	$ 6,033.9	$ 6,340.1	$ 6,340.1	$ 6,637.4	$ 7,149.4	$ 7,668.7	$ 8,204.4
Total Liabilities & Partners' Capital	**$ 19,961.7**	**$ 21,804.0**	**$ 21,889.9**	**$ 21,974.2**	**$ 22,213.0**	**$ 22,456.0**	**$ 22,456.0**	**$ 23,535.4**	**$ 24,687.8**	**$ 25,912.2**	**$ 27,107.3**
Cash Flow Summary											
Changes in Working Capital	$ (56.5)	$ 110.2	$ (53.0)	$ (29.7)	$ -	$ -	$ (82.7)	$ -	$ -	$ -	$ -
Net cash provided by operating activities	$ 742.2	$ 540.1	$ 399.1	$ 527.1	$ 210.1	$ 383.2	$ 1,519.5	$ 1,325.9	$ 1,394.5	$ 1,462.7	$ 1,541.6
Capital Expenditutrs	$ (1,695.8)	$ (1,818.2)	$ (353.7)	$ (489.8)	$ (403.3)	$ (403.3)	$ (1,650.0)	$ (1,750.0)	$ (1,850.0)	$ (1,950.0)	$ (1,950.0)
Net cash provided by investing activities	$ (1,808.5)	$ (1,926.1)	$ (375.4)	$ (522.6)	$ (403.3)	$ (403.3)	$ (1,704.5)	$ (1,750.0)	$ (1,850.0)	$ (1,950.0)	$ (1,950.0)
Net cash provided by financing activities	$ 1,068.7	$ 1,468.7	$ 16.0	$ (132.9)	$ 205.4	$ 33.9	$ 122.4	$ 479.2	$ 510.6	$ 542.4	$ 463.5
Net change in cash	**$ 2.4**	**$ 82.7**	**$ 39.7**	**$ (128.4)**	**$ 12.3**	**$ 13.8**	**$ (62.6)**	**$ 55.1**	**$ 55.1**	**$ 55.1**	**$ 55.1**
Dividend											
Dividend Per Share	**$ 0.72**	**$ 0.79**	**$ 0.21**	**$ 0.21**	**$ 0.21**	**$ 0.22**	**$ 0.84**	**$ 0.89**	**$ 0.95**	**$ 1.01**	**$ 1.07**
Payout Ratio	59.7%	60.9%	25.0%	402.7%	501.9%	55.2%	63.8%	63.8%	63.9%	65.0%	65.1%

Source: UBSe, Company Release

Forecast returns

Forecast price appreciation	-2.0%
Forecast dividend yield	3.0%
Forecast stock return	+1.0%
Market return assumption	6.8%
Forecast excess return	-5.8%

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. We use comparable company multiples in our sum-of-the-parts EV/EBITDA and P/E valuations. Our price target is derived a sum-of-the-parts P/E valuation.

July 31, 2019 | Equity Research

WELLS FARGO SECURITIES

NiSource Inc.

NI: NTSB Report, Additional Financing & Guidance Refresh All on Deck for 2H

Outperform/$33

Natural Gas LDCs
Market Weight

Price Target Change

- **Summary.** NI reported Q2 EPS of $0.05 (in-line with our estimate) and affirmed 2019 EPS guidance of $1.27-1.33 along with 5-7% annual EPS and dividend growth from 2019 through 2022. The company has made substantial progress on Merrimack Valley restoration, insurance recoveries and implementation of safety enhancements including the Safety Management System (SMS). On deck is (1) the NTSB report, which we consider to be a gating factor in determining the path forward in MA (regulatory/strategic alternatives) along with (2) additional long-term financing, which is likely to include preferred equity (we assume $300mm in Q3) or subordinated debt and (3) 2020 EPS guidance and growth/capex refresh (SMS could drive incremental operating and capital costs) in conjunction with the Q3 update. With shares trading at 3-5% P/E discounts to blended gas/electric peers on our '20E & '21E EPS of $1.38 & $1.46, respectively, and 6% discounts on an EV/EBITDA basis, we reiterate our Outperform rating. Our price target is $33/sh (up from $32/sh).
- **Merrimack Valley Update.** NI expects final restoration work to be complete by 9/15/19 (customer equipment replacements, etc.) and a final NTSB report around the same time. Once those two milestones are reached, we expect management to articulate an updated strategy as it relates to Columbia Gas of MA, which could include regulatory and/or strategic alternatives. The ultimate amount and pace of insurance proceeds could also impact the outlook. The updated cost of the event stands at $1.7B ($994-1,010mm third-party claims, which are now substantially settled; $430-440mm other expenses such as consultants and charitable contributions; and $250-260mm of pipe replacement and restoration) – this represents a 6% increase vs. the Q1 update. As of 6/30/19, NI has recorded $670mm of insurance recoveries (including $535mm in cash), which compares to total coverage of $1.1B including $800mm casualty and $300mm property. It is our understanding that the property insurance would primarily cover system replacement/restoration with any recovery serving as an offset to rate base (NI wouldn't seek recovery in rates).
- **Generation Update.** Plans associated with NIPSCO's 2018 IRP advanced this quarter with a 6/5 approval of the PPAs for two of the three proposed wind projects. An order is expected on the third project, which includes an ownership agreement, in Q3'19. NI plans to issue another round of RFPs in Q4'19. As a reminder, the IRP is aimed at the retirement of nearly 80% of NIPSCO's coal generation in the next five years and 100% by 2028.

$ EPS	2018A	2019E Curr.	2019E Prior	2020E Curr.	2020E Prior
Q1 (Mar.)	0.77	0.82 A	NC	NE	
Q2 (June)	0.07	**0.05 A**	**0.05**	NE	
Q3 (Sep.)	0.10	0.05	NC	NE	
Q4 (Dec.)	0.38	0.39	NC	NE	
FY	1.30	1.31	NC	**1.38**	**1.40**
CY	1.30	1.31		1.38	
FY P/EPS	22.9x	22.7x		21.6x	
Rev.(MM)	5,084	5,299		5,434	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile
Net Operating Earnings

Ticker	NI
Price Target/Prior:	**$33/$32**
Price (07/31/2019)	**$29.79**
52-Week Range:	$24-30
Shares Outstanding: (MM)	372.5
Market Cap.: (MM)	$11,096.8
S&P 500:	3,011.79
Avg. Daily Vol.:	2,029,940
Dividend/Yield:	$0.80/2.7%
LT Debt: (MM)	$7,109.7
LT Debt/Total Cap.:	46.8%
ROE:	9.0%
3-5 Yr. Est. Growth Rate:	6.0%
CY 2019 Est. P/EPS-to-Growth:	3.8x
Last Reporting Date:	07/31/2020 Before Open

NC = No Change
Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Please see page 3 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 07/31/19 unless otherwise stated. 07/31/19 11:23:41 ET

WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Underweight
Gas/Power Infrastructure – Market Overweight

July 31, 2019

NISOURCE

(NI US Equity – $29.69 – Outperform)

Moving past Mass.

- **Q2 in-line, L-T outlook reaffirmed; expectations for 2020 guide**. NI reported 2Q19 EPS of $0.05, matching us/consensus. NI reaffirmed its FY19 guidance range of $1.27-1.33 and its expectation for 5-7% annual EPS/div growth from 2019 through 2022. Looking forward to Q3, where NI will provide initial 2020 guidance, we see the company growing at the midpoint of its 5-7% range YoY. We expect that the accelerated nature of the SMS safety spending will limit the potential for NI to grow near the top or beat its range as has been the case in the past (pre-MA event). Presumably, NI will true-up these costs via regulatory proceedings next year, allowing for a reacceleration back toward the top end of the range in the outer years. We maintain our Outperform on NI; on a relative basis, valuation is still attractive.
- **At a turning point in Massachusetts.** There were no surprise cost increases related to the restoration effort this quarter. The incremental $100M write-off was disclosed prior to the release and was in-line with our expectation. With the four major lawsuits now settled, mgmt. expressed confidence that the current cost estimate would not go higher. The booking of insurance recoveries has paced better than originally budgeted for 2019, suggesting a low probability that NI would need to pull forward any 2020 ATM equity to hit its credit metrics. A final NTSB report could come out around the anniversary of the event (Sept. 13th). We see no firm gating items that would impede a sale and continue to believe an announcement comes by yearend.
- **Electric business coming more into focus.** NI expects a decision from the IURC in 3Q on its proposed ownership agreement for the 100 MW Rosewater wind project. While the associated capex is relatively modest within the current forecast, NI's next round of RFPs (to launch in Q4) will likely be more impactful as the company works to replace 1,625 MW of coal capacity when the Schahfer units retire in 2023.
- **PT moves up to $32.** We are raising our PT from $31 to $32 due to higher group multiples. Our valuation embeds a half-turn discount vs the industry average on NI's LDC earnings given the Massachusetts overhang. Our modest estimate update (see right) comes after refining growth assumptions.

Estimates / Valuation

(US$)	2019E	2020E	2021E	2022E
EPS	$1.31	$1.39	$1.49	$1.59
Consensus	$1.30	$1.38	$1.48	$1.59
P/E	22.7x	21.4x	20.0x	18.7x
Dividend Yield	2.6%	2.7%	2.9%	3.0%

Trading and Fundamental Data

Price Target	**$ 32**
Current Price	29.69
52-Week Range	$24-$30
Market Cap. (MM)	11,080
Enterprise Value (MM)	21,090
Shares Out. (MM)	373.1
Dividend Yield	2.69%
Dividend Payout Ratio	61.3%
ROE	-1.4%
Debt to Cap	61.4%
Avg. Daily Vol. (000)	2,394

Price Performance	YTD	LTM
NI US Equity	17%	15%
Utility Index	13%	14%
S&P 500	19%	6%

Source: FactSet/Wolfe Research

Key Changes

Year	New	Old
PT	$32	$31
2021E	$1.49	$1.48

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NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2019E	2020E	2021E	2022E
EPS	$1.31	$1.39	$1.49	$1.59
Diluted Shares Outstanding	$378	$388	397	407
Dividends Per Share	$0.80	$0.85	$0.90	$0.95
Dividend Yield	2.7%	2.9%	3.0%	3.2%
Dividend Payout Ratio	61%	61%	60%	60%
Equity Ratio	37%	38%	39%	40%
FFO/Net Debt	15%	15%	14%	15%
Valuation Metrics				
P/E	22.7x	21.4x	20.0x	18.7x
Price/Book	2.1x	2.0x	1.8x	1.7x
Segment EPS				
Gas Distribution	$1.12	$1.17	$1.26	$1.34
Electric	$0.57	0.57	0.58	0.59
Parent & Other	($0.38)	(0.36)	(0.35)	(0.34)
Total EPS	**$1.31**	**$1.39**	**$1.49**	**$1.59**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2019E	2020E	2021E	2022E
Total Capital Spending by Segment ($M)				
Gas Distribution	$1,225	$1,337	$1,337	$1,337
Electric	425	463	463	463
Parent	25	25	25	25
Total Capex	**$1,675**	**$1,825**	**$1,825**	**$1,825**

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland and Massachusetts.

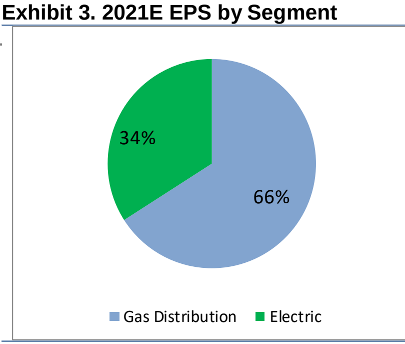
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of investment with recovery largely through trackers and balanced regulatory environments. Additionally, we see the gas business getting larger over time. NI appears attractive at current levels.

Valuation

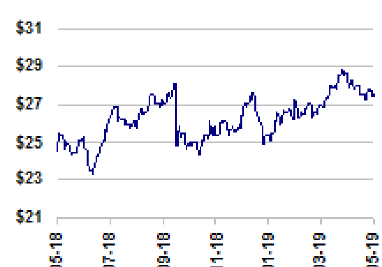
Our $32 price target is on a SOTP target P/E valuation. We apply a half-turn discount to the 21.5x group LDC multiple given the Massachusetts overhang. For its electric utility earnings, we ascribe a one-turn premium to our 19x group multiple given the constructive regulatory environment. Risks for NiSource are 1) further cost increases in MA 2) regulatory outcomes and 3) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer growth

Exhibit 3. 2021E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: FactSet

GUGGENHEIM

July 31, 2019

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NI BUY

NiSource Inc.
Sector: Power, Utilities & Alternative Energy

Earnings Release

Share Price	$29.69
Price Target	$31.00

EPS ($) (FY DEC)	1Q	2Q	3Q	4Q	FY
2019	0.82	0.05	0.07E	0.38E	1.32E
P/E					22.5x
2020	0.78E	0.10E	0.10E	0.40E	1.37E
P/E					21.6x
2021	0.83E	0.11E	0.10E	0.43E	1.47E
P/E					20.1x

Market Data

52-Week Range	$24.19 - $29.96
Dividend	$0.70
Dividend Yield	2.3%
Market Cap (M)	$11,077
Shares Out (M)	373.1
ADV (3 mo; 000)	2,642

NI: Inline 2Q; Stable Plan Reaffirmed with Positive Capex Update on 3Q while More Clarity Achieved in MA Incident

Key Message: NI reported an inline quarter as management reaffirmed a stable plan all around, including 2019 guidance, capex, financing plan, dividend policy and LT growth rate. We will look for positive capex updates resulted from the SMS implementation on 3Q together with 2020 EPS guidance. A key focus on MA continues to be the rate case timing or a strategic process, especially now that more clarity has been achieved with class lawsuit settlements and good insurance recovery. We continue to believe strategic process more likely in MA.

Quick take – Inline quarter, outlook, financing plan, dividend policy and growth trajectory reaffirmed. NI reports 2Q19 EPS of $0.05 vs. Guggenheim/ consensus estimate of $0.05. Management reiterated 2019 guidance of $1.27-$1.33, in line versus our estimate of $1.32 and consensus of $1.30; 2019 CapEx guide of $1.6-1.7B vs. our $1.8B. 2019-22 EPS and dividend growth rate of 5-7% was also reaffirmed and is also in-line with our 6.3%. Overall, a good quarter with consistent execution of capital plan and regulatory strategy. Reiterate BUY.

Looking to 3Q call for comprehensive updates with 2020 EPS and capital plan guidance. Management indicates that they will provide 2020 earnings guidance as well as capex outlook on the 3Q call which encompasses the impact of the implementation of the Safety Management System (SMS). While management is holding off on making any comments on the impact of SMS on O&M, which could yield a higher trajectory vs. historical, incremental growth opportunities on the capital side should be more than supportive of Mgmts. earnings guidance range of 5-7%. **We view this as a positive development for NI and will look for more details on the 3Q19 call.**

Insurance recovery tracking well with class lawsuit settlements driving up total cost estimate – an end to the fallout from MA incident is near. NI is making good progress on casualty insurance recovery with $670M recorded ($535M collected in cash) to date against the total of ~$800mm in liability insurance. The process on claiming property insurance has also commenced with on-going claim discussion with insurer. The total cost related to the MA incident is now $80M- 103M higher versus the estimate at 1Q19 (see table below) due to the settlements (HERE) on all class action lawsuits reached recently. NI will pay $143M to a $1B settlement fund pursuant to the settlement terms. With these settlements, NI is taking a $103M charge in 2Q19 and revised the range of third-party claims to $994M - $1,020M (from $961M - $1,010M) and the range of other incident-related costs to $430M - $440M (from $360M – 370M). **Despite a slight increase in estimated costs versus the last disclosure, we believe the clarity around the total liabilities related to the MA incident is a positive development for the stock.**

($M)	As of 3/31/2019		As of 6/30/2019		Delta	
Third-party claim	$ 961	$ 1,010	$ 994	$ 1,020	$ 33	$ 10
Other incident-related costs	$ 360	$ 370	$ 430	$ 440	$ 70	$ 70
Total	$ 1,321	$ 1,380	$ 1,424	$ 1,460	$ 103	$ 80

Sources: Company data

What is the timing of a Bay State rate filing while all the necessary data points are becoming more readily available now? With more clarity and certainty on the cost of the incident and insurance recovery, management's deferral of a decision on the timing of the rate case in MA makes us continue to think that either the company requires more time to arrive at a decision or **management is in the process of a potential strategic move out of MA through a sale which would preempt a GRC for what we see as obvious**

reasons – we believe latter. As we have discussed in the past (HERE), we believe a potential sale of the jurisdiction to a company such as ES (Neutral) could be a very viable path/solution and manageable for ES given their balance sheet capacity (EV of Bay State ~$700-800mm).

Overall financing plan unchanged but potential pulling forward of ATM from 2020 to 2019. While the insurance claim is tracking well versus plan which should alleviate the need for additional financing and equity in 2019, management continues to explore the possibility of pulling some of the ATM from 2020 to 2019 but leave the total average ATM at $200-$300M/year.

Valuation

We derive our regulated utility group target multiple of 18x from our regression model, which uses the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years, and now ascribe a 2x premium to reflect several externalities (e.g., macro/geopolitical uncertainties) that continue to support the group trading beyond fundamentals and forward yield expectations. We arrive at our valuation utilizing a sum-of-the parts analysis, based on: (1) ~$11/share for the regulated electric utility; (2) ~$23/share value for the regulated gas segment utilizing our regulated electric P/E multiple plus a premium to account for the historical gas LDC spread above electric counterparts; and (3) (~$2)/share for other adjustments for Corp and Other. We then discount our valuation back by two years to arrive at our $31 valuation. There is 4.4% upside to our price target (or ~7% total return) from current levels, but we maintain our BUY rating based on (1) the solid business outlook of the company, (2) the up-coming positive capex update on 3Q call, and (3) better clarity around the MA incident which should pave the way for a path forward with regard to Bay State Gas.

EPS($)	1Q	2Q	3Q	4Q	FY
2019E	0.82A	0.05A	0.07E	0.38E	**1.32E**
Prior	*0.82E*	*0.05E*	*0.07E*	*0.38E*	*1.32E*
2020E	0.78E	0.10E	0.10E	0.40E	**1.37E**
Prior	*0.78E*	*0.10E*	*0.10E*	*0.40E*	*1.37E*
2021E	0.83E	0.11E	0.10E	0.43E	**1.47E**
Prior	*0.83E*	*0.11E*	*0.10E*	*0.43E*	*1.47E*
2022E	0.90E	0.11E	0.11E	0.47E	**1.58E**
Prior	*0.90E*	*0.11E*	*0.11E*	*0.47E*	*1.58E*

Sources: Company data, Guggenheim Securities, LLC estimates

Risk

The primary risk on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

NiSource Inc

Refocusing onto Indiana and Procurement as Mass gets quiets

Reiterate Rating: NEUTRAL | PO: 31.00 USD | Price: 29.69 USD

Bank of America Merrill Lynch

Equity | 01 August 2019

NIPSCO update: the next critical mover for shares

With Massachusetts (MA) incident costs nearly pinpointed, the next key issue to examine is NIPSCO's Electric Rate Case and Request for Proposal (RFP) outcomes; these establish the degree to which Indiana (IN) permits ownership of new renewable and gas. Lobbyists working to keep the SW IN coal region active that pushed for the moratorium earlier this year have given way to an Energy Task Force intended to define energy policy goals and uphold resiliency and low cost by the end of '20 (after the fed election possibly to avoid future coal retirement announcements in VP Pence's home state). While the IURC has not been disrupted in its proceedings, it is clear that the task force now has a fairly significant role that could shape policy and put guidelines into place to be used by regulators and utilities. Even so, we expect NI's future plans to run smoothly given NI already announced accelerated coal retirement starting in '23 and awarded three wind projects the first RFP (two of which have been approved). We note two leading indicators for future NI success in the state (including its second RFP): First, if the third wind project is approved by the commission, this would indicate support for more ownership opps given its Build-Own-Transfer (BOT) structure. Second, if the IURC upholds the rate case, 400MW of firm load may be lost if industrials can contract directly with MISO impacting size of the next RFP. Either way, we expect solar to be a major contender as the wind tax credits phase down.

MA risk unfolding, sale or reg action likely on the horizon

The MA incident is starting to be largely derisked; NI has neared a final cost assumption with the class-action law suit and wrongful death suit now settled. We see NI ready to pursue a potential sale of the MA biz or regulatory action –only further likely when the NTSB report is out (expected 3Q/4Q). If the sale progresses, we expect it is a 4Q item.

Earnings results: IN developments keep us a bit concerned

NI reported non-GAAP earnings of $0.05 for 2Q19 – what we expected (compared to $0.07 2Q18 & $0.06 Consensus). Reaffirmed '19 guidance of $1.27-1.33/sh, along with 5-7% CAGR and an investment target of at $1.6-$2.0bn/year through '22. We see its Safety Management System Implementation key for spend in all regions. Reaffirm Neutral at a $31 PO (prev $30) from peer multiple, '21+ equity issuance and smaller MA discount adjs.

Estimates (Dec)

(US$)	2017A	2018A	2019E	2020E	2021E
EPS	1.21	1.30	1.30	1.35	1.46
GAAP EPS	0.39	1.30	1.30	1.35	1.46
EPS Change (YoY)	14.2%	7.4%	0%	3.8%	8.1%
Consensus EPS (Bloomberg)			1.31	1.39	1.48
DPS	0.73	0.79	0.83	0.88	0.94

Valuation (Dec)

	2017A	2018A	2019E	2020E	2021E
P/E	24.5x	22.8x	22.8x	22.0x	20.3x
GAAP P/E	76.1x	22.8x	22.8x	22.0x	20.3x
Dividend Yield	2.4%	2.7%	2.8%	3.0%	3.2%
EV / EBITDA*	17.7x	17.1x	15.1x	14.3x	13.5x
Free Cash Flow Yield*	-8.6%	-11.5%	-4.9%	-6.8%	-5.8%

* For full definitions of *iQmethod* SM measures, see page 9.

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Refer to important disclosures on page 10 to 12. Analyst Certification on page 7. Price Objective Basis/Risk on page 7. **12028021**

Timestamp: 01 August 2019 06:08AM EDT

Key Changes

(US$)	Previous	Current
Price Obj.	30.00	31.00
2021E EPS	1.45	1.46

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Stock Data

Price	29.69 USD
Price Objective	31.00 USD
Date Established	1-Aug-2019
Investment Opinion	B-2-7
52-Week Range	24.19 USD - 29.96 USD
Mrkt Val (mn) / Shares Out (mn)	11,077 USD / 373.1
Average Daily Value (mn)	64.93 USD
BofAML Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2019E)	9.7%
Net Dbt to Eqty (Dec-2018A)	156.7%

NIPSCO: Northern Indiana Public Service Company LLC; MISO: Midcontinent Independent System Operator; IURC: Indiana Utility Regulatory Commission; NTSB: National Transportation Safety Board

iQprofile SM NiSource Inc

iQmethod SM – Bus Performance*

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Return on Capital Employed	2.6%	3.9%	4.1%	4.0%	4.0%
Return on Equity	9.5%	10.1%	9.7%	9.5%	9.7%
Operating Margin	18.7%	18.3%	20.4%	20.8%	21.7%
Free Cash Flow	(954)	(1,278)	(545)	(756)	(644)

iQmethod SM – Quality of Earnings*

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash Realization Ratio	1.9x	1.2x	2.3x	2.3x	2.2x
Asset Replacement Ratio	3.0x	3.0x	2.4x	2.7x	2.5x
Tax Rate	71.0%	19.7%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	207.7%	156.7%	154.3%	155.8%	157.0%
Interest Cover	2.6x	2.6x	3.0x	3.1x	3.2x

Income Statement Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Sales	4,875	5,084	5,149	5,268	5,416
% Change	8.5%	4.3%	1.3%	2.3%	2.8%
Gross Profit	3,356	3,325	3,584	3,680	3,804
% Change	8.2%	-0.9%	7.8%	2.7%	3.4%
EBITDA	1,481	1,531	1,738	1,826	1,943
% Change	5.4%	3.4%	13.5%	5.1%	6.4%
Net Interest & Other Income	(468)	(335)	(353)	(360)	(362)
Net Income (Adjusted)	398	463	495	529	587
% Change	15.6%	16.6%	6.9%	6.9%	11.0%

Free Cash Flow Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Net Income from Cont Operations (GAAP)	129	463	495	529	587
Depreciation & Amortization	570	600	690	728	769
Change in Working Capital	(415)	110	(186)	(186)	(186)
Deferred Taxation Charge	307	(188)	117	124	136
Other Adjustments, Net	152	(445)	0	0	0
Capital Expenditure	(1,696)	(1,818)	(1,661)	(1,951)	(1,951)
Free Cash Flow	-954	-1,278	-545	-756	-644
% Change	-41.9%	-34.0%	57.3%	-38.5%	14.7%

Balance Sheet Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash & Equivalents	29	121	133	133	133
Trade Receivables	945	1,147	1,333	1,519	1,706
Other Current Assets	790	787	787	787	787
Property, Plant & Equipment	14,360	15,543	16,513	17,736	18,918
Other Non-Current Assets	3,839	4,206	4,206	4,206	4,206
Total Assets	19,962	21,804	22,973	24,382	25,750
Short-Term Debt	1,490	2,027	2,283	2,475	2,659
Other Current Liabilities	1,688	2,010	2,010	2,010	2,010
Long-Term Debt	7,512	7,105	7,439	8,065	8,665
Other Non-Current Liabilities	4,951	4,911	5,028	5,152	5,288
Total Liabilities	15,642	16,053	16,759	17,701	18,621
Total Equity	4,320	5,751	6,214	6,681	7,128
Total Equity & Liabilities	19,962	21,804	22,973	24,382	25,750

* For full definitions of *iQmethod* SM measures, see page 9.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

NI's positives including 5-7% earnings/dividend growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries with earned ROEs consistently near the allowed.However, we see increased regulatory lag associated with the MA incident. Moreover, with the outcome of Department of Justice investigation still unclear, we believe an overhang on shares will persist. Bottom line, we see more balanced risk/reward profile and as such we rate NI Neutral.

Stock Data

Average Daily Volume	2,187,044

Quarterly Earnings Estimates

	2018	2019
Q1	0.77A	0.82E
Q2	0.08A	0.05E
Q3	0.10A	0.27E
Q4	0.38A	0.17E

NIPSCO IRP and RFPs: Stay tuned to year-end

As part of its 2018 Integrated Resource Plan (IRP) that pushed for 80% of coal retirements (ie, 1.6GW) in '23 and the remaining thereafter, NI subsidiary NIPSCO has been clear it looks to find the amount and technology of replacement generation through request for proposals (RFPs). We highlight key updates below, all of which with details expected by year-end around the timing of the pending ratecase outcome.

- **Round 1 RFP**: NI's two purchase power agreement (PPA) projects have been approved. The third project for co-ownership is still pending before the IURC. This is key to watch for read-throughs on the Indiana Regulatory Utility Commission's (IURC) view of utilities owning and ratebasing renewables. This would be critically different as it would result in a tax-equity in ratebase construct, seemingly the first of its kind in the industry, in which the utility would procure renewables through a build-own-transfer process. The latest stakeholder we spoke with in the state emphasized approval of this latest construct would be critical to affirming the state's commitment to the energy transition despite the backdrop of political involvement.

- **Impact of outstanding portion of ratecase**: Part Two of NIPSCO's rate case settlement is still outstanding, which touches on Rate 831 allowing industrials to buy through MISO for electricity needs. This would result with 400MW *less* of firm load meaning that it partially counterbalances the coal capacity coming offline. Part One (regarding depreciation) is settled.

- **Round 2 RFP**: NI has not indicated capacity or size of this round yet. The company anticipates it will know what size it will need to fulfill depending on how the ratecase is tracking (likely due to the impact of Rate 831 on firm load). NI expects all ownership options and technologies will be eligible to participate – and it will look to the outcome of the Round 1 RFP to see how the commission views utility-ownership. Finally, depending on technology, we could see more than the firm capacity coming offline filled given that renewables have a smaller capacity weighting than fossils. We are expecting a good amount of solar that is a mix of contracted and owned.

- **Number of RFPs**: NI noted it intends to have a series of RFPs. We could see the second round total capacity vary in size based on this, or based on legislative uncertainty.

Key Indiana issues to keep in mind

Further details on the moratorium

We provide a synopsis to gain a sense of the political environment going forward. Indiana's generation moratorium (established to save coal generators) was proposed following (1) a change in legislative members including those on the Committee on Utilities, Energy, and Telecommunications (2) a Vectren petition for a natural gas plant replacing coal and (3) a NIPSCO request for proposal (RFP) with three resulting wind contracts also replacing coal. We expect the coal industry requested the moratorium because of the state's ties to coal particularly in the southwest, and because most coal units in the state (apart from Schahfer and Rockport) burn Indiana coal. The moratorium was voted down (even with two-thirds Republican majority) indicating extensive lobbying by utilities, renewable developers, environmental groups, and other interests. We note, though, that if it were to have passed Congress, IN Governor Holcomb (from the SW region) voiced support for the moratorium and may have signed it into law. We are concerned that intervention is likely to continue into the 2020 legislative session in light of the forthcoming political election season. We anticipate NI's 4Q release of its latest RFP could yet become politicized. We are also concerned around the near-term approval of its third-PPA.

The Energy Task Force

Another outcome of the legislative session was the Energy Task Force, which is to develop a state-wide energy plan by the end of 2020 that makes recommendations on emerging technologies and the energy transition while upholding reliability and cost. The 15-member force is established to have a broad range of appointees not driven by one specific interest: both parties on legislation, and governor-appointed university, CEOs, professors, lab experts, and the office of utility consumer counsel are represented.. The critical question is to what extent this task force could play a role in defining the policy and guidelines for regulators and utilities that could affect CNP and NI's ability to pursue economically driven coal plant retirements. The question is whether political interests of those appointed on the task force will outweigh the underlying economics merits of the utilities proposal. We suspect given the background of those involved that indeed a more nuanced approach that focuses on mitigating the impacts of retirements will hold the day based on our initial assessment. We note the timeline with an outcome by Dec '20 could also prove a bit too late to save further coal assets. We suspect that there will be a clear cut bifurcation between coal plants saved that burn local coal in Indiana vs. plants that burn out-of-state coal (principally PRB from WY). We look for proposals from AES' forthcoming IRP later this year – and corresponding decisions on the fate of its Petersburg plan – could well continue to garner attention in light of the local coal burned to support this plant.

Key items to watch going forward

We highlight the following key issues to watch in the next year or so:

- Given the legislative and executive backdrop, we watch changes on the Indiana Regulatory Utility Commission (IUR) closely, particularly as a seat became available as early as next January 2020 and another in March 2021.
- We perceive influence in energy policy from the federal election given Indiana is VP Mike Pence's home state. We could see the timing of the Task Force possibly intentionally result in recommendations *after* the election to avoid any further announcement of coal retirements in the state in the run up to Nov '20.
- The use of IN coal vs. out-of-state resources remains an apparent dividing point with respect to scrutiny of any plant retirements.
- If renewable generation is selecting in forthcoming RFPs, we could see more nameplate capacity awarded than the firm capacity being retired.

Massachusetts cost uncertainty coming to a wrap

We see NI as approaching the back side of the Merrimack incident now that NI settled both of the outstanding lawsuits (class-action for $143mn, and wrongful death for an unknown amount). As also highlighted by lower proportion of time spent on the 2Q call discussing Merrimack vs. other issues, we expect the Street has greater confidence that cost uncertainty is coming to an end. Further, the Street likely is factoring in the upside opportunity looming from the potential sale of the MA subsidiary by year-end (albeit price remains critical). The only other costs outstanding are if there are potential fines, around the $20mn mark.

Timeline: We see impacted by cleaning up the story

With the story largely cleaned up, we think the timing of the potential sale (or perhaps regulatory action if this is not pursued) to come close to the National Transportation Safety Board (NTSB) review expected in the 3Q/4Q timeframe (ie, 12-months after the event). While not necessary for NI to wait for the NTSB report, we see this piece of information helping NI pursue its next step.

Any potential risk in the regulatory ask

While the risk around MA cost uncertainty is relieving, one risk still exists around the MA subsidiary needing to ask to recover costs exceeding insurance. Depending on any potential sale, we wait to see if the MA Commission argues these as imprudent.

Transaction value

Media articles cited a $2bn transaction value, but we find a purchase price of up to $1.5bn as more likely. It is critical to put a multiple on only the recoverable portion of rate base (ie, $750mn of the $991mn reported YE18). We see potential for in-state buyers (i.e. ES or National Grid) to socialize the cost impacts across a wider base and also bring back local control of the utility. See our prior note for more detail here.

Financing: Insurance coming in faster, but wait for 3Q call

With previous uncertainty around the total Merrimack settlement costs and pace of insurance recovery, NI was at least considering pursuing incremental financing in '19 to ensure the company maintains FFO/debt metrics of 14-15%. However, now that costs are about pin-pointed and insurance is coming in faster than originally anticipated, NI may reconsider if and how much it pursues. For insurance, NI recorded $670mn of casualty insurance recovery for 1H19 and $535mn in cash to date compared to original expectation of collecting half the $1100mn this year and half next year. *Seeing more recovery upfront leads us to expect some to all of the additional financing needs are offset.*

The two main financing options are detailed below. The company still considers these options 'on the table' but will provide a financing (and capital) update on the 3Q call:

- Pulling forward the $500mn **at-the-market (ATM) issuance** program from '20 into '19 (with flexibility around NI's deliberate language of '$200-300mn of ATM per year' in '19 and '20)

- Issuing a **preferred**, which is expected to receive a 50% equity credit weighting with credit agencies. We highlight the company issued two pref's last year, one before the incident (with a 5.65% rate that was somewhat earnings-neutral) and one after the incident (with a 6.5% rate).

EPS Estimates

We include our latest estimates below largely unchanged from before. We tweak the equity issuance assumption in Consolidated to reflect that NI's financing plan guidance is only given for '19 and '20. Prior, we included $35-60mn of employee stock options on top of the $200-300mn ATM for '19 and years beyond, but now we assume $250mn equity issuance from '21 and beyond.

Table 1: NI EPS Estimates

NI EPS Estimates		2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Gas		0.96	0.94	1.00	1.03	1.12	1.20	1.27	1.33	1.39
Electric		0.56	0.60	0.61	0.63	0.66	0.68	0.70	0.71	0.72
Parent/Other		-0.32	-0.23	-0.31	-0.31	-0.32	-0.31	-0.30	-0.29	-0.29
EPS		1.21	1.30	1.30	1.35	1.46	1.57	1.67	1.75	1.83
Previous EPS		1.21	1.30	1.30	1.35	1.45	1.56			
-										
Guidance		1.17-1.20	1.26-1.32	1.27-1.33						
Consensus		1.19	1.28	1.31	1.39	1.48	1.57			
Consensus '17-21 CAGR	*5.3%*									
5%-7% CAGR EPS guidance	High End			1.33	1.39	1.49	1.59	1.70		
	Mid-Point			1.30	1.38	1.46	1.55	1.64		
	Low End			1.27	1.37	1.43	1.50	1.58		
BofAML CAGR 2019-2022	6.6%									
5%-7% CAGR EPS guidance	High End	1.20	1.28	1.30	1.39	1.49	1.59	1.70		
	Mid-Point	1.19	1.26	1.30	1.38	1.46	1.55	1.64		
	Low End	1.17	1.23	1.30	1.37	1.43	1.50	1.58		
BofAML CAGR 2017-2021	4.8%									

Table 1: NI EPS Estimates

NI EPS Estimates		2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
DPS		0.73	0.79	0.83	0.88	0.94	0.99	1.05	1.12	1.18
		$0.70								
5%-7% CAGR DPS guidance	High End	0.70	0.75	0.80	0.86	0.92	0.98	1.05		
	Mid-Point	0.70	0.74	0.79	0.83	0.88	0.94	0.99		
	Low End	0.70	0.74	0.77	0.81	0.85	0.89	0.94		
BofAML CAGR 2017-2021	6.6%									
Share Count		329	357	381	393	403	423	423	433	443

Source: BofA Merrill Lynch Global Research estimates, company report, Bloomberg

NI SOTP Valuation

We include our SOTP Valuation with the latest peer multiple of 21.1x for gas and 19.0x for electric. We lower the discount on Columbia Gas of MA given increased confidence of cost estimates, insurance recovery ahead of schedule, and potential sale upside. We keep our premium on at 1.0x NIPSCO Electric given confidence that the NIPSCO rate case proceed with ownership opportunities but uncertainty with the outcome of the Task Force. Our PO is $31/sh compared to the $30/sh PO prior.

Table 2: NI SOTP Valuation

NI SOP Valuation									
	Metric	P/E Multiple					Equity Value		
	2021E EPS	Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Gas	-	-	21.1x	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Gas	-	-	5.10%	-	-	-	-	-	-
	-	-		-	-	-	-	-	-
Gas Utilities			22.2x						
Columbia Gas of OH	$0.50	20.2x	22.2x	-1.0x	21.2x	22.2x	$10.09	$10.59	$11.09
Columbia Gas of PA	$0.23	20.2x	22.2x	-1.0x	21.2x	22.2x	$4.60	$4.82	$5.05
NIPSCO Gas	$0.21	20.2x	22.2x	-1.0x	21.2x	22.2x	$4.22	$4.43	$4.63
Columbia Gas of MA	$0.04	20.2x	22.2x	-1.0x	21.2x	22.2x	$0.86	$0.90	$0.94
Columbia Gas of VA	$0.08	20.2x	22.2x	-1.0x	21.2x	22.2x	$1.56	$1.63	$1.71
Columbia Gas of KY	$0.04	20.2x	22.2x	-1.0x	21.2x	22.2x	$0.88	$0.92	$0.97
Columbia Gas of MD	$0.02	20.2x	22.2x	-1.0x	21.2x	22.2x	$0.35	$0.37	$0.38
Group Peer Multiple - Electric			19.0x						
Group EPS '18-'22 CAGR - Electric			5.00%						
Electric Utilities			20.0x						
NIPSCO Electric	$0.66	20.0x	20.0x	1.0x	21.0x	22.0x	$13.09	$13.75	$14.41
Total Utility	$1.77	*20.1x*			*21.1x*	*22.1x*	$35.64	$37.41	$39.18
-Parent EPS Drag (ex-Interest Expense)	-$0.10	20.1x	0.0x		20.7x	21.7x	-$2.04	-$2.10	-$2.20
Total EPS *(incl. debt drag)*	$1.46								
Midpoint of 5-7% EPS	*$1.46*								
Holdco Debt @ Parent, *not* allocated to Utilities									
(50% Netting out Debt)				-$2,000	50%		-$1,000	-$1,000	-$1,000
(50% P/E multiple on Interest Exp)				5.5%	50%		-$873	-$916	-$960
Grand Total Equity Value							$28.95	$30.56	$32.12
Shares Outstanding 2021E								403	
Total Equity Value							$29.00	$31.00	$32.00
Implied Consolidated P/E									
Dividend Yield (2019E)								2.8%	
Total Return								7.2%	

Source: BofA Merrill Lynch Global Research estimates, company report, Bloomberg

Price objective basis & risk

NiSource Inc (NI)

Our $31 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2021 forward P/E multiples of 21.1x for gas utilities and 19.0x for electric utilities with a 1.0x premium to reflect NiSource's electric utility's strong growth rates and earned ROEs. We note that electric / gas peer P/E multiples are grossed up for a year to 2019 by 5% / 5.1% to reflect capital appreciation across the sector. We then subtract the value of excess holding company debt at the parent not supporting the utility opcos. This multiple is slightly below the LDC peer average but above the small-mid cap electric utility average. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its inline-ish multiple versus peers. We adjust gas utilities (including Columbia Gas of MA) to a -1.0x discount to reflect overhang of shares.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, and challenging steel production economics in Indiana

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Pipelines, MLPs, and Gas Utilities Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Dennis P. Coleman, CFA
	Brookfield Infrastructure Partners LP	BIP	BIP US	Dennis P. Coleman, CFA
	Crestwood Equity Partners LP	CEQP	CEQP US	Dennis P. Coleman, CFA
	DCP Midstream, LP	DCP	DCP US	Dennis P. Coleman, CFA
	Enable Midstream Partners, LP	ENBL	ENBL US	Dennis P. Coleman, CFA
	Energy Transfer LP	ET	ET US	Dennis P. Coleman, CFA
	Enterprise L.P.	EPD	EPD US	Dennis P. Coleman, CFA
	Kinder Morgan, Inc.	KMI	KMI US	Dennis P. Coleman, CFA
	MPLX LP	MPLX	MPLX US	Dennis P. Coleman, CFA
	NGL Energy Partners, LP	NGL	NGL US	Dennis P. Coleman, CFA
	Noble Midstream Partners LP	NBLX	NBLX US	Dennis P. Coleman, CFA
	ONEOK, Inc.	OKE	OKE US	Dennis P. Coleman, CFA
	Plains All American	PAA	PAA US	Dennis P. Coleman, CFA
	Plains GP Holdings, LP	PAGP	PAGP US	Dennis P. Coleman, CFA
	Rattler Midstream, LP	RTLR	RTLR US	Dennis P. Coleman, CFA
	Targa Resources Corp.	TRGP	TRGP US	Dennis P. Coleman, CFA
	TC Energy Corp.	TRP	TRP US	Dennis P. Coleman, CFA
	TC Energy Corp.	YTRP	TRP CN	Dennis P. Coleman, CFA
	The Williams Companies, Inc.	WMB	WMB US	Dennis P. Coleman, CFA
	UGI Corporation	UGI	UGI US	Dennis P. Coleman, CFA
	USD Partners, LP	USDP	USDP US	Derek Walker
NEUTRAL				
	Enbridge Inc	ENB	ENB US	Dennis P. Coleman, CFA
	Enbridge Inc.	YENB	ENB CN	Dennis P. Coleman, CFA
	EnLink Midstream, LLC	ENLC	ENLC US	Dennis P. Coleman, CFA
	EQM Midstream Partners LP	EQM	EQM US	Derek Walker
	Equitrans Midstream Corporation	ETRN	ETRN US	Derek Walker
	Kinder Morgan Canada Ltd	YKML	KML CN	Dennis P. Coleman, CFA
	Magellan Midstream Partners, LP	MMP	MMP US	Dennis P. Coleman, CFA
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NuStar Energy L.P.	NS	NS US	Dennis P. Coleman, CFA
	South Jersey Industries	SJI	SJI US	Dennis P. Coleman, CFA
	Spire, Inc	SR	SR US	Dennis P. Coleman, CFA
	Western Midstream Partners, LP	WES	WES US	Dennis P. Coleman, CFA
UNDERPERFORM				
	BP Midstream Partners, LP	BPMP	BPMP US	Derek Walker
	New Jersey Resources Corp	NJR	NJR US	Dennis P. Coleman, CFA
	Northwest Natural Holding Co	NWN	NWN US	Dennis P. Coleman, CFA
	ONE Gas, Inc.	OGS	OGS US	Dennis P. Coleman, CFA
	Shell Midstream Partners, L.P.	SHLX	SHLX US	Derek Walker
	Southwest Gas Holdings, Inc	SWX	SWX US	Dennis P. Coleman, CFA
	Sunoco LP	SUN	SUN US	Dennis P. Coleman, CFA
	Tallgrass Energy, LP	TGE	TGE US	Dennis P. Coleman, CFA
	TC PipeLines LP	TCP	TCP US	Dennis P. Coleman, CFA
RSTR				
	Buckeye Partners	BPL	BPL US	Dennis P. Coleman, CFA
	Phillips 66 Partners LP	PSXP	PSXP US	Dennis P. Coleman, CFA

***iQ**method* SM **Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod SM is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Merrill Lynch.

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J.P.Morgan

North America Equity Research
31 July 2019

NiSource Inc.

Moving Through the MA Overhang; Expect Financing Execution Shortly

NI reported 2Q EPS of $0.05 vs our $0.04 estimate and $0.07 in 2Q18, and reiterated 2019 guidance and the 2019-22 EPS growth target of 5-7%. We expect the 2019 financing plan to be executed shortly, and await a final NTSB report on the MA incident as well as clarity on any potential sale of Bay State Gas in coming months. We estimate a sale would be $0.03 dilutive to our 2020 EPS estimate (2.5% on $1.34), using our base assumptions, before considering any positive offset from property insurance proceeds. Though valuation has rebounded since last year, NiSource offers top-tier long-term rate base and earnings growth and we expect de-risking activities to continue in 2H19, and we reiterate our OW rating.

- **MA liability amount near final, 2020 guidance expected at 3Q.** A $143 million settlement agreement announced on 7/29 resolves all class action lawsuits related to the MA incident last September. Management noted increased cost of ~$90-$113 million vs guidance provided at 1Q with a new estimated cost range of ~$1,674-$1,720 million. In Indiana, the IURC approved two wind PPA's in June, which signals regulatory support for NI's plans to retire ~80% of coal-fired generation over the next 5 years. Management reiterated a 5-7% EPS CAGR from 19-22 and will introduce full 2020 guidance at 3Q. Our $1.34 2020 EPS estimate is on the lower end of the company's guided $1.33-$1.42 range.
- **2019 financing imminent, awaiting potential Bay State sale clarity.** We expect execution of 2019 financings over the short term with a large portion of the guided $235-$360 million equity and potentially additional preferred shares to be issued prior to October. A final NTSB report is imminent and subsequent rating agency comments may be soon, which are both gating factors for preferred issuance. It is unclear whether property insurance discussions around the claim and recovery that commenced in 2Q are impacting management's plans. A 6/17 Bloomberg News report indicated a potential sale of Bay State Gas. We see a sale as a likely near term strategy to move past he MA overhang.
- **Assuming common and preferred issuance in 2019 and model no fines, assets sales or property insurance recoveries.** We model $357 million of equity in 19, consisting in part of $125 million of forward pulldown from a forward agreement entered in 18. We are modeling $500 million of additional preferred shares issued at a 5.75% coupon. Our model assumes no fines, asset sales or any cash proceeds from property insurance. Under our scenario, NI is left on the hook for ~$600 million of incident related costs not covered by insurance, which have already been realized and any property insurance proceeds received would be upside to our assumptions.

Overweight

NI, NI US

Price (30 Jul 19): $29.58

▲ **Price Target (Dec-19): $31.00**
Prior (Dec-19): $30.00

Utilities and Power

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J.P. Morgan Securities LLC

Quarterly Forecasts (FYE Dec)

Adj. EPS ($)

	2018A	2019E	2020E
Q1	0.77	0.82A	
Q2	0.07	0.05A	
Q3	0.10	0.03	
Q4	0.38	0.38	
FY	1.30	1.29	1.34

Style Exposure

Quant Factors	Current Rank	Historical Rank 6M	1Y	3Y	5Y
Value	55	53	35	54	2
Growth	87	90	79	55	96
Momentum	35	43	76	12	32
Quality	85	87	47	43	22
Low Vol	7	10	3	94	4
ESGQ	36	32	6	12	10

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

See page 5 for analyst certification and important disclosures.

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Price Performance

	YTD	1m	3m	12m
Abs	17.1%	3.1%	6.9%	13.4%
Rel	-1.8%	1.8%	5.7%	7.6%

Company Data

Shares O/S (mn)	374
52-week range ($)	29.95-24.19
Market cap ($ mn)	11,101.09
Exchange rate	1.00
Free float(%)	99.5%
3M - Avg daily vol (mn)	2.64
3M - Avg daily val ($ mn)	75.4
Volatility (90 Day)	14
Index	S&P 500
BBG BUY|HOLD|SELL	7|7|1

Key Metrics (FYE Dec)

$ in millions	FY18A	FY19E	FY20E	FY21E
Financial Estimates				
Revenue	5,084	5,289	5,518	5,655
Adj. EBITDA	1,549	1,763	1,858	1,972
Adj. EBIT	949	1,068	1,156	1,243
Adj. net income	463	486	518	573
Adj. EPS	1.30	1.29	1.34	1.45
BBG EPS	1.28	1.30	1.39	1.48
Cashflow from operations	540	1,373	1,495	1,369
FCFF	(995)	31	65	(52)
Margins and Growth				
Revenue growth	3.7%	4.0%	4.3%	2.5%
EBITDA margin	30.5%	33.3%	33.7%	34.9%
EBITDA growth	1.1%	13.8%	5.4%	6.1%
EBIT margin	18.7%	20.2%	20.9%	22.0%
Net margin	9.1%	9.2%	9.4%	10.1%
Adj. EPS growth	7.7%	(0.7%)	3.5%	9.0%
Ratios				
Adj. tax rate	19.7%	20.2%	23.3%	23.5%
Interest cover	4.4	4.6	5.0	5.1
Net debt/Equity	1.6	1.3	1.2	1.3
Net debt/EBITDA	5.8	4.9	4.7	4.9
ROCE	5.5%	5.6%	5.7%	5.7%
ROE	9.2%	7.7%	7.4%	7.7%
Valuation				
FCFF yield	(9.4%)	0.3%	0.6%	(0.4%)
Dividend yield	2.6%	2.7%	2.8%	3.0%
EV/EBITDA	10.1	8.9	8.7	8.5
Adj. P/E	22.8	23.0	22.2	20.4

Summary Investment Thesis and Valuation

We expect the 2019 financing plan to be executed shortly, and await a final NTSB report on the MA incident as well as clarity on any potential sale of Bay State Gas in coming months. We estimate a sale would be $0.03 dilutive to our 2020 EPS estimate (2.5% on $1.34), using our base assumptions, before considering any positive offset from property insurance proceeds. Though valuation has rebounded since last year, NiSource offers top-tier long-term rate base and earnings growth and we expect de-risking activities to continue in 2H19, and we reiterate our OW rating.

Our December 2019 price target of $31/per share is based on a sum-of-the-parts analysis and uses our 2020 electric and gas segment EPS forecasts. We value the gas segment using a 24.9x P/E multiple, a discount to gas utility peers due to growth prospects offset by lack of M&A takeout potential, and we value the electric segment using an 21.8x P/E multiple, a modest premium to pure regulated electric utility peers due to favorable rate construct in IN.

Performance Drivers

Factors	6M Corr	1Y Corr
Market: MSCI US	0.38	0.15
Sect: Utilities	0.63	0.63
Ind: Utilities	0.65	0.63
Macro:		
Crude Oil	0.44	0.20
Non-Energy Commodity	0.02	-0.19
US 10yr yield	-0.08	-0.10
Quant Styles:		
LowVol	0.15	0.17
Size	0.20	0.14
Quality	-0.43	-0.12

Sources for: Performance Drivers – Bloomberg, J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

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Investment Thesis, Valuation and Risks

NiSource Inc. *(Overweight; Price Target: $31.00)*

Investment Thesis

We expect the 2019 financing plan to be executed shortly, and await a final NTSB report on the MA incident as well as clarity on any potential sale of Bay State Gas in coming months. We estimate a sale would be $0.03 dilutive to our 2020 EPS estimate (2.5% on $1.34), using our base assumptions, before considering any positive offset from property insurance proceeds. Though valuation has rebounded since last year, NiSource offers top-tier long-term rate base and earnings growth and we expect de-risking activities to continue in 2H19, and we reiterate our OW rating.

Valuation

We raise our December 2019 price target to $31/share, from prior $30/share. Our price target is based on a sum-of-the-parts analysis and uses our 2020 electric and gas segment EPS forecasts. We value the gas segment using a 24.9x P/E multiple, a discount to gas utility peers due to growth prospects offset by lack of M&A takeout potential and fine risk from the MA gas accident, and we value the electric segment using an 21.8x P/E multiple, a modest premium to pure regulated electric utility peers due to favorable rate construct in IN. The higher price target is due to higher peer average multiples versus prior.

Risk to Rating and Price Target

- Regulated electric transmission and distribution earnings are vulnerable to mild weather, as regulated revenues are calculated based on energy volumes sold. Extreme or mild temperatures may cause future earnings to differ materially from our current forecasts.
- Achievement of NiSource's long-term rate base and EPS CAGR targets are heavily dependent on robust capital investments, regulatory support, and favorable ratemaking mechanism. Any deferral of spending could put the company at risk of falling short of the LT rate base and earnings growth CAGR in any one year.
- Regulated electric and gas utilities are subject to federal and state regulations, including determinations of allowed revenues. Positive or negative changes to the regulatory environments may cause future earnings potential to differ materially from current expectations.

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NiSource Inc.: Summary of Financials

Income Statement - Annual	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	**4,905**	**5,084**	**5,289**	**5,518**	**5,655**
COGS	(1,519)	(1,759)	(1,656)	(1,760)	(1,760)
Gross profit	**3,386**	**3,325**	**3,634**	**3,759**	**3,895**
SG&A	(1,846)	(1,794)	**(1,870)**	**(1,901)**	**(1,923)**
Adj. EBITDA	**1,531**	**1,549**	**1,763**	**1,858**	**1,972**
D&A	(570)	(600)	(694)	(702)	(729)
Adj. EBIT	**961**	**949**	**1,068**	**1,156**	**1,243**
Net Interest	(353)	(353)	(381)	(371)	(384)
Adj. PBT	**608**	**596**	**688**	**785**	**859**
Tax	(210)	(118)	(139)	(183)	(202)
Minority Interest	0	(15)	(62)	(84)	(84)
Adj. Net Income	**398**	**463**	**486**	**518**	**573**
Reported EPS	1.21	1.30	1.29	1.34	1.45
Adj. EPS	**1.21**	**1.30**	**1.29**	**1.34**	**1.45**
DPS	**0.70**	**0.78**	**0.80**	**0.84**	**0.89**
Payout ratio	58.0%	60.0%	62.0%	62.9%	61.2%
Shares outstanding	329	357	377	388	394

Income Statement - Quarterly	1Q19A	2Q19A	3Q19E	4Q19E
Revenue	**1,859A**	**1,012A**	**923**	**1,495**
COGS	(680)A	(254)A	(222)	(500)
Gross profit	**1,179A**	**758A**	**701**	**995**
SG&A	(506)A	(449)A	(404)	(511)
Adj. EBITDA	**672A**	**309A**	**297**	**484**
D&A	(175)A	(178)A	(170)	(171)
Adj. EBIT	**496A**	**131A**	**128**	**313**
Net Interest	(96)A	(94)A	(96)	(95)
Adj. PBT	**401A**	**37A**	**31**	**218**
Tax	(79)A	(4)A	(5)	(50)
Minority Interest	(14)A	(14)A	(14)	(21)
Adj. Net Income	**308A**	**19A**	**12**	**147**
Reported EPS	0.82A	0.05A	0.03	0.38
Adj. EPS	**0.82A**	**0.05A**	**0.03**	**0.38**
DPS	**0.20A**	**0.20A**	**0.20**	**0.20**
Payout ratio	24.3%A	391.5%A	606.6%	52.2%
Shares outstanding	373A	374A	377	383

Balance Sheet & Cash Flow Statement	FY17A	FY18A	FY19E	FY20E	FY21E
Cash and cash equivalents	38	121	0	0	0
Accounts receivable	899	1,059	870	870	870
Other current assets	826	876	716	801	887
Current assets	**1,763**	**2,055**	**1,586**	**1,671**	**1,757**
PP&E	14,360	15,543	16,595	17,606	18,591
Other non current assets	3,839	4,206	4,332	4,154	4,204
Total assets	**19,962**	**21,804**	**22,512**	**23,432**	**24,553**
Short term borrowings	1,206	1,977	1,483	1,658	1,560
Payables	626	884	552	552	552
Other short term liabilities	1,347	1,176	1,395	1,720	1,170
Current liabilities	**3,178**	**4,037**	**3,430**	**3,930**	**3,282**
Long-term debt	7,512	7,105	7,120	7,020	8,120
Other long term liabilities	4,951	4,911	5,130	5,313	5,515
Total liabilities	**15,642**	**16,053**	**15,680**	**16,263**	**16,918**
Shareholders' equity	4,320	5,751	6,832	7,169	7,635
Minority interests	-	-	-	-	-
Total liabilities & equity	**19,962**	**21,804**	**22,512**	**23,432**	**24,553**
BVPS	**12.82**	**15.44**	**17.72**	**18.37**	**19.19**
y/y Growth	*1.8%*	*20.5%*	*14.7%*	*3.7%*	*4.5%*
Net debt/(cash)	8,680	8,962	8,603	8,678	9,680
Cash flow from operating activities	**742**	**540**	**1,373**	**1,495**	**1,369**
o/w Depreciation & amortization	570	600	694	702	729
o/w Changes in working capital	(57)	110	(123)	(86)	(86)
Cash flow from investing activities	**(1,809)**	**(1,926)**	**(1,700)**	**(1,714)**	**(1,714)**
o/w Capital expenditure	(1,696)	(1,818)	(1,646)	(1,714)	(1,714)
as % of sales	*34.6%*	*35.8%*	*31.1%*	*31.1%*	*30.3%*
Cash flow from financing activities	**1,069**	**1,469**	**805**	**44**	**443**
o/w Dividends paid	(229)	(273)	(331)	(326)	(352)
o/w Net debt issued/(repaid)	1,113	75	283	225	550
Net change in cash	**2**	**83**	**477**	**(175)**	**98**
Adj. Free cash flow to firm	**(723)**	**(995)**	**31**	**65**	**(52)**
y/y Growth	*61.8%*	*37.6%*	*(103.1%)*	*113.2%*	*(179.2%)*

Ratio Analysis	FY17A	FY18A	FY19E	FY20E	FY21E
Gross margin	69.0%	65.4%	68.7%	68.1%	68.9%
EBITDA margin	31.2%	30.5%	33.3%	33.7%	34.9%
EBIT margin	19.6%	18.7%	20.2%	20.9%	22.0%
Net profit margin	8.1%	9.1%	9.2%	9.4%	10.1%
ROE	9.5%	9.2%	7.7%	7.4%	7.7%
ROA	2.1%	2.2%	2.2%	2.3%	2.4%
ROCE	5.1%	5.5%	5.6%	5.7%	5.7%
SG&A/Sales	37.6%	35.3%	35.4%	34.4%	34.0%
Net debt/equity	2.0	1.6	1.3	1.2	1.3
P/E (x)	24.6	22.8	23.0	22.2	20.4
P/BV (x)	2.3	1.9	1.7	1.6	1.5
EV/EBITDA (x)	9.8	10.1	8.9	8.7	8.5
Dividend Yield	2.4%	2.6%	2.7%	2.8%	3.0%
Sales/Assets (x)	0.3	0.2	0.2	0.2	0.2
Interest cover (x)	4.3	4.4	4.6	5.0	5.1
Operating leverage	82.3%	(33.9%)	311.0%	188.5%	306.8%
Revenue y/y Growth	8.9%	3.7%	4.0%	4.3%	2.5%
EBITDA y/y Growth	6.1%	1.1%	13.8%	5.4%	6.1%
Tax rate	34.6%	19.7%	20.2%	23.3%	23.5%
Adj. Net Income y/y Growth	13.3%	16.6%	4.9%	6.5%	10.7%
EPS y/y Growth	10.7%	7.7%	(0.7%)	3.5%	9.0%
DPS y/y Growth	9.4%	11.4%	2.6%	5.0%	6.0%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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Goldman Sachs | Equity Research

1 August 2019 | 7:18AM EDT

NiSource Inc. (NI): Reduced MA overhang, see further multiple upside; reiterate Buy

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We reiterate our Buy rating on NiSource (NI) as we see reduced overhang from the MA gas incident, in addition to potential upside to capital and EPS growth guidance near-term. We also see a potential sale of the MA gas utility as a catalyst that could result in EPS accretion and multiple expansion. Our unchanged $31 price target reflects an 8% total return versus 3% for Regulated Utilities.

We see potential upside to NI's capital investment forecast through 2022 when management provides their updated guidance with 3Q2019 earnings results, with incremental rate base opportunities at NIPSCO electric (generation, TDSIC-qualifying investments), as well as certain gas safety-related capital across its jurisdictions. We believe management may update capital guidance to the upper half of the $1.6-$2.0bn annual range, with every $100mn of incremental rate base translating into a little over $0.01 of EPS. Our model incorporates $1.8 billion of annual capital in 2020 and 2021.

In our scenario analysis of NI selling its MA gas utility, we estimate $0.00-$0.07 (~0%-5%) accretion to our 2021E EPS. The analysis in our prior note addressing the potential sale implied potential cash proceeds to NI of $1.15bn-$1.8bn, based on 1.5x-2.1x our estimated 2019 MA rate base of ~$1.1bn. However, given that around $250mn of capital associated with the MA incident currently is not in rates, our analysis now implies potential cash proceeds of ~$900mn-$1.4bn based on an ~$850mn rate base, all else equal. Despite the lower cash proceeds, the implied EPS accretion is not meaningfully impacted (~+1%-5% prior) given lower MA earnings power lost (calculated based on lower rate base). We note that we take no view on the likelihood of a potential transaction and acknowledge that other outcomes exist outside those we present.

We adjust up our 2019 EPS estimate to $1.30 while maintaining our 2020/2021 estimates of $1.43/$1.49, respectively. We assume $200-$300mn of equity annually from 2019-2021, along with ~$500mn of annual long-term debt in 2020-2021, but revise down our net debt levels given higher insurance proceed assumptions. Our model reflects at 15% FFO/debt by 2021.

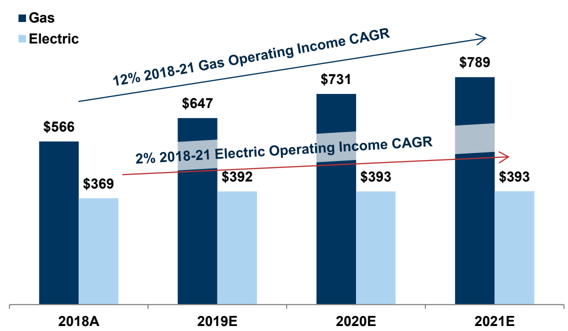
We maintain our $31, 12-month price target, derived from a blended 21x P/E multiple on 2021E EPS. Key risks for NI include utility regulation, damages related to the Greater Lawrence incident, O&M, and financing.

Exhibit 1: Our estimates remain largely unchanged, reflecting ~7% EPS CAGR from 2019-2021...
EPS new vs old vs consensus

	EPS Estimates			% Difference	
	GS-New	GS-Old	Cons.	vs. Old	vs. Cons.
2019E	$1.30	$1.29	$1.30	1%	(0%)
2020E	$1.43	$1.43	$1.38	0%	4%
2021E	$1.49	$1.49	$1.48	(1%)	0%
CAGR	6.9%	7.8%	6.7%	(1%)	0%

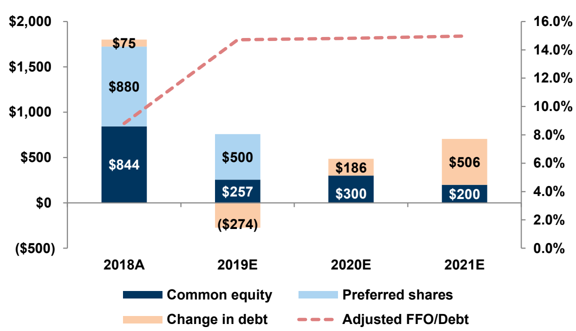
Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 2: ...with strong earnings growth driven by the regulated gas business
Operating income by segment ($mn)



Source: Goldman Sachs Global Investment Research

Exhibit 3: Our revised equity/debt financing needs reflect near-15% FFO debt by 2021
Financing by type ($mn) and adjusted FFO/debt



Source: Goldman Sachs Global Investment Research

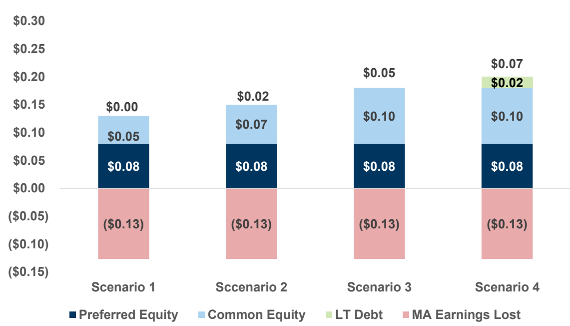
Exhibit 4: Our MA utility sale scenario analysis implies ~$900mn-$1.4bn of cash proceeds...
Illustrative scenario analysis: cash proceeds to NI ($mn)

Cash Proceeds to NiSource Scenario Analysis				
Scenario	EV/Rate Base	Enterprise Value	LT Debt Estimate	Cash Proceeds
1	1.5x	$1,275	$395	$880
2	1.7x	$1,445	$395	$1,050
3	1.9x	$1,615	$395	$1,220
4	2.1x	$1,785	$395	$1,390

LT debt reflects Columbia Gas of MA's 46.5% authorized debt component of rate base

Source: Goldman Sachs Global Investment Research

Exhibit 5: ...implying $0.00-$0.07 (0%-5%) of accretion on 2021E EPS if NI were to use the cash proceeds to offset financing needs
Columbia Gas of MA sale EPS impact



Source: Goldman Sachs Global Investment Research

Exhibit 6: We still see 5% relative upside for NI versus Regulated Utilities after recent outperformance
NI blended P/E valuation

NI valuation			
Deriving Blended Multiple			
	Gas	Electric	Total
2021 EBIT	789.0	393.2	1,182.2
% 2021 EBIT	66.7%	33.3%	
Target Multiple	22.25x	18.50x	21.0x
Price Target			
2021 EPS			$1.49
Target Multiple			21.0x
Price Target			**$31**
Total Return			**8%**
Smid-cap Average Total Return			**3%**

Source: Goldman Sachs Global Investment Research

NI	12m Price Target: **$31.00**	Price: **$29.69**	Upside: **4.4%**

Buy

Market cap: $9.7bn
Enterprise value: $19.9bn
3m ADTV: $73.6mn
United States
America-Regulated Utilities
M&A Rank: 3

GS Forecast

	12/18	12/19E	12/20E	12/21E
Revenue ($ mn) New	**5,114.5**	**5,293.0**	**5,450.6**	**5,568.7**
Revenue ($ mn) Old	5,114.5	5,316.6	5,467.5	5,591.2
EBITDA ($ mn)	725.5	1,959.6	1,861.2	1,967.4
EBIT ($ mn)	125.9	1,270.4	1,153.2	1,209.2
EPS ($) New	**1.30**	**1.30**	**1.43**	**1.49**
EPS ($) Old	1.30	1.29	1.43	1.49
P/E (X)	19.3	22.9	20.8	20.0
Dividend yield (%)	3.1	2.7	2.9	3.0
Net debt/EBITDA (X)	12.4	4.5	4.8	4.9
	3/19	**6/19E**	**9/19E**	**12/19E**
EPS ($)	0.82	0.05	0.03	0.40

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 31 Jul 2019 close.

ARGUS

NYSE: NI

NISOURCE INC

NiSource Inc. is an energy holding company whose subsidiaries are fully regulated natural gas and electric utility companies serving approximately 4.0 million customers in seven states. NiSource is one of the nation's largest natural gas distribution companies, as measured by number of customers. NiSource's principal subsidiaries include NiSource Gas Distribution Group Inc., a natural gas distribution holding company, and NIPSCO, a gas and electric company. NiSource derives substantially all of its revenues and earnings from the operating results of these rate-regulated businesses.

Analyst's Notes

Analysis by Gary Hovis and David Coleman, July 23, 2019

ARGUS RATING: BUY

- Upgrading to BUY
- NiSource recently completed a corporate restructuring that resulted in the spinoff of its pipeline group subsidiary.
- NiSource will report 2Q19 results on July 31.
- Our 2019 operating EPS estimate is $1.32 and our 2020 estimate is $1.42.
- We are establishing a 12-month target price of $32 which implies a potential return including the dividend of 12.6% from current levels.

INVESTMENT THESIS

We are upgrading our rating on NiSource Inc. (NYSE: NI) from HOLD to BUY based on valuation and historical performance. NiSource recently completed a corporate restructuring that resulted in the spinoff of its pipeline group subsidiary. The balance sheet appears stable and able to support the current dividend, which yields about 2.8%. We are establishing a 12-month target price of $32 which implies a potential return including the dividend of 12.6% from current levels.

Our long-term rating is also BUY.

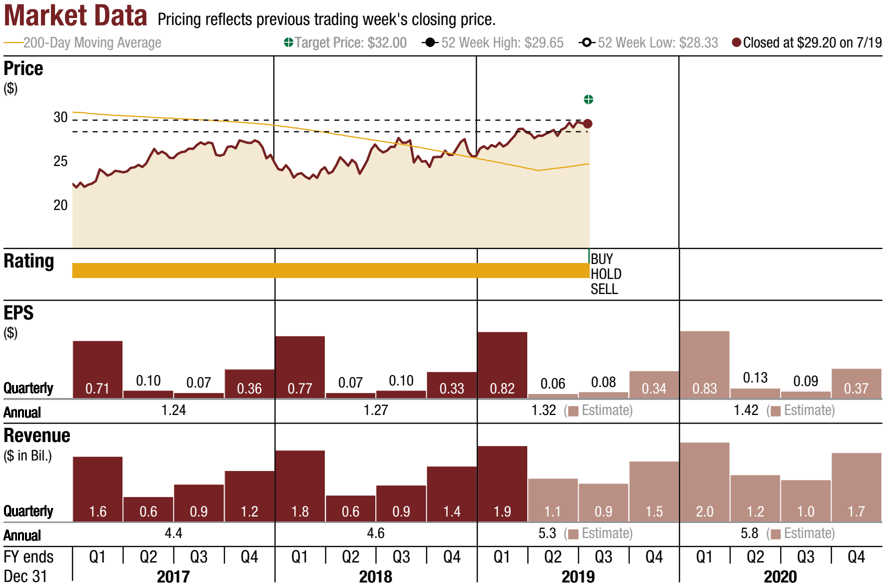
RECENT DEVELOPMENTS

Over the past three months, NI shares have gained 6.1%, compared to an advance of 1.7% for the S&P 500. Over the past 52 weeks, the shares have risen 13.2%, compared to a 5.5% rise for the index. Over the last five years, NI shares have advanced 99.6%, versus a 54.6% gain for the S&P 500. The beta on NI is 0.30.

On February 20, NiSource reported GAAP 1Q19 earnings of $205.1 million or $0.55 per share, compared to $276.1 million or $0.82 per share in 1Q18. Non-GAAP operating earnings rose to $307.7 million or $0.82 per share from $259.7 million or $0.77 per share in 1Q18. For all of 2018, NiSource's net operating earnings (non-GAAP) were $463.3

Market Data

Pricing reflects previous trading week's closing price.



Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 65% Buy, 35% Hold, 1% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	$29.22
Target Price	$32.00
52 Week Price Range	$24.19 to $29.75
Shares Outstanding	373.10 Million
Dividend	$0.80

Sector Overview

Sector	Utility
Sector Rating	UNDER WEIGHT
Total % of S&P 500 Market Cap.	3.00%

Financial Strength

Financial Strength Rating	MEDIUM
Debt/Capital Ratio	61.4%
Return on Equity	10.1%
Net Margin	-2.1%
Payout Ratio	0.61
Current Ratio	0.51
Revenue	$5.23 Billion
After-Tax Income	-$107.80 Million

Valuation

Current FY P/E	22.14
Prior FY P/E	23.01
Price/Sales	2.08
Price/Book	2.22
Book Value/Share	$13.14
Market Capitalization	$10.90 Billion

Forecasted Growth

1 Year EPS Growth Forecast	3.94%
5 Year EPS Growth Forecast	4.00%
1 Year Dividend Growth Forecast	2.56%

Risk

Beta	0.47
Institutional Ownership	94.37%

Please see important information about this report on page 5

Analyst's Notes...Continued

million or $1.30 per share, compared to $397.5 million or $1.21 per share in 2017.

NiSource has made and is still making extensive efforts to enhance the safety and reliability of the company's gas distribution systems across its seven-state footprint.

First Quarter highlights include:

--On April 19, 2019 Colombia Gas of Virginia filed a settlement agreement with parties to its base rate case which remains pending. If the settlement is approved it would increase annual revenue by $9.5 million. The result is expected in the second half of 2019.

--On April 24, the Public Utilities Commission of Ohio approved Colombia Gas of Ohio's (COH) annual Infrastructure Replacement Program tracker adjustment. This order allows the company to begin recovery of approximately $199.6 million of infrastructure investments made in 2018 and is authorized through 2022 and covers replacement of priority mainline pipe and targeted customer service lines.

--On February 28, COH filed an application for adjustment to its Capital Expenditure Program rider. The application seeks to begin to recover $133 million in capital invested in 2018.

--Colombia Gas of Massachusetts received approval of its 2019 Gas System Enhancement Plan which seeks to recover incremental 2019 capital investments of $64 million and new rates effective May 2019.

While supporting significant restoration efforts in Massachusetts, the company delivered on a number of key objectives in 2018, including:

-- Repositioning its Indiana electric business, with submission of a long-term plan to transition its generating fleet away from coal to lower-cost renewable energy resources by 2028, which will save customers an estimated $4 billion over the long-term.

-- Invested $1.8 billion in its gas and electric utilities, including the accelerated mainline replacement in Greater Lawrence. NiSource replaced over 430 miles of natural gas pipeline including 302 miles of priority pipeline in 2018.

-- Added approximately 27,000 net new gas customers, driven by increased conversions to natural gas from other fuels as well as new home construction.

EARNINGS & GROWTH ANALYSIS

NiSource will report 2Q19 results on July 31. Our 2019 operating EPS estimate is $1.32 and our 2020 estimate is $1.42.

NiSource continues to rely on its utility infrastructure programs for earnings and dividend growth. The company's regulated gas and electric segments will primarily invest in pipelines and in transmission and distribution modernization programs, and should benefit from favorable regulation. The company expects adjusted operating earnings in 2019 of $1.27-$1.33 and capital investments of $1.6-$1.7 billion. In all, management expects the company to post operating earnings growth of 5%-7% annually from 2019-2022 resulting in total annual returns for shareholders of 6%-7%.

Growth & Valuation Analysis

GROWTH ANALYSIS ($ in Millions, except per share data)	2014	2015	2016	2017	2018
Revenue	5,272	4,652	4,493	4,875	5,115
COGS	3,740	3,070	2,836	3,120	4,114
Gross Profit	1,532	1,582	1,657	1,754	1,000
SG&A	—	—	—	—	—
R&D	—	—	—	—	—
Operating Income	792	802	865	927	126
Interest Expense	376	379	346	349	347
Pretax Income	423	340	514	443	-231
Income Taxes	167	141	182	315	-180
Tax Rate (%)	39	42	35	71	—
Net Income	530	287	332	129	-51
Diluted Shares Outstanding	317	320	324	331	357
EPS	1.67	0.90	1.02	0.39	-0.18
Dividend	1.02	0.83	0.64	0.70	0.78
GROWTH RATES (%)					
Revenue	14.0	-12.0	-5.0	7.7	5.5
Operating Income	13.3	1.2	7.9	7.1	-86.4
Net Income	-0.4	-45.9	15.7	-61.2	—
EPS	14.1	-22.2	61.9	-61.8	—
Dividend	4.1	-18.6	-22.9	9.4	11.4
Sustainable Growth Rate	3.6	3.0	2.7	1.1	
VALUATION ANALYSIS					
Price: High	$44.91	$49.16	$26.94	$27.76	$28.11
Price: Low	$32.11	$16.04	$19.05	$21.65	$22.44
Price/Sales: High-Low	2.7 - 1.9	3.4 - 1.1	1.9 - 1.4	1.9 - 1.5	2.0 - 1.6
P/E: High-Low	26.9 - 19.2	54.6 - 17.8	26.4 - 18.7	71.2 - 55.5	— - —
Price/Cash Flow: High-Low	11.4 - 8.1	9.7 - 3.2	10.9 - 7.7	11.3 - 8.8	8.6 - 6.9

Financial & Risk Analysis

FINANCIAL STRENGTH	2016	2017	2018
Cash ($ in Millions)	26	29	113
Working Capital ($ in Millions)	-1,690	-1,415	-1,981
Current Ratio	0.51	0.55	0.51
LT Debt/Equity Ratio (%)	148.8	173.9	145.9
Total Debt/Equity Ratio (%)	194.3	208.4	187.5
RATIOS (%)			
Gross Profit Margin	36.9	36.0	19.6
Operating Margin	19.3	19.0	2.5
Net Margin	7.4	2.6	-1.3
Return On Assets	1.8	0.7	-0.3
Return On Equity	8.4	3.1	-1.4
RISK ANALYSIS			
Cash Cycle (days)	65.0	53.7	42.5
Cash Flow/Cap Ex	0.5	0.4	0.3
Oper. Income/Int. Exp. (ratio)	2.4	2.2	0.4
Payout Ratio	63.3	66.3	84.2

Please see important information about this report on page 5

Analyst's Notes...Continued

NiSource could also become a buyout target, as larger utilities and private equity firms have purchased smaller utilities because of their stable earnings growth and above-average dividend yields. Even so, we think the possibility of a buyout is largely priced into the NI shares.

FINANCIAL STRENGTH & DIVIDEND

The company expects to make capital investments of $1.6 to $2.0 billion annually from 2020 through 2022.

We believe NiSource remains committed to maintaining investment-grade credit ratings. The company has investment-grade ratings with Fitch Ratings (BBB), Moody's (Baa2) and Standard & Poor's (BBB+).

NiSource's total debt/total capital ratio was 62% at the end of 1Q19, above the average of 52% for peers. EBIT in 1Q19 covered interest expense by a factor of 2.9, below the peer average of 6.9. In 2018, NI's adjusted net margin was 17.4%, above the peer average of 15.3.

Management has emphasized the importance of maintaining adequate liquidity and favorable credit ratings. We believe that NiSource's business units and finance team have improved the balance sheet by selling noncore assets, recalibrating capital expenditures, and carefully managing operating expenses and working capital.

NiSource pays an annualized dividend of $0.80 per share, for a yield of about 2.8%. Our dividend estimates are $0.80 for 2019 and for 2020, we are looking at $0.84.

MANAGEMENT & RISKS

The CEO of NiSource is Joseph Hamrock, 53, who assumed the position in July 2015. Mr. Hamrock, who joined NiSource in 2012, previously served as executive vice president and Group CEO for NiSource's Gas Distribution segment. He also has experience as an executive with American Electric Power. Donald E. Brown is the CFO.

Management is committed to electric and gas service expansion strategies in the company's regulated service territories, and to the expansion of its gas transmission and storage business. We think the company's platform for a return to growth is solid, and we are confident in management's ability to provide shareholders with increased value over the long term.

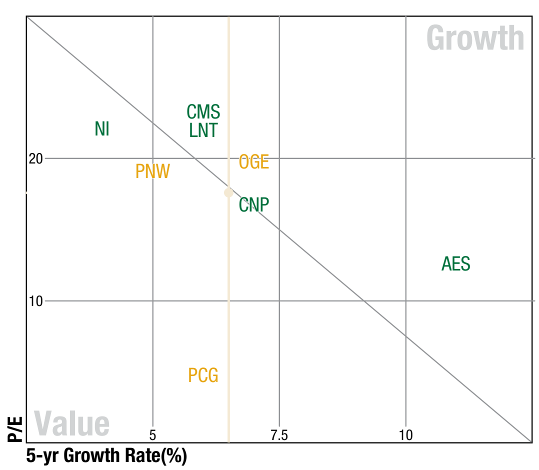
Key risks for stocks in our electric utility universe include fluctuations in interest rates and commodity prices, the effect of adverse weather on revenue, regulatory issues (especially involving construction cost recovery), and potential environmental and safety liabilities. In addition, the capital-intensive nature of the utility industry creates ongoing liquidity risk that must be actively managed by each company. Specific to NiSource, we would likely reduce our earnings estimates if economic conditions in the Midwest deteriorate or the company is unable to make further reductions in pension and benefit costs.

COMPANY DESCRIPTION

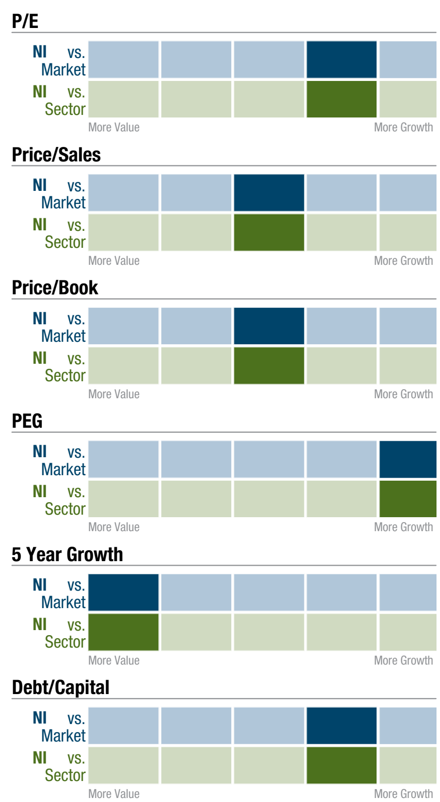
Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare NI versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how NI stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how NI might fit into or modify a diversified portfolio.**



Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
CMS	CMS Energy Corporation	16,534	6.0	23.3	9.0	6.0	BUY
CNP	Centerpoint Energy Inc.	14,386	7.0	16.8	3.4	5.3	BUY
LNT	Alliant Energy Corp.	11,772	6.0	22.0	14.6	7.6	BUY
AES	AES Corp.	11,171	11.0	12.7	6.3	9.0	BUY
NI	Nisource Inc. (Holding Co.)	10,902	4.0	22.1	-2.1	7.6	BUY
PNW	Pinnacle West Capital Corp.	10,424	5.0	19.1	14.1	4.3	HOLD
PCG	PG&E Corp.	9,997	6.0	4.8	-42.8	11.3	HOLD
OGE	Oge Energy Corp.	8,521	7.0	19.8	18.4	6.5	HOLD
Peer Average		**11,713**	**6.5**	**17.6**	**2.6**	**7.2**	



Please see important information about this report on page 5

Analyst's Notes...Continued

NiSource Inc. is an energy holding company whose subsidiaries are fully regulated natural gas and electric utility companies serving approximately 4.0 million customers in seven states. NiSource is one of the nation's largest natural gas distribution companies, as measured by number of customers. NiSource's principal subsidiaries include NiSource Gas Distribution Group Inc., a natural gas distribution holding company, and NIPSCO, a gas and electric company. NiSource derives substantially all of its revenues and earnings from the operating results of these rate-regulated businesses.

VALUATION

We think that NI shares appear favorably valued at current prices near $29. Over the last 52 weeks, NI shares have traded in a range of $24-$30. They currently trade at the top of this range. The shares trade at 20.5-times our 2020 EPS estimate and 22 times our 2019 EPS estimate, below the peer average of 23.8 for comparable electric and gas utilities with nonregulated natural gas transmission and storage operations. They are also trading at a price/book multiple of 2.2, in line with the peer average of 2.2. The price/cash flow ratio is 19, above the peer average of 12. The shares trade near the high end of their historical range on P/E, price/book and price/cash flow. The dividend yield of 2.75% is slightly above the industry average of 2.6%. We are establishing a 12-month target price of $32 which implies a potential return including the dividend of 12.6% from current levels.

On July 23, BUY-rated NI closed at $29.22, up $0.08.

Please see important information about this report on page 5

METHODOLOGY & DISCLAIMERS

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

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Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
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Goldman Sachs | Equity Research

29 July 2019 | 10:02AM EDT

NiSource Inc. (NI): First take: Settlement announced for MA class action case; remain Buy ahead of 2Q2019

NiSource announced the company entered into a $143mn settlement agreement with plaintiffs in the class action lawsuit, and separately increased NI's total estimate for third-expenses related to the Greater Lawrence incident from ~$1.35bn to ~$1.45bn**.** We note our estimates reflect damages of $1.35bn, in line with management's previous guidance. We view today's announcement as largely neutral for the stock as clarity on the potential class action damages should largely offset the ~$100mn of incremental financing needs.

We highlight our assumption that NI recovers 1/3 of our $1.35bn damage estimate in 3Q19 and another 1/3 in 3Q20. We also assume NI does not receive recovery of the final third of damages or recovery of most of the incremental $150mn of pipeline safety capital spending at Columbia Gas of MA. Additionally, we highlight our recent note on the estimated impact of a potential sale of NI's MA business - implying ~1%-5% of EPS upside relative to our 2021 estimate.

We remain Buy rated with a $31 12-month target price, derived from a 21x 2021E P/E multiple. Key risks for NI include utility regulation, damages related to the Greater Lawrence incident, O&M, and financing.

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NI	12m Price Target: **$31.00**	Price: **$29.50**	Upside: **5.1%**

Buy

Market cap: $9.6bn
Enterprise value: $20.0bn
3m ADTV: $75.2mn
United States
America-Regulated Utilities
M&A Rank: 3

GS Forecast

	12/18	12/19E	12/20E	12/21E
Revenue ($ mn)	5,114.5	5,316.6	5,467.5	5,591.2
EBITDA ($ mn)	725.5	1,618.5	1,869.5	1,981.6
EBIT ($ mn)	125.9	943.6	1,161.5	1,223.4
EPS ($)	1.30	1.29	1.43	1.49
P/E (X)	19.3	22.9	20.7	19.7
EV/EBITDA (X)	26.0	13.4	11.9	11.6
FCF yield (%)	(14.3)	(4.7)	(0.7)	(2.3)
Dividend yield (%)	3.1	2.7	2.9	3.0
Net debt/EBITDA (X)	12.4	5.6	5.1	5.1

	3/19	6/19E	9/19E	12/19E
EPS ($)	0.82	0.03	0.05	0.40

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 26 Jul 2019 close.

Disclosure Appendix

Reg AC

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

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Across our global coverage, we examine stocks using an M&A framework, considering both qualitative factors and quantitative factors (which may vary across sectors and regions) to incorporate the potential that certain companies could be acquired. We then assign a M&A rank as a means of scoring companies under our rated coverage from 1 to 3, with 1 representing high (30%-50%) probability of the company becoming an acquisition target, 2 representing medium (15%-30%) probability and 3 representing low (0%-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. M&A rank of 3 is considered immaterial and therefore does not factor into our price target, and may or may not be discussed in research.

Quantum

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America-Diversified Utilities: Avangrid Inc., Centerpoint Energy Inc., CMS Energy Corp., Dominion Energy Inc., DTE Energy Co., Entergy Corp., Exelon Corp., FirstEnergy Corp., NextEra Energy Inc., OGE Energy Corp., Public Service Enterprise Group, Sempra Energy.

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	Rating Distribution			Investment Banking Relationships		
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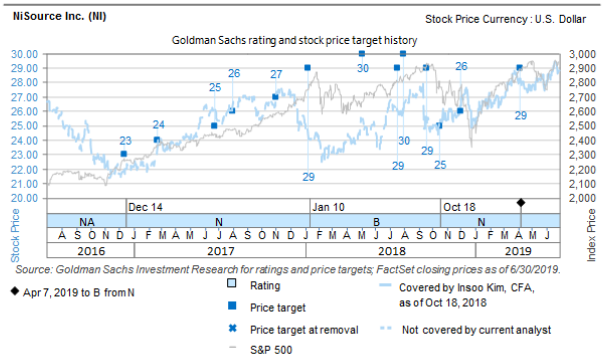
Price target and rating history chart(s)



Source: Goldman Sachs Investment Research for ratings and price targets; FactSet closing prices as of 6/30/2019.

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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Underweight
Gas/Power Infrastructure – Market Overweight

August 4, 2019

NISOURCE

(NI US Equity – $29.71 – Peer Perform)

Disappointed, Downgrade

- **PA explosion raises broader safety issue; Downgrade to Peer Perform.** This past Thursday (8/1), a gas explosion leveled a Franklin County home in Pennsylvania and NI's Columbia Gas was at fault. We saw little news coverage following and don't believe many investors were aware last week. Thankfully there were no deaths / life-threatening injuries sustained as a result, but the incident is alarming given what transpired in the Merrimack Valley last year. At a high-level, the cause of the explosion appears to have closely mirrored that in MA. Columbia crews were replacing a low-pressure gas system and failed to recognize that the home was connected to the system. Thus, when re-activating the line, there was no regulator in place to moderate the pressure going into the home, leading to the explosion. This was the one thing NI could not let happen – Downgrade to Peer Perform.

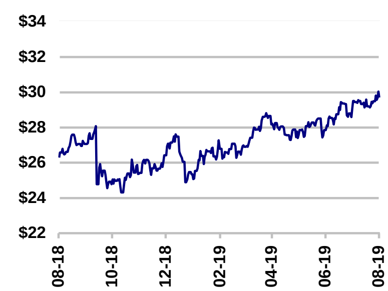
- **Thesis changer.** A key tenant of our prior investment thesis for NI was that what happened in the Merrimack Valley was an isolated incident. We were of the mindset that it was a mistake that would not happen again, and the fallout could be manageable and ultimately fixed by exiting Massachusetts. This was all starting to play out well. However, this event broadens the safety concerns at NI to another state and suggests upgrading NI's low pressure systems is inherently risky and/or the implementation of a new safety system (SMS) will take a while to work. The PA event will not likely have any material direct financial impact to NI, but we will be watching for any political / regulatory reactions, potential slowing of low-pressure system capex fixes in the meantime, and possible reverberations back to Mass. A Mass sale may take longer than we previously thought in light of this as well.

- **Tough to see the stock re-rate higher for now; PT cut to $30.** NI is back at a decent premium (full-turn vs electric avg) and the stock has performed well YTD (up 280bps vs UTY). We had been calling for he stock to reassert itself amongst the highest premium names in the sector, which is where it had traded prior to the Merrimack Valley incident. We now see that as unlikely for a while and don't believe NI deserves to trade amongst the highest quality names until the company's new safety procedures are proved out. We are cutting our PT by $2 to $30 reflecting a premium to electrics but a full-turn discount on NI's LDC earnings vs the industry average.

Estimates / Valuation				
(US$)	2019E	2020E	2021E	2022E
EPS	$1.31	$1.39	$1.49	$1.59
Consensus	$1.31	$1.39	$1.48	$1.59
P/E	22.7x	21.4x	20.0x	18.7x
Dividend Yield	2.6%	2.7%	2.9%	3.0%

Trading and Fundamental Data	
Price Target	**$ 30**
Current Price	29.71
52-Week Range	$24-$30
Market Cap. (MM)	11,090
Enterprise Value (MM)	21,200
Shares Out. (MM)	373.3
Dividend Yield	2.69%
Dividend Payout Ratio	61.2%
ROE	-1.4%
Debt to Cap	60.5%
Avg. Daily Vol. (000)	2,741

Price Performance	YTD	LTM
NI US Equity	17%	15%
Utility Index	14%	15%
S&P 500	17%	4%



Source: FactSet/Wolfe Research

Key Changes		
Year	New	Old
Rating	Peer Perform	Outperform
PT	$30	$32

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NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2019E	2020E	2021E	2022E
EPS	$1.31	$1.39	$1.49	$1.59
Diluted Shares Outstanding	$378	$388	397	407
Dividends Per Share	$0.80	$0.85	$0.90	$0.95
Dividend Yield	2.7%	2.9%	3.0%	3.2%
Dividend Payout Ratio	61%	61%	60%	60%
Equity Ratio	37%	38%	39%	40%
FFO/Net Debt	15%	15%	14%	15%
Valuation Metrics				
P/E	22.7x	21.4x	20.0x	18.7x
Price/Book	2.1x	2.0x	1.8x	1.7x
Segment EPS				
Gas Distribution	$1.12	$1.17	$1.26	$1.34
Electric	$0.57	0.57	0.58	0.59
Parent & Other	($0.38)	(0.36)	(0.35)	(0.34)
Total EPS	**$1.31**	**$1.39**	**$1.49**	**$1.59**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2019E	2020E	2021E	2022E
Total Capital Spending by Segment ($M)				
Gas Distribution	$1,225	$1,337	$1,337	$1,337
Electric	425	463	463	463
Parent	25	25	25	25
Total Capex	**$1,675**	**$1,825**	**$1,825**	**$1,825**

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland and Massachusetts.

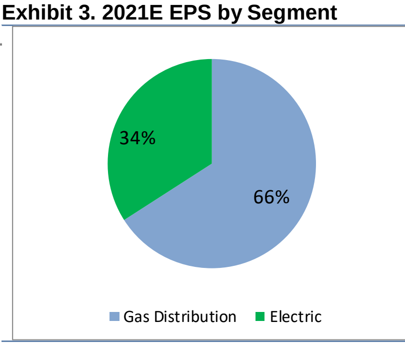
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of investment with recovery largely through trackers and balanced regulatory environments. That said, recent safety concerns have caused us to take more

Valuation

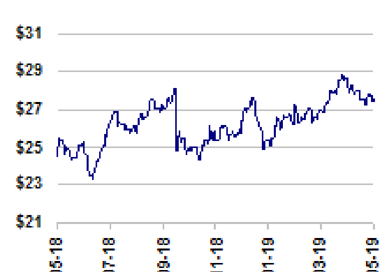
Our $30 price target is on a SOTP target P/E valuation. We apply a full-turn discount to the 21x group LDC multiple given operational / safety concerns. For its electric utility earnings, we ascribe a one-turn premium to our 19x group multiple given the constructive regulatory environment and history of execution. Risks for NiSource are 1) further cost increases in MA 2) regulatory outcomes and 3) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer growth

Exhibit 3. 2021E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart

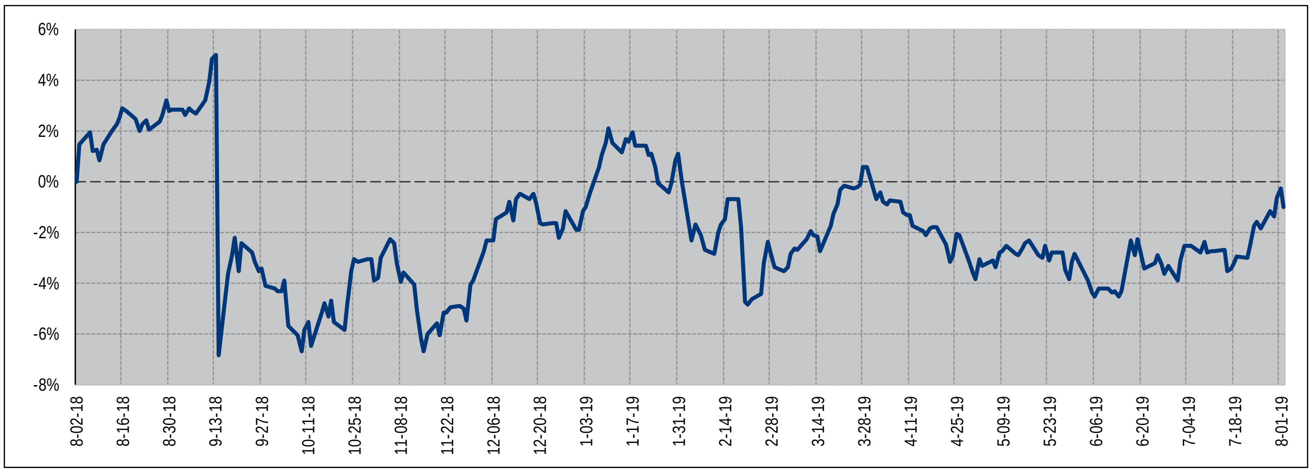


Source: FactSet

Investment Conclusion

We are downgrading NiSource to Peer Perform from Outperform due to concerns around safety practices at the LDCs. A key tenant of our prior investment thesis was that the incident in the Merrimack Valley was an isolated accident – but this is harder to argue after this week's PA gas explosion. NI is back to a decent premium (full-turn vs electric average) and is outpacing the UTY by 280bps YTD. Prior to the incident in the Merrimack Valley, NI traded at one of the highest premiums in the sector. We had been calling for the stock to reassert itself amongst the highest quality names, but we no longer believe that will be the case any time soon. There are qualities about the company we find attractive – NI's $30B capital investment backlog will drive its 5-7% annual earnings target well into the future, most of which is recovered with minimal lag via its tracking mechanisms. That said, we prefer to be on the sidelines until the company has proved out its new safety procedures or a more discounted valuation.

Exhibit 5: NI vs the Regulated Average



Potential reverberations

- **Slowdown in capex deployment**. On one hand, the more capex NiSource can deploy to replace its low-pressure systems, the more it can de-risk the entire company. However, we think they might need to moderate the pace in favor of ensuring that there are zero accidents going forward.
- **Heighted regulatory pressure.** NI has forged a consistent track record of reaching constructive regulatory outcomes over the years. Even after the incident in MA, that has continued to be the case in NI other states. We will be watching for implications on PA regulation and whether the other states/feds take a closer look at NI practices. The company will be under a microscope.
- **MA sale may take more time**. Following the news out of PA last week, we wouldn't be surprised to see the timeline for a potential sale of Columbia Gas MA to be a bit elongated. Previously, we had anticipated an announcement by yearend but now think the process likely plays out in 2020. At this point, management sounds more focused on de-risking its business than selling it quick.

Exhibit 6: NiSource vs comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E Multiple 2019E	2020E	2021E	2022E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
NiSource	NI	29.71	373	11,092	22.7x	21.4x	20.0x	18.7x	2.6%	2.6%	83%	2.3	39%
Average - Gas LDC					24.4x	22.5x	21.2x	20.3x	2.4%	0.9%	75%	2.4x	48%
Average - electric utilities					21.4x	20.0x	18.9x	17.9x	3.1%	5.2%	66%	2.2x	44%

Source: Wolfe Research, FactSet

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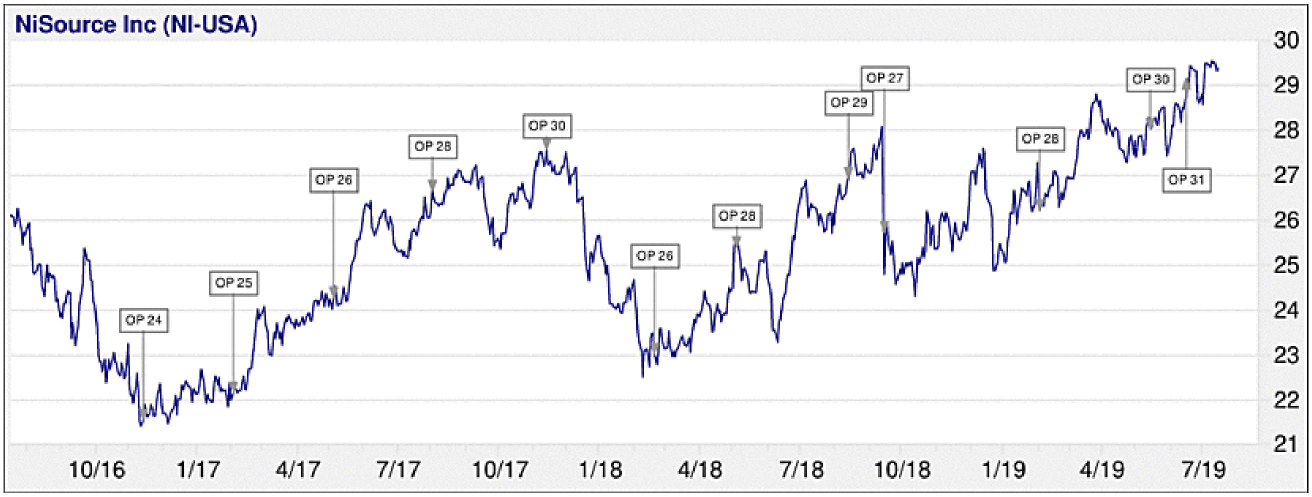
Price Chart with Ratings and Target Price History



Note: OP = Outperform; PP = Peer Perform; UP = Underperform

Wolfe Research, LLC Fundamental Valuation Methodology:

Company:	Fundamental Valuation Methodology:
NI US Equity	Forward P/E

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:	Risks That May Impede Achievement of the Recommendation, Rating or Target Price:
NI US Equity	Economy, regulatory outcomes, project execution

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
NI US Equity	None

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Peer Perform:	43%	1% Investment Banking Clients
Underperform:	14%	0% Investment Banking Clients

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CREDIT SUISSE

7 August 2019
Americas/United States
Equity Research
Natural Gas

Rating	**(from OUTPERFORM) NEUTRAL**
Price (05-Aug-19, US$)	28.11
Target price (US$)	(from 33.00) 29.00
52-week price range (US$)	30.04 - 24.31
Market cap(US$ m)	10,495
Enterprise value (US$ m)	20,135

Target price is for 12 months.

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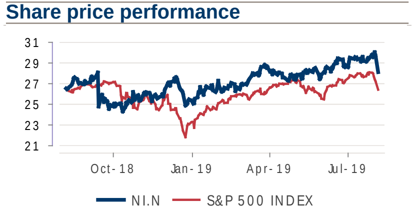
NiSource Inc. (NI)

DOWNGRADE RATING

Downgrade to Neutral on Gas Operations Risk

- **Downgrade to Neutral after another explosive incident occurred in Pennsylvania last week.** On Thursday, Aug 1, NI's Columbia Gas of Pennsylvania reportedly accepted responsibility for causing a house explosion in North Franklin Township, PA. Apparently, the cause of the accident was the failure to install a pressure regulator during main replacement in the neighborhood. Columbia Gas President Mike Huwar told the press that the house involved had "slipped through both the initial design and secondary field survey". As a result, town supervisors issued "cease and desist" orders to Columbia Gas barring them from work until further notice.
- **Incident is minor but bears striking similarities to the events that occurred in Massachusetts in Sept 2018**. Recall that in the Greater Lawrence case, high pressure gas was also released into a low pressure system by accident, with NTSB preliminarily citing a "faulty work package" as a contributing factor (the final NTSB report is expected in 3Q19). We note that the PA accident occurred even as the company has taken aggressive steps across all jurisdictions to implement procedural changes and safety enhancements designed to prevent another similar incident from occurring.
- **We see elevated risk around gas operations for now.** There were no fatalities in PA and the incident itself is relatively immaterial. NI also enjoys favorable regulatory treatment across most jurisdictions with a $30B long-term capital opportunities driving 8%-10% ratebase growth (70%+ trackers) and 5%-7% EPS growth. Nevertheless, we think it prudent to reduce to Neutral pending possible wider consequences/implications given a repeated error. See our 2Q19 earnings report for the positive side of the story.
- **Valuation:** Our estimates are unchanged. We are reducing our TP to $29 from $33, with -$2/sh from a lower peer gas utility 2021 multiples within our SoTP and another -$2 from reducing the 1.5x premium we had applied to the gas utility segment to a -0.5x discount for increased operational and regulatory risk pending more clarity and certainty over safety management system installations across all NI gas service territories.

Share price performance



On 05-Aug-2019 the S&P 500 INDEX closed at 2844.74
Daily Aug06, 2018 - Aug05, 2019, 08/06/18 = US$26.79

Quarterly EPS	Q1	Q2	Q3	Q4
2018A	0.77	0.07	0.10	0.38
2019E	0.82	0.05	0.09	0.34
2020E	0.87	0.08	0.09	0.35

Financial and valuation metrics

Year	12/18A	12/19E	12/20E	12/21E
EPS (CS adj.) (US$)	1.30	1.30	1.39	1.48
Prev. EPS (US$)	-	-	-	-
Revenue (US$ m)	5,541.0	5,915.4	6,158.5	6,423.2
EBITDA (US$ m)	1,530.8	1,729.0	1,829.2	1,943.4
P/OCF (x)	5.9	6.1	5.9	5.7
EV/EBITDA (current)	12.9	11.5	10.8	10.2
Net debt (US$ m)	9,020	9,641	10,215	10,720
ROIC (%)	5.03	5.20	5.19	5.27

Number of shares (m)	373.35	IC (current, US$ m)	14,770.70
Net debt (Next Qtr., US$ m)	9,527.0	Dividend (current, US$)	0.76
Net debt/tot eq (Next Qtr.,%)	162.7		

Source: Company data, Refinitiv, Credit Suisse estimates

CREDIT SUISSE

7 August 2019

NiSource Inc. (NI)

Price (05 Aug 2019): **US$28.11**; Rating: **(from OUTPERFORM) NEUTRAL**; Target Price: **(from 33.00) 29.00**; Analyst: **Michael Weinstein**

Income Statement	**12/18A**	**12/19E**	**12/20E**	**12/21E**
Revenue (US$ m)	**5,541.0**	**5,915.4**	**6,158.5**	**6,423.2**
EBITDA (US$ m)	**1,531**	**1,729**	**1,829**	**1,943**
Depr. & amort.	(600)	(706)	(732)	(759)
EBIT (US$)	**931**	**1,023**	**1,097**	**1,184**
Net interest exp	(392)	(377)	(418)	(415)
PBT (US$)	**581**	**616**	**679**	**739**
Income taxes	(118)	(126)	(143)	(155)
Profit after tax	**463**	**490**	**536**	**584**
Minorities	-0	-0	-0	-0
Net profit (US$)	**463**	**490**	**536**	**584**
Reported net income (US$)	**463**	**490**	**536**	**584**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**463**	**490**	**536**	**584**

Cash Flow	**12/18A**	**12/19E**	**12/20E**	**12/21E**
EBIT	931	1,023	1,097	1,184
Net interest	(392)	(377)	(418)	(415)
Change in working capital	110	(53)	0	0
Cash flow from operations	**1,522**	**1,734**	**1,829**	**1,943**
CAPEX	(1,998)	(1,604)	(1,800)	(1,800)
Free cashflow to the firm	**(476)**	**131**	**29**	**143**
Acquisitions	-	-	-	-
Divestments	0	0	0	0
Cash flow from investments	**(1,926)**	**(1,672)**	**(1,800)**	**(1,800)**
Net share issue(/repurchase)	848	250	250	250
Dividends paid	(285)	(298)	(293)	(299)
Changes in Net Cash/Debt	**(47)**	**(621)**	**(574)**	**(505)**

Balance Sheet (US$)	**12/18A**	**12/19E**	**12/20E**	**12/21E**
Assets				
Cash & cash equivalents	113	151	151	151
Account receivables	1,059	1,132	1,132	1,132
Other current assets	597	558	558	558
Total current assets	**2,055**	**1,916**	**1,916**	**1,916**
Total fixed assets	15,543	16,506	17,574	18,615
Investment securities	-	-	-	-
Total assets	**21,804**	**22,655**	**23,723**	**24,763**
Liabilities				
Total current liabilities	**4,037**	**4,565**	**5,140**	**5,645**
Total liabilities	**16,053**	**16,660**	**17,235**	**17,740**
Shareholder equity	5,751	5,994	6,488	7,023
Total liabilities and equity	**21,804**	**22,655**	**23,723**	**24,763**
Net debt	9,020	9,641	10,215	10,720

Per share	**12/18A**	**12/19E**	**12/20E**	**12/21E**
No. of shares (wtd avg)	356	377	387	395
CS adj. EPS	1.30	1.30	1.39	1.48
Prev. EPS (US$)	-	-	-	-
Dividend (US$)	0.78	0.76	0.80	0.85
Free cash flow per share	(1.33)	0.35	0.08	0.36

Earnings	**12/18A**	**12/19E**	**12/20E**	**12/21E**
Sales growth (%)	(1.8)	6.8	4.1	4.3
EBIT growth (%)	(3.4)	9.8	7.3	7.9
Net profit growth (%)	16.6	5.8	9.4	8.9
EPS growth (%)	7.7	0.1	6.6	6.6
EBITDA margin (%)	27.6	29.2	29.7	30.3
EBIT margin (%)	16.8	17.3	17.8	18.4
Pretax margin (%)	10.5	10.4	11.0	11.5
Net margin (%)	8.4	8.3	8.7	9.1

Valuation	**12/18A**	**12/19E**	**12/20E**	**12/21E**
EV/Sales (x)	3.52	3.40	3.36	3.30
EV/EBITDA (x)	12.9	11.5	10.8	10.2
EV/EBIT (x)	21.0	19.7	18.9	17.9
P/E (x)	21.6	21.6	20.3	19.0
Price to book (x)	2.0	2.0	1.9	1.8
Asset turnover	0.3	0.3	0.3	0.3

Returns	**12/18A**	**12/19E**	**12/20E**	**12/21E**
ROE stated-return on (%)	9.8	9.5	9.7	9.7
ROIC (%)	5.0	5.2	5.2	5.3

Gearing	**12/18A**	**12/19E**	**12/20E**	**12/21E**
Net debt/equity (%)	156.8	160.8	157.4	152.6
Interest coverage ratio (X)	2.4	2.7	2.6	2.9

Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2018A	0.77	0.07	0.10	0.38
2019E	0.82	0.05	0.09	0.34
2020E	0.87	0.08	0.09	0.35

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

NiSource Inc. is energy holding company whose subsidiaries provide natural gas, electricity & other products & services. It operates in 3 segments: Gas Distribution Operations; Gas Transmission & Storage Operations, & Electric Operations.

Blue/Grey Sky Scenario

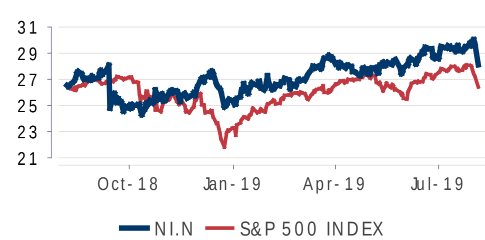
Our Blue Sky Scenario (US$) (from 38.00) 35.00

In our blue sky scenario we assume favorable regulatory outcomes across NI's jurisdictions, successful execution of their capital plan, and growth of infrastructure replacement program backlog. We assume that capex is at the high end of the $1.6-$2.0B and that NI is able to grow ratebase at the high end of their 8-10% range and grow earnings at the high end of their 5-7% range. We assume a 2.0x premium to the average peer 2021 P/E multiples.

Our Grey Sky Scenario (US$) (from 27.00) 26.00

In our grey sky scenario we assume unfavorable regulatory outcomes across NI's jurisdictions, only partial execution of their capital plan, and a decline in the infrastructure replacement program backlog. We assume that capex is at the low end of the $1.6-$2.0B and that NI is able to grow ratebase at the low end of their 8-10% range and grow earnings at the low end of their 5-7% range. We assume a -1.5x discount to the average peer 2021 P/E mult.

Share price performance



On 05-Aug-2019 the S&P 500 INDEX closed at 2844.74
Daily Aug06, 2018 - Aug05, 2019, 08/06/18 = US$26.79

Additional comment and valuation

- **Valuation:** Our base case target price is reduced $4, to $29, with -$2/sh from a lower peer gas utility 2021 multiple within our SoTP and another -$2 from reducing the 1.5x premium we had previously applied to the gas utility segment to a -0.5x discount for increased operational and regulatory risk pending more clarity and certainty over safety management system installations across all NI gas service territories. We continue to assume 80% credit for reversal of temporary earnings hits in 2019/20/21 for pension, SMS delayed recovery, and 2018 Massachusetts incident carrying cost and 90% negative credit for ~$700M of unrecovered Greater Lawrence expenses.

Figure 1: Base Case NI Valuation – applying a -0.5x discount now to the gas segment.

			BASE CASE			
	2021 EPS		Prem / Disc	Effective P/E	Equity	Equity / Sh
Electric	$0.67		1.5x	20.2x	$5,121	$13.59
Gas	$1.08		-0.5x	19.1x	$7,803	$20.71
Credit for reversal of drag to catch up to original guidance 5%-7% off 2018 $1.30 by 2022 (discounted from 2021)	$0.13	80%	-0.5x	19.1x	$730	$1.94
Unrecovered Lawrenceville costs(CS assumption of cost beyond insurance/regulatory recovery ($M)	$700	90%			-$498	(1.32)
Other	($0.29)			19.6x	($2,114)	($5.61)
Total EPS	**$1.48**				**$11,043**	**$29.00**
Diluted Shares Outstanding						376.8
Dividend						$0.76
Implied Yield						2.6%
Current Yield						2.7%
Implied P/E						19.6x
Prem / (Disc) To Group						0.0%
Upside/ (Downside) to Current Price						3.2%

Source: Company data, Credit Suisse estimates

- **Grey Sky Case $26/sh**. In our grey sky scenario we assume unfavorable regulatory outcomes across NI's jurisdictions, only partial execution of their capital plan, and a decline in the infrastructure replacement program backlog. We assume that capex is at the low end of the $1.6-$2.0B and that NI is able to grow ratebase at the low end of their 8-10% range and grow earnings at the low end of their 5-7% range. We assume a -1.5x discount to the average peer 2021 P/E mult.

Figure 2: Grey Sky Case NI

	2021 EPS		Prem / Disc	Effective P/E	Equity	Equity / Sh
			Grey Sky			
Electric	$0.67		-1.5x	17.2x	$4,372	$11.60
Gas	$1.08		-1.5x	18.1x	$7,395	$19.63
Credit for reversal of drag to catch up to original guidance 5%-7% off 2018 $1.30 by 2022 (discounted from 2021)	0.13	50%	-1.5x	18.1x	$432	$1.15
Unrecovered Lawrenceville costs(CS assumption of cost beyond insurance/regulatory recovery ($M)	$700	100%			-$553	($1.47)
Other	($0.29)			17.2x	($1,853)	($4.92)
Total EPS	**$1.48**				**$9,793**	**$26.00**
Diluted Shares Outstanding						376.8
Dividend						$0.76
Implied Yield						2.9%
Current Yield						2.7%
Implied P/E						17.6x
Prem / (Disc) To Group						-10.3%
Upside/ (Downside) to Current Price						-7.5%

Source: Company data, Credit Suisse estimates

- **Blue Sky Case $35/sh**. In our blue sky scenario we assume favorable regulatory outcomes across NI's jurisdictions, successful execution of their capital plan, and growth of infrastructure replacement program backlog. We assume that capex is at the high end of the $1.6-$2.0B and that NI is able to grow ratebase at the high end of their 8-10% range and grow earnings at the high end of their 5-7% range. We assume a 2.0x premium to the average peer 2021 P/E multiples.

Figure 3: Blue Sky Case NI

			Blue Sky			
	2021 EPS		Prem / Disc	Effective P/E	Equity	Equity / Sh
Electric	$0.67		2.0x	20.7x	$5,261	$13.96
Gas	$1.08		2.0x	21.6x	$8,825	$23.42
Credit for reversal of drag to catch up to original guidance 5%-7% off 2018 $1.30 by 2022 (discounted from 2021)	$0.13	100%	2.0x	21.6x	$1,032	$2.74
Unrecovered Lawrenceville costs(CS assumption of cost beyond insurance/regulatory recovery ($M)	$700.00	0%			$0	$0.00
Other	($0.29)			20.7x	($2,230)	($5.92)
Total EPS	**$1.48**				**$12,888**	**$35.00**
Diluted Shares Outstanding						376.8
Dividend						$0.76
Implied Yield						2.2%
Current Yield						2.7%
Implied P/E						23.7x
Prem / (Disc) To Group						20.7%
Upside/ (Dow nside) to Current Price						24.5%

Source: Company data, Credit Suisse estimates

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7 August 2019

Companies Mentioned *(Price as of 05-Aug-2019)*

NiSource Inc. (NI.N, $28.11, NEUTRAL, TP $29.0)

Disclosure Appendix

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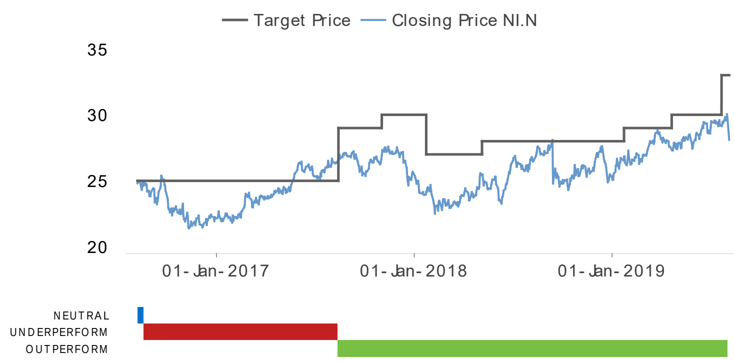
3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
08-Aug-16	24.81	25.00	N
19-Aug-16	24.62	25.00	U
27-Jun-17	25.88		*
14-Aug-17	26.64	29.00	O
02-Nov-17	26.94	30.00	
23-Jan-18	24.17	27.00	
06-May-18	25.41	28.00	
23-Jan-19	26.83	29.00	
21-Apr-19	27.56	30.00	
22-Jul-19	29.14	33.00	

** Asterisk signifies initiation or assumption of coverage.*



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Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: We arrive at our $29 target price for NI by applying a -0.5x discount to the gas segment peer 2021 P/E to reflect the increased operational and regulatory risk across its gas utilities after explosive incidents in both Mass and Pennsylvania in 2018 and 2019, respectively, despite otherwise constructive regulatory environments with capex trackers in place in the jurisdictions that NI operates. We also apply a 1.5x premium to the average peer electric utility 2021 P/E multiple for NIPSCO Electric utility in Indiana to reflect the favorable ratebase growth profile and regulatory environment in the state. Our Neutral rating reflects a forecasted total return that is equal the group average.

Risk: Risks to our $29 target price and Neutral rating are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particulary in the non-decoupled jurisdictions, 7) weather risk, and 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) Operational and regulatory risk in MA, PA and possibly other jurisdictions after explosive incidents invoilving the installation of new pipe systems and safety equipment.

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This research report is authored by:

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7 August 2019

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ARGUS

NYSE: NI

NISOURCE INC

Report created Aug 21, 2019 **Page 1 OF 5**

NiSource Inc. is an energy holding company whose subsidiaries are fully regulated natural gas and electric utility companies serving approximately 4.0 million customers in seven states. NiSource is one of the nation's largest natural gas distribution companies, as measured by number of customers. NiSource's principal subsidiaries include NiSource Gas Distribution Group Inc., a natural gas distribution holding company, and NIPSCO, a gas and electric company. NiSource derives substantially all of its revenues and earnings from the operating results of these rate-regulated businesses.

Analyst's Notes

Analysis by Gary Hovis, August 22, 2019

ARGUS RATING: BUY

- Continued strong fundamentals; reiterating BUY
- NiSource recently completed a corporate restructuring that resulted in the spinoff of its pipeline group subsidiary.
- The balance sheet appears stable and, in our view, able to support the current dividend, which yields about 2.7%.
- NiSource has reaffirmed its 2019 operating EPS guidance range of $1.27-$1.33. The company will report 3Q19 results on October 30.
- Our 2019 operating EPS estimate is $1.32 and our 2020 estimate is $1.42.

INVESTMENT THESIS

Our rating on NiSource Inc. (NYSE: NI) is BUY based on valuation and historical performance. NiSource recently completed a corporate restructuring that resulted in the spinoff of its pipeline group subsidiary. The balance sheet appears stable and, in our view, able to support the current dividend, which yields about 2.7%. Our 12-month target price of $32 implies a potential total return, including the dividend, of 11% from current levels.

Our long-term rating is also BUY.

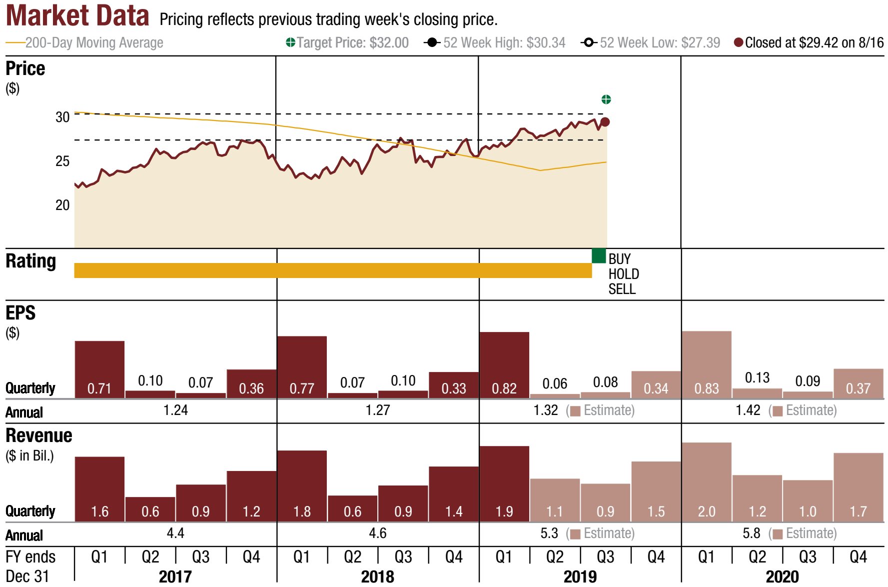
RECENT DEVELOPMENTS

Over the past three months, NI shares have gained 2.1%, compared to an advance of 4.1% for the S&P 500. Over the past 52 weeks, the shares have risen 1.5%, compared to an 8.1% increase for the index. Over the last five years, NI shares have advanced 45.9%, versus an 88.1% gain for the S&P 500. The beta on NI is 0.33.

On July 31, NiSource posted 2Q19 GAAP earnings of $283.1 million or $0.76 per share, compared to $23.2 million or $0.07 per share in 2Q18. Non-GAAP earnings came to $19.1 million or $0.05 per share, compared to $26.4 million or $0.07 per share in 2Q18. Recent developments in the company's operating businesses are highlighted below.

Market Data

Pricing reflects previous trading week's closing price.



Argus Recommendations

	SELL	HOLD	BUY
Twelve Month Rating	SELL	HOLD	**BUY**
Five Year Rating	SELL	HOLD	**BUY**
Sector Rating	**Under Weight**	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 66% Buy, 33% Hold, 1% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	$29.66
Target Price	$32.00
52 Week Price Range	$24.19 to $30.34
Shares Outstanding	373.35 Million
Dividend	$0.80

Sector Overview

Sector	Utility
Sector Rating	UNDER WEIGHT
Total % of S&P 500 Market Cap.	3.00%

Financial Strength

Financial Strength Rating	MEDIUM
Debt/Capital Ratio	61.4%
Return on Equity	9.7%
Net Margin	3.1%
Payout Ratio	0.61
Current Ratio	0.51
Revenue	$5.24 Billion
After-Tax Income	$164.60 Million

Valuation

Current FY P/E	22.47
Prior FY P/E	23.35
Price/Sales	2.11
Price/Book	2.17
Book Value/Share	$13.65
Market Capitalization	$11.07 Billion

Forecasted Growth

1 Year EPS Growth Forecast	3.94%
5 Year EPS Growth Forecast	4.00%
1 Year Dividend Growth Forecast	2.56%

Risk

Beta	0.47
Institutional Ownership	92.70%

Please see important information about this report on page 5

Analyst's Notes...Continued

Gas Distribution Operations: In February 2019, the company filed an application seeking recovery of approximately $122.1 million of capital invested in 2018. A regulatory order is expected in September with rates set to take effect the same month.

In June, company subsidiary Northern Indiana Public Service Co. (NIPSCO) filed a tracker update request in its long-term gas infrastructure modernization program. The request covers $12.4 million in incremental capital investments made between July 2018 and April 2019. An Indiana Utility Regulatory Commission (IURC) order is expected in 4Q19, with gas rates set to take effect in November 2019.

Electric Operations: NIPSCO's electric base rate case remains pending before the IURC. A partial settlement agreement filed on April 26 addresses the early retirement of coal-fired generation called for by the IURC. If approved as filed, the settlement would establish a return on equity of 9.9%. An IURC order is anticipated in 4Q19.

NIPSCO continues to work on its electric infrastructure modernization program, which includes enhancements to its electric transmission and distribution system. It expects to invest $1.2 billion in electric infrastructure improvements through 2022.

EARNINGS & GROWTH ANALYSIS

NiSource has reaffirmed its net operating non-GAAP EPS guidance range of $1.27-$1.33 for 2019. The company will report 3Q19 results on October 30. Our 2019 operating EPS estimate is $1.32 and our 2020 estimate is $1.42.

NiSource continues to rely on its utility infrastructure programs for earnings and dividend growth. The company's regulated gas and electric segments will primarily invest in pipelines and in transmission and distribution modernization programs, and should benefit from favorable regulation. In all, management expects the company to post operating earnings growth of 5%-7% annually from 2019 through 2022, resulting in total annual returns for shareholders of 6%-7%.

NiSource could also become a buyout target, as larger utilities and private equity firms have purchased smaller utilities because of their stable earnings growth and above-average dividend yields. Even so, we think the possibility of a buyout is largely priced into the NI shares.

FINANCIAL STRENGTH & DIVIDEND

NiSource remains committed to maintaining its investment-grade credit ratings from Fitch (BBB), Moody's (Baa2), and Standard & Poor's (BBB+). As of June 30, NiSource had approximately $1.0 billion in net available liquidity, consisting of cash and available capacity under its credit facility and accounts receivable securitizations. The company expects to make capital investments of $1.6-$1.7 billion annually from 2020 through 2022.

NiSource's total debt/total capital ratio was 61% at the end of 2Q19, above the average of 54% for peers. EBIT covered interest expense by a factor of 3.3 in 2Q19, below the peer average of 6.7.

Growth & Valuation Analysis

GROWTH ANALYSIS ($ in Millions, except per share data)	2014	2015	2016	2017	2018
Revenue	5,272	4,652	4,493	4,875	5,115
COGS	3,740	3,070	2,836	3,120	4,114
Gross Profit	1,532	1,582	1,657	1,754	1,000
SG&A	—	—	—	—	—
R&D	—	—	—	—	—
Operating Income	792	802	865	927	126
Interest Expense	376	379	346	349	347
Pretax Income	423	340	514	443	-231
Income Taxes	167	141	182	315	-180
Tax Rate (%)	39	42	35	71	—
Net Income	530	287	332	129	-51
Diluted Shares Outstanding	317	320	324	331	357
EPS	1.67	0.90	1.02	0.39	-0.18
Dividend	1.02	0.83	0.64	0.70	0.78
GROWTH RATES (%)					
Revenue	14.0	-12.0	-5.0	7.7	5.5
Operating Income	13.3	1.2	7.9	7.1	-86.4
Net Income	-0.4	-45.9	15.7	-61.2	—
EPS	14.1	-22.2	61.9	-61.8	—
Dividend	4.1	-18.6	-22.9	9.4	11.4
Sustainable Growth Rate	3.6	3.0	2.7	1.1	
VALUATION ANALYSIS					
Price: High	$44.91	$49.16	$26.94	$27.76	$28.11
Price: Low	$32.11	$16.04	$19.05	$21.65	$22.44
Price/Sales: High-Low	2.7 - 1.9	3.4 - 1.1	1.9 - 1.4	1.9 - 1.5	2.0 - 1.6
P/E: High-Low	26.9 - 19.2	54.6 - 17.8	26.4 - 18.7	71.2 - 55.5	— - —
Price/Cash Flow: High-Low	11.4 - 8.1	9.7 - 3.2	10.9 - 7.7	11.3 - 8.8	8.6 - 6.9

Financial & Risk Analysis

FINANCIAL STRENGTH	2016	2017	2018
Cash ($ in Millions)	26	29	113
Working Capital ($ in Millions)	-1,690	-1,415	-1,981
Current Ratio	0.51	0.55	0.51
LT Debt/Equity Ratio (%)	148.8	173.9	145.9
Total Debt/Equity Ratio (%)	194.3	208.4	187.5
RATIOS (%)			
Gross Profit Margin	36.9	36.0	19.6
Operating Margin	19.3	19.0	2.5
Net Margin	7.4	2.6	-1.3
Return On Assets	1.8	0.7	-0.3
Return On Equity	8.4	3.1	-1.4
RISK ANALYSIS			
Cash Cycle (days)	65.0	53.7	42.5
Cash Flow/Cap Ex	0.5	0.4	0.3
Oper. Income/Int. Exp. (ratio)	2.4	2.2	0.4
Payout Ratio	63.3	66.3	84.2

Please see important information about this report on page 5

Analyst's Notes...Continued

In 2018, NI's adjusted net margin was 16.9%, above the peer average of 15.3%.

We believe that NiSource's business units and finance team have improved the balance sheet by selling noncore assets, recalibrating capital expenditures, and carefully managing operating expenses and working capital.

NiSource pays an annualized dividend of $0.80 per share, for a yield of about 2.7%. Our dividend estimates are $0.80 for 2019 and $0.84 for 2020.

MANAGEMENT & RISKS

The CEO of NiSource is Joseph Hamrock, 53, who assumed the position in July 2015. Mr. Hamrock, who joined NiSource in 2012, previously served as executive vice president and Group CEO for NiSource's Gas Distribution segment. He also has experience as an executive with American Electric Power. Donald E. Brown is the CFO.

Management is committed to electric and gas service expansion strategies in the company's regulated service territories, and to the expansion of its gas transmission and storage business. We think the company's platform for a return to growth is solid, and we are confident in management's ability to provide shareholders with increased value over the long term.

Key risks for stocks in our electric utility universe include fluctuations in interest rates and commodity prices, the effect of adverse weather on revenue, regulatory issues (especially involving construction cost recovery), and potential environmental and safety liabilities. In addition, the capital-intensive nature of the utility industry creates ongoing liquidity risk that must be actively managed by each company.

COMPANY DESCRIPTION

NiSource Inc. is an energy holding company whose subsidiaries are fully regulated natural gas and electric utility companies serving approximately 4.0 million customers in seven states. NiSource is one of the nation's largest natural gas distribution companies, as measured by number of customers. NiSource's principal subsidiaries include NiSource Gas Distribution Group Inc., a natural gas distribution holding company, and NIPSCO, a gas and electric company. NiSource derives substantially all of its revenues and earnings from the operating results of these rate-regulated businesses.

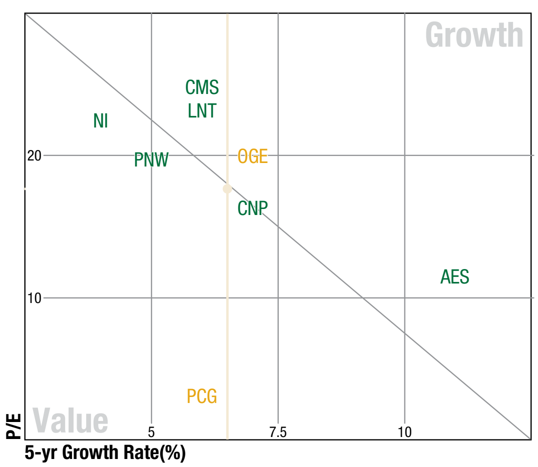
VALUATION

We think that NI shares are favorably valued at current prices near $29, toward the high end of the 52-week range of $24-$30. The shares trade at 20.6-times our 2020 EPS estimate, below the average of 23.7 for comparable electric and gas utilities with nonregulated natural gas transmission and storage operations. They are also trading at a price/book multiple of 2.2, in line with the peer average of 2.1. The price/cash flow ratio is 19, above the peer average of 12. The shares trade near the high end of their historical range on P/E, price/book and price/cash flow. The

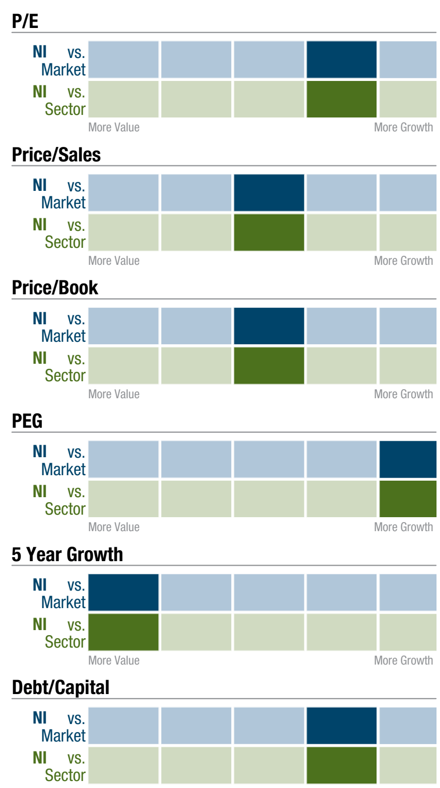
Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare NI versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how NI stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how NI might fit into or modify a diversified portfolio.**



Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
CMS	CMS Energy Corporation	17,612	6.0	24.8	8.4	6.8	BUY
CNP	Centerpoint Energy Inc.	13,993	7.0	16.3	5.5	5.3	BUY
LNT	Alliant Energy Corp.	12,389	6.0	23.2	14.5	7.6	BUY
NI	Nisource Inc. (Holding Co.)	11,073	4.0	22.5	3.1	7.6	BUY
PNW	Pinnacle West Capital Corp.	10,751	5.0	19.7	13.8	4.3	BUY
AES	AES Corp.	10,170	11.0	11.5	3.8	9.0	BUY
OGE	Oge Energy Corp.	8,594	7.0	20.0	18.4	6.5	HOLD
PCG	PG&E Corp.	6,483	6.0	3.1	-53.1	11.3	HOLD
Peer Average		**11,383**	**6.5**	**17.6**	**1.8**	**7.3**	



Analyst's Notes...Continued

dividend yield of 2.7% is slightly above the industry average of 2.6%. We are reiterating our BUY rating with a 12-month target price of $32.

On August 22 at midday, BUY-rated NI traded at $29.63, down $0.03.

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

Argus Research Disclaimer

Morningstar Disclaimer

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.39 USD	27.50 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Boston Gas Explosion Costs Finally Firm; Increasing NiSource's Fair Value Estimate

Updated Forecasts and Estimates from 30 Oct 2019

Charles Fishman, CFA
Equity Analyst
Morningstar

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The primary analyst covering this company does not own its stock.

Research as of 30 Oct 2019
Estimates as of 30 Oct 2019
Pricing data as of 30 Oct 2019 14:55
Rating updated as of 30 Oct 2019 14:55

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Business Strategy and Outlook 30 Oct 2019

NiSource completed its separation from Columbia Pipeline Group in 2015 and now derives all of its operating revenue from its regulated electric and natural gas distribution utilities. About two thirds of operating income comes from its seven natural gas distribution utilities. The remaining third comes from its electric utility business in Indiana.

NiSource's utilities have regulatory frameworks that include automatic rate tracker mechanisms for over 75% of planned capital expenditures, providing recovery of investments in less than 12 months. As a result of the favorable regulation, NiSource has stepped up its capital expenditures to almost $2 billion per year over the next five years. This is an investment level almost double the previous five years.

Over the next 20 years, NiSource plans to invest about $30 billion in infrastructure improvements. Over 50% of these investments are modernization programs for replacing steel and cast-iron pipe with plastic at its natural gas distribution utilities. Almost all of these investments receive rate tracker treatment. This allows NiSource to earn returns on these investments near allowed returns and consistently above its cost of capital.

In September 2018, a natural gas explosion killed one person north of Boston on NiSource's Columbia Gas of Massachusetts system. Although the incident was caused by a contractor, the National Transportation Safety Board concluded at a September 2019 hearing that the ultimate responsibility for the incident rests with NiSource. Insurance should cover a significant portion of the costs, but the event was a public-relations nightmare and did have a negative effect on 2018 and 2019 earnings. Still, we expect annual earnings growth to be back to 6% by 2020.

NiSource cut its dividend in 2015 to $0.62 per share annualized after the separation from CPG. The company increased its dividend by 9.4% in 2017 and 11.4% in 2018. However, in part due to the Boston tragedy, dividend growth was only 2.6% in 2019. As earnings recover, we expect 6% annual dividend increases through 2023, at the midpoint of management's target of 5%-7%.

Vital Statistics

Market Cap (USD Mil)	10,196
52-Week High (USD)	30.67
52-Week Low (USD)	24.36
52-Week Total Return %	8.9
YTD Total Return %	10.1
Last Fiscal Year End	31 Dec 2018
5-Yr Forward Revenue CAGR %	5.1
5-Yr Forward EPS CAGR %	4.8
Price/Fair Value	1.01

Valuation Summary and Forecasts

Fiscal Year:	2017	2018	*2019(E)*	*2020(E)*
Price/Earnings	21.2	19.5	*21.0*	*19.8*
EV/EBITDA	11.6	25.6	*11.2*	*10.3*
EV/EBIT	18.9	147.3	*18.2*	*16.6*
Free Cash Flow Yield %	-11.0	-13.5	*-4.7*	*-2.4*
Dividend Yield %	2.7	3.1	*2.9*	*3.1*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2017	2018	*2019(E)*	*2020(E)*
Revenue	4,875	5,115	*5,353*	*5,656*
Revenue YoY %	8.5	4.9	*4.7*	*5.7*
EBIT	916	126	*1,112*	*1,223*
EBIT YoY %	6.9	-86.3	*783.4*	*9.9*
Net Income, Adjusted	400	463	*493*	*555*
Net Income YoY %	13.8	16.0	*6.4*	*12.6*
Diluted EPS	1.21	1.30	*1.30*	*1.38*
Diluted EPS YoY %	11.2	7.6	*-0.2*	*6.3*
Free Cash Flow	-971	-1,337	*-790*	*-282*
Free Cash Flow YoY %	61.4	37.7	*-40.9*	*-64.3*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewables.

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.39 USD	27.50 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

Boston Gas Explosion Costs Finally Firm; Increasing NiSource's Fair Value Estimate 30 Oct 2019

We are increasing our fair value estimate to $27.50 per share from $27 after narrow-moat NiSource reported break even 2019 third-quarter operating EPS, initiated 2020 earnings guidance in line with our estimate, and modestly increased the lower end of its 2020-22 capital expenditure guidance.

The financial impact from the tragic natural gas explosion north of Boston in September 2018 appears to be quantified and was one of the drivers for the $0.50 per share increase in our fair value estimate. For the first time since the tragedy, the estimate of total costs related to the event were unchanged versus last quarter. We reduced our estimate of the costs, net of insurance recovery, to $850 million from our previous estimate of $1 billion.

The increase in our capital expenditure estimate also had a positive impact on our fair value estimate. The $100 million bump in the lower end of the three-year annual capital expenditure guidance range, to $1.7 billion-$2.0 billion, increases our confidence in our estimates that were already above the midpoint of management's previous guidance. We increased our average annual capital expenditures over the next three years by approximately $30 million, to an average of $1.93 billion per year.

We have a high level of confidence that these investments will achieve returns above our 6% estimate of NiSource's weighted average cost of capital since approximately 78% are covered by rate trackers and reflected in rates in 12 months or less after the investment. This favorable regulatory framework reduces regulatory lag, improving returns on invested capital.

The third quarter is normally weak since about two thirds of NiSource's earnings are from natural gas distribution. NiSource's break even third-quarter results compare with $0.10 per share in the same period last year. NiSource reaffirmed its 2019 EPS guidance range of $1.27-$1.33, and our estimate of $1.30 is unchanged.

Fair Value & Profit Drivers 30 Oct 2019

We increased our fair value estimate to $27.50 per share from $27 after NiSource reported third-quarter earnings, initiated 2020 earnings guidance in line with our estimate, and modestly increased the lower end of 2020-22 capital expenditure guidance.

The financial impact from the tragic natural gas explosion north of Boston in September 2018 appear now to be quantified and was one of the drivers for the $0.50 per share increase in our fair value estimate. For the first time since the tragedy, the estimate of total costs related to the event were unchanged versus last quarter. We reduced our estimate of the costs, net of insurance recovery, to $850 million from our previous estimate of $1 billion.

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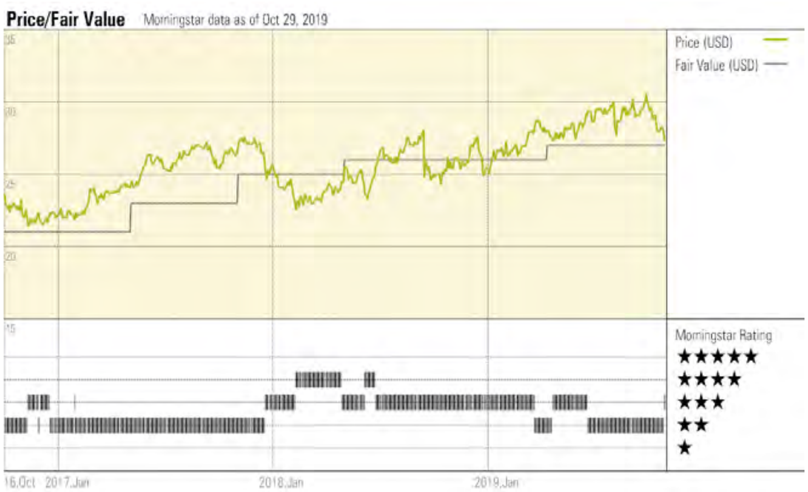

We use a 6% cost of capital in our discounted cash flow valuation, which incorporates a 7.5% cost of equity. Our cost of equity is lower than the 9% rate of return we expect investors will demand of a diversified equity portfolio. We believe our cost of equity reflects the risk associated with regulated electric and natural gas distribution utilities operating in states that have average to above-average regulatory frameworks.

Our pretax cost of debt assumption is 5.8%, as we incorporate a normalized long-term real rate environment and normalized credit spreads. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Our fair value estimate implies a 20 times multiple on 2020 earnings. This is a discount to market valuations for peer combination electric and gas distribution utilities that we think are overvalued as of late October.

Scenario Analysis

Our uncertainty rating is low. If we assume capital expenditures are 25% lower than our estimate during the next five years, then our annual EPS growth would decline about 5% and our fair value estimate would decrease approximately $3 per share. We believe it is unlikely that capital expenditures will materially exceed our estimate.

A 50-basis-point change in our cost of equity assumption changes our fair value estimate by $3 per share.

Economic Moat

Service territory monopolies and efficient scale advantages are the primary moat sources for NiSource's regulated utilities. State and federal regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their infrastructure. In exchange for regulated utilities' service territory monopolies, state and federal regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow NiSource's regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing.

NiSource derives roughly two thirds of its operating earnings from the regulated distribution of natural gas. For natural gas distribution service, regulators set distribution rates and the commodity price for customers purchasing natural gas from NiSource. NiSource recovers its costs for natural gas that it sells with a pass-through charge to customers. Thus, NiSource has no commodity price risk that could weaken its moat. Customers may elect to purchase natural gas from independent retail energy suppliers and use and pay for distribution services only. NiSource exited the no-moat retail energy supply business in 2010.

Electricity generation, which contributes about one third of

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.39 USD	27.50 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

operating earnings, is from operations in Indiana and is also regulated. The rates for this service are combined with regulated customer rates for transmission and distribution service. In exchange for its monopoly position, state and federal regulators set NiSource's electric rates.

Moat Trend

We believe NiSource's moat trend is stable. We do not foresee a long-term change to the firm's business as a monopoly provider of natural gas and electricity, nor do we see changes to its compact with regulators. All operating earnings are from FERC-regulated electric transmission and state-regulated natural gas and electric utilities. We think it is unlikely that the FERC or the state regulatory frameworks will change. As with almost all regulated utilities, we believe regulatory caps on revenue and returns preclude NiSource from establishing a wide economic moat.

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Bulls Say/Bears Say

Bulls Say

- We expect annual dividend growth to average 6% from 2020 to 2023.
- We believe the separation of the Columbia Pipeline Group from NiSource was good shareholder stewardship, as the market valued the individual businesses more highly at the time of the separation.
- New legislation has improved the regulatory framework in Indiana for NiSource's electric and natural gas distribution utilities.

Bears Say

- Industrial customers account for over half of NiSource's electric sales, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- Liabilities and fines from the September natural gas explosion in Massachusetts are likely to exceed the amounts covered by insurance and also strain regulatory relationships.
- NiSource's common shares increased 15% and it issued about $900 million of preferred shares in 2017 and 2018. The additional shares will be a headwind to EPS growth.

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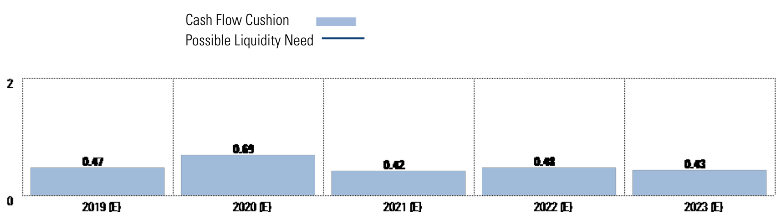
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2019(E)	2020(E)	2021(E)	2022(E)	2023(E)
Cash and Equivalents (beginning of period)	121	49	59	67	60
Adjusted Available Cash Flow	321	426	441	447	503
Total Cash Available before Debt Service	442	476	500	514	563
Principal Payments	-542	-266	-755	-598	-809
Interest Payments	-391	-420	-440	-465	-493
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-933	-686	-1,195	-1,063	-1,302

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	121	2.3
Sum of 5-Year Adjusted Free Cash Flow	2,138	41.3
Sum of Cash and 5-Year Cash Generation	2,259	43.6
Revolver Availability	1,500	29.0
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	3,759	72.6
Sum of 5-Year Cash Commitments	-5,180	—

Financial Strength

NiSource issued over $1.7 billion of common and preferred shares in 2018 because of infrastructure investments, the negative impact of tax reform on its balance sheet, and the Boston tragedy. We estimate it will need to issue approximately $1.5 billion of new equity over the next five years to maintain its solid balance sheet and credit profile. The issuance of common and preferred equity in 2018 strengthened the debt/capital ratio of its balance sheet to 61.4% versus almost 68% the prior year-end. We project that the ratio will remain in the low 60% range over the next five years, owing in large part to the equity issuances and earnings growth. We expect NiSource's EBIT/interest expense ratio will recover to around 3 times after sinking to only 0.4 in 2018 because of the impact of the Boston tragedy. This is still slightly below the industry average, but we view it as sufficient, given that NiSource's diversified regulated operations provide fairly consistent earnings and cash flow.NiSource began increasing its dividend in 2012; this marked the first increase in 10 years, following a 2003 dividend cut to strengthen its balance sheet after the Columbia Energy Group acquisition. NiSource reduced its common dividend to $0.62 per share annualized following the separation from CPG, but this represented an 8% total increase when combined with the CPG dividend.The company raised its dividend in mid-2016 by 6.5% and again by 6.1% in the first quarter of 2017. NiSource rewarded shareholders with an 11.4% increase in 2018. However, the most recent increase was only 2.6% for the first quarter of 2019, in large part due to the negative impact on earnings and cash flow of the Boston incident. Based on our earnings estimates and the company's dividend payout guidance of 60%-70%, we believe annual dividend increases will average 6% per year from 2020 to 2023, the midpoint of management's 5%-7% target.

Risk & Uncertainty

Regulatory risk remains the key uncertainty; however,

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NiSource's regulatory exposure is diversified, owing to operations in seven states and its federal-regulated electric transmission system. NiSource has reduced some of the regulatory uncertainty related to its planned natural gas distribution and electric utilities investments by securing preapprovals and favorable rate mechanisms that provide for automatic rate increases as infrastructure investments are made.In 2018, NiSource announced it would eliminate all coal-fired generation from its power plant fleet within 10 years. This transition will require signing power purchase agreements for renewable energy; building new gas-fired power plants and solar and wind farms; and making modifications to its electric grid. There is a modest amount of execution risk to this dramatic transition from coal.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
JOSEPH HAMROCK	CEO/Director/President,Director	440,850	30 Aug 2019	—
CARRIE J. HIGHTMAN	Chief Legal Officer/Executive VP	329,207	02 Aug 2019	22000
MS. VIOLET G. SISTOVARIS	Executive VP/President, Subsidiary	105,927	05 Aug 2019	40405
EILEEN O'NEILL ODUM		97,086	24 Mar 2009	—
MR. DONALD BROWN	Executive VP/CFO	76,903	06 Aug 2019	10000
DR. CAROLYN Y. WOO	Director	48,810	07 May 2019	—
DR. ARISTIDES S. CANDRIS	Director	45,429	07 May 2019	—
MR. PABLO A. VEGAS	Executive VP/President, Divisional	35,962	02 Aug 2019	39618

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Stock Market Index Fund	2.79	0.04	31	30 Sep 2019
Vanguard US Total Market Shares ETF	2.79	0.04	31	30 Sep 2019
T. Rowe Price Capital Appreciation Fund	2.77	0.90	-1,752	30 Sep 2019
T. Rowe Price Equity Income Fund	2.70	1.50	-217	30 Sep 2019
Vanguard Mid-Cap Index Fund	2.52	0.27	134	30 Sep 2019
Concentrated Holders				
Beck Bode Income Growth	0.00	8.85	—	30 Sep 2019
MBA Global Listed Infrastructure	0.08	4.12	25	30 Sep 2019
Maple-Brown Abbott Global Listed Infras	0.21	4.06	65	30 Sep 2019
Renaissance Global Infrastructure Fund	0.37	4.03	56	30 Sep 2019
Maple-Brown Abbott Glb Infras	0.12	3.98	39	30 Sep 2019

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
J.P. Morgan Investment Management, Inc.	3.07	0.13	2,645	30 Sep 2019
JPMorgan Chase & Co	4.14	0.09	2,605	30 Sep 2019
Citadel Advisors Llc	1.06	0.05	2,474	30 Sep 2019
Mellon Investments Corporation	0.53	0.04	1,966	30 Sep 2019
Millennium Management LLC	0.89	0.14	1,857	30 Sep 2019
Top 5 Sellers				
T. Rowe Price Associates, Inc.	14.10	0.21	-8,970	30 Sep 2019
Capital Research and Management Company	0.50	0.13	-4,728	30 Sep 2019
Zimmer Partners LP	3.52	4.01	-4,396	30 Sep 2019
Bank of New York Mellon Corp	—	—	-3,484	30 Sep 2019
Lord, Abbett & Co LLC	—	—	-2,566	30 Sep 2019

Stewardship 30 Oct 2019

We assign NiSource a Standard stewardship rating. We think management's decision to form Columbia Pipeline Partners and execute CPG's tax-free separation exhibited exemplary stewardship of shareholder capital. However, the CEO who probably drove those decisions left NiSource to go with CPG before he retired.

The National Transportation Safety Board found NiSource responsible for the tragic gas explosion north of Boston. The incident had a negative effect on shareholder value and has been a public relations nightmare. The good news is that Massachusetts represents less than 10% of operating earnings.

Joe Hamrock became CEO following the separation. He has been with NiSource since 2012 and previously ran the natural gas distribution business. Before joining NiSource, he was with American Electric Power. CFO Donald Brown joined NiSource in April 2015. Previously, he was with UGI Utilities and Constellation Energy. These individuals have significant utility experience, and we believe they will not stray from the strategy that has benefited shareholders.

Most of the members of NiSource's board of directors were involved in the separation of CPG and oversight of investment decisions. Given this, we are confident that the solid stewardship of shareholder capital is likely to continue.

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Analyst Notes

Boston Gas Explosion Costs Finally Firm; Increasing NiSource's Fair Value Estimate 30 Oct 2019

We are increasing our fair value estimate to $27.50 per share from $27 after narrow-moat NiSource reported break even 2019 third-quarter operating EPS, initiated 2020 earnings guidance in line with our estimate, and modestly increased the lower end of its 2020-22 capital expenditure guidance.

The financial impact from the tragic natural gas explosion north of Boston in September 2018 appears to be quantified and was one of the drivers for the $0.50 per share increase in our fair value estimate. For the first time since the tragedy, the estimate of total costs related to the event were unchanged versus last quarter. We reduced our estimate of the costs, net of insurance recovery, to $850 million from our previous estimate of $1 billion.

The increase in our capital expenditure estimate also had a positive impact on our fair value estimate. The $100 million bump in the lower end of the three-year annual capital expenditure guidance range, to $1.7 billion-$2.0 billion, increases our confidence in our estimates that were already above the midpoint of management's previous guidance. We increased our average annual capital expenditures over the next three years by approximately $30 million, to an average of $1.93 billion per year.

We have a high level of confidence that these investments will achieve returns above our 6% estimate of NiSource's weighted average cost of capital since approximately 78% are covered by rate trackers and reflected in rates in 12 months or less after the investment. This favorable regulatory framework reduces regulatory lag, improving returns on invested capital.

The third quarter is normally weak since about two thirds of NiSource's earnings are from natural gas distribution. NiSource's break even third-quarter results compare with $0.10 per share in the same period last year. NiSource reaffirmed its 2019 EPS guidance range of $1.27-$1.33, and our estimate of $1.30 is unchanged.

The Next Battle Royale: Natural Gas Generation vs. Renewable Energy 07 Oct 2019

We are reaffirming our fair value estimates and moat ratings for all U.S. utilities after updating our 2020-30 U.S. power generation forecast.

Our forecast shows natural gas generation expanding its leading market share in the U.S. power generation market through 2030. But our forecast also shows renewable energy moving into second place, overtaking coal, nuclear, and hydropower generation.

We think this sets up a "bloody" fight for market share by the end of the next decade: natural gas vs. renewable energy. Renewable energy has policy momentum and its costs are now competitive with natural gas generation even at today's low gas prices and without tax subsidies. But gas generators offer grid reliability, a key competitive advantage.

We forecast U.S. renewable energy will top 1,000 terawatt-hours by 2030, or 22% of U.S. electricity generation, excluding hydropower. The ramp down in solar and wind tax credits during the next five years won't slow growth as much as others assume. Our 8% CAGR in 2018-30 is higher than global growth rate forecasts and higher than the most recent U.S. Energy Information Administration reference case.

State renewable energy portfolio standards and corporate purchases will fill in any growth gaps related to tax roll-offs. We estimate 32 of the 38 states with renewable energy

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Analyst Notes

targets have not met their marks. New York (70% by 2030) and California (60% by 2030) represent one-third of our renewable energy growth forecast.

We forecast natural gas generation will grow 2% annually between 2019 and 2030, reaching 41% of U.S. generation. Coal and nuclear will each fall to 15% market share.

Utilities with large renewable energy investment plans like NextEra Energy and Xcel Energy will continue to benefit from our higher renewable energy growth forecast. We think the market overlooks renewable energy growth potential from wide- and narrow- moat utilities like CMS Energy, NiSource, Edison International, Alliant Energy, and Dominion Energy.

NiSource's Boston Natural Gas Explosion Costs Climb, but Should Remain Less Than Our Estimate 02 Aug 2019
We are reaffirming our $27 per share fair value estimate after narrow-moat NiSource reported 2019 second-quarter operating EPS of $0.05 versus $0.07 in the same period last year. Second-quarter earnings are usually barely above breakeven as the months of April to June are a relatively low period for electricity and gas sales.

Estimated third-party claims and other expenses related to the tragic natural gas explosion north of Boston in September 2018 increased by almost $100 million, to approximately $1.45 billion. NiSource has third-party liability insurance of $800 million, of which $670 million has been recorded and $535 million has been collected.

In addition, estimated the capital cost for pipeline replacement is approximately $255 million that we expect to be mostly covered by NiSource's $300 million of property insurance. These estimates do not include fines, penalties or settlements with other government authorities not included in the July 29 class-action settlement or other regulators. Massachusetts caps most of these fines and we don't expect them to add materially to the total incident expenses.

Thus, we estimate NiSource's exposure to the Boston incident is roughly $700 million pre-tax currently, $1.5 billion less $800 million of insurance proceeds. Our fair value estimate of $27 per share conservatively assumes roughly $1 billion of pre-tax expenses related to the incident.

NiSource reaffirmed 2019 operating earnings guidance of $1.27-$1.33 per share and our estimate of $1.30 per share is unchanged. The utility also reaffirmed its 2019 capital expenditure guidance of $1.6 billion to $1.7 billion. Our estimate of $1.7 billion remains at the top end of the guidance.

We believe annual EPS growth will return to management's 5%-7% target after 2020 and our EPS growth-rate estimate from 2020-23 equals 6.1%. We also expect annual dividend increases to average 6% starting next year after shareholders received only a 2.6% increase in 2019.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2016	2017	2018	Forecast 2019	Forecast 2020	5-Year Proj. CAGR
Revenue	3.2	-3.4	8.5	4.9	4.7	5.7	5.1
EBIT	-46.0	7.0	6.9	-86.3	783.4	9.9	64.7
EBITDA	-18.2	5.9	5.9	-51.2	149.2	8.3	27.0
Net Income	15.7	17.4	13.8	16.0	6.4	12.6	9.6
Diluted EPS	11.6	16.1	11.2	7.6	-0.2	6.3	4.8
Earnings Before Interest, after Tax	-156.0	6.8	-10.8	-118.4	-956.9	8.8	—
Free Cash Flow	-171.0	-116.1	61.4	37.7	-40.9	-64.3	—

Profitability	3-Year Hist. Avg	2016	2017	2018	2019	2020	5-Year Proj. Avg
Operating Margin %	13.5	19.1	18.8	2.5	20.8	21.6	22.2
EBITDA Margin %	25.3	31.3	30.5	14.2	33.8	34.6	35.3
Net Margin %	8.4	7.8	8.2	9.1	9.2	9.8	10.3
Free Cash Flow Margin %	-19.8	-13.4	-19.9	-26.1	-14.8	-5.0	-2.4
ROIC %	3.8	5.5	6.4	-0.6	5.7	5.8	5.9
Adjusted ROIC %	4.3	6.2	7.2	-0.7	6.3	6.3	6.4
Return on Assets %	0.7	1.8	0.7	-0.3	2.2	2.3	2.4
Return on Equity %	3.3	8.4	3.1	-1.4	9.6	9.4	9.4

Leverage	3-Year Hist. Avg	2016	2017	2018	2019	2020	5-Year Proj. Avg
Debt/Capital	0.65	0.66	0.68	0.61	0.62	0.58	0.58
Total Debt/EBITDA	8.09	5.63	6.06	12.59	5.64	5.26	5.12
EBITDA/Interest Expense	3.43	4.02	4.21	2.05	4.62	4.66	4.75

Valuation Summary and Forecasts

	2017	2018	2019(E)	2020(E)
Price/Fair Value	1.03	0.98	—	—
Price/Earnings	21.2	19.5	21.0	19.8
EV/EBITDA	11.6	25.6	11.2	10.3
EV/EBIT	18.9	147.3	18.2	16.6
Free Cash Flow Yield %	-11.0	-13.5	-4.7	-2.4
Dividend Yield %	2.7	3.1	2.9	3.1

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	6.0
Long-Run Tax Rate %	25.0
Stage II EBI Growth Rate %	7.0
Stage II Investment Rate %	100.0
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-623	-3.2	-1.62
Present Value Stage II	—	—	—
Present Value Stage III	20,216	103.2	52.66
Total Firm Value	**19,593**	**100.0**	**51.04**
Cash and Equivalents	421	—	1.10
Debt	-9,133	—	-23.79
Preferred Stock	-880	—	-2.29
Other Adjustments	150	—	0.39
Equity Value	**10,151**	**—**	**26.44**
Projected Diluted Shares	384		
Fair Value per Share (USD)	**27.50**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2016	2017	2018	*2019*	*2020*
Revenue	**4,493**	**4,875**	**5,115**	***5,353***	***5,656***
Cost of Goods Sold	1,390	1,519	1,761	*1,676*	*1,771*
Gross Profit	**3,102**	**3,356**	**3,353**	***3,678***	***3,885***
Selling, General & Administrative Expenses	1,454	1,612	2,353	*1,613*	*1,661*
Other Operating Expense (Income)	244	257	275	*268*	*276*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	547	570	600	*685*	*725*
Operating Income (ex charges)	**857**	**916**	**126**	***1,112***	***1,223***
Restructuring & Other Cash Charges	-1	6	1	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**858**	**911**	**125**	***1,112***	***1,223***
Interest Expense	350	353	353	*391*	*420*
Interest Income	2	-114	-2	*10*	*11*
Pre-Tax Income	**510**	**443**	**-231**	***731***	***813***
Income Tax Expense	182	315	-180	*183*	*203*
Other After-Tax Cash Gains (Losses)	3	0	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	-15	*-55*	*-55*
Net Income	**332**	**129**	**-66**	***493***	***555***
Weighted Average Diluted Shares Outstanding	324	331	357	*380*	*403*
Diluted Earnings Per Share	**1.02**	**0.39**	**-0.18**	***1.30***	***1.38***
Adjusted Net Income	351	400	463	*493*	*555*
Diluted Earnings Per Share (Adjusted)	**1.09**	**1.21**	**1.30**	***1.30***	***1.38***
Dividends Per Common Share	0.64	0.70	0.78	*0.80*	*0.85*
EBITDA	**1,405**	**1,481**	**724**	***1,808***	***1,958***
Adjusted EBITDA	**1,404**	**1,486**	**726**	***1,808***	***1,958***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2016	2017	2018	*Forecast* 2019	2020
Cash and Equivalents	36	38	121	*49*	*59*
Investments	—	—	—	—	—
Accounts Receivable	847	899	1,059	*953*	*1,007*
Inventory	494	471	423	*528*	*558*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	385	355	453	*400*	*425*
Current Assets	**1,762**	**1,763**	**2,055**	***1,931***	***2,049***
Net Property Plant, and Equipment	13,068	14,360	15,543	*16,633*	*17,758*
Goodwill	1,691	1,691	1,691	*1,691*	*1,691*
Other Intangibles	243	232	221	*210*	*199*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,637	1,625	2,002	*2,288*	*2,338*
Long-Term Non-Operating Assets	292	292	293	*293*	*293*
Total Assets	**18,692**	**19,962**	**21,804**	***23,044***	***24,327***
Accounts Payable	539	626	884	*689*	*728*
Short-Term Debt	1,851	1,490	2,027	*1,500*	*1,500*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,062	1,063	1,126	*1,100*	*1,200*
Current Liabilities	**3,452**	**3,178**	**4,037**	***3,289***	***3,428***
Long-Term Debt	6,058	7,512	7,105	*8,700*	*8,800*
Deferred Tax Liabilities (Long-Term)	2,528	1,293	1,331	*1,508*	*1,693*
Other Long-Term Operating Liabilities	1,265	2,737	2,519	*2,250*	*2,000*
Long-Term Non-Operating Liabilities	1,317	921	1,061	*1,061*	*1,061*
Total Liabilities	**14,621**	**15,642**	**16,053**	***16,808***	***16,982***
Preferred Stock	—	—	880	*880*	*880*
Common Stock	3	3	4	*4*	*4*
Additional Paid-in Capital	5,154	5,529	6,404	*6,704*	*7,604*
Retained Earnings (Deficit)	-972	-1,073	-1,399	*-1,210*	*-997*
(Treasury Stock)	-89	-96	-100	*-100*	*-100*
Other Equity	-25	-43	-37	*-41*	*-46*
Shareholder's Equity	**4,071**	**4,320**	**5,751**	***6,236***	***7,344***
Minority Interest	—	—	—	—	—
Total Equity	**4,071**	**4,320**	**5,751**	***6,236***	***7,344***

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December				Forecast	
	2016	2017	2018	*2019*	*2020*
Net Income	332	129	-51	*548*	*610*
Depreciation	547	570	600	*685*	*725*
Amortization	—	—	—	*11*	*11*
Stock-Based Compensation	47	40	29	*40*	*42*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	182	307	-188	*178*	*185*
Other Non-Cash Adjustments	-12	76	42	—	—
(Increase) Decrease in Accounts Receivable	-188	-52	-186	*105*	*-54*
(Increase) Decrease in Inventory	39	19	41	*-105*	*-30*
Change in Other Short-Term Assets	-251	-396	-14	*53*	*-25*
Increase (Decrease) in Accounts Payable	109	49	268	*-195*	*39*
Change in Other Short-Term Liabilities	—	—	—	*-26*	*100*
Cash From Operations	**804**	**742**	**540**	***1,294***	***1,603***
(Capital Expenditures)	-1,475	-1,696	-1,818	*-1,775*	*-1,850*
Net (Acquisitions), Asset Sales, and Disposals	—	—	—	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-108	-113	-108	*-555*	*-300*
Cash From Investing	**-1,583**	**-1,809**	**-1,926**	***-2,330***	***-2,150***
Common Stock Issuance (or Repurchase)	14	330	844	*300*	*900*
Common Stock (Dividends)	-206	-229	-273	*-304*	*-341*
Short-Term Debt Issuance (or Retirement)	921	-282	772	*-527*	—
Long-Term Debt Issuance (or Retirement)	62	1,251	-742	*1,595*	*100*
Other Financing Cash Flows	—	—	868	*-95*	*-97*
Cash From Financing	**791**	**1,069**	**1,469**	***968***	***562***
Exchange Rates, Discontinued Ops, etc. (net)	-1	0	0	*-4*	*-5*
Net Change in Cash	**11**	**2**	**83**	***-72***	***10***

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.39 USD	27.50 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)
WEC Energy Group Inc WEC USA	1.27	20.7	*26.2*	*24.3*	14.3	*16.0*	*14.5*	79.1	*NM*	*NM*	—	—	—	2.8	*3.6*	*3.5*
CMS Energy Corp CMS USA	1.37	21.3	*25.5*	*22.5*	11.9	*13.7*	*12.2*	NM	*NM*	*NM*	—	—	—	2.0	*2.6*	*2.5*
Alliant Energy Corp LNT USA	1.19	19.5	*23.3*	*22.0*	12.9	*13.8*	*12.7*	NM	*NM*	*330.5*	—	—	—	2.8	*3.4*	*3.3*
Average		20.5	*25.0*	*22.9*	13.0	*14.5*	*13.1*	79.1	—	*330.5*	—	—	—	2.5	*3.2*	*3.1*
NiSource Inc NI US	**1.01**	**19.5**	***21.0***	***19.8***	**25.6**	***11.2***	***10.3***	**NM**	***NM***	***NM***	—	—	—	**1.8**	***1.9***	***1.8***

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)
WEC Energy Group Inc WEC USA	33,476 USD	5.0	*6.7*	*6.9*	5.8	*7.6*	*7.8*	11.0	*11.2*	*11.6*	3.3	*3.2*	*3.3*	3.2	*2.6*	*2.7*
CMS Energy Corp CMS USA	24,529 USD	6.4	*6.2*	*6.5*	6.4	*6.2*	*6.5*	14.3	*14.3*	*15.1*	2.8	*2.8*	*3.0*	2.9	*2.4*	*2.6*
Alliant Energy Corp LNT USA	15,426 USD	6.4	*7.0*	*7.1*	6.4	*7.0*	*7.1*	11.7	*11.3*	*11.0*	3.5	*3.4*	*3.3*	3.2	*2.7*	*2.9*
Average		5.9	*6.6*	*6.8*	6.2	*6.9*	*7.1*	12.3	*12.3*	*12.6*	3.2	*3.1*	*3.2*	3.1	*2.6*	*2.7*
NiSource Inc NI US	**21,804** USD	**-0.6**	***5.7***	***5.8***	**-0.7**	***6.3***	***6.3***	**-1.4**	***9.6***	***9.4***	**-0.3**	***2.2***	***2.3***	**3.1**	***2.9***	***3.1***

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)
WEC Energy Group Inc WEC USA	7,680 USD	0.4	*4.7*	*4.5*	-17.8	*15.7*	*14.4*	6.4	*5.7*	*7.7*	-2,583.8	*-282.2*	*-9.5*	6.3	*6.8*	*5.9*
CMS Energy Corp CMS USA	6,873 USD	4.4	*0.9*	*5.0*	-13.2	*8.5*	*16.3*	7.4	*6.1*	*13.2*	-912.9	*-95.2*	*816.9*	7.5	*7.0*	*6.5*
Alliant Energy Corp LNT USA	3,535 USD	4.5	*2.6*	*4.3*	6.3	*17.3*	*12.2*	9.3	*3.9*	*5.9*	4.0	*30.0*	*-129.4*	6.4	*6.0*	*5.6*
Average		3.1	*2.7*	*4.6*	-8.2	*13.8*	*14.3*	7.7	*5.2*	*8.9*	-1,164.2	*-115.8*	*226.0*	6.7	*6.6*	*6.0*
NiSource Inc NI US	**5,115** USD	**4.9**	***4.7***	***5.7***	**-86.3**	***783.4***	***9.9***	**7.6**	***-0.2***	***6.3***	**37.7**	***-40.9***	***-64.3***	**11.4**	***2.6***	***6.0***

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.39 USD	27.50 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

		Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
Company/Ticker	Last Historical Year Net Income (Mil)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)
WEC Energy Group Inc WEC USA	1,059 USD	62.3	*63.0*	*63.7*	30.1	*31.9*	*33.7*	19.1	*21.1*	*23.2*	13.8	*14.0*	*14.4*	3.6	*-10.1*	*-10.4*
CMS Energy Corp CMS USA	659 USD	55.5	*55.1*	*56.2*	30.5	*32.3*	*34.4*	16.9	*18.2*	*20.1*	9.6	*10.2*	*11.0*	-5.4	*-7.5*	*-9.2*
Alliant Energy Corp LNT USA	512 USD	55.2	*58.3*	*59.3*	34.3	*37.6*	*39.1*	19.7	*22.5*	*24.2*	14.5	*15.2*	*15.6*	-31.3	*-17.3*	*1.0*
Average		57.7	*58.8*	*59.7*	31.6	*33.9*	*35.7*	18.6	*20.6*	*22.5*	12.6	*13.1*	*13.7*	-11.0	*-11.6*	*-6.2*
NiSource Inc NI US	**463** USD	**65.6**	***68.7***	***68.7***	**14.2**	***33.8***	***34.6***	**2.5**	***20.8***	***21.6***	**9.1**	***9.2***	***9.8***	**-25.0**	***-9.0***	***-4.4***

Leverage Analysis

		Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
Company/Ticker	Last Historical Year Total Debt (Mil)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)
WEC Energy Group Inc WEC USA	11,799 USD	119.9	*129.9*	*137.9*	54.5	*56.5*	*58.0*	5.2	*5.5*	*5.2*	5.1	*5.2*	*5.2*	3.4	*3.5*	*3.6*
CMS Energy Corp CMS USA	11,708 USD	246.2	*243.4*	*244.3*	71.1	*70.9*	*71.0*	4.6	*4.7*	*4.8*	5.6	*5.5*	*5.4*	5.2	*5.1*	*5.0*
Alliant Energy Corp LNT USA	5,944 USD	124.2	*129.1*	*128.6*	55.4	*56.4*	*56.3*	4.9	*4.8*	*4.9*	4.9	*5.1*	*5.0*	3.2	*3.2*	*3.2*
Average		163.4	*167.5*	*170.3*	60.3	*61.3*	*61.8*	4.9	*5.0*	*5.0*	5.2	*5.3*	*5.2*	3.9	*3.9*	*3.9*
NiSource Inc NI US	**9,133** USD	**158.8**	***163.6***	***140.2***	**61.4**	***62.1***	***58.4***	**2.1**	***4.6***	***4.7***	**12.6**	***5.6***	***5.3***	**3.8**	***3.7***	***3.3***

Liquidity Analysis

		Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
Company/Ticker	Market Cap (Mil)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)	2018	2019(E)	2020(E)
WEC Energy Group Inc WEC USA	29,159 USD	0.27	*0.69*	*0.53*	1.39	*1.46*	*1.22*	1.22	*1.29*	*1.08*	0.05	*0.12*	*0.07*	66.1	*66.8*	*65.7*
CMS Energy Corp CMS USA	17,876 USD	0.62	*0.42*	*0.14*	0.94	*0.91*	*0.87*	0.69	*0.65*	*0.61*	0.16	*0.11*	*0.03*	62.0	*61.9*	*58.3*
Alliant Energy Corp LNT USA	12,475 USD	0.09	*1.47*	*1.67*	0.48	*0.73*	*0.66*	0.35	*0.62*	*0.57*	0.03	*0.37*	*0.33*	61.8	*63.0*	*62.8*
Average		0.33	*0.86*	*0.78*	0.94	*1.03*	*0.92*	0.75	*0.85*	*0.75*	0.08	*0.20*	*0.14*	63.3	*63.9*	*62.3*
NiSource Inc NI US	**10,196** USD	**0.34**	***0.13***	***0.15***	**0.51**	***0.59***	***0.60***	**0.40**	***0.43***	***0.44***	**0.06**	***0.03***	***0.04***	**-423.9**	***61.7***	***61.5***

WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Underweight
Gas/Power Infrastructure – Market Overweight

October 30, 2019

NISOURCE

(NI US Equity – $27.51 – Peer Perform)

Patience is a virtue

- **2020 guidance in-line; LT growth targets intact despite equity needs.** NI provided initial 2020 guidance of $1.36-1.40 which was in-line with us/consensus and reaffirmed its 5-7% annual EPS growth expectation through 2022. This came despite $500-700M of incremental equity needed in 2020 to cover MA costs above its casualty insurance. The equity needs were not a surprise, but the ability to reaffirm the growth expectation beyond 2020 was reassuring. Timing of the issuance is unclear, but our sense is to not expect anything before yearend. The impact of the new shares won't be reflected until some point in the second half of next year in order to minimize the dilutive effect on 2020 numbers.

- **Massachusetts update.** The cost estimate in MA was unchanged from Q2. The DPU opened two formal investigations into Columbia last week for its role in and response to the Merrimack Valley incident. The investigations are expected to last a year, making the timing of a rate case or clarity on potential strategic options seem a bit further off. Fines from the investigations are believed to be capped at $22M. It is unclear what amount of the $250M in pipeline replacement capex will be recovered under property insurance. We believe NI assumes that any amount not covered by insurance will be recoverable through rates – we are a bit more skeptical given the amount of scrutiny that NI has received since the incident.

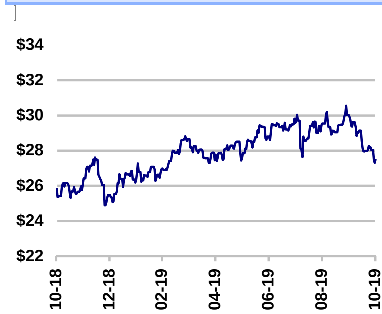
- **PT down to $29; remain Peer Perform.** We reduce our PT by $2 to $29 as we have moved to valuing NI using an average regulated electric multiple. Our 2021E is down a penny after adding $100M of equity next year (prev. assumed $500M). We remain Peer Perform and see some upside given the recent weakness, but think it is limited by overhangs such as the MA investigations, equity needs, and belief that new safety protocols need to be proved out.

- **Q3 miss, 2019 reaffirmed; update at NIPSCO electric.** NI reported Q3 EPS of $0.00, missing us/consensus $0.02/$0.04 but reaffirmed its 2019 guidance range. Separately, NIPSCO electric recently filed a CPCN with the IURC for the 302 MW Indiana Crossroads windfarm. The ownership structure would be similar to the approved Rosewater windfarm. Capex for the two projects would be ~$360M in total, but outside of NI's current forecast period.

Estimates / Valuation				
(US$)	2019E	2020E	2021E	2022E
EPS	$1.29	$1.37	$1.45	$1.55
Consensus	$1.31	$1.38	$1.47	$1.54
P/E	21.3x	20.1x	19.0x	17.8x
Dividend Yield	2.8%	2.9%	3.1%	3.3%

Trading and Fundamental Data	
Price Target	**$ 29**
Current Price	27.51
52-Week Range	$24-$31
Market Cap. (MM)	10,270
Enterprise Value (MM)	20,380
Shares Out. (MM)	373.3
Dividend Yield	2.91%
Dividend Payout Ratio	61.2%
ROE	-1.4%
Debt to Cap	60.5%
Avg. Daily Vol. (000)	3,366

Price Performance	YTD	LTM
NI US Equity	9%	7%
Utility Index	22%	18%
S&P 500	22%	15%



Source: FactSet/Wolfe Research

Key Changes		
Year	New	Old
PT	$29	$31
2019E	$1.29	$1.30
2021E	$1.45	$1.46

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NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2019E	2020E	2021E	2022E
EPS	$1.29	$1.37	$1.45	$1.55
Diluted Shares Outstanding	$378	$397	419	428
Dividends Per Share	$0.80	$0.85	$0.90	$0.95
Dividend Yield	2.9%	3.1%	3.3%	3.5%
Dividend Payout Ratio	62%	62%	62%	61%
Equity Ratio	39%	42%	43%	44%
FFO/Net Debt	16%	16%	16%	16%
Valuation Metrics				
P/E	21.3x	20.1x	19.0x	17.8x
Price/Book	1.9x	1.6x	1.6x	1.5x
Segment EPS				
Gas Distribution	$1.10	$1.16	$1.22	$1.30
Electric	$0.57	0.57	0.56	0.57
Parent & Other	($0.38)	(0.36)	(0.33)	(0.32)
Total EPS	**$1.29**	**$1.37**	**$1.45**	**$1.55**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2019E	2020E	2021E	2022E
Total Capital Spending by Segment ($M)				
Gas Distribution	$1,295	$1,328	$1,363	$1,363
Electric	455	472	487	487
Parent	25	25	25	25
Total Capex	**$1,775**	**$1,825**	**$1,875**	**$1,875**

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland and Massachusetts.

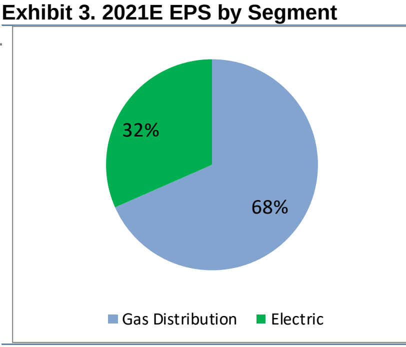
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of capital investment with recovery largely through trackers in mostly constructive regulatory environments. That said, recent concerns around safety protocols have caused us to take more cautious view on the stock.

Valuation

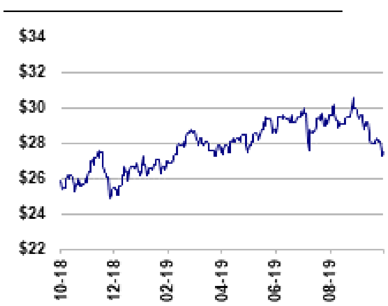
Our $29 price target is derived using a regulated electric average P/E of 20x on our 2021E. Risks for NiSource are 1) further cost increases in MA 2) bad regulatory outcomes and 3) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer growth

Exhibit 3. 2021E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: FactSet

Investment Conclusion

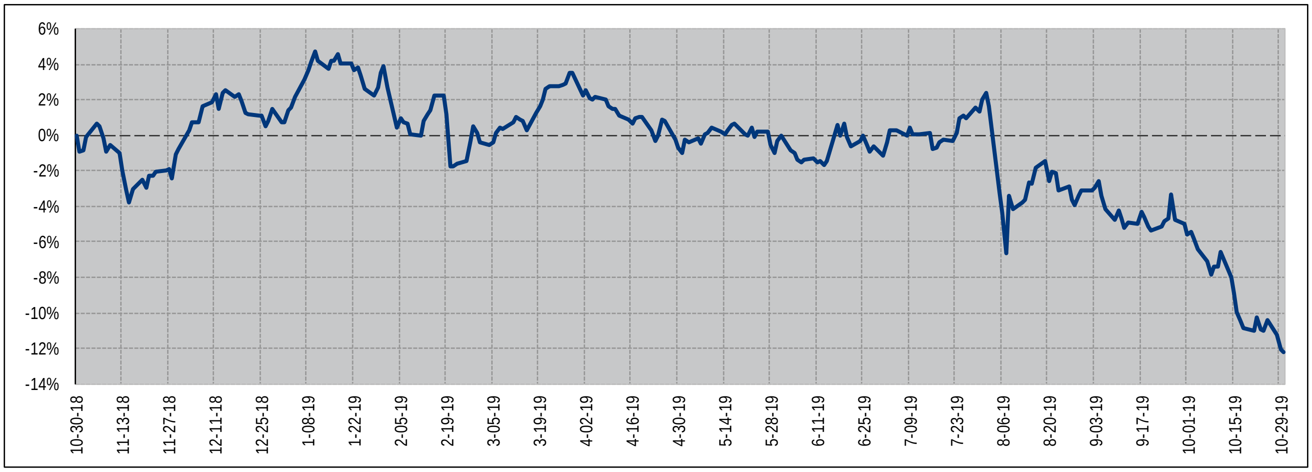
We are Peer Perform rated on NiSource. There are qualities about the company we find attractive – NI's $30B capital investment backlog should drive its above-average 5-7% annual earnings target well into the future. Most of the company's annual capex (~75%) is recovered with minimal lag via tracking mechanisms and the company has built a constructive track record with most of its state regulators (ex. Massachusetts). That said, issues stemming for the Merrimack Valley incident cause us to remain on the sidelines. We think NI could reach an average multiple, but for the stock to reassert itself amongst the highest quality names in the sector, we believe the DPU's investigation in Massachusetts needs to play out further and the company's new safety procedures need to be proved out.

Exhibit 5: Regulated Comparables

Company		Current	Current	Mkt Cap	P/E				Div	Div	Payout	Price/	Equity
Name	Ticker	Price	Shares	($M)	2019E	2020E	2021E	2022E	Yield	Growth (E)	Ratio	Book	Ratio
Alliant Energy	LNT	$52.95	238	$12,577	23.2x	22.2x	20.9x	19.8x	2.7%	6.0%	62%	2.7x	43%
Ameren	AEE	77.58	246	19,069	23.9x	22.0x	20.5x	19.4x	2.4%	4.0%	59%	2.4x	45%
American Electric	AEP	94.10	494	46,481	22.4x	21.3x	20.1x	18.9x	2.8%	6.0%	64%	2.4x	41%
Avangrid	AGR	49.39	309	15,262	21.7x	19.3x	18.0x	16.8x	3.6%	2.5%	77%	1.0x	68%
CMS Energy	CMS	63.90	284	18,138	25.5x	23.9x	22.4x	20.8x	2.4%	7.0%	61%	3.8x	27%
Con Edison	ED	91.66	332	30,444	21.0x	20.2x	19.4x	18.9x	3.2%	3.5%	68%	1.7x	47%
Duke Energy	DUK	94.01	729	68,496	18.8x	18.1x	17.3x	16.5x	4.0%	2.5%	76%	1.5x	43%
Edison International	EIX	62.16	358	22,259	12.9x	13.5x	13.0x	N/A	3.9%	3.0%	51%	1.9x	39%
Entergy	ETR	121.56	199	24,170	22.9x	21.7x	20.4x	19.5x	3.0%	3.0%	69%	2.5x	35%
Evergy	EVRG	63.68	235	14,995	22.4x	20.7x	19.6x	18.8x	3.0%	7.0%	67%	1.7x	48%
Eversource Energy	ES	83.24	324	26,937	24.1x	22.6x	21.6x	20.4x	2.6%	6.0%	62%	2.3x	44%
FirstEnergy	FE	47.84	540	25,833	19.3x	19.3x	18.1x	17.1x	3.2%	6.0%	61%	3.5x	26%
Fortis*	FTS	54.26	437	23,690	21.5x	19.6x	18.3x	17.4x	3.3%	6.0%	71%	1.5x	42%
NiSource	**NI**	**27.51**	**373**	**10,271**	**21.3x**	**20.1x**	**19.0x**	**17.8x**	**2.9%**	**2.5%**	**62%**	**1.9x**	**40%**
PG&E	PCG	6.14	529	3,249	1.6x	7.9x	7.6x	N/A	0.0%	0.0%	0%	0.3x	86%
Pinnacle West	PNW	93.84	112	10,539	19.6x	18.5x	17.8x	17.0x	3.1%	6.0%	62%	2.0x	48%
Portland General	POR	56.87	89	5,083	23.8x	21.8x	20.5x	19.9x	2.7%	6.5%	64%	2.0x	50%
PPL Corp.	PPL	33.29	722	24,044	13.7x	13.0x	13.5x	N/A	5.0%	1.5%	68%	2.0x	35%
Southern Company	SO	62.63	1,045	65,463	20.6x	19.6x	19.1x	17.8x	4.0%	3.4%	82%	2.4x	39%
WEC Energy Group	WEC	93.79	315	29,585	26.6x	25.1x	23.6x	22.1x	2.5%	7.0%	67%	3.0x	46%
Xcel Energy	XEL	63.32	524	33,204	24.2x	22.8x	21.5x	20.2x	2.6%	6.0%	62%	2.6x	44%
Average					**20.5x**	**19.7x**	**18.7x**	**18.8x**	**3.0%**	**4.5%**	**63%**	**2.2x**	**45%**
Average (ex EIX, PCG, PPL)					**22.4x**	**21.1x**	**19.9x**	**18.8x**	**3.0%**	**5.0%**	**66%**	**2.3x**	**43%**

Source: Wolfe Research, FactSet

Exhibit 6: NI vs the Regulated Average



Source: Wolfe Research, FactSet

PT down to $29; modest estimate updates

We have reduced our PT by $2 to $29 as we have moved to valuing NiSource using an average regulated electric multiple. Previously we used a SOTP framework, using a gas LDC multiple on gas earnings and an electric multiple on NIPSCO electric's earnings. Given the current issues NiSource is dealing with in Massachusetts and the fact that LDC multiples embed somewhat of a takeout premium, we felt it was more accurate to comp NiSource vs the regulated electric average.

We also updated our 2019 and 2021 estimates modestly. Our 2019E moves down by a penny to reflect our view that NiSource is tracking slightly below the midpoint for the year. Our 2021E moves down by the same amount after reflecting an incremental $100M of equity in 2020 (prev. assumed $500M) to cover MA costs above the company's casualty insurance. Our estimates assume that the incremental dilution next year won't be reflected until some point in Q3, as NiSource looks to minimize the effect and maintain its 5-7% annual EPS growth target.

Update in Massachusetts, still some items to play out

Importantly, there was no surprise cost increase in Massachusetts this quarter. That said, last week the DPU opened two formal investigations into Columbia Gas for its role in and response to the Merrimack Valley incident. While these investigations weren't a surprise, we feel there is likely to be some noise over the next 6-12 months given that the DPU opted to make proceedings more public than maybe expected (a public meeting is scheduled to be held in the next couple of months). We think a rate case or potential strategic options are unlikely to happen until the DPU is much further along in its investigation.

It is unclear what amount of the $250M in pipeline replacement capex will be recovered under NiSource's property insurance. NiSource has filed proof of loss with its property insurer, but discussions are still in the early stages. We believe NiSource expects that any amount not covered by insurance will be recovered through rates, likely in the '21/'22 timeframe. We are a bit more skeptical given the level of scrutiny the company has faced from regulators and politicians in the state. The rate base return associated with the capex is worth ~$0.03 of EPS.

We remain Peer Perform rated despite the fact that NiSource is trading at a ~1x discount. We see some upside given the recent weakness, but think it is limited by overhangs such as the MA investigations, equity needs, and belief that the company's new safety protocols need to be proved out.

NiSource Inc

Wading through the concern: Is the discount warranted?

Reiterate Rating: NEUTRAL | PO: 30.00 USD | Price: 27.51 USD

Bank of America Merrill Lynch

Equity | 31 October 2019

How we see the shares now with capex, equity & risk

After the 3Q call, we admit NI shares appear to be trading at a discount relative to peers – but this is solely on a valuation perspective without regards to outstanding risks. NI vs. the IXU Index is indeed the lowest it's been since before the Merrimack indecent (0% now vs 20% premium pre-Merrimack and ~10% avg for the rest of the yr). However, we (and we perceive the street) still factor in risk discounts related to the still unfolding Merrimack incident impacts as well as Indiana coal politics that lead us to still rate the company at a Neutral. As for guidance, NI expectedly launched its '20 EPS at $1.36-1.40 & reaffirmed its 5-7% LT outlook (now off '19 guidance going forward) – all within our expectations. It discussed $500-700mn of new equity in '20 to fund the Merrimack cost gap between $1.4bn of 3rd party claims & other and $800mn of casualty insurance; we prev included $600mn between 4Q20-1Q21 in our model and now tweak it up slightly to $400mn in 4Q20 and $250mn in 1Q21 to be more conservative amidst another potential $22mn+ of MA fines. Capex tweaks indicate a slightly weaker '20 than before (difference of -$50mn) but more annual LT spend (diff of +$50mn/yr); more capex has shifted from the 'within 0-3 months recovery' growth bucket into the 'within 0-12 months' tracker bucket – but this is largely an impact of CEP categorization rather than an actual concern involving more lag. While shares remain cheap, uncertainty of just how far the process in MA DPU could go adds to uncertainty. Reiterate Neutral at $30 PO (prev 30.5) with 19.2/19.3x electric/gas peer multiple.

Not out of the Massachusetts woods yet

NI perceives a $22mn cap for potential fines related to the two investigations opened by the MA DPU (on the cause of the event, and NI's response & preparedness). However, there are still other potential impacts. MA has *informal* investigations (e.g. abandoned pipeline checks) also with potential fines (albeit not of magnitude). The company is also undergoing criminal investigations by the Attorney General; while difficult to pinpoint a potential outcome the NTSB did not uncover inappropriate actions around NI's response. It is still unclear how much of the $300mn in property insurance NI can use to cover the $255-260mn pipeline replacement & restoration costs. Non-covered expenses could be filed for recovery but stakeholders expect the DPU will find spending imprudent.

Estimates (Dec)

(US$)	2017A	2018A	2019E	2020E	2021E
EPS	1.21	1.30	1.31	1.36	1.41
GAAP EPS	0.39	1.30	1.31	1.36	1.41
EPS Change (YoY)	14.2%	7.4%	0.8%	3.8%	3.7%
Consensus EPS (Bloomberg)			1.31	1.38	1.46
DPS	0.73	0.79	0.83	0.88	0.94

Valuation (Dec)

	2017A	2018A	2019E	2020E	2021E
P/E	22.7x	21.2x	21.0x	20.2x	19.5x
GAAP P/E	70.5x	21.2x	21.0x	20.2x	19.5x
Dividend Yield	2.6%	2.9%	3.0%	3.2%	3.4%
EV / EBITDA*	17.1x	16.5x	14.4x	13.6x	12.7x
Free Cash Flow Yield*	-9.3%	-12.4%	-5.2%	-7.1%	-6.7%

* For full definitions of *iQmethod* SM measures, see page 9.

Timestamp: 31 October 2019 06:17AM EDT

Key Changes

(US$)	Previous	Current
Price Obj.	30.50	30.00
2020E EPS	1.37	1.36
2021E EPS	1.42	1.41
2021E EBITDA (m)	1,986.7	1,989.1

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Stock Data

Price	27.51 USD
Price Objective	30.00 USD
Date Established	31-Oct-2019
Investment Opinion	B-2-7
52-Week Range	24.37 USD - 30.67 USD
Mrkt Val (mn) / Shares Out (mn)	10,276 USD / 373.5
Average Daily Value (mn)	84.40 USD
BofAML Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2019E)	9.6%
Net Dbt to Eqty (Dec-2018A)	156.7%

CEP: Capital Expenditure Program
DPU: Department of Utilities
NTSB: National Transportation Safety Board

iQprofile SM NiSource Inc

iQmethod SM – Bus Performance*

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Return on Capital Employed	2.6%	3.9%	4.1%	4.1%	4.1%
Return on Equity	9.5%	10.1%	9.6%	9.2%	9.0%
Operating Margin	18.7%	18.3%	20.3%	21.0%	22.1%
Free Cash Flow	(954)	(1,278)	(533)	(732)	(687)

iQmethod SM – Quality of Earnings*

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash Realization Ratio	1.9x	1.2x	2.3x	2.3x	2.2x
Asset Replacement Ratio	3.0x	3.0x	2.4x	2.6x	2.6x
Tax Rate	71.0%	19.7%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	207.7%	156.7%	150.0%	137.2%	131.4%
Interest Cover	2.6x	2.6x	3.0x	3.1x	3.2x

Income Statement Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Sales	4,875	5,084	5,161	5,295	5,462
% Change	8.5%	4.3%	1.5%	2.6%	3.2%
Gross Profit	3,356	3,325	3,597	3,707	3,850
% Change	8.2%	-0.9%	8.2%	3.1%	3.9%
EBITDA	1,481	1,531	1,750	1,853	1,989
% Change	5.4%	3.4%	14.3%	5.9%	7.3%
Net Interest & Other Income	(468)	(335)	(353)	(363)	(375)
Net Income (Adjusted)	398	463	495	538	602
% Change	15.6%	16.6%	6.8%	8.7%	12.0%

Free Cash Flow Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Net Income from Cont Operations (GAAP)	129	463	495	538	602
Depreciation & Amortization	570	600	702	742	783
Change in Working Capital	(415)	110	(186)	(186)	(186)
Deferred Taxation Charge	307	(188)	117	126	140
Other Adjustments, Net	152	(445)	0	0	0
Capital Expenditure	(1,696)	(1,818)	(1,661)	(1,951)	(2,025)
Free Cash Flow	-954	-1,278	-533	-732	-687
% Change	-41.9%	-34.0%	58.3%	-37.3%	6.2%

Balance Sheet Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash & Equivalents	29	121	133	133	133
Trade Receivables	945	1,147	1,333	1,519	1,706
Other Current Assets	790	787	787	787	787
Property, Plant & Equipment	14,360	15,543	16,501	17,710	18,952
Other Non-Current Assets	3,839	4,206	4,206	4,206	4,206
Total Assets	19,962	21,804	22,960	24,355	25,784
Short-Term Debt	1,490	2,027	2,256	2,349	2,478
Other Current Liabilities	1,688	2,010	2,010	2,010	2,010
Long-Term Debt	7,512	7,105	7,351	7,653	8,075
Other Non-Current Liabilities	4,951	4,911	5,028	5,153	5,293
Total Liabilities	15,642	16,053	16,644	17,165	17,855
Total Equity	4,320	5,751	6,316	7,191	7,929
Total Equity & Liabilities	19,962	21,804	22,960	24,355	25,784

* For full definitions of *iQmethod* SM measures, see page 9.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

NI's positives including 5-7% earnings/dividend growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries with earned ROEs consistently near the allowed.However, we see increased regulatory lag associated with the MA incident. Moreover, with the outcome of Department of Justice investigation still unclear, we believe an overhang on shares will persist. Bottom line, we see more balanced risk/reward profile and as such we rate NI Neutral.

Stock Data

Average Daily Volume	3,067,898

Quarterly Earnings Estimates

	2018	2019
Q1	0.77A	0.82E
Q2	0.08A	0.05E
Q3	0.10A	0E
Q4	0.38A	0.43E

How we see the shares

While NI's valuation compared to peers is at the lowest it has been over the last year, we still argue we see shares at a Neutral given uncertainty on how the Merrimack situation works out. A potential $22mn fine from DPU investigations, a criminal investigation, and uncertainty on recovery up to $265mn of spend (either via property insurance or a rate case filing that's likely a year out) leaves us uncertain. Indiana is not clear sailing either – although less impacted than peers like Vectren because NIPSCO does not buy Indiana coal unlike others.

Exhibit 1: NI vs the IXU Index

Source: Bloomberg

Capex shifts

We include three tables below, highlighting NI's updated capex plan vs. the previous quarter's capex plan. The last table shows change between the two. While the figure highlights less growth and more tracker later-dated opps, NI has noted this is mostly driven by CEP tracker categorization in Ohio – meaning limited lag impact.

Table 1: NI capex updates (3Q19 forecast vs. 2Q19 forecast, with changes showed below)

3Q19 ($bn)						
Est Recovery Period	2018	2019	2020	2021	2022	cum:
Within 0-3 Months (Growth)	0.27	0.30	0.19	0.20	0.20	1.17
Within 0-12 Months (Tracker)	0.97	0.91	1.17	1.24	1.24	5.53
Periodic Rate Cases (Maintenance/Other)	0.56	0.54	0.39	0.41	0.41	2.30
Total	1.80	1.75	1.75	1.85	1.85	9.00
2Q19 ($bn)						
Est Recovery Period	2018	2019	2020	2021	2022	cum:
Within 0-3 Months (Growth)	0.27	0.32	0.33	0.35	0.35	1.62
Within 0-12 Months (Tracker)	0.97	1.02	1.00	1.05	1.05	5.09
Periodic Rate Cases (Maintenance/Other)	0.56	0.42	0.42	0.44	0.44	2.29
Total	1.80	1.65	1.80	1.80	1.80	8.85
Change from 2Q19 to 3Q19 ($mn)						
Est Recovery Period	2018	2019	2020	2021	2022	cum:
Within 0-3 Months (Growth)	0	-18	-140	-148	-148	-454
Within 0-12 Months (Tracker)	0	-105	175	185	185	440
Periodic Rate Cases (Maintenance/Other)	0	123	-35	-37	-37	14
Total	0	100	-50	50	50	150

Source: Company report

Indiana thoughts

Some political challenges but NI escape unscathed

Indiana's Energy Task Force is yet to issue guidelines for generators around maintaining resilience. We expect to see these guidelines delayed, though, waiting for 2020 federal election results given the politically involved state (i.e. Mike Pence's home state with a large supply of goal in the Southwest). This may impact utility plans to retire coal and replace with capacity through request for proposals (RFP), and could impact how the Indiana Utility Regulatory Commission (IURC) evaluates plans if mandated to use resiliency metrics. However, we note that NIPSCO's coal uses no Indiana coal, meaning the company may be able to avoid pushback from lobbyists and coal-supporting politicians while other neighbors using Indiana coal may not fare as well. Either way, the IURC has noted NIPSCO's first RFP process was well run, which may be enough indication that NIPSCO fares well in the now ongoing 2nd RFP process as well. Either way, we note a small potential risk around the next RFP process based on state receptiveness to more renewables. See more on our political thoughts here.

302MW wind farm hinted at slightly shifted capex; part of RFP 1.0

NI and EDP Renewables recently executed a Build & Transfer agreement for the 302MW Indiana Crossroads Wind Farm. The wind farm is expected to be constructed and operational in 2021 and was selected through the original Request for Proposal (RFP) that NI ran as part of the company's Integrated Resource Plan. The project helps NI reach the outer-years of its adjusted $1.7-$2bn capex forecast, and we think it likely provides more confidence in the higher-end of that range as we assume total project cost of ~$400-$450mn (at $1.3-1.5/KW).

Next RFP 2.0

We look to updates around the second RFP for potential upside to capex on the 4Q call, especially if NI can pursue more co-ownership projects like Rosewater and Crosswater. We expect these capital deployment updated will help NI position meaningful future growth beyond the '22 timeframe in addition to gas-safety-related spend. We do not expect management to roll forward guidance to '23 until after the RFP concludes, however. Resolution of NIPSCO's rate case merits close focus too; we expect the timeline on Rate 831 decisions are delayed into Feb as well.

MA Insurance and gaps

Below we show the difference between Merrimack costs and insurance policies. It is unclear if the $300mn property insurance will fully cover the first cost listed below.

Table 2: Greater Lawrence Event Costs & Insurance Update

Cost	Midpt	Insurance Policies	Difference	Rate case potential?
Pipeline Replacement & Restoration	$257.5	$300.0	?	yes
Third-Party Claims	$987.5	$800.0	$622.5	no
Other Expenses	$435.0			

Source: BofA Merrill Lynch Global Research estimates, company report

Bank of America Merrill Lynch

Estimates

We include latest estimates below, largely unchanged apart from shifting and slightly increasing our expectation around equity issuance. (Prev assumed $300mn in 4Q20 and $300mn 1Q21 – now $400mn in 4Q20 and $250mn in 1Q21).

Table 3: NI EPS Estimates est

NI EPS Estimates		2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Gas		0.96	0.94	1.00	1.05	1.08	1.16	1.24	1.30	1.37
Electric		0.56	0.60	0.62	0.63	0.62	0.65	0.67	0.69	0.70
Parent/Other		-0.32	-0.23	-0.32	-0.31	-0.29	-0.28	-0.28	-0.27	-0.26
BofA EPS		1.21	1.30	1.31	1.36	1.41	1.53	1.63	1.72	1.80
Previous EPS		1.21	1.30	1.31	1.37	1.42	1.54			
-										
Guidance		1.17-1.20	1.26-1.32	1.27-1.33						
Consensus		1.19	1.28	1.31	1.38	1.46	1.55			
Consensus '17-'22 CAGR	6.5%									
BofA CAGR 2017-2021	4.0%									
BofA CAGR 2019-2022	5.2%									
5%-7% CAGR EPS off '19 guidance range	High End			1.33	1.39	1.49	1.59	1.70		
	Mid-Point			1.30	1.38	1.46	1.55	1.64		
	Low End			1.27	1.37	1.43	1.50	1.58		
5%-7% CAGR EPS off '17 guidance range	High End	1.20	1.28	1.37	1.47	1.57	1.68	1.80		
	Mid-Point	1.19	1.26	1.33	1.41	1.50	1.59	1.68		
	Low End	1.17	1.23	1.29	1.35	1.42	1.49	1.57		
BofA DPS		0.73	0.79	0.83	0.88	0.94	0.99	1.05	1.12	1.18
BofA CAGR 2017-2021	6.6%									
Guidance		$0.70								
5%-7% CAGR DPS guidance	High End	0.70	0.75	0.80	0.86	0.92	0.98	1.05		
	Mid-Point	0.70	0.74	0.79	0.83	0.88	0.94	0.99		
	Low End	0.70	0.74	0.77	0.81	0.85	0.89	0.94		
Share Count (mn)		329	357	378	394	427	447	447	457	467

Source: BofA Merrill Lynch Global Research estimates, company report, Bloomberg

Valuation

We include our SOTP Valuation below, shifting peer multiple to 19.2x and 19.3x for electric and gas. Our PO shifts down slightly to $30/sh vs. $30.5 before.

Table 4: NI SOTP Valuation

NI SOP Valuation										
	Metric	P/E Multiple						Equity Value		
	2022E EPS	Low	Peer	Prem/ Discount	Base	High		Low	Base	High
Group Peer Multiple - Gas	-	-	19.3x	-	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Gas	-	-	5.10%	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Gas Utilities		- -	20.3x	-	-	-	-	-	-	-
Columbia Gas of OH	$0.50	18.3x	20.3x	-1.0x	19.3x	20.3x		$9.11	$9.61	$10.11
Columbia Gas of PA	$0.25	18.3x	20.3x	-1.0x	19.3x	20.3x		$4.61	$4.86	$5.11
NIPSCO Gas	$0.21	18.3x	20.3x	-1.0x	19.3x	20.3x		$3.81	$4.01	$4.22
Columbia Gas of MA	$0.07	18.3x	20.3x	-1.0x	19.3x	20.3x		$1.21	$1.27	$1.34
Columbia Gas of VA	$0.08	18.3x	20.3x	-1.0x	19.3x	20.3x		$1.40	$1.48	$1.55
Columbia Gas of KY	$0.04	18.3x	20.3x	-1.0x	19.3x	20.3x		$0.79	$0.83	$0.88
Columbia Gas of MD	$0.02	18.3x	20.3x	-1.0x	19.3x	20.3x		$0.31	$0.33	$0.35
Group Peer Multiple - Electric			19.2x							
Group EPS '18-'22 CAGR - Electric			5.00%							
Electric Utilities			20.2x							
NIPSCO Electric	$0.65	20.2x	20.2x	1.0x	21.2x	22.2x		$13.01	$13.65	$14.30
Total Utility	$1.81	*19.0x*			*20.0x*	*21.0x*		$34.25	$36.06	$37.86
-Parent EPS Drag (ex-Interest Expense)	-$0.08	19.0x	0.0x		19.6x	20.6x		-$1.58	-$1.63	-$1.72
Total EPS *(incl. debt drag)*	$1.53									
Midpoint of 5-7% EPS	*$1.59*									
Holdco Debt @ Parent, *not* allocated to Utilities										
(50% Netting out Debt)				-$2,000	50%			-$1,000	-$1,000	-$1,000
(50% P/E multiple on Interest Exp)				5.5%	50%			-$824	-$867	-$910
Grand Total Equity Value								$28.50	$30.16	$31.78
Shares Outstanding 2022E									438	
Total Equity Value								$29.00	$30.00	$32.00
Implied Consolidated P/E										
Current Price									$27.35	
Dividend Yield (2019E)									3.1%	
Total Return									12.7%	

Source: BofA Merrill Lynch Global Research estimates, company report, Bloomberg

Price objective basis & risk

NiSource Inc (NI)

Our $30 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2022 forward P/E multiples of 19.3x for gas utilities and 19.2x for electric utilities with a 1.0x premium to reflect NiSource's electric utility's strong growth rates and earned ROEs. We note that electric / gas peer P/E multiples are grossed up by 5% / 5.1% to reflect capital appreciation across the sector. We then subtract the value of excess holding company debt at the parent not supporting the utility opcos. This multiple is slightly below the LDC peer average but above the small-mid cap electric utility average. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its inline-ish multiple versus peers. We adjust gas utilities (including Columbia Gas of MA) to a -1.0x discount to reflect overhang of shares.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, and challenging steel production economics in Indiana

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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31 October 2019

NiSource, Inc.

A Plan in Place, Upgrade to Overweight

We believe the market is pricing in too much risk around the final Lawrence liability figure and believe underperformance over the past three months (NI down 8% vs XLU up 7%) has created an attractive entry point; we upgrade our NI rating to Overweight and lower our price target by $1 to $31. We see upside to the current valuation even after making conservative assumptions related to unrecoverable costs from the Greater Lawrence Event.

Funding sources have been identified to permanently address incident-related costs. Clarity into total unrecovered costs is improving, and we are confident that previously issued debt and preferred equity combined with Wednesday's announcement of $500 to $700M in block equity issuance will permanently address total funding needs for unrecovered costs related to the Greater Lawrence Event.

5 to 7% growth can be maintained under the current funding scenario. Block equity issued in the back half of 2020 or through a forward agreement will mitigate 2020 earnings dilution. The dilutive impact will be further offset by a growing proportion of capital spend earning contemporaneous returns, which results in a ~1% tailwind to growth.

The consequences of pending regulator intervention are checked: Civil penalties related to the event are capped at ~$22M and any unfavorable ratemaking treatment from MA regulators will have a limited impact on NI, as Columbia Gas of Massachusetts comprises just 8% of total rate base. No details have been disclosed since a criminal investigation was launched in Nov 2018, but we believe that NTSB findings showing no indication of fraud or willful negligence set a high bar for criminal penalties.

NI: Quarterly and Annual EPS (USD)

	2018		2019			2020		Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2019	2020
Q1	0.77A	0.82A	0.82A	0.82A	N/A	N/A	0.85E	6%	N/A
Q2	0.07A	0.05A	0.05A	0.05A	N/A	N/A	0.11E	-29%	N/A
Q3	0.10A	0.03E	0.00A	0.04E	N/A	N/A	0.09E	-100%	N/A
Q4	0.38A	0.41E	0.42E	0.40E	N/A	N/A	0.41E	11%	N/A
Year	1.30A	1.31E	1.29E	1.31E	1.39E	1.37E	1.38E	-0.77%	6%
P/E	21.2		21.2			20.0			

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 30-Oct-2019; 20:32 GMT

Stock Rating	OVERWEIGHT from Equal Weight
Industry View	NEUTRAL Unchanged
Price Target	USD 31.00 lowered -3% from USD 32.00

Price (30-Oct-2019)	USD 27.51
Potential Upside/Downside	+12.7%
Tickers	NI

Market Cap (USD mn)	10276
Shares Outstanding (mn)	373.54
Free Float (%)	99.61
52 Wk Avg Daily Volume (mn)	3.0
Dividend Yield (%)	2.9
Return on Equity TTM (%)	9.56
Current BVPS (USD)	13.30

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 30.67-24.37

Link to Barclays Live for interactive charting

North America Power & Utilities

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 6.

North America Power & Utilities — **Industry View: NEUTRAL**

NiSource, Inc. (NI)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2018A	2019E	2020E	2021E	CAGR
Revenue	5,115	5,299	5,466	5,642	3.3%
EBITDA (adj)	682	1,627	1,765	1,911	41.0%
EBIT (adj)	84	939	1,034	1,134	137.7%
Pre-tax income (adj)	-231	702	776	860	N/A
Net income (adj)	463	486	543	607	9.4%
EPS (adj) ($)	1.30	1.29	1.37	1.46	4.0%
Diluted shares (mn)	356.5	375.2	395.3	415.0	5.2%
DPS ($)	0.78	0.80	0.85	0.90	4.8%
Margin and return data					**Average**
EBITDA (adj) margin (%)	13.3	30.7	32.3	33.9	27.5
EBIT (adj) margin (%)	2.4	19.4	20.5	21.7	16.0
Pre-tax (adj) margin (%)	-4.5	13.3	14.2	15.2	9.5
Net (adj) margin (%)	9.1	9.2	9.9	10.8	9.7
ROIC (%)	0.8	6.6	6.6	6.9	5.2
ROA (%)	2.3	2.2	2.4	2.5	2.4
ROE (%)	10.7	8.4	8.7	8.3	9.0
Balance sheet and cash flow ($mn)					**CAGR**
Tangible fixed assets	15,543	16,753	17,921	19,142	7.2%
Cash and equivalents	113	86	100	47	-25.4%
Total assets	21,804	22,829	24,009	25,177	4.9%
Short and long-term debt	9,083	9,331	9,667	9,687	2.2%
Other long-term liabilities	4,911	4,915	4,893	4,871	-0.3%
Total liabilities	16,053	16,588	16,649	17,270	2.5%
Shareholders' equity	5,751	6,241	7,361	7,907	11.2%
Net debt/(funds)	8,970	9,244	9,567	9,640	2.4%
Change in working capital	-566	181	367	-877	N/A
Cash flow from operations	540	1,206	1,307	1,418	37.9%
Capital expenditure	-1,818	-1,750	-1,750	-1,850	N/A
Free cash flow	-1,278	-544	-443	-432	N/A
Valuation and leverage metrics					**Average**
P/E (adj) (x)	21.2	21.2	20.0	18.8	20.3
EV/EBITDA (adj) (x)	28.2	12.0	11.2	10.4	15.4
EV/EBIT (adj) (x)	227.7	20.7	19.2	17.5	71.3
FCF yield (%)	-6.7	-2.8	-2.2	-2.2	-3.5
P/BV (x)	1.7	1.7	1.5	1.4	1.6
Dividend yield (%)	2.8	2.9	3.1	3.3	3.0
Net debt/EBITDA (adj) (x)	13.2	5.7	5.4	5.0	7.3
Selected operating metrics					**Average**
Payout ratio (%)	60.0	61.8	61.8	61.4	61.3
Interest cover (x)	0.4	2.8	2.9	3.0	2.3
Regulated (%)	100.0	100.0	100.0	100.0	100.0

Price (30-Oct-2019)	USD 27.51
Price Target	USD 31.00

Why Overweight? We view NI as a quality utility with a well-defined rate base growth strategy from gas and electric infrastructure modernization, which we see as relatively low risk. We believe final Lawrence liability and related financing needs are manageable within the 5-7% earnings growth guidance and believe NI continues to deserve a 10% premium.

Upside case — **USD 37.00**

Our upside case reflects a 25% premium to the 2021 utility group average P/E multiple applied to higher earnings driven by additional rate base growth and favorable rate case outcomes and an accretive sale of Massachusetts.

Downside case — **USD 27.00**

Our downside case reflects a 5% premium to the 2021 utility group average P/E multiple applied to lower earnings driven by slower rate base growth and unfavorable Maryland, Massachusetts, and Pennsylvania rate case outcomes.

Upside/Downside scenarios

Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

Upgrade to Overweight

We believe the valuation impact of unrecovered costs related to the Greater Lawrence Event leaves upside to the current share price. We gain confidence in the limited magnitude of this impact as cost estimates have solidified, insurance claims are realized, and funding sources are finalized.

We see block equity as manageable within the current growth forecast given timing optionality and management's revised capital guidance.

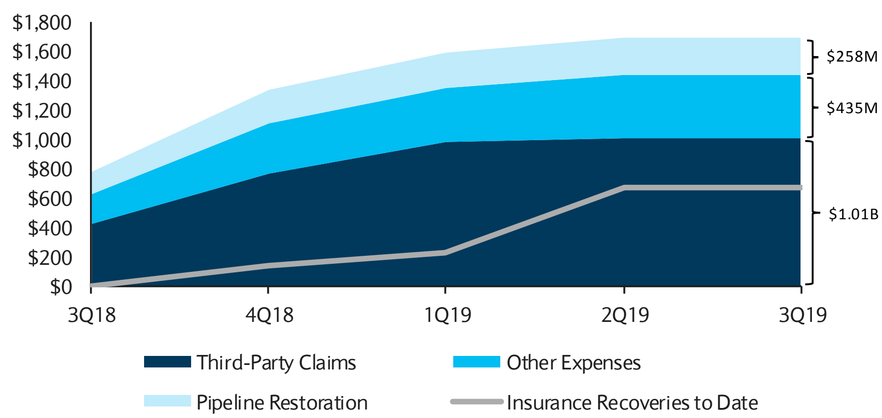
We believe the dilutive effect of the $500-$700M block equity issuance will be lessened in 2020 through either issuance in the back half of the year or the use of a forward agreement. Furthermore, management revised up the midpoint of capital spending guidance through 2022 and increased the proportion of capex that will earn a contemporaneous return, stepping up from 69% in 2019 to 78% 2020 through 2022. This shift adds ~1% to growth, which helps to offset the dilution in order to fit within the 5-7% long-term growth target.

Funding Sufficient to Cover Capital Needs

Event-Related Cost Picture Gaining Clarity

Since NI provided initial estimates at 3Q 2018 earnings, cost estimates have increased 118%. NI is nearing completion on repairs and has reached settlements with most affected parties ($80M settlement with the three municipalities in May and $143M settlement of all class action lawsuits in July). We believe the risk of significant upward cost revisions is now considerably less, though NI does not include estimates for any penalties.

FIGURE 1
Cost Estimate Revisions



Source: Barclays Research, Company Reports

Ongoing Investigations – Civil Penalties Are Capped

In 3Q 2019, the NTSB concluded its investigation of the Greater Lawrence Event, citing "deficiencies in management and oversight" that led to the overpressurization of the system. The Massachusetts DPU, which has the ability to assign penalties, recently launched two investigations into the Greater Lawrence Event (dockets 19-140 and 19-141). Civil penalties related to the storage, transportation and distribution of gas are capped at $2.1M for a related series of violations (G.L. c. 164, § 105A.), and civil penalties related to emergency preparedness and restoration of service are capped at $20M (G.L. c. 164, § 1J). Any violation of DPU orders concerning repair work could result in additional penalties. In 2018, the U.S. Attorney's Office in Massachusetts launched a criminal probe of NI. Since the

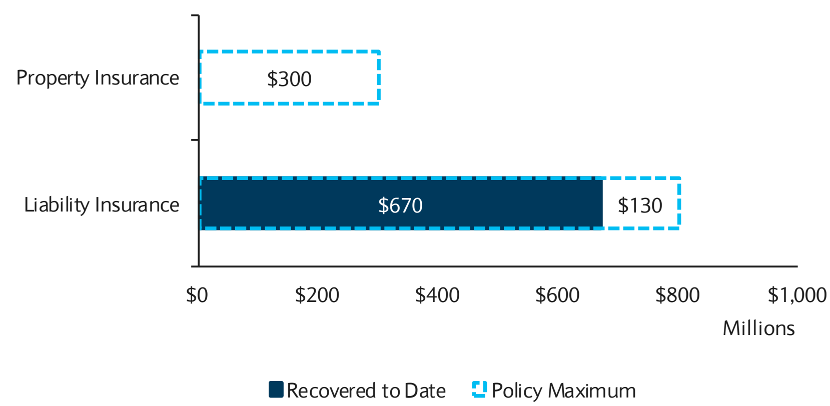
NTSB report did not indicate fraud or wilful negligence, we believe there is a high bar for penalties from this ongoing criminal probe.

Uncertainty of Insurance Recovery

To date, NI has recovered $670M of its $800M liability insurance coverage, and its pipeline property insurance claim ($300M in coverage) is still pending. While a handful of insurance providers comprise the liability insurance policy, only one underwrites the property insurance policy. Capex for pipeline restoration will be offset by property insurance recoveries. Any excess dictates the amount filed for recovery in the next MA gas rate case.

FIGURE 2

Insurance Policies



Source: Barclays Research, Company Reports

Funding Sources Identified

NI issued $500M in preferred equity during December 2018 and $750M in debt during August 2019, some of which may be allocated towards event-related costs. At Q3 earnings, management announced $500-$700M in block equity to be issued in mid-to-late 2020 in order to permanently finance the remaining portion of unrecovered costs from the Greater Lawrence Event. We believe this $500-$700M is sufficient financing under all scenarios for remaining event-related costs (inclusive of potential penalties) and insurance recovery.

FIGURE 3

3Q Financing Guidance Update

NiSource Current Financing Plan			
($ in Millions)	2018 Acutal	2019 Estimated	2020 Estimated
Equity			
Common Equity Block Issuance	$606	None Planned	$500 - $700 ~~None Planned~~
ATM (At-The-Market)	$239	$200 - $300 (Annually)	
ESPP/401K/Other	$41	$35 - $60 (Annually)	
Long-Term Debt			
Incremental LT Debt	($410)	$709 ~~~$500~~	~$500
Other Financing			
Non-Convertible Subordinated Debt or Preferred Equity	$900	None Planned ~~TBD~~	

Source: Barclays Research, Company Reports

Future Massachusetts Regulatory Outlook

While we believe Columbia Gas of Massachusetts may face elevated scrutiny among MA regulators going forward, we do not see single-state regulatory risk as sufficient justification for a reduction to the 10% premium valuation we currently apply, as NI continues to possess above-average long-term growth and diverse geography as a consolidated company. In 2018, Columbia Gas of Massachusetts comprised 11.5% of gas rate base and just 7.6% of total rate base. As such, we believe the read through to consolidated EPS of any less than favourable ratemaking remains limited.

Divestiture Remains a Possibility

A sale of Columbia Gas of Massachusetts assets may be accretive for all parties involved. For NI, a divestiture may remove a large regulatory overhang and improve the balance sheet. A potential acquirer may benefit from cheap distribution assets while avoiding the heat from NI's damaged relationship with Massachusetts regulators. For additional commentary on potential sale scenarios, see our note "*Less Mass(achusetts), More Value?*," published 5/2/19.

Price Target and Methodology

Our new $31 valuation was premised upon a 10% premium to the group average 2021 PE of 19.5 applied to our updated 2021 EPS estimate of $1.46, which takes into account updated guidance for financing and capital spending.

Our previous $32 valuation was premised upon a 10% premium to the group average 2021 PE of 19.5 applied to our previous 2021 EPS estimate of $1.48

30 October 2019
Equity Research
Americas | United States

CREDIT SUISSE

NiSource Inc.

3Q Miss with 2020 Guidance a Bit Light

NI

Target price (12M, US$)
30.00
Neutral

Natural Gas | Research Bulletin

- **Miss for 3Q19 at $0.00 vs CS/consensus $0.09/$0.08.** With TTM tracking at $1.25, guidance for 2019 was maintained at $1.27-$1.33 vs CS/consensus $1.32/$1.30.
- **Guidance for 2020 initiated below our expectations.** Initiated at $1.36-$1.40, which is consistent with 5%-7% earnings growth, but below our previewed expectation for $1.37-$1.43. We had expected earnings growth to be tracking ahead of current guidance as a result of accelerated insurance recoveries and pension asset valuation. However, it appears these factors are not yet working their way into the earnings trajectory (or are being offset by other factors). We continue to expect NI to return to the original guidance glidepath (5%-7% off a 2018 base $1.30) by 2022, although it appears that progress will be more loaded into 2021/22.
- **NTSB report on Oct 24 for the Greater Lawrence incident says company response to earlier recommendations (Nov 2018) is "acceptable".** Further service line verifications for safety compliance continue for ~2000 abandoned lines, with inspections expected to be complete by yearend. For 3Q19, the company booked a small $21M incremental cost for estimated third-party claims and related other expenses net of insurance recoveries recorded.
- **In Indiana, NIPSCO announced the next RFP for new generating resources on Oct 1.** The electric base ratecase remains pending before regulators after a partial settlement was filed in April at a 9.9% ROE. Eapect a final decision in 4Q with rates effective 1Q20.
- **Call at 9 am ET**, (855) 219-9570 pin code 7898904.

Price (29 Oct 19, US$)	27.31
52-week price range	30.56 - 24.89
Market cap (US$ m)	10,196.11
Enterprise value (US$ m)	19,829

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Goldman Sachs | Equity Research

30 October 2019 | 7:41AM EDT

NiSource Inc. (NI): First Take: Higher equity forecast, but 2020 guidance largely in-line; modest 3Q2019 miss

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NiSource (NI, Buy) recorded a modest 3Q2019 miss on a small earnings quarter, but more importantly, the company reiterated its 2019 EPS guidance ($1.27-$1.30) while introducing 2020 guidance ($1.36-$1.40) versus GS/consensus of $1.40/$1.38. We view the guidance as constructive, given NI's new bulk equity forecast of $500-$700mn in 2020 (above the $200-$300mn of annual ATM previously guided), as well as concerns about potentially higher gas O&M expenses related to safety management system (SMS) spend. See inside for additional details.

NI reported 3Q2019 operating EPS of $0.00 versus GS/FactSet consensus at $0.03/$0.04. The company also **reiterated its 2019 EPS guidance range of $1.27-$1.33** ($1.30 mid-point) versus GS/consensus of $1.30 and $1.31 respectively, as well as its **5-7% EPS/dividend growth annually** through 2022. **NI also introduced 2020 operating EPS guidance of $1.36-$1.40 ($1.38 mid-point) versus GS/consensus of $1.40/$1.38.**

Key takeaways from NI's release include:

- **Modest 3Q2019 miss on higher gas O&M.** NI's gas segment reported operating income of ($26.4)mn vs GS at ($18.5)mn, or a $0.02 miss, primarily driven by higher O&M expenses. NI's electric segment reported operating income of $135.4mn vs GS at $132.8mn, or a $0.01 beat, on better O&M management and lower D&A expenses.
- **NI modestly raised its 2021/2022 annual capital investment guidance to $1.7-$2.0bn ($1.85bn mid-point)** versus $1.6-$2.0bn ($1.8bn mid-point) prior, while also raising its 2019 capital spending range to $1.7-$1.8bn from $1.6-$1.7bn. NI also reiterated growing operating EPS and dividend by 5%-7% annually. We currently estimate between $1.75-$1.80bn of annual capital spend through 2021.
- **NI plans to issue $500-$700mn of block equity in 2020,** in addition to reiterating its $200-$300mn annual ATM equity in 2019/2020. Our model currently assumes $500mn of preferred equity in YE2019 as well as $250mn/$300mn of ATM in 2019/2020. The company does not plan to issue any preferred equity during this time period while reiterating around $500mn of debt in 2020.
- **Management reiterated their total MA incident cost estimate of ~$1.45bn**

(mid-point) for third party claims and other expenses, while insurance recoveries of $670mn through 3Q2019 remained unchanged versus that as of 2Q2019.

Key topics to monitor on NI's earnings call include (1) additional color on timing of future insurance recoveries related to the MA incident, (2) O&M growth expectations in 2020 and beyond including the portion related to gas safety, (3) thoughts on potential timing of planned bulk equity and the assumed impact to 2020 EPS, and (3) updated view on incremental regulated investment opportunities. We derive our 12-month target price of $31 using a 21x blended P/E multiple on 2021E EPS. Key risks include (1) legal and regulatory risks, (2) system damages related to the recent MA natural gas incident, (3) higher than expected O&M, (4) electricity demand and customer growth, and (5) financing.

NI	12m Price Target: **$31.00**	Price: **$27.31**	Upside: **13.5%**

Buy

Market cap: $8.9bn
Enterprise value: $19.1bn
3m ADTV: $95.1mn
United States
America-Regulated Utilities
M&A Rank: 3

GS Forecast

	12/18	12/19E	12/20E	12/21E
Revenue ($ mn)	5,114.5	5,293.0	5,450.6	5,571.7
EBITDA ($ mn)	725.5	1,959.6	1,846.1	1,955.4
EBIT ($ mn)	125.9	1,270.4	1,138.2	1,197.2
EPS ($)	1.30	1.30	1.40	1.46
P/E (X)	19.3	21.0	19.5	18.7
EV/EBITDA (X)	26.0	10.5	11.4	11.1
FCF yield (%)	(14.3)	(1.2)	(0.9)	(2.6)
Dividend yield (%)	3.1	2.9	3.1	3.3
Net debt/EBITDA (X)	12.4	4.5	4.9	4.9

	6/19	9/19E	12/19E	3/20E
EPS ($)	0.05	0.03	0.40	0.91

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 29 Oct 2019 close.

GUGGENHEIM

October 30, 2019

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NI - ’19 On Track; ’20 Outlook Very Consistent – Beginning to Turn Chapter in MA; Shares Continue to Present Value

Key message: Despite miss, ’19 outlook sound; ’20 guidance and financing updates consistent; MA restoration efforts/overhangs moving to the rear window. We reiterate BUY on one of only two remaining gas utilities that continue to show value on top quartile growth prospects. Further re-rating should transpire as MA overhangs continue to move further in the rear window.

NI BUY

NiSource Inc.
Sector: Power, Utilities & Alternative Energy

Earnings Release

Share Price	$27.31
Price Target	$31.00

EPS ($) (FY DEC)	1Q	2Q	3Q	4Q	FY
2019	0.82	0.05	0.00	0.43E	1.30E
Prior	—	—	*0.07*	*0.36E*	—
P/E					21.0x
2020	0.80E	0.12E	0.10E	0.38E	1.38E
Prior	*0.78E*	—	—	—	—
P/E					19.8x
2021	0.83E	0.13E	0.11E	0.41E	1.48E
Prior	*0.84E*	—	*0.10E*	—	—
P/E					18.5x

Market Data

52-Week Range	$24.37 - $30.67
Dividend	$0.74
Dividend Yield	2.7%
Market Cap (M)	$10,196
Enterprise Value (M)	$21,092
Shares Out (M)	373.3
ADV (3 mo; 000)	3,262

Quick Take - Modest miss, outlook, financing plan, dividend policy and growth trajectory inline despite higher equity which was well projected/telegraphed. NI reports 3Q19 EPS of $0.00, below Guggenheim/Consensus estimate of $0.07/$0.04. Management reiterated 2019 guidance of $1.27-$1.33, in line versus our estimate of $1.30; 2019 CapEx guide of $1.7-1.8Bn slightly higher vs prior guide vs. our current $1.8B. 2019-22 EPS and dividend growth rate of 5-7% was also reaffirmed and is also inline with our 6.8% trajectory; Capex of $1.7-$2Bn compares well to our ~$2Bn/year forecast. Overall, consistent execution of capital plan and regulatory strategy, with NT MA headwinds working themselves through. Reiterate BUY on deep value vs. gas/electric peers.

2020 guide inline: EPS and CapEx inline, equity higher but inline with prior signals. Mgmt. on the call presented ’20 outlook very consistent with our expectations: $1.7-1.8Bn CapEx vs Guggenheim at $1.8Bn; EPS range of $1.36-1.40 vs Guggenheim estimate $1.38. On the equity front, Mgmt. reiterates ATM and internal program needs, consistent with our $250mm forecast, but initiated on new common block issuance needs within the $500-700mm range. On the latter block equity transaction expected by Mgmt, while a new incremental data point, in our view it was well telegraphed and expected by investors given the delta between MA restoration costs (~$1.4Bn) and ultimate insurance recoveries (~ $800mm) leading to incremental equity needs (~$600mm) – in line with today’s range. Note: Mgmt. has flexibility on the timing of the equity between now and YE 2020 to take advantage of capital market conditions and eliminated the use of prior disclosed hybrids given the assessment that a block equity deal is best option to maintain current credit profile (block receives 100% equity credit vs partial from hybrids and preferred’s), EPS growth and cheapest alternative. Additionally, per Mgmt's take the timing of the equity transaction is not expected to impact the new 2020 EPS guide and is already reflected in guidance.

MA Restoration Efforts? Insurance recovery tracking well and prior total cost estimates remain as is – we think an end to the fallout from MA incident is near. NI is making good progress on casualty insurance recovery, with $670M recorded ($535M collected in cash) to date against the total of ~$800mm in liability insurance. The process on claiming property insurance has also commenced with on-going claim discussion with insurer. We believe the clarity around the total liabilities related to the MA incident is a positive development for the stock and should further allow shares to re-rate despite the perception that the MA utility is a small component of the NI enterprise.

Valuation

We derive our regulated utility group target multiple of 18x from our regression model, which uses the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years, and now ascribe a 2x premium to reflect several externalities (e.g., macro/geopolitical uncertainties) that continue to support the group trading beyond fundamentals and forward yield expectations. We arrive at our valuation utilizing a sum-of-the parts analysis, based on: (1) ~$11/share for the regulated electric utility; (2) ~$23/ share value for the regulated gas segment utilizing our regulated electric P/E multiple plus a premium to account for the historical gas LDC spread above electric counterparts; and (3) (~$2)/share for other adjustments for Corp and Other. We then discount our valuation back by two years to arrive at our $31 valuation.

Risks

The primary risk on the regulated utility encompasses the traditional risk factors inherent with all utilities, including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

Jefferies

EQUITY RESEARCH
NiSource Inc. (NI)

NiSource Inc.
Costs Hit 3Q; Financing in Focus

October 30, 2019

Key Takeaway

NI's 3Q break-even NOEPS fell short of our 5¢ forecast & the Street's 4¢ mean est.; the miss was driven by elevated O&M expense and weaker Other Income. Mgmt affirmed its 2019 NOEPS guidance of $1.27-$1.33, implying 4Q of 40-46¢, up ~13% y/y at the mid-point, but raised its capex outlook ~6%, to $1.7-$1.8B. NI initiated 2020 NOEPS guidance of $1.36-$1.40, up ~6% y/y at the mid-point & in-line with the $1.38 Street mean; 2020 capex is expected to be $1.7-$1.8B

Guidance suggests ~$1.2B in 4Q-2020 equity raises. With results, NI affirmed its 2019 NOEPS outlook of $1.27-$1.33 ($1.30 JEFe), implying 4Q of 40-46¢ (vs. 40¢ Street mean), but lifted anticipated capital spending ~$100mm, to $1.7-$1.8B. Mgmt also initiated 2020 NOEPS guidance of $1.36-$1.40 (vs. $1.38 Street mean), with a capex forecast of $1.7-$1.8B, and affirmed its expectation for annual NOEPS & DPS growth of 5-7% through 2022, fueled by yearly capex of $1.7-$2.0B, a modest lift from its previous $1.6-$2.0B stated spending range. Assuming 50% equity credit to its Prefs, we calculate TTM leverage of ~5.8x and note NI has raised just $11mm in equity YTD, far below its $235-$360mm 2019 expectation & implying meaningful 4Q ATM activity. Moreover, NI now anticipates $500-$700mm of block equity issuance in 2020 above its legacy expectation of $235-$360mm in annual ATM, ESPP, 401(k) and other equity capital sources.

Regulatory updates. In Aug., the PUCO approved CG of OH's application for the first annual adjustment to its CEP rider; the approved application allows the company to begin recovering ~$121.7mm of capital invested in 2018 and new rates became effective in Sept. On Aug. 7th, the IURC approved the JV and ownership agreement for Rosewater, one of three wind projects NIPSCO announced in Feb. In addition, on Oct. 22nd, NIPSCO filed an application with IURC for approval of a fourth wind project, Indiana Crossroads, also a JV with EDP Renewables, which would have an aggregate nameplate capacity of 302 MW; operations are expected in 4Q21.

Columbia Gas of MA update. In Sept., the NTSB closed the last two open urgent safety recommendations related to the Sept. 2018 Greater Lawrence event and, on Oct. 24th, it released its final report. However, following the report's release, the MA DPU opened two new investigations covering cause and NI's emergency preparedness and response. Beginning in Sept., NI commenced service line verifications, including lines abandoned as part of the fall 2018 recovery work. NI noted 700 lines had been completed by the required deadline of Oct 18th, verification of the next group of ~2,200 lines is expected to be complete by Nov 15th, and the final 2,000 abandoned lines are expected to be verified by YE. Greater Lawrence incident costs seem to have stabilized at ~$1.7B (midpoint).

New Safety Chiefs. On Oct. 1st, NI named Chuck Shafer to the newly created position of Chief Safety Officer, responsible for driving NI's long-term, multi-year risk reduction outlook. On Oct. 16th, NI appointed Nick Stavropoulos as Chief Safety Advisor for CG of MA. Both men report directly to CEO Joe Hamrock.

See Exhibit 1 for greater color on 3Q results & Exhibit 2 for regulatory details.

FLASH NOTE

USA | Utilities

RATING	HOLD
TICKER	NI
PRICE	$27.31^
PRICE TARGET (PT)	$28.00
MARKET CAP	$10.2B

^Prior trading day's closing price unless otherwise noted.

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Exhibit 1 - NI 3Q19 Results Preview

Operating Income by Division	Actual 3Q19A	Jefferies Expectations 3Q19E		Year-over-Year 3Q18A	
Gas Distribution	($26.4)	$2.6	NM	($2.9)	NM
Electric Operations	$135.4	$127.3	6.4%	$122.8	10.3%
Corporate, Other, and Eliminations	($1.3)	$0.4	NM	$5.1	NM
Total Operating Income	**$107.7**	**$130.2**	**-17.3%**	**$125.0**	**-13.8%**
Depreciation	($182.2)	($175.3)	3.9%	($148.5)	22.7%
Other Income / (Expenses)	$1.3	$6.7	-80.6%	$8.6	NM
Interest Expense	($95.9)	($96.1)	-0.2%	($83.4)	15.0%
Income Tax Benefit (Expense)	($1.0)	($8.2)	-87.8%	($9.3)	-89.2%
Preferred Dividend	($13.8)	($13.8)	0.2%	$0.0	NM
Recurring Net Income	**($1.7)**	**$18.9**	**-109.0%**	**$35.3**	**-104.8%**
Avg Diluted Shares Outstanding	374.1	376.0	-0.5%	363.9	2.8%
EPS (Non-GAAP, Diluted)	**($0.00)**	**$0.05**	**-109.0%**	**$0.10**	**-104.7%**
EBITDA ($MM)	**$291**	**$312**	**-6.7%**	**$282**	**3.2%**
Capex & Affiliate Investments	**$467**	**$452**	**3.2%**	**$464**	**0.5%**

Source: NI reports, Jefferies estimates; Note: results reflect adjustments to normalize for weather realities and exclude asset sale gains and GLI-related costs

Exhibit 2 - NI Regulatory Backlog

Company/Filing	Summary	Timeline
NIPSCO Gas - PHMSA Compliance Plan 2	Recovery of Federally mandated pipeline safety compliance plan; includes ~$230mm of capital recovery through 2023	Filed: 12/31/2018; Order Received Sept. 2019
Columbia Gas of Ohio Capital Expenditure Program Annual Rider Update	Recovery of certain capital investments and related deferred expenses not recovered through the IRP tracker; includes $121.7mm of capital investments made in 2018	Filed: 2/28/2019; Order Received Aug. 2019; New rates effective Sept. 2019
NIPSCO Gas System Modernization Program	Long-term infrastructure modernization program; TDSIC10 filing covers $12.4mm in incremental capital investments made between July 2018 and April 2019	Filed 6/25/209; Order Received 10/16/2019; New rates effective Nov. 2019
Columbia Gas of Kentucky Advanced Main Replacement Program Annual Rider Update	Seeks to recover $40.4mm of 2020 capital investments; includes capital to be spent on low-pressure system safety enhancements	Filed 10/15/2019; Order expected by YE19; Rates expected to be effective Jan. 2020
Columbia Gas of Maryland Base Rate Case	Supports continued infrastructure replacement investments; Requests $3.7mm total annual revenue increase; $2.5mm, net of infrastructure trackers	Filed: 5/22/19; Order expected 4Q19; New rates expected to be effective by Jan 2020
Wind CPCN Filings	BTA application approved for Rosewater (100MW), a JV between NIPSCO and EDP Renewables; BTA CPCN application filed for Indiana Crossroads (302MW), a second JV between NIPSCO and EDP renewables	Rosewater approved 8/7/2019; Indiana Crossroads CPCN filed 10/22/2019, expected in-service 4Q2021
Electric System Modernization Program	Focused on electric transmission & distribution investments designed to improve system reliability & safety; TDSIC 6 semi-annual tracker update covering ~$131.1mm in investments from Dec 2018 - June 2019	Filed: 8/21/2018; Order expected 4Q2019; Rates expected effective Jan. 2020
Integrated Resource Plan	Outlines NIPSCO's plans for meeting customers' long-term electricity needs; 2018 IRP includes plans to retire nearly 80% of NIPSCO's coal-fired generation fleet by 2023 and all remaining units by 2028; replacement options point toward lower-cost, cleaner energy resources; 2nd round of RFP's launched 10/1/2019	Submitted 10/31/18
Base Rate Case	Seeks changes to depreciation schedules related to the early retirements of coal-fired generation plants called for in the IRP; Proposes changes to tariffs to provide service flexibility for industrial customers; partial settlement that addresses revenue requirement, federal tax reform & depreciation schedules and allows for 9.9% ROE	Filed: 10/31/2018; Partial Settlement 4/26/2019; Hearing concluded Aug. 2019; Order expected 4Q2019; New rates expected in 1Q2020

Source: NI reports

UBS

Global Research

30 October 2019

First Read

NiSource Inc.
Equity Block in 2020

Equities

Americas
Gas Utilities

12-month rating	**Neutral**
12m price target	**US$30.00**
Price (29 Oct 2019)	**US$27.31**

RIC: NI.N **BBG:** NI US

Trading data and key metrics

52-wk range	US$30.56-24.89
Market cap.	US$10.2bn
Shares o/s	375m (COM)
Free float	99%
Avg. daily volume ('000)	926
Avg. daily value (m)	US$26.9
Common s/h equity (12/19E)	US$5.10bn
P/BV (12/19E)	2.0x
Net debt / EBITDA (12/19E)	5.9x

EPS (UBS, diluted) (US$)

	12/19E			
	From	To	% ch	Cons.
Q1	0.82	0.82	0	0.82
Q2	0.05	0.05	0	0.05
Q3E	0.04	0.01	-78	0.04
Q4E	0.40	0.40	NM	0.40
12/19E	1.31	1.28	-2	1.31
12/20E	1.40	1.38	-1	1.38
12/21E	1.48	1.46	-1	1.47

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2020 EPS Guidance ~ Inline with Consensus; Equity Block Expected in 2020

NI reported 3Q19 EPS miss, however, 2019 EPS guidance was reaffirmed. 2019 capex range was increased to $1.7-$1.8B, up from $1.6-$1.7B and during the call we will listen for details on change in capex guidance. NI also announced 2020 EPS guidance of $1.36-$1.40 ($1.38 midpoint) vs. Cons of $1.38 and UBSe of $1.40. NI expects 2020 capex of $1.7-$1.8B (flat from revised higher 2019 range), in-line with UBSe. Notably, NI now expects $500-$700MM of equity block offering in 2020 as well as $200-$300MM of annual equity issued via ATM versus our prior estimate of $450MM of ATM issuance in 2H2019-2020 or a roughly $400mm net increase in equity needed. Hence, we expect it could be a near term overhang. That said, NI no longer plans any non-convertible subordinate debt or preferred equity issuance in 2019/2020. During the call, we will listen for an update on restoration efforts in MA as well as recent developments within the state. As noted in the past, potential sale of Columbia of MA could be positive for the balance sheet and regulatory lag. In Indiana, the Rosewater wind project was approved and NI filed a second JV wind project (Indiana Crossroads).

Results: 3Q19 Adj. EPS Below UBSe/Consensus

NI reported 3Q19 adj EPS of $0.00, below UBSe/Consensus of $0.04/$0.04. Gas Distribution Segment margin was $8.7MM above UBSe, but it was more than offset by higher than expected operating expenses. Electric segment margin was below UBSe, while lower O&M partially offset.

Lowering Estimates

To reflect lower than expected 3Q19 earnings and higher than expected equity issuance in 2020, we are lowering our 2019/2020/2021 EPS estimates by 2%/1%/1% to $1.28/$1.38/$1.46, respectively.

Valuation:

We maintain our Neutral rating and $30 PT.

Highlights (US$m)	12/16	12/17	12/18	12/19E	12/20E	12/21E	12/22E	12/23E
Revenues	4,505	4,905	5,095	5,339	5,534	5,728	5,916	6,111
EBIT (UBS)	894	964	942	1,045	1,134	1,212	1,285	1,362
Net earnings (UBS)	351	398	463	481	541	596	636	676
EPS (UBS, diluted) (US$)	1.09	1.21	1.30	1.28	1.38	1.46	1.52	1.59
DPS (US$)	0.66	0.72	0.79	0.84	0.89	0.95	1.01	1.07
Net (debt) / cash	(7,883)	(8,973)	(9,891)	(10,314)	(10,235)	(10,759)	(11,348)	(11,902)
Profitability/valuation	**12/16**	**12/17**	**12/18**	**12/19E**	**12/20E**	**12/21E**	**12/22E**	**12/23E**
EBIT margin %	19.8	19.7	18.5	19.6	20.5	21.2	21.7	22.3
ROIC (EBIT) %	8.9	8.6	7.7	8.0	8.1	8.1	8.0	7.9
EV/EBITDA (core) x	9.3	9.8	10.6	10.4	9.8	9.5	9.3	8.8
P/E (UBS, diluted) x	21.3	20.9	19.4	21.3	19.9	18.7	17.9	17.2
Equity FCF (UBS) yield %	(9.0)	(11.6)	(14.5)	0.2	(3.6)	8.4	331.5	8939.4
Net dividend yield %	2.8	2.9	3.1	3.1	3.3	3.5	3.7	3.9

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$27.31 on 29 Oct 2019 19:39 EDT

www.ubs.com/investmentresearch

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Figure 1: 3Q19 Results vs UBSe

$ in millions	Actual 3Q19	UBSe 3Q19e	% variance	Actual 3Q18	YoY % change
Financial Data					
Revenues	$927.9	$976.3	*(5.0%)*	$895.0	*3.7%*
Cost of Sales	($196.7)	($239.2)	*(17.8%)*	($222.0)	*(11.4%)*
Operating & Maintenance Expenses	($368.8)	($369.4)	*(0.2%)*	($780.8)	*(52.8%)*
Depreciation & Amortization	($182.2)	($176.8)	*3.1%*	($148.5)	*22.7%*
Total Expenses	($618.7)	($608.6)	*1.7%*	($988.9)	*(37.4%)*
Interest Expense	($95.9)	($96.5)	*(0.6%)*	($83.4)	*15.0%*
Net Income	($1.7)	$14.4	*(111.8%)*	$35.3	*(104.8%)*
EPS	($0.00)	$0.04	*(111.9%)*	$0.10	*(104.7%)*
Diluted Shares Outstanding	$374.1	$378.1	*(1.1%)*	$363.9	*2.8%*
Dividend Per Share	$0.205	$0.205	*0.0%*	$0.195	*5.1%*
Segment Operating Income					
Gas Distribution	($26.4)	($23.0)	*14.9%*	($3.6)	*633.3%*
Electric Operations	$135.4	$148.8	*(9.0%)*	$134.9	*0.4%*
Total	$107.7	$128.5	*(16.2%)*	$135.7	*(20.6%)*

Source: UBS estimates, Company Reports

Figure 2: NI Summary Model

NisSource Inc (NI)											
($ in Millions)	2017	2018	1Q19	2Q19	3Q19e	4Q19e	2019e	2020e	2021e	2022e	2023e
Operating Data											
Customers (000)											
Gas Utilities Customers	3,455	3,482	3,495	3,466	3,451	3,509	3,509	3,541	3,573	3,606	3,639
Electric Customers	469	472	472	473	473	474	474	477	479	481	484
Income Statement											
Revenues	**$ 4,904.8**	**$ 5,095.1**	**$ 1,858.9**	**$ 1,011.9**	**$ 927.9**	**$ 1,540.6**	**$ 5,339.3**	**$ 5,533.6**	**$ 5,728.0**	**$ 5,916.2**	**$ 6,110.7**
Operating costs & expenses											
(Cost of Sales)	$ (1,518.7)	$ (1,759.5)	$ (680.3)	$ (253.5)	$ (196.7)	$ (530.2)	$ (1,660.7)	$ (1,725.9)	$ (1,782.9)	$ (1,837.8)	$ (1,894.6)
(Operating & Maintenance Expenses)	$ (1,589.2)	$ (1,963.4)	$ (418.8)	$ (382.7)	$ (368.8)	$ (452.7)	$ (1,623.0)	$ (1,633.3)	$ (1,656.3)	$ (1,678.9)	$ (1,701.0)
(Depreciation & Amortization)	$ (570.3)	$ (596.6)	$ (175.1)	$ (177.9)	$ (182.2)	$ (176.7)	$ (711.9)	$ (734.2)	$ (761.4)	$ (789.8)	$ (819.5)
Gain on the Sale of Assets	$ (5.5)	$ (0.7)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
(Other Taxes)	$ (257.2)	$ (275.0)	$ (87.6)	$ (66.4)	$ (67.7)	$ (76.5)	$ (298.3)	$ (306.6)	$ (315.7)	$ (324.4)	$ (333.5)
Equity Earnings in Unconsolidated Affilates	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	**$ (2,422.2)**	**$ (2,835.7)**	**$ (681.5)**	**$ (627.0)**	**$ (618.7)**	**$ (705.9)**	**$ (2,633.1)**	**$ (2,674.2)**	**$ (2,733.5)**	**$ (2,793.1)**	**$ (2,854.0)**
Operating Income By Division											
Gas Distribution	$ 586.9	$ 564.6	$ 397.7	$ 46.8	$ (26.4)	$ 202.9	$ 621.0	$ 670.4	$ 716.3	$ 757.0	$ 800.3
Transmission & Storage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Electric Operations	$ 376.6	$ 381.2	$ 95.4	$ 85.8	$ 135.4	$ 95.0	$ 411.6	$ 458.4	$ 498.1	$ 537.9	$ 577.6
Corporate & Eliminations	$ 0.4	$ (3.9)	$ 4.0	$ (1.2)	$ (1.3)	$ 6.5	$ 8.1	$ 4.7	$ (2.7)	$ (9.5)	$ (15.7)
Total Operating Income	**$ 963.9**	**$ 941.9**	**$ 497.1**	**$ 131.4**	**$ 107.7**	**$ 304.5**	**$ 1,040.7**	**$ 1,133.6**	**$ 1,211.6**	**$ 1,285.3**	**$ 1,362.2**
EBITDA	**$ 1,534.2**	**$ 1,538.5**	**$ 672.2**	**$ 309.3**	**$ 289.9**	**$ 481.2**	**$ 1,752.6**	**$ 1,867.8**	**$ 1,973.1**	**$ 2,075.1**	**$ 2,181.6**
Other expenses											
Interest Expense	$ (353.2)	$ (353.3)	$ (95.6)	$ (94.1)	$ (95.9)	$ (99.2)	$ (384.8)	$ (393.9)	$ (401.6)	$ (424.7)	$ (451.4)
Other Expense (Income)	$ (2.8)	$ (96.5)	$ (0.7)	$ (0.3)	$ 1.3	$ -	$ 0.3	$ -	$ -	$ -	$ -
Total Other Expenses	**$ (356.0)**	**$ (449.8)**	**$ (96.3)**	**$ (94.4)**	**$ (94.6)**	**$ (99.2)**	**$ (384.5)**	**$ (393.9)**	**$ (401.6)**	**$ (424.7)**	**$ (451.4)**
Income from Before Income Taxes	**$ 607.9**	**$ 477.1**	**$ 387.0**	**$ 23.2**	**$ (0.7)**	**$ 191.5**	**$ 601.0**	**$ 684.6**	**$ 754.9**	**$ 805.4**	**$ 855.7**
Income Taxes	$ (210.4)	$ (13.8)	$ (79.3)	$ (4.1)	$ (1.0)	$ (40.2)	$ (124.6)	$ (143.8)	$ (158.5)	$ (169.1)	$ (179.7)
Effective Tax Rate	34.6%	2.9%	20.5%	17.7%	-142.9%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Net income	**$ 397.5**	**$ 463.3**	**$ 307.7**	**$ 19.1**	**$ (1.7)**	**$ 151.3**	**$ 476.4**	**$ 540.8**	**$ 596.4**	**$ 636.3**	**$ 676.0**
Diluted Weighted Avg Number of Common U	$ 329.4	$ 356.4	$ 373.4	$ 373.9	$ 374.1	$ 375.8	$ 374.3	$ 393.2	$ 409.2	$ 418.1	$ 426.4
EPS	**$ 1.21**	**$ 1.30**	**$ 0.82**	**$ 0.05**	**$ (0.00)**	**$ 0.40**	**$ 1.27**	**$ 1.38**	**$ 1.46**	**$ 1.52**	**$ 1.59**
Balance Sheet Summary											
Assets											
Cash and Cash Equivalents	$ 29.0	$ 121.1	$ 160.8	$ 32.4	$ 37.0	$ 40.6	$ 40.6	$ 95.7	$ 150.8	$ 205.9	$ 261.0
Property, Plant and Equipment	$ 14,359.5	$ 15,542.5	$ 15,741.4	$ 16,133.8	$ 16,480.9	$ 16,644.2	$ 16,644.2	$ 17,660.0	$ 18,748.6	$ 19,908.7	$ 21,039.2
Investment in affiliates	$ 82.0	$ 86.5	$ 134.0	$ 146.8	$ 157.0	$ 157.0	$ 157.0	$ 157.0	$ 157.0	$ 157.0	$ 157.0
Total Assets	**$ 19,961.7**	**$ 21,804.0**	**$ 21,889.9**	**$ 21,974.2**	**$ 22,132.3**	**$ 22,299.2**	**$ 22,299.2**	**$ 23,370.1**	**$ 24,513.8**	**$ 25,729.0**	**$ 26,914.6**
Liabilities & Partners' Capital											
Long Term Debt	$ 7,512.2	$ 7,105.4	$ 7,110.1	$ 7,109.7	$ 7,853.8	$ 8,556.8	$ 8,556.8	$ 8,590.1	$ 9,172.0	$ 9,813.2	$ 10,422.2
Partners' Equity	$ 4,320.1	$ 5,750.9	$ 5,779.6	$ 5,976.2	$ 5,848.5	$ 5,966.3	$ 5,966.3	$ 7,006.0	$ 7,515.7	$ 8,031.7	$ 8,553.5
Total Liabilities & Partners' Capital	**$ 19,961.7**	**$ 21,804.0**	**$ 21,889.9**	**$ 21,974.2**	**$ 22,132.3**	**$ 22,299.2**	**$ 22,299.2**	**$ 23,370.1**	**$ 24,513.8**	**$ 25,729.0**	**$ 26,914.6**
Cash Flow Summary											
Changes in Working Capital	$ (56.5)	$ 110.2	$ (53.0)	$ (29.7)	$ 117.7	$ -	$ 35.0	$ -	$ -	$ -	$ -
Net cash provided by operating activities	$ 742.2	$ 540.1	$ 399.1	$ 527.1	$ 305.6	$ 382.0	$ 1,613.8	$ 1,330.1	$ 1,412.9	$ 1,481.3	$ 1,550.6
Capital Expenditues	$ (1,695.8)	$ (1,818.2)	$ (353.7)	$ (489.8)	$ (466.5)	$ (340.0)	$ (1,650.0)	$ (1,750.0)	$ (1,850.0)	$ (1,950.0)	$ (1,950.0)
Net cash provided by investing activities	$ (1,808.5)	$ (1,926.1)	$ (375.4)	$ (522.6)	$ (495.8)	$ (340.0)	$ (1,733.8)	$ (1,750.0)	$ (1,850.0)	$ (1,950.0)	$ (1,950.0)
Net cash provided by financing activities	$ 1,068.7	$ 1,468.7	$ 16.0	$ (132.9)	$ 194.8	$ (38.4)	$ 39.5	$ 475.0	$ 492.2	$ 523.8	$ 454.5
Net change in cash	**$ 2.4**	**$ 82.7**	**$ 39.7**	**$ (128.4)**	**$ 4.6**	**$ 3.6**	**$ (80.5)**	**$ 55.1**	**$ 55.1**	**$ 55.1**	**$ 55.1**
Dividend											
Dividend Per Share	**$ 0.72**	**$ 0.79**	**$ 0.21**	**$ 0.21**	**$ 0.21**	**$ 0.22**	**$ 0.84**	**$ 0.89**	**$ 0.95**	**$ 1.01**	**$ 1.07**
Payout Ratio	59.7%	60.9%	25.0%	402.7%	-4511.2%	54.6%	65.7%	64.9%	64.8%	66.0%	67.2%

Source: UBS estimates, Company Reports

Forecast returns

Forecast price appreciation	+9.8%
Forecast dividend yield	3.2%
Forecast stock return	+13.0%
Market return assumption	6.6%
Forecast excess return	+6.4%

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. We use comparable company multiples in our sum-of-the-parts EV/EBITDA and P/E valuations. Our price target is derived using an average of sum-of-the-parts EV/EBITDA and P/E valuations and DDM.

October 30, 2019 | Equity Research

WELLS FARGO SECURITIES

NiSource Inc.

NI: Solid 2020 Guidance & No Increase In Merrimack Valley Costs

Focus Shifts to Equity Needs & DPU Investigations

Outperform / $31

Natural Gas LDCs
Market Weight

Price Target Change

- Summary. NI affirmed '19 EPS guidance of $1.27-1.33 and initiated '20 guidance of $1.36-1.40, which is above our prior estimate of $1.35 and in-line with the consensus estimate of $1.38. As expected, the company outlined $500-700mm of incremental financing needs in '20, which will be met with common equity. Separately, we are encouraged that the cost estimate for the Merrimack Valley incident held at $1.7B. We increase our '20-22E EPS to/from $1.38/1.35, $1.44/1.42 & $1.52/1.50 on revised financing assumptions and slightly higher assumed earned ROEs. We reiterate our Outperform rating and lower our price target to $31/sh from $33/sh reflecting lower peer group multiples.

- Path to In-Line Multiple? Year-to-date, shares of NI have under-performed the S&P Utilities by ~11% with most of that under-performance coming in the last few months. We attribute the recent weakness to (1) the need to do additional inspections following a gas leak and concerns regarding abandoned service lines and (2) an expectation of additional equity needs, which were outlined on today's (10/30) call. Shares now trade at 6-8% P/E discounts to blended gas/electric peers on '20E & '21E and 11% EV/EBITDA discounts. Prior to the Merrimack incident, we considered NI to merit a premium valuation given a long capex runway, constructive regulatory treatment and a solid execution track record. While we no longer call for a premium – at least not over the next 12-18 months – we do see potential for multiple appreciation. The path to a peer group multiple includes demonstrating an improvement in safety (i.e. no more gas leaks/incidents), executing on equity financing needs, and delivering on the 5-7% annual EPS growth target. While recovery of pipe replacement work in MA via property insurance would also help, we are not baking that in (nor is NI) at this point.

- Equity Needs. In addition to annual ATM equity of $200-300mm and $35-50mm for employee/other plans, management outlined an additional $500-700mm of equity needed in 2020 to permanently finance the portion of Merrimack Valley third party claims and other expenses that are not covered by insurance. While the company has used hybrid/equity-rich securities in the past, management has concluded that common equity offers the best economic proposition taking into account cost of capital and balance sheet considerations. In terms of exact timing, management only commented that there is flexibility (equity is not *needed* until late 2020), but did not rule out a forward. We suspect 2020 EPS guidance contemplates the equity in mid-to-late 2020.

- **Bullets Continue on Page 2...**

$ EPS	2018A	2019E Curr.	2019E Prior	2020E Curr.	2020E Prior
Q1 (Mar.)	0.77	0.82 A	NC	NE	
Q2 (June)	0.07	0.05 A	NC	NE	
Q3 (Sep.)	0.10	0.00 A	0.02	NE	
Q4 (Dec.)	0.38	0.44	0.42	NE	
FY	1.30	1.31	NC	1.38	1.35
CY	1.30	1.31		1.38	
FY P/EPS	21.0x	20.8x		19.8x	
Rev.(MM)	5,084	5,297		5,436	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile
non gaap

Ticker	NI
Price Target/Prior:	$31/$33
Price (10/30/2019)	$27.29
52-Week Range:	$24-31
Shares Outstanding: (MM)	373.3
Market Cap.: (MM)	$10,185.5
S&P 500:	3,034.05
Avg. Daily Vol.:	3,114,240
Dividend/Yield:	$0.80/2.9%
LT Debt: (MM)	$7,853.8
LT Debt/Total Cap.:	51.2%
ROE:	9.0%
3-5 Yr. Est. Growth Rate:	5.0%
CY 2019 Est. P/EPS-to-Growth:	4.2x
Last Reporting Date:	10/30/2020 Before Open

NC = No Change
Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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- **Merrimack Valley & Other Gas Updates.** Favorably, the total cost of the Merrimack incident stayed at $1.7B. With the NTSB report issued, the focus shifts to the DPU investigations of the incident itself and the emergency preparedness/response. In the meantime, NI continues to take steps to improve safety including accelerated SMS implementation and enhancements to the company's low pressure systems, along with personnel changes (Chuck Shafer named Chief Safety Officer for NI and Nick Stavropoulos named Chief Safety Advisor for Columbia Gas of MA). While these efforts are expected to drive near-term O&M growth of 1-2%, management expects flattish O&M overall taking into account parent and electric operations. On the insurance front, the company has collected $670mm of the $800mm casualty insurance and has requested recovery of the $255-260mm of replacement/restoration costs under the $300mm property insurance.
- **CapEx Update.** NI increased 2019 capex guidance to $1.7-1.8B from $1.6-1.7B, narrowed 2020E to $1.7-1.8B (vs. prior 2020-2022E $1.6-2.0B annually) and outlined 2021-2022E capex of $1.7-2.0B. Management still expects ~75% of capital investments to be reflected in rates within 12 months. Looking ahead, NI expects to be in a position to extend the capex outlook beyond 2022 early next year as the company gains clarity on generation plans in Indiana including the pending RFP. Also on the generation front, the IURC approved the 100 MW Rosewater build-transfer agreement in August and NI filed a CPCN for the 302 MW Crossroads wind project last week with a requested order in February 2020 and expected in-service date of Q4'21. It is our understanding that the capex associated with the Crossroads investment will fall outside of the current outlook based on the tax equity structure.

Acronyms
ATM – At-the-Market
CPCN – Certificate of Public Convenience and Necessity
DPU – Department of Public Utilities
IURC – Indiana Utility Regulatory Commission
NTSB – National Transportation Safety Board
RFP – Request for Proposals
SMS – Safety Management System

Price Target

Price Target: $31 from $33

Our price target is based on a P/E multiple analysis (apply a 2-3% discount to the blended gas/electric peer group multiple of 21X on our '21E EPS of $1.42) in concert with EV/EBITDA, residual income and dividend discount methodologies. Risks include lower than expected recovery of costs associated with the 9/13/18 MA gas incident, unfavorable regulatory developments, a potential rise in interest rates (financing costs and sector valuation), and lower than expected sales growth.

Investment Thesis

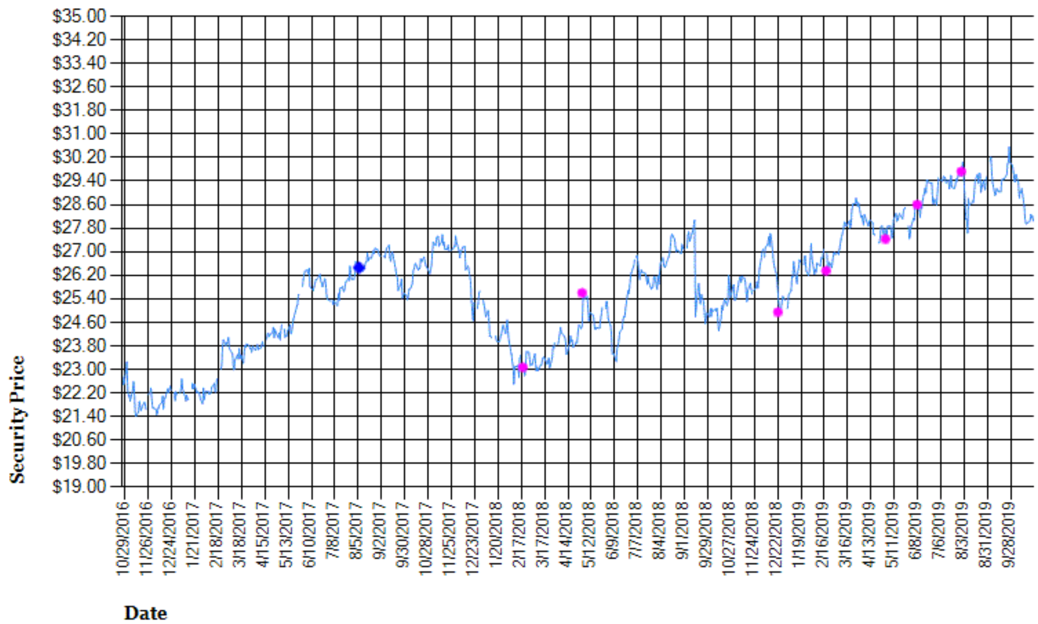
We rate shares Outperform. We believe the current discounted valuation provides an attractive entry point to a company with robust long-term infrastructure growth opportunities and supportive regulatory treatment.

Company Description

Based in Merrillville, Indiana, NiSource, Inc. is a holding company with regulated gas (64%) and electric (36%) utility operations across seven states. The company's Gas Distribution Operations serve 3.5 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. The Electric Operations consist of a vertically-integrated utility serving approximately 500 thousand customers in northern Indiana. On July 1, 2015, NiSource completed the separation of Columbia Pipeline Group (CPG) from NiSource via the distribution of one share of CPG common stock for every share of NI common stock.

Required Disclosures

NiSource Inc. (NI) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
	8/9/2017		Akers				
◆	8/9/2017	26.32	1	30	NE	NE	26.38
•	2/20/2018	22.99	1	26	NE	NE	23.02
•	5/3/2018	25.38	1	28	NE	NE	25.57
•	12/24/2018	26.05	1	29	NE	NE	24.89
•	2/20/2019	26.28	1	30	NE	NE	26.28
•	5/1/2019	27.41	1	31	NE	NE	27.40
•	6/9/2019	28.54	1	32	NE	NE	28.54
•	7/31/2019	29.79	1	33	NE	NE	29.69

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- • Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- □ Split Adjustment

Rating Code Key
- 1 Outperform/Buy
- 2 Market Perform/Hold
- 3 Underperform/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

Additional Information Available Upon Request

I certify that:
1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

- NiSource Inc. currently is, or during the 12 month period preceding the date of distribution of the research report was, a client of

EVERCORE ISI

Energy | Power & Utilities

October 30, 2019

NiSource Inc

NI | $27.31

In Line | TARGET PRICE: $30.00

Change in Earnings Forecast

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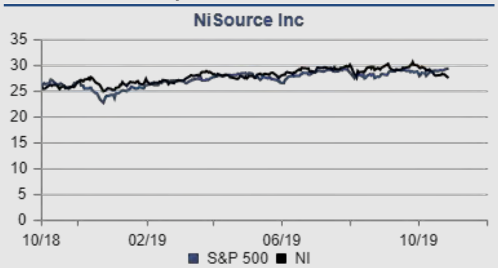
Company Statistics

Market Capitalization (M)	$10,153
Shares Outstanding (M)	373
Dividend	0.80
Dividend Yield	2.9%
Payout Ratio	61.2%
Expected Total Return	9.6%
Fiscal Year End	Dec

Earnings Summary

	2019E	2020E	2021E
EPS	$1.30	$1.38	$1.46
P/E	20.8	19.7	18.7
EPS vs Consensus	(0.0)%	0.0%	(0.9)%
Consensus EPS	$1.31	$1.38	$1.47
Consensus P/E	20.8	19.7	18.5

1 Year Price History



Source: FactSet

Updated Financing Plan Includes Equity In '20, Overall Target Still 5-7% EPS Growth

Maintaining 12-month target of $30/share. Rating remains In Line.

EPS light in Q3 but the year is fine: NI reported Q3'19 adjusted EPS of $0.00 vs. consensus of $0.04 and $0.10 in Q3'18. The biggest driver of the YoY decrease was higher safety-related spending and increased financing costs, partially offset by higher net revenues due to the impact of long-term infrastructure modernization investment.

Guidance for '20 EPS introduced in line with expectations. Specifically, NI expects to deliver $1.36-1.40/share of EPS in '20, which represents 6% growth over their reaffirmed '19 EPS guidance of $1.27-1.33. The company continues to target 5-7% annual EPS (and dividend) growth through '22 off the'19 guidance midpoint of $1.30.

Capex outlook increased modestly. In '19, NiSource now expects to invest $100m more at $1.7-1.8bn versus $1.6-1.7bn previously. The increase is driven by spending on automatic shut-off devices on the low pressure systems across the seven states. NI also raised the low end of the guidance range for its long-term annual capex forecast through '22 by $100m to $1.7-2.0bn versus $1.6-2.0bn previously.

Primary change to financing plan is block equity in '20. NiSource now expects to issue $500-700m in common equity in '20, replacing the placeholder they had for non-convertible debt or preferred equity in their previous plan. They are also issuing +/-$709m of long-term debt in '19 up from ~$500m. The need for equity is primarily to permanently finance the cost of the MA incident, which when excluding capex is estimated at $1.4bn, then is offset by casualty insurance expected to total $800m, leaving $600m to be financed. Potential recovery of property insurance of $300m would be upside. We have removed our assumption that the company needs to issue $660m of preferred equity in Q4'19 and replaced it with the company's updated guidance for $500-700m in common block equity in '20 (we assume mid-20 issuance). This gets them to their targeted 14-15% adjusted FFO to debt metric. See inside this note for more details.

Maintaining our 12-month target price of $30/share. Our '19/'20/'21 EPS estimates change from $1.30 / $1.36 / $1.45 to $1.30 / $1.38 / $1.46. Our $30 target price is derived using a SOTP analysis assigning a modest premium to their electric utility vs. peers and a modest discount to their Gas utilities vs. peers. Our valuation derives a consolidated target multiple of ~20.5 '21 EPS. We had said previously that our '20 and '21 estimates could drop $0.03-0.05 in the event NiSource sells the MA gas utility for $1.25-$1.50b but that would appear to be off the table for now with NI recently hiring Nick Stavropoulos as Chief Safety Advisor for Columbia Gas of Massachusetts to advise on operational safety strategy and planning statewide.

Price Target & Valuation

Raising our '20 and '21 EPS estimates by $0.02 and $0.01, respectively. Our updated '19-'21 EPS forecast is now $1.30 / $1.38 / $1.46 versus $1.30 / $1.36 / $1.45 previously. NiSource is guiding to '19 EPS of $1.27-1.33 and '20 EPS of $1.36-1.40/share. The company expects to deliver 5-7% annual EPS growth through '22 off the midpoint of '19 EPS guidance ($1.30).

We don't assume they sell Columbia Gas of MA in our updated $1.30 / $1.38 / $1.46 forecast. That is 6.0% growth vs. their target of 5-7% off '19 mid-point of $1.30. If they sell Columbia gas our forecast would drop to $1.30 / $1.35 / $1.42 and the '19-'21 EPS growth CAGR would be 4.5%. In '18, they paid out ~$1,000m of the Greater Lawrence costs. Given their $1,700m total cost estimate, we assume ~$700m of cash drag in '19. As of reporting Q3'19 results, NiSource has now recorded and collected $670m of insurance recoveries. In total, we expect NI to receive $800m of insurance recoveries in relation to the event through 1Q20. We have removed our assumption that the company needs to issue $660m of preferred equity in Q4'19 and replaced it with the company's updated guidance for $500-700m in common block equity in '20 (we assume mid-20 issuance). This is the amount of equity that should enable them to achieve their adjusted FFO/debt target of 14-15% in '20 and '21. In our base case model, we also estimate capex at the midpoint of NI's updated guidance ranges and forecast annual issuances (in line with guidance) of $250m of ATM equity, $47.5m of employee program equity, and an incremental $500m in long-term debt. At the electric segment, we model the company achieving its allowed ROE and at the gas segment we model achieved ROEs slightly below allowed to take into account increased O&M from the acceleration of the SMS program, higher pension expense and the withdrawal of the Massachusetts rate case.

Maintaining our In Line rating and our 12-month target price of $30/share. To arrive at our $30/share price target we use a SOTP analysis. On NI's electric EPS, we assign a 5% premium to our base '21 P/E "market-agnostic" target multiple of 19.5x. For the gas segment we apply a 20.2x P/E multiple, a 5% discount to LDC trading multiples. Gas utilities warrant a premium given a more attractive L-T rate base growth outlook. But the discount for NI's gas utilities reflects its recent operating problems and an adjustment out of an M&A premium that we think inflates the valuation of the gas peer group. Our valuation derives a consolidated target multiple of ~20.5x. If we assume they sell Columbia Gas of MA we can still get to the same target price by reducing our discount vs. the gas peer group from 5% to 2%.

Exhibit 2: SOTP Valuation

Valuation using 10% Discount on Gas and 5% premium on Electric	'21 EPS	P/E	Val/Shr
Gas EPS	$1.23	20.2x	$24.96
Electric EPS	$0.60	20.5x	$12.23
Parent/Other	($0.37)	19.9x	($7.47)
Consolidated 2020 EPS	**$1.46**	20.6x	**$30.00**

Source: EVRISI Research

Third Quarter 2019 Highlights:

NiSource reported Q3 '19 adjusted EPS of $0.00 vs. consensus of $0.04 and $0.10 in Q3'18. The biggest drivers of the YoY decrease were higher safety-related spending and increased financing costs, partially offset by higher net revenues due to the impact of long-term infrastructure modernization investment. The adjusted earnings reflects $20.5m of Greater Lawrence incident operating expenses, $3.6m of revenue due to unfavorable weather, and a $0.2m gain on sale of assets and impairments. Gas Distribution operating earnings were $23.5m lower YoY. Net revenues for that segment were $58.7m higher driven primarily by new rates from base rate proceedings and infrastructure replacement programs. Operating expenses for gas came in $82.2m higher driven by higher depreciation, increased employee and administrative expenses, increased outside services and higher property taxes. Electric operating earnings were $12.6m higher compared to prior year quarter. Net revenues for electric were $10.9m higher primarily due to increased residential and commercial usage, and increased rates due to incremental capital spending on infrastructure replacement programs and electric transmission projects. Operating expenses for that segment were $1.7m lower due to decreased materials and supplies costs, lower outside service costs and decreased employee and administrative costs, partially offset by increased depreciation. Corporate and Other Operations was $6.4m lower. The change there was driven by a favorable insurance reserve adjustment recorded in '18.

EPS guidance for '19 is unchanged. NiSource continues to target a '19 EPS guidance range of $1.27-$1.33/share. Note that the midpoint of the company's '19 earnings guidance, $1.30, falls short of their old long-term annual growth target articulated last year (growth of 5-7% off '18 guidance at the time of $1.26-$1.32) primarily due to the impacts of financing the Greater Lawrence restoration, expenses associated with accelerated implementation of a Safety Management System (SMS), and increased pension costs related to market volatility in late '18. Basically this event cost them a year of earnings growth.

NiSource issued '20 EPS guidance that is in line with their long-term annual EPS growth forecast. Specifically, NI expects to deliver $1.36-1.40/share of EPS in '20, which represents 6% growth over their '19 EPS guidance midpoint of $1.30. The company continues to target 5-7% annual EPS (and dividend) growth through '22 off of the '19 base of $1.30. The guidance assumes the $500-700m in block equity to be issued to satisfy credit metrics. NiSource expects total O&M to remain flat next year, with 1-2% increases in gas offset by reductions to the electric and corporate segments.

Capital spending forecast increased modestly. In '19, NiSource now expects to spend $100m more in capex at $1.7-1.8bn versus $1.6-1.7bn previously. The increase is being driven by spending on automatic shut-off devices on the low pressure systems across the company's seven states. NiSource also raised the low end of its long-term annual capex guidance range through '22 by $100m to $1.7-2.0bn versus $1.6-2.0bn previously.

Financing plan update: NiSource is issuing more debt in '19 than previously expected at $709m, compared to the prior $500m guidance. In addition, the company now expects to issue $500-700m in block equity in '20. This basically replaces the "TBD" placeholder for non-convertible debt or preferred equity they had in prior guidance. NiSource is still targeting an adjusted FFO/total debt of ~14-15%. Exhibit 1 below shows the update to the financing plan. We have removed our assumption that the company needs to issue $660m of preferred equity in Q4'19 and replaced it with the company's updated guidance for $500-700m in common block equity in '20 (we assume mid-20 issuance).

Exhibit 1: NiSource Financing Plan

	2018 Actual	2019		2020	
		Prior	Updated	Prior	Updated
Common Equity Block	$606m	None	None	None	$500-700m
ATM	$239m	$200-300m	$200-300m	$200-300m	$200-300m
ESPP/401K/Other	$41m	$35-60m	$35-60m	$35-60m	$35-60m
Long-Term Debt	-$410m	$500m	$709m	$500m	$500m
Other Financing	$900m	TBD	None	TBD	None

Source: NiSource

Greater Lawrence cost estimates are largely unchanged. Total cost estimates now $1,700m versus $1,697m at the midpoint. Capital costs are now $255-260m versus $250-$260m previously. Third party claims and related expenses are now $995-1,020m versus $994-$1,020m previously. "Other" expenses still estimated to be $430-$440m. The company's liability insurance limit is maintained at $1.1bn, including $800m of casualty and $300m of property insurance. Note that the property insurance is not included in NI's forecast and would represent upside. Through Q3'19, NiSource has recorded $670m of casualty recoveries, the same as last quarter, and has now collected that full amount versus the $535m they had collected as of Q2'19. The company expects to collect the remaining $130m of casualty insurance by early '20. Proof of loss has been filed with the property insurer for the full $255-260m cost of the pipeline replacement.

Q3'19 was the first quarter since the Greater Lawrence incident where cost estimates of the event did not increase. On their Q3'18 earnings call, NI estimated that the total costs and expenses relating to the event would be between $730m and $825m and consist of ~$150m of capital expenditures, ~$433m of third party claims and ~$195m of other expenses. On the Q4'18 call, NiSource increased their estimate for the range of total costs and expenditures to $1,307m-$1,365m consisting of ~$225m of capital expenditures, ~$774m of third party claims, and $338m of other expenses. On the Q1'19 call, NiSource raised the midpoint of their estimate a second time to $1,596m, consisting of ~$245m of capital expenditures, ~$986m of third party claims and ~$365m of other expenses. On the Q2'19 call, the company increased the midpoint of their estimate a third time to $1,697m, including $255m in capital expenditures, $1,007m of third party claims and $435m of other expenses. With this Q3'19 update, total cost estimates are now $1,700m, including $258m in capital expenditures, $1,007m of third party claims and $435m of other expenses. Going forward, with the restoration work complete and the service lines verification work nearing completion, NiSource does not expect any significant future adjustments. However, it is worth noting that these estimates exclude any amounts they may incur for potential fines and penalties.

Greater Lawrence Incident – Additional Details

On September 14th 2018, there were multiple gas explosions in NI's MA gas system. One person was killed, at least 21 individuals were injured and 131 structures were damaged including 5 that were destroyed. The National Transportation Safety Board (NTSB) recently released its final report on the event which coincided with its preliminary 10/10/18 report. According to the report, prior to the explosions a Columbia Gas contracted work crew, which included a Columbia Gas inspector, was performing a Columbia Gas designed and approved pipe-replacement project in South Lawrence. The contracted crew was replacing a distribution main for a low pressure gas system. The distribution main had sensors attached to it that provided input to regulators governing gas pressure on the system and when the existing pipe was removed the sensors were never placed on the new pipe being put into place. This caused a false signal from the old depressurized pipe to tell the regulators increase pressure into the system. Eventually the system exceeded the maximum allowable pressure and the explosion ensued. In the pre-approved work plan, there were no instructions to move the sensors from the old pipe being removed to the new pipe being installed, implying the explosion was the result of a failure at the planning stage of the project. With the NTSB investigation now complete, the Massachusetts Department of Public Utilities announced its own investigations of the incident in NI's emergency preparedness and response. NiSource has been cooperating with all inquiries and investigations. The outcomes and impacts of these pending investigations and any potential future investigations are uncertain at this time.

On June 17th, Bloomberg reported that NI is weighing the sale of Columbia Gas of Massachusetts. Press reports said NI received bids from rival utilities and is working with an adviser on an auction. That report said a divestiture could reportedly fetch $2bn in proceeds but by our analysis that appears unlikely, with our models indicating the deal could be financially viable for a strategic buyer a closer to $1.25- $1.5bn in value. We estimate a sale would be $0.03-0.04 dilutive to NI's '20/'21 EPS at $1.5bn or $0.04-0.05 dilutive at $1.25bn. While it looks EPS dilutive, we see improved credit metrics and better strategic focus as offsetting positives so it makes sense.

Columbia Gas of MA has faced significant unrecoverable costs and regulatory risk in Massachusetts. In addition to our estimate of $795m of unrecoverable costs for the incident, NI had a pending rate case settlement in '18 for a $33m rate increase that was nixed and spent +/-$225m of capital upgrading the distribution network that is not in rates. Given these facts, we see them earning a 5.5% ROE on the $995m of rate base they attest to at Columbia Gas of MA at YE '18, $0.08/share of FY'19 EPS.

We believe a divestiture could eliminate the need for ~$500m in common equity issuance in '20-'21. As part of its current plan targeting 14-15% FFO/debt in '19 and '20, the company expects to issue $200-300m of equity via an ATM issuance per year and $500-700m of common equity block in '20. We believe NiSource could receive $1.25-1.50bn in proceeds from a divestiture of Columbia Gas of Massachusetts and would expect them to pay down debt with the full amount of proceeds given no taxes because of existing NOLs. This could enable them to avoid issuing $250m of common equity in each of '20 and '21, while still achieving their targeted credit metrics.

In mid-August, NiSource completed their restoration efforts in Greater Lawrence. This included the replacement of all customer equipment impacted by the event and fulfilled the company's commitment to have that work completed by September 15th this year. NiSource also repaired outdoor areas affected by their fall '18 construction work, including residential lawns, irrigation systems, walkways, driveways and state roads throughout the impacted communities. The company says a dedicated team remains in place providing support to impacted customers, assisting with claims processing and providing repair support on appliances and heating equipment.

In September, NI launched inspections of gas lines abandoned as part the fall '18 recovery work. These verifications, as required by the Massachusetts Department of Public Utilities, are confirming that the service lines were abandoned consistent with legal requirements and in compliance procedures and protocols. As the Company finds any service line abandonment that did not meet those requirements, they are correcting the situation immediately. To date, NiSource has completed the initial set of 700 verifications by the required deadline of October 18th. The second set of approximately 2,200 verifications is expected to be complete by November 15th. As announced yesterday, NiSource is planning to verify the remaining 2,000 service lines by year-end. These verifications are being done on abandoned service lines, which are not connected to an active gas system and, therefore, will not disrupt gas service to customers.

Regulatory & Legislative Updates

Gas Operations: Columbia Gas of Maryland's rate case request remains pending before the commission. The request filed in May '19 is for continued replacement of aging pipelines and adoption of pipeline safety upgrades. If approved as filed, it would increase annual revenues by $3.7m. The order is expected by year-end '19, with new rates effective in January '20. On August 28th, the Public Utility Commission approved Columbia Gas of Ohio's application for the first annual adjustment to its Capital Expenditure Program (CEP) rider. The approved application allows the company to begin recovering approximately $121.7m of capex from '18. New rates became effective in September '19. NIPSCO's latest infrastructure modernization tracker update request, covering $12.4 million in incremental capital investments made between July '18 and April '19, was approved by the Indiana Utility Regulatory Commission on October 16th, with new rates effective in November '19.

Electric Operations: On October 1st, NIPSCO announced the opening of its next round of RFPs consistent with its ‘18 Integrated Resource Plan, which calls for the retirement of nearly 80% of its remaining coal generation by 2023, and all coal generation to be retired by 2028. NIPSCO is considering all sources in the RFP process, which closes on November 20th. On August 7th, the IURC approved the joint venture and ownership agreement for Rosewater, one of three wind projects that NIPSCO announced in February ‘19. The IURC in June approved Power Purchase Agreement applications for the other two projects, Jordan Creek and Roaming Bison. On October 22nd, NIPSCO filed an application with the IURC for approval of a fourth wind project, Indiana Crossroads, a joint venture with EDP Renewables, which will have a nameplate capacity of 302 MW. It is expected to be in operation in the fourth quarter of ‘21. Separately, NIPSCO's electric rate case remains pending. A partial settlement agreement was filed on April 26th. If approved as filed, the settlement would establish a return on equity of 9.9%. The hearing concluded in August, and an IURC order is anticipated in the fourth quarter of ‘19, with new rates effective in the first quarter of ‘20. NIPSCO's latest infrastructure modernization tracker update request, covering $131.1m in incremental capex made from December ‘18 through June ‘19 remains pending. An order is expected in the fourth quarter of ‘19, with rates effective in January ‘20.

On 4/24/19, HB1470 was passed in Indiana. The bill amends Senate Enrolled Act 560 which created NI’s transmission, distribution, and storage system improvement charges (TDSIC tracker). HB 1470 allows the tracker to include projects that do not include specific locations or exact numbers and to include advanced technology investments. It should bring clarity as to what kind of projects can be included in NI’s TDISC plans and may allow NI to recover a wider variety of capital through the tracker. TDISC plans normally cover seven years and NI’s current gas plan runs through ‘20 and current electric plan runs through ‘22.

VALUATION METHODOLOGY

To arrive at our $30/share price target we use a SOTP analysis. On the company's electric earnings EPS we assign a 5% premium to our base '21 P/E multiple of 19.5x. For the gas segment we apply a 20.2x P/E multiple which is a 5% discount to a current gas LDC trading valuation multiple. Gas utilities warrant a premium multiple relative to predominantly electric utilities that are, in our view, facing a more challenging growth profile creating medium to longer term headwinds for rate base growth. Our valuation derives a consolidated multiple of ~20.5x.

RISKS

Risks to our thesis include incremental costs related to the Greater Lawrence incident, an inability to deploy capital at the company's expected rate resulting in a lower rate base and regulatory pressure resulting in lower allowed ROEs.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2019-30-10)	Evercore ISI Target
AEE	Ameren Corp.	In Line	$76.48	$78.00
AEP	American Electric Power	In Line	$93.17	$96.00
AES	The AES Corporation	Outperform	$17.09	$18.50
AGR	Avangrid Inc	In Line	$49.99	$50.50
CMS	CMS Energy Corp.	Outperform	$62.98	$64.50
CNP	CenterPoint Energy, Inc.	In Line	$29.04	$32.00
CWEN	Clearway Energy	In Line	$17.55	$17.50
D	Dominion Energy, Inc	In Line	$81.74	$82.00
DTE	DTE Energy Co.	In Line	$126.59	$128.00
DUK	Duke Energy Corp.	In Line	$93.53	$95.00
ED	Consolidated Edison Inc.	In Line	$91.42	$91.00
EIX	Edison International	In Line	$65.40	$72.00
ES	Eversource Energy	In Line	$82.90	$83.50
ETR	Entergy Corp.	In Line	$119.04	$119.00
EVRG	Evergy	Outperform	$63.55	$68.00
EXC	Exelon Corp.	Outperform	$45.86	$53.50
FCFE18-MX	CFE Capital S. de R.L. de C.V.	Outperform	MXN24.30	MXN19.00
FE	FirstEnergy Corp.	Outperform	$47.58	$52.00
HE	Hawaiian Electric Industries Inc.	Underperform	$44.75	$41.00
NEE	NextEra Energy Inc	Outperform	$232.60	$240.00
NI	NiSource Inc	In Line	$27.31	$30.00
NRG	NRG Energy Inc.	Outperform	$40.51	$47.00
OGE	OGE Energy Corp	In Line	$42.86	$43.00
PCG	PG&E Corp.	Rating Suspended	$5.03	
PEG	Public Service Enterprise Group	Outperform	$62.28	$68.00
PNM	PNM Resources, Inc	In Line	$50.58	$50.00
PNW	Pinnacle West Capital Corp.	Underperform	$93.08	$94.00
PPL	PPL Corp.	In Line	$32.97	$33.00
SO	Southern Co.	In Line	$60.92	$63.50
SRE	Sempra Energy	Outperform	$141.20	$156.00
VST	Vistra Energy Corp	Outperform	$27.03	$32.00
WEC	WEC Energy Group, Inc.	In Line	$92.44	$91.00
XEL	Xcel Energy Inc.	In Line	$62.58	$61.00

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: October 30 2019 02:59

ANALYST CERTIFICATION

The analysts, Michael Lonegan, Greg Gordon, primarily responsible for the preparation of this research report attest to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

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Ratings Definitions

Current Ratings Definition

Evercore ISI's recommendations are based on a stock's total forecasted return over the next 12 months. Total forecasted return is equal to the expected percentage price return plus gross dividend yield. We divide our stocks under coverage into three primary ratings categories, with the following return guidelines:

Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's universe
Coverage Suspended- the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
Rating Suspended- Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*

*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell" to equate their own ratings to these categories. For this purpose, and in the Evercore ISI ratings distribution below, our Outperform, In Line, and Underperform ratings can be equated to Buy, Hold and Sell, respectively.

Historical Ratings Definitions

Prior to March 2, 2017, Evercore ISI's recommendations were based on a stock's total forecasted return over the next 12 months:

Buy- the total forecasted return is expected to be greater than 10%

Hold- the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell -the total forecasted return is expected to be less than 0%

On October 31, 2014, Evercore acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy- Return > 20%
Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight- the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight- the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight -the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

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Evercore ISI utilizes an alternate rating system for companies covered by analysts who use a model portfolio-based approach to determine a company's investment recommendation. Covered companies are included or not included as holdings in the analyst's Model Portfolio, and have the following ratings:

Long- the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.
Short- the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.

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Evercore ISI rating (as of 10/30/2019)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	417	52	Buy	93	22
Hold	321	40	Hold	36	11
Sell	39	5	Sell	3	8
Coverage Suspended	13	2	Coverage Suspended	6	46
Rating Suspended	10	1	Rating Suspended	5	50

Issuer-Specific Disclosures (as of October 30, 2019)

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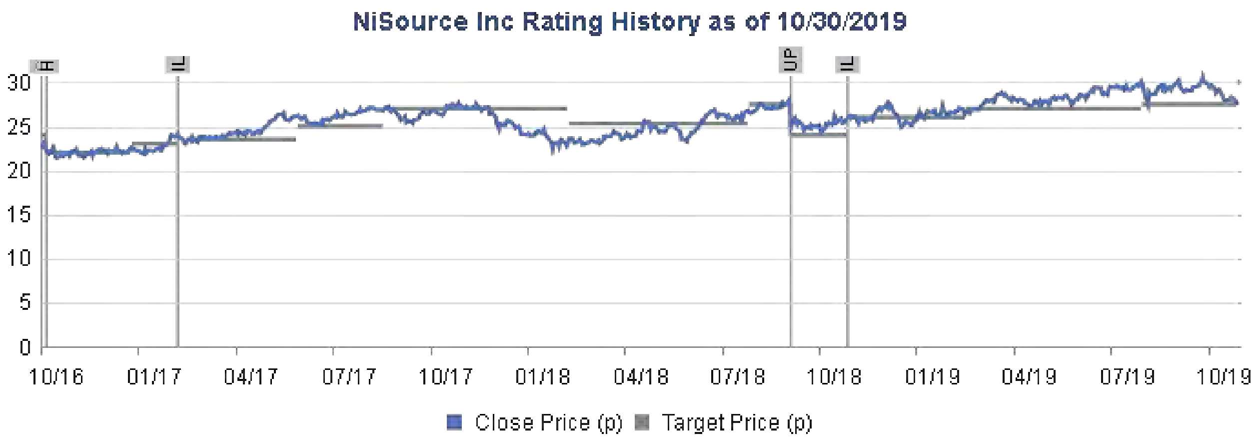
Price Charts



Ratings Key

B	Buy	OP	Outperform	L	Long	CS	Coverage Suspended
H	Hold	IL	In Line	NP	No Position	RS	Rating Suspended
S	Sell	UP	Underperform	S	Short		

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Goldman Sachs | Equity Research

31 October 2019 | 4:29PM EDT

NiSource Inc. (NI): Right-sizing the ship while maintaining above-average growth; remain Buy

We remain Buy-rated on NiSource (NI), as we expect the company to achieve above-industry average 6.8% EPS CAGR from 2019-2021 even with bulk equity needed to improve its balance sheet (resulting from the 2018 Merrimack gas incident). Despite some remaining MA regulatory overhang, we view the current 1.5x P/2021E discount versus regulated peers as unwarranted and see multiple expansion potential in the near-to-medium term.

Managing the MA process while continuing robust investment growth. With total estimated costs related to the 2018 MA gas incident largely stabilized, we note next steps involve awaiting on Massachusetts Public Utilities Commission (MPUC) investigation results, likely sometime in 2H2020 in our view. Our model estimates a $75mn fine levied on the utility in 4Q2020, along with recovery/return of 1/3 of the ~$250mn restoration capital in 2021. Aside from incident-related items, we continue to see a robust investment pipeline across the various utilities that support 8% operating income CAGR through 2021, with higher growth at the gas utilities. Beyond 2022, we see higher growth potential at NIPSCO Electric from potential ownership of renewable generation similar to the current wind JV on Rosewater/Indiana Crossroads (400 MW - expected in rate base in 2023).

We do not expect NI to need additional bulk equity in 2021 to maintain its 14-15% FFO/debt target. Following management's revised financing guidance, our model now incorporates $700mn of bulk equity in 2020 (the higher end of the guided range) - in addition to $300mn of ATM - all issued in 4Q2020, versus prior assumptions of $500mn of preferred equity in 4Q2019 and no bulk equity in 2020; consequently, we lower our 2021 ATM assumption from $200mn to $100mn. Our revised estimates imply a 14.7%/15.3% adjusted FFO/debt in 2020/2021, above Moody's Baa2 threshold of 14%. We note the net EPS impact of these changes is minor, given the larger common equity dilution offset with elimination of additional preferred dividends.

We adjust our 2019-2021 EPS estimates to $1.29/$1.41/$1.48 from $1.30/$1.40/$1.46 to reflect several changes to our model, including 1) financing changes mentioned above, 2) updates to trackers/base rate increases, and 3) relatively flat O&M growth from 2019-2021 versus a modest increase prior.

Our $31 12-month target price (unchanged) is derived from an electric/gas

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blended 20.9x P/E multiple on 2021E EPS, which reflects a 16% total return versus -1% for Regulated Utilities and 1% for smid-cap utilities and one of our highest total returns versus regulated peers. Key risks include (1) legal and regulatory risks, (2) system damages related to the recent MA natural gas incident, (3) higher than expected O&M, (4) electricity demand and customer growth, and (5) financing.

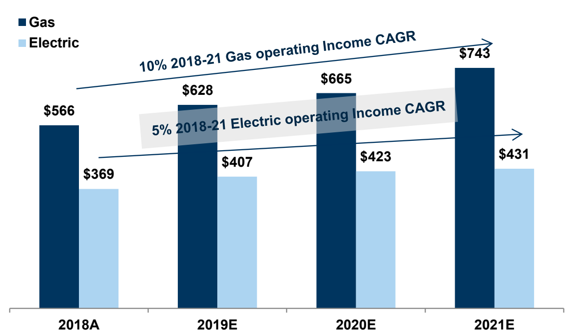
NI in Charts

Exhibit 1: We adjust our 2019-2021 estimates modestly, reflecting a 6.8% EPS CAGR from 2019-2021...
EPS New vs Old vs Consensus

	EPS Estimates			% Difference	
	GS-New	GS-Old	Cons.	vs. Old	vs. Cons.
2019E	$1.29	$1.30	$1.31	(0%)	(1%)
2020E	$1.41	$1.40	$1.38	1%	2%
2021E	$1.48	$1.46	$1.47	1%	0%
CAGR	6.8%	6.0%	5.9%	1%	1%

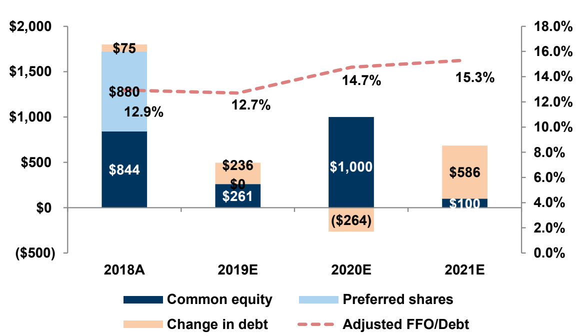
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 2: ...with strong growth driven by the regulated gas businesses
Operating income by segment ($mn)



Source: Goldman Sachs Global Investment Research

Exhibit 3: Our revised financing assumptions reflect 14-15% FFO debt in 2020/2021, above the Moody's Baa2 threshold of 14%
Financing by type ($mn) and adjusted FFO/debt



2018/2019 FFO/debt assumes certain one-time adjustments related to the Merrimack incident

Source: Goldman Sachs Global Investment Research

Exhibit 4: We see 15% relative total return upside for NI versus Regulated Utilities and see the current 1.5x relative P/2021E discount as unwarranted
NI blended P/E valuation

NI valuation			
Deriving Blended Multiple			
	Gas	Electric	Total
2021 EBIT	742.6	431.4	1,174.0
% 2021 EBIT	63.3%	36.7%	
Target Multiple	22.25x	18.50x	20.9x
Price Target			
2021 EPS			$1.48
Target Multiple			20.9x
Price Target			**$31**
Total Return			**16%**
Regulated Utilities Total Return			**(1%)**

Source: Goldman Sachs Global Investment Research

NI	12m Price Target: **$31.00**	Price: **$27.51**	Upside: **12.7%**

Buy

Market cap: $9.0bn
Enterprise value: $19.1bn
3m ADTV: $95.8mn
United States
America-Regulated Utilities
M&A Rank: 3

GS Forecast

	12/18	12/19E	12/20E	12/21E
Revenue ($ mn) New	**5,114.5**	**5,319.3**	**5,485.6**	**5,657.6**
Revenue ($ mn) Old	5,114.5	5,293.0	5,450.6	5,571.7
EBITDA ($ mn)	725.5	1,954.6	1,879.0	2,026.2
EBIT ($ mn)	125.9	1,235.2	1,113.1	1,203.4
EPS ($) New	**1.30**	**1.29**	**1.41**	**1.48**
EPS ($) Old	1.30	1.30	1.40	1.46
P/E (X)	19.3	21.2	19.5	18.6
Dividend yield (%)	3.1	2.9	3.1	3.3
Net debt/EBITDA (X)	12.4	4.8	4.8	4.8

	3/19	6/19E	9/19E	12/19E
EPS ($)	0.82	0.05	(0.00)	0.42

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 30 Oct 2019 close.

Disclosure Appendix

Reg AC

I, Insoo Kim, CFA, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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GS Factor Profile

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

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Across our global coverage, we examine stocks using an M&A framework, considering both qualitative factors and quantitative factors (which may vary across sectors and regions) to incorporate the potential that certain companies could be acquired. We then assign a M&A rank as a means of scoring companies under our rated coverage from 1 to 3, with 1 representing high (30%-50%) probability of the company becoming an acquisition target, 2 representing medium (15%-30%) probability and 3 representing low (0%-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. M&A rank of 3 is considered immaterial and therefore does not factor into our price target, and may or may not be discussed in research.

Quantum

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Insoo Kim, CFA: America-Diversified Utilities, America-Regulated Utilities. Michael Lapides: America-Diversified Pipelines, America-Diversified Utilities, America-Energy MLPs, America-Independent Power Producers, America-Regulated Utilities. David Fishman, CFA: America-Diversified Utilities, America-Independent Power Producers.

America-Diversified Pipelines: Enbridge Inc., Enbridge Inc., Kinder Morgan Inc., ONEOK Inc., Tallgrass Energy LP, TC Energy Corp., TC Energy Corp., Williams Cos..

America-Diversified Utilities: Avangrid Inc., Centerpoint Energy Inc., CMS Energy Corp., Dominion Energy Inc., DTE Energy Co., Entergy Corp., Exelon Corp., FirstEnergy Corp., NextEra Energy Inc., OGE Energy Corp., Public Service Enterprise Group, Sempra Energy.

America-Energy MLPs: Cheniere Energy Inc., Cheniere Energy Partners, Energy Transfer LP, Enterprise Products Partners LP, Rattler Midstream LP, TC PipeLines LP.

America-Independent Power Producers: Clearway Energy Inc., NextEra Energy Partners, NRG Energy Inc..

America-Regulated Utilities: Ameren Corp., American Electric Power, American Water Works, Atmos Energy Corp., Consolidated Edison Inc., Duke Energy Corp., Edison International, Evergy Inc., Eversource Energy, NiSource Inc., PG&E Corp., Pinnacle West Capital Corp., Portland General Electric Co., PPL Corp., Southern Co., WEC Energy Group.

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Goldman Sachs Investment Research global Equity coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	43%	42%	15%	64%	56%	50%

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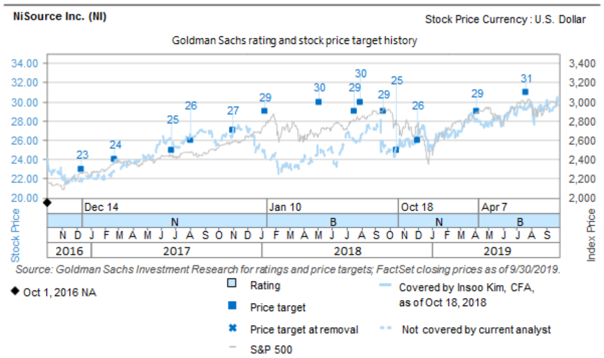
Price target and rating history chart(s)



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J.P.Morgan

North America Equity Research
31 October 2019

NiSource Inc.

Model Update

We are updating our model for Q3 earnings results. Please see changes below.

Overweight

NI, NI US

Price (31 Oct 19): $28.04

Price Target (Dec-20): $32.00

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J.P. Morgan Securities LLC

Key Changes (FYE Dec)

	Prev	Curr
Adj. EPS - 20E ($)	1.33	1.36

Quarterly Forecasts (FYE Dec)

Adj. EPS ($)

	2018A	2019E	2020E
Q1	0.77	0.82A	
Q2	0.07	0.05A	
Q3	0.10	(0.00)A	
Q4	0.38	0.42	
FY	1.30	1.29	1.36

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	34	40	30	54	1
Growth	57	80	58	32	85
Momentum	71	52	70	38	4
Quality	77	91	80	58	65
Low Vol	60	52	59	100	43
ESGQ	91	32	6	17	23

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

See page 5 for analyst certification and important disclosures.

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Price Performance

	YTD	1m	3m	12m
Abs	10.6%	-6.3%	-5.6%	10.6%
Rel	-10.9%	-8.7%	-6.7%	10.3%

Company Data

Shares O/S (mn)	374
52-week range ($)	30.67-24.37
Market cap ($ mn)	10,489.76
Exchange rate	1.00
Free float(%)	99.6%
3M - Avg daily vol (mn)	3.31
3M - Avg daily val ($ mn)	95.7
Volatility (90 Day)	19
Index	S&P 500
BBG BUY|HOLD|SELL	5|10|0

Key Metrics (FYE Dec)

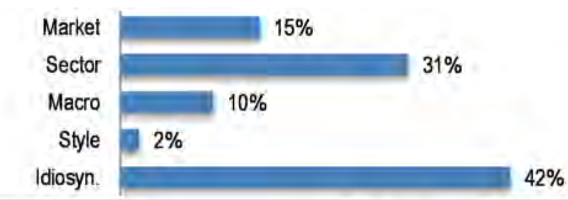
$ in millions	FY18A	FY19E	FY20E	FY21E
Financial Estimates				
Revenue	5,084	5,303	5,557	5,683
Adj. EBITDA	1,549	1,759	1,839	1,942
Adj. EBIT	949	1,053	1,138	1,215
Adj. net income	463	483	538	601
Adj. EPS	1.30	1.29	1.36	1.42
BBG EPS	1.28	1.31	1.38	1.46
Cashflow from operations	540	1,582	1,532	1,399
FCFF	(995)	174	97	(47)
Margins and Growth				
Revenue growth	3.7%	4.3%	4.8%	2.3%
EBITDA margin	30.5%	33.2%	33.1%	34.2%
EBITDA growth	1.1%	13.6%	4.5%	5.6%
EBIT margin	18.7%	19.9%	20.5%	21.4%
Net margin	9.1%	9.1%	9.7%	10.6%
Adj. EPS growth	7.7%	(1.0%)	5.8%	4.2%
Ratios				
Adj. tax rate	19.7%	20.2%	23.5%	24.0%
Interest cover	4.4	4.6	5.1	5.5
Net debt/Equity	1.6	1.4	1.1	1.2
Net debt/EBITDA	5.8	5.1	4.5	4.8
ROCE	5.5%	5.6%	5.6%	5.6%
ROE	9.2%	8.0%	7.8%	7.8%
Valuation				
FCFF yield	(9.9%)	1.6%	0.9%	(0.4%)
Dividend yield	2.8%	2.9%	3.0%	3.2%
EV/EBITDA	10.1	9.2	8.9	8.7
Adj. P/E	21.6	21.8	20.6	19.8

Summary Investment Thesis and Valuation

NiSource's heavy capital investment program drives rate base growth of at least 7.5% over the next 3 years, with upside should the mid-or-high end of the capex guided ranges materialize. Declining O&M spending versus current elevated levels should improve earned ROE's at the utilities over coming quarters, and additional cost discipline could help growth even more. The equity funding requirement represents a mild near-term overhang, and the property insurance claim process is also an outstanding unknown. Though valuation has rebounded since last year, NiSource offers top-tier long-term rate base and earnings growth and we expect de-risking activities to continue into 2020, and we reiterate our OW rating.

Our December 2020 price target of $32/per share is based on a sum-of-the-parts analysis and uses our 2020 electric and gas segment EPS forecasts. We value the gas segment using a 22.0x P/E multiple, a discount to gas utility peers due to growth prospects offset by lack of M&A takeout potential, and we value the electric segment using an 21.0x P/E multiple, in line with pure regulated electric utility peers.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.28	0.38
Sect: Utilities	0.59	0.60
Ind: Utilities	0.59	0.61
Macro:		
Non-Energy Commodity	-0.42	-0.31
US 10yr yield	-0.36	-0.19
US 10yr Breakeven	-0.41	-0.19
Quant Styles:		
LowVol	0.30	0.26
Value	-0.29	-0.26
Size	0.25	0.20

Sources for: Performance Drivers – Bloomberg, J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

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Investment Thesis, Valuation and Risks

NiSource Inc. *(Overweight; Price Target: $32.00)*

Investment Thesis

NiSource's heavy capital investment program drives rate base growth of at least 7.5% over the next 3 years, with upside should the mid-or-high end of the capex guided ranges materialize. Declining O&M spending versus current elevated levels should improve earned ROE's at the utilities over coming quarters, and additional cost discipline could help growth even more. The equity funding requirement represents a mild near-term overhang, and the property insurance claim process is also an outstanding unknown. Though valuation has rebounded since last year, NiSource offers top-tier long-term rate base and earnings growth and we expect de-risking activities to continue into 2020, and we reiterate our OW rating.

Valuation

We maintain our December 2020 price target at $32/share. Our price target is based on a sum-of-the-parts analysis and uses our 2020 electric and gas segment EPS forecasts. We value the gas segment using a 22.0x P/E multiple, a discount to gas utility peers due to growth prospects offset by lack of M&A takeout potential and risk overhanging from the MA gas accident, and we value the electric segment using an 21.0x P/E multiple, in line with pure regulated electric utility peers.

Risk to Rating and Price Target

- Regulated electric transmission and distribution earnings are vulnerable to mild weather, as regulated revenues are calculated based on energy volumes sold. Extreme or mild temperatures may cause future earnings to differ materially from our current forecasts.
- Achievement of NiSource's long-term rate base and EPS CAGR targets are heavily dependent on robust capital investments, regulatory support, and favorable ratemaking mechanism. Any deferral of spending could put the company at risk of falling short of the LT rate base and earnings growth CAGR in any one year.
- Regulated electric and gas utilities are subject to federal and state regulations, including determinations of allowed revenues. Positive or negative changes to the regulatory environments may cause future earnings potential to differ materially from current expectations.

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NiSource Inc.: Summary of Financials

Income Statement - Annual	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	**4,905**	**5,084**	**5,303**	**5,557**	**5,683**
COGS	(1,519)	(1,759)	(1,630)	(1,760)	(1,760)
Gross profit	**3,386**	**3,325**	**3,672**	**3,797**	**3,923**
SG&A	(1,846)	(1,794)	**(1,914)**	**(1,958)**	**(1,981)**
Adj. EBITDA	**1,531**	**1,549**	**1,759**	**1,839**	**1,942**
D&A	(570)	(600)	(706)	(701)	(727)
Adj. EBIT	**961**	**949**	**1,053**	**1,138**	**1,215**
Net Interest	(353)	(353)	(379)	(364)	(352)
Adj. PBT	**608**	**596**	**674**	**775**	**863**
Tax	(210)	(118)	(136)	(182)	(207)
Minority Interest	0	(15)	(55)	(55)	(55)
Adj. Net Income	**398**	**463**	**483**	**538**	**601**
Reported EPS	1.21	1.30	1.29	1.36	1.42
Adj. EPS	**1.21**	**1.30**	**1.29**	**1.36**	**1.42**
DPS	**0.70**	**0.78**	**0.80**	**0.84**	**0.89**
Payout ratio	58.0%	60.0%	62.2%	61.7%	62.8%
Shares outstanding	329	357	375	395	423

Income Statement - Quarterly	1Q19A	2Q19A	3Q19A	4Q19E
Revenue	**1,859A**	**1,012A**	**928A**	**1,504**
COGS	(680)A	(254)A	(197)A	(500)
Gross profit	**1,179A**	**758A**	**731A**	**1,004**
SG&A	(506)A	(449)A	(441)A	(517)
Adj. EBITDA	**672A**	**309A**	**291A**	**487**
D&A	(175)A	(178)A	(182)A	(171)
Adj. EBIT	**496A**	**131A**	**109A**	**316**
Net Interest	(96)A	(94)A	(96)A	(93)
Adj. PBT	**401A**	**37A**	**13A**	**223**
Tax	(79)A	(4)A	(1)A	(52)
Minority Interest	(14)A	(14)A	(14)A	(14)
Adj. Net Income	**308A**	**19A**	**(2)A**	**158**
Reported EPS	0.82A	0.05A	(0.00)A	0.42
Adj. EPS	**0.82A**	**0.05A**	**(0.00)A**	**0.42**
DPS	**0.20A**	**0.20A**	**0.20A**	**0.20**
Payout ratio	24.3%A	391.5%A	NMA	48.2%
Shares outstanding	373A	374A	374A	380

Balance Sheet & Cash Flow Statement	FY17A	FY18A	FY19E	FY20E	FY21E
Cash and cash equivalents	38	121	0	0	0
Accounts receivable	899	1,059	539	539	539
Other current assets	826	876	822	908	993
Current assets	**1,763**	**2,055**	**1,361**	**1,447**	**1,533**
PP&E	14,360	15,543	16,711	17,724	18,711
Other non current assets	3,839	4,206	4,283	4,085	4,135
Total assets	**19,962**	**21,804**	**22,355**	**23,256**	**24,379**
Short term borrowings	1,206	1,977	1,243	590	613
Payables	626	884	495	495	495
Other short term liabilities	1,347	1,176	1,444	1,644	1,219
Current liabilities	**3,178**	**4,037**	**3,182**	**2,729**	**2,327**
Long-term debt	7,512	7,105	7,752	7,777	8,627
Other long term liabilities	4,951	4,911	5,142	5,324	5,531
Total liabilities	**15,642**	**16,053**	**16,076**	**15,830**	**16,485**
Shareholders' equity	4,320	5,751	6,279	7,426	7,894
Minority interests	-	-	-	-	-
Total liabilities & equity	**19,962**	**21,804**	**22,355**	**23,256**	**24,379**
BVPS	**12.82**	**15.44**	**16.25**	**17.71**	**18.47**
y/y Growth	*1.8%*	*20.5%*	*5.2%*	*9.0%*	*4.3%*
Net debt/(cash)	8,680	8,962	8,996	8,368	9,240
Cash flow from operating activities	**742**	**540**	**1,582**	**1,532**	**1,399**
o/w Depreciation & amortization	570	600	706	701	727
o/w Changes in working capital	(57)	110	127	(86)	(86)
Cash flow from investing activities	**(1,809)**	**(1,926)**	**(1,795)**	**(1,714)**	**(1,714)**
o/w Capital expenditure	(1,696)	(1,818)	(1,711)	(1,714)	(1,714)
as % of sales	*34.6%*	*35.8%*	*32.3%*	*30.8%*	*30.2%*
Cash flow from financing activities	**1,069**	**1,469**	**463**	**835**	**292**
o/w Dividends paid	(229)	(273)	(338)	(335)	(378)
o/w Net debt issued/(repaid)	1,113	75	452	225	425
Net change in cash	**2**	**83**	**251**	**653**	**(23)**
Adj. Free cash flow to firm	**(723)**	**(995)**	**174**	**97**	**(47)**
y/y Growth	*61.8%*	*37.6%*	*(117.5%)*	*(44.3%)*	*(148.5%)*

Ratio Analysis	FY17A	FY18A	FY19E	FY20E	FY21E
Gross margin	69.0%	65.4%	69.3%	68.3%	69.0%
EBITDA margin	31.2%	30.5%	33.2%	33.1%	34.2%
EBIT margin	19.6%	18.7%	19.9%	20.5%	21.4%
Net profit margin	8.1%	9.1%	9.1%	9.7%	10.6%
ROE	9.5%	9.2%	8.0%	7.8%	7.8%
ROA	2.1%	2.2%	2.2%	2.4%	2.5%
ROCE	5.1%	5.5%	5.6%	5.6%	5.6%
SG&A/Sales	37.6%	35.3%	36.1%	35.2%	34.9%
Net debt/equity	2.0	1.6	1.4	1.1	1.2
P/E (x)	23.2	21.6	21.8	20.6	19.8
P/BV (x)	2.2	1.8	1.7	1.6	1.5
EV/EBITDA (x)	9.8	10.1	9.2	8.9	8.7
Dividend Yield	2.5%	2.8%	2.9%	3.0%	3.2%
Sales/Assets (x)	0.3	0.2	0.2	0.2	0.2
Interest cover (x)	4.3	4.4	4.6	5.1	5.5
Operating leverage	82.3%	(33.9%)	254.6%	169.0%	296.7%
Revenue y/y Growth	8.9%	3.7%	4.3%	4.8%	2.3%
EBITDA y/y Growth	6.1%	1.1%	13.6%	4.5%	5.6%
Tax rate	34.6%	19.7%	20.2%	23.5%	24.0%
Adj. Net Income y/y Growth	13.3%	16.6%	4.2%	11.4%	11.7%
EPS y/y Growth	10.7%	7.7%	(1.0%)	5.8%	4.2%
DPS y/y Growth	9.4%	11.4%	2.6%	5.0%	6.0%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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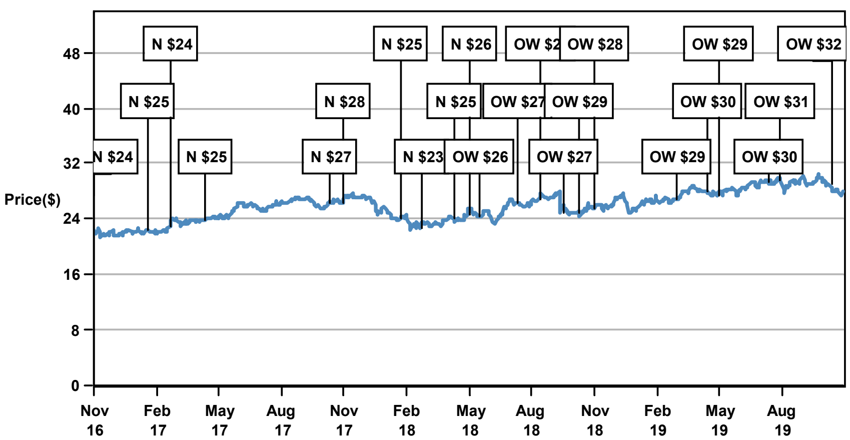
NiSource Inc. (NI, NI US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
01-Nov-16	N	27.31	24
18-Jan-17	N	22.35	25
22-Feb-17	N	22.99	24
11-Apr-17	N	23.74	25
12-Oct-17	N	26.42	27
01-Nov-17	N	26.37	28
24-Jan-18	N	24.17	25
22-Feb-18	N	22.80	23
10-Apr-18	N	24.15	25
02-May-18	N	24.52	26
17-May-18	OW	24.40	26
11-Jul-18	OW	26.24	27
15-Aug-18	OW	26.96	28
17-Sep-18	OW	24.79	27
09-Oct-18	OW	25.05	29
01-Nov-18	OW	25.36	28
01-Mar-19	OW	26.98	29
15-Apr-19	OW	28.07	30
02-May-19	OW	27.40	29
15-Jul-19	OW	29.34	30
01-Aug-19	OW	29.69	31
13-Oct-19	OW	29.14	32

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1 November 2019
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CREDIT SUISSE

NiSource Inc.

New Growth Trajectory after Equitizing

Natural Gas | Decrease Target Price

NI

Target price (12M, US$)
29.00
Neutral

- **Guidance for 2020 initiated below our expectations as a result of incremental equity plans.** Initiated at $1.36-$1.40, which is consistent with the 5%-7% annual earnings growth target, but below our previewed expectation for $1.37-$1.43, largely the result of plans for an incremental $500-$700M equity issuance in late-2020 to help fund Lawrence MA incident expenses. This comes on top of ongoing and unchanged plans for $200-$300M annual ATM and $35-$60M employee plan equity (no plans for use of convertible or hybrid financing) with management targeting FFO/Debt ~14%-15%. We are reducing our 2019-2021 estimates a few pennies and no longer expect an accelerated earnings growth profile through 2022 toward the original pre-Lawrence earnings growth glidepath (which had been 5%-7% off a 2018 $1.30 base). Management's 5%-7% target remains an annual target over the long term (rather than a CAGR off a base year). **Miss for 3Q19 at $0.00 vs CS/consensus $0.09/$0.08.** With TTM tracking at $1.25, guidance for 2019 was maintained at $1.27-$1.33 vs CS/consensus $1.30.
- **In Indiana, NIPSCO announced the next RFP for new generating resources on Oct 1.** The electric base ratecase remains pending before regulators after a partial settlement was filed in April at a 9.9% ROE. Expect a final decision in 4Q with rates effective 1Q20.
- **Valuation.** We reduce our TP $1 to $29 after reducing our 2019-2021 estimates $0.02-$0.03 for higher line location inspection and remediation expense as well as increased dilution from $500-$700M equity to be issued in late 2020 to finance spending for the Lawrence incident not covered by insurance. Our TP remains based on peer 2021 electric and gas P/Es within our SoTP.
- **Maintain Neutral rating with ~6%-8% total return potential over the next 12 months.** We continue to apply a -0.5x discount to the gas utilities for increased operational and regulatory risk pending more clarity and certainty over Safety Management System (SMS) implementation and new safety system installations across all NI gas service territories over the 6-12 months. We also value the electric operation in Indiana at a 1.5x premium for excellent operations and supportive regulation. Risks include regulatory, interest rates, project execution, operational risk around gas line upgrades, and

Previous target price (12M, US$)	30.00
Price (31 Oct 19, US$)	28.04
52-week price range	30.56 - 24.89
Market cap (US$ m)	10,474.14
Enterprise value (US$ m)	20,069

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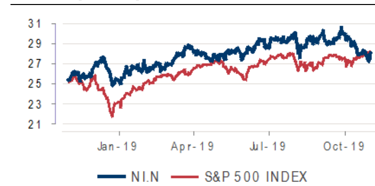
Financial and valuation metrics

Year	12/18A	12/19E	12/20E	12/21E
EPS (CS adj.) (US$)	1.30	1.30	1.38	1.46
Prev. EPS (US$)	-	1.32	1.40	1.49
Revenue (US$ m)	5,541.0	5,932.4	6,168.9	6,487.9
EBITDA (US$ m)	1,530.8	1,738.4	1,835.2	1,979.3
P/OCF (x)	5.9	6.1	6.0	5.9
EV/EBITDA (current)	12.9	11.4	10.8	10.0
Net debt (US$ m)	9,020	9,595	9,523	9,973
ROIC (%)	5.03	5.19	5.22	5.43

Number of shares (m)	373.54	IC (current, US$ m)	14,770.70
Net debt (Next Qtr., US$ m)	9,528.6	Dividend (current, US$)	0.76
Net debt/tot eq (Next Qtr.,%)	162.8		

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 31-Oct-2019 the S&P 500 INDEX closed at 3037.56Daily Nov01, 2018 - Oct31, 2019, 11/01/18 = US$25.37

Quarterly EPS	Q1	Q2	Q3	Q4
2018A	0.77	0.07	0.10	0.38
2019E	0.82	0.05	0.00	0.43
2020E	0.86	0.08	0.02	0.43

political/legislative changes.

1 November 2019

CREDIT SUISSE

NiSource Inc. (NI)

Price (31 Oct 2019): **US$28.04** Target Price: **(from 30.00) 29.00**

Analyst: **Michael Weinstein**
Rating: **Neutral**

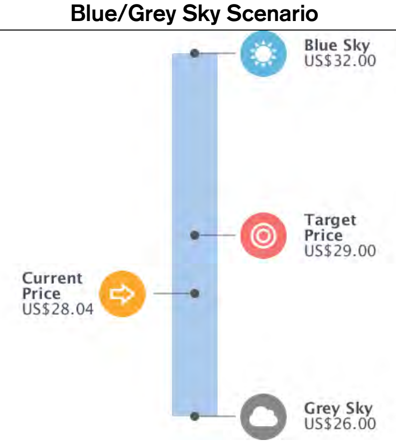
Income Statement	**12/18A**	**12/19E**	**12/20E**	**12/21E**
Revenue (US$ m)	**5,541.0**	**5,932.4**	**6,168.9**	**6,487.9**
EBITDA (US$ m)	**1,531**	**1,738**	**1,835**	**1,979**
Depr. & amort.	(600)	(706)	(732)	(759)
EBIT (US$)	**931**	**1,032**	**1,103**	**1,220**
Net interest exp	(392)	(377)	(418)	(415)
PBT (US$)	**581**	**625**	**685**	**775**
Income taxes	(118)	(134)	(144)	(163)
Profit after tax	**463**	**492**	**541**	**613**
Minorities	-0	-0	-0	-0
Net profit (US$)	**463**	**492**	**541**	**613**
Reported net income (US$)	**463**	**492**	**541**	**613**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**463**	**492**	**541**	**613**
Cash Flow	**12/18A**	**12/19E**	**12/20E**	**12/21E**
EBIT	931	1,032	1,103	1,220
Net interest	(392)	(377)	(418)	(415)
Change in working capital	110	(53)	0	0
Cash flow from operations	**1,522**	**1,743**	**1,835**	**1,979**
CAPEX	(1,998)	(1,604)	(1,800)	(1,800)
Free cashflow to the firm	**(476)**	**140**	**35**	**179**
Acquisitions	-	-	-	-
Divestments	0	0	0	0
Cash flow from investments	**(1,926)**	**(1,672)**	**(1,800)**	**(1,800)**
Net share issue(/repurchase)	848	295	895	295
Dividends paid	(285)	(299)	(296)	(317)
Changes in Net Cash/Debt	**(47)**	**(575)**	**72**	**(450)**
Balance Sheet (US$)	**12/18A**	**12/19E**	**12/20E**	**12/21E**
Assets				
Cash & cash equivalents	113	151	151	151
Account receivables	1,059	1,132	1,132	1,132
Other current assets	597	558	558	558
Total current assets	**2,055**	**1,916**	**1,916**	**1,916**
Total fixed assets	15,543	16,506	17,574	18,615
Investment securities	-	-	-	-
Total assets	**21,804**	**22,655**	**23,723**	**24,763**
Liabilities				
Total current liabilities	**4,037**	**4,519**	**4,448**	**4,898**
Total liabilities	**16,053**	**16,614**	**16,543**	**16,993**
Shareholder equity	5,751	6,041	7,180	7,771
Total liabilities and equity	**21,804**	**22,655**	**23,723**	**24,763**
Net debt	9,020	9,595	9,523	9,973
Per share	**12/18A**	**12/19E**	**12/20E**	**12/21E**
No. of shares (wtd avg)	356	377	392	419
CS adj. EPS	1.30	1.30	1.38	1.46
Prev. EPS (US$)	-	1.32	1.40	1.49
Dividend (US$)	0.78	0.76	0.80	0.85
Free cash flow per share	(1.33)	0.37	0.09	0.43
Earnings	**12/18A**	**12/19E**	**12/20E**	**12/21E**
Sales growth (%)	(1.8)	7.1	4.0	5.2
EBIT growth (%)	(3.4)	10.8	6.9	10.6
Net profit growth (%)	16.6	6.1	10.0	13.2
EPS growth (%)	7.7	0.2	6.1	5.8
EBITDA margin (%)	27.6	29.3	29.7	30.5
EBIT margin (%)	16.8	17.4	17.9	18.8
Pretax margin (%)	10.5	10.5	11.1	12.0
Net margin (%)	8.4	8.3	8.8	9.4
Valuation	**12/18A**	**12/19E**	**12/20E**	**12/21E**
EV/Sales (x)	3.52	3.38	3.24	3.15
EV/EBITDA (x)	12.9	11.4	10.8	10.0
EV/EBIT (x)	20.9	19.4	18.1	16.8
P/E (x)	21.6	21.5	20.3	19.2
Price to book (x)	2.0	2.0	1.7	1.7
Asset turnover	0.3	0.3	0.3	0.3
Returns	**12/18A**	**12/19E**	**12/20E**	**12/21E**
ROE stated-return on (%)	9.8	9.5	9.2	9.1
ROIC (%)	5.0	5.2	5.2	5.4
Gearing	**12/18A**	**12/19E**	**12/20E**	**12/21E**
Net debt/equity (%)	156.8	158.8	132.6	128.3
Interest coverage ratio (X)	2.4	2.7	2.6	2.9
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2018A	0.77	0.07	0.10	0.38
2019E	0.82	0.05	0.00	0.43
2020E	0.86	0.08	0.02	0.43

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

NiSource Inc. is energy holding company whose subsidiaries provide natural gas, electricity & other products & services. It operates in 3 segments: Gas Distribution Operations; Gas Transmission & Storage Operations, & Electric Operations.

Blue/Grey Sky Scenario



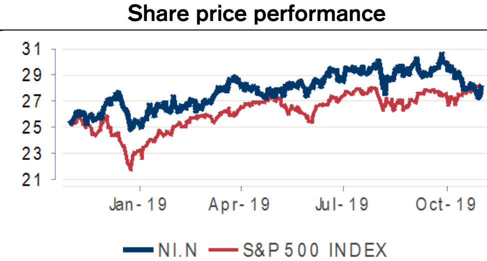
Our Blue Sky Scenario (US$) **(from 35.00) 32.00**

In our blue sky scenario we assume favorable regulatory outcomes across NI's jurisdictions, successful execution of their capital plan, and growth of infrastructure replacement program backlog. We assume that capex is at the high end of the \$1.7-\$1.8B and that NI is able to grow ratebase at the high end of their 8-10% range and grow earnings at the high end of their 5-7% range. We assume a 2.0x premium to the average peer 2021 P/E multiples.

Our Grey Sky Scenario (US$) **26.00**

In our grey sky scenario we assume unfavorable regulatory outcomes across NI's jurisdictions, only partial execution of their capital plan, and a decline in the infrastructure replacement program backlog. We assume that capex is at the low end of the \$1.7-\$1.8B and that NI is able to grow ratebase at the low end of their 8-10% range and grow earnings at the low end of their 5-7% range. We assume a -1.5x discount to the average peer 2021 P/E mult.

Share price performance



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Additional Comment

- **See our recent reports:** 5/24 "2019 AGA Financial Conference – Takeaways" and 5/2 'Guidance Remains Firm as Focus Shifts West".
- **Capex for gas and electric transmission.** Management now guides to annual infrastructure investment of \$1.7B-\$1.8B for 2019 and 2020 vs May 2019 guidance for \$1.6B-\$2.0B from 2020-2022. Spending categories include gas pipeline transmission capital (Ohio) and higher spending for electric transmission in Indiana to support future renewables. Information Technology upgrades for grid modernization are also included.
- **New Chief Safety Advisor.** NiSource has appointed Nick Stavropoulous Chief Safety Advisor for Columbia Gas of Massachusetts. Stavropoulous will be working on operational safety strategy and planning statewide. Prior to this role, Stavropoulos worked for PG&E since 2011 and lead the multi-billion-dollar recovery and restoration effort following the San Bruno explosion. (Press Release).
- **NTSB report on Oct 24 for the Greater Lawrence incident says company response to earlier recommendations (Nov 2018) is "acceptable".** Further service line verifications for safety compliance continue for ~2000 abandoned lines, with inspections expected to be complete by yearend. For 3Q19, the company booked a small \$21M incremental cost for estimated third-party claims and related other expenses net of insurance recoveries recorded. Total estimated cost of the event remains essentially unchanged at \$1.6-\$1.7B.
- **Another incident in Lawrence, MA.** In September, a ruptured gas main forced the temporary evacuation of homes in Lawrence, MA, the site of a 2018 incident that resulted in citywide explosions on Columbia Gas' distribution system as a result of human error (see our Aug 7th Downgrade to Neutral on Gas Operations Risk). A joint statement from NI's Columbia Gas and the MA Department of Public Utilities (DPU) stated that road paving contractors working for the City of Lawrence "…inadvertently closed a gas valve, puncturing an active gas main. Preliminarily, it appears that this gas valve should have been disabled as part of pipeline reconstruction in 2018 and was not compliant with DPU standards." A DPU investigation into the incident is ongoing, while Senator Warren has pledged to demand "answers from Columbia Gas and NiSource about why they keep placing our residents and first responders at risk."
- **No material changes to Greater Lawrence incident cost estimate.** These remain \$1.6-\$1.7B as illustrated in the table below, of which \$1.4B is expensed rather than capitalized, with about \$600M uncovered by \$800M of casualty insurance (plan to fund with equity in late 2020). Casualty insurance recoveries recorded through 3Q19 total \$670M, a figure that should increase toward the \$800M cap in early 2020 as claims are processed. Property insurance covering up to \$300M remains a pending issue, with proceeds expected to cover about 45 miles of pipeline replacement capital costs. Recall that in July 2019, NI announced a \$143M settlement of all class action lawsuits, which helps the company firm up final cost estimation. Any amount of this work not covered by insurance could theoretically become the subject of rate recovery, although we would expect the company to step gingerly around this sensitive issue. All four major liability classifications for the Greater Lawrence incident are known quantities, including:

    1) a \$250-\$260M settlement with the cities of Andover, Lawrence, and North Andover to replace the entire gas distribution system, including ~\$80M for paving and property restoration. NI is filing for recovery of capital costs under \$300M of property insurance.
    2) bodily injury claims: The April announcement of a settlement with the Figueroa family, of Lawrence, which had several individuals injured
    3) class action lawsuits and remediation, including more than 25K claims settled with a mediator for \$143M, and;

4) The July announcement of a settlement between the company and the family of Leonel Rondon, who lost his life in the incident.

Figure 1: Estimated Expenses and Insurance Coverage Related to the Greater Lawrence Incident, with Change Since 2Q19 ($M)

Estimated Amounts of Costs and Expenses Related to the Greater Lawrence Incident ($M)						Portion recorded to date 9/30/19		Insurance collected (cash) to date 9/30/19		Difference since 6/30/19
Incident Related Expenses		*Low*		*High*						
Third-Party Claims & Related Expenses	$	995	$	1,020	$	994			$	1
Other expenses	$	430	$	440	$	368			$	-
Total Expenses	$	1,425	$	1,460	$	1,362			$	1
Capital Cost (pipeline replacement)	$	255	$	260	$	250			$	3
Total	$	1,680	$	1,720	$	1,612			$	3
Insurance Coverage										
Caualty/liability insurance tower	$	800	$	800	$	670	$	670		
Property insurance (gas pipelines)	$	300	$	300	$	-				

Source: Company data, Credit Suisse estimates

- **GSEP tracker a positive sign in Massachusetts.** Recall that in Oct 2018, NI filed for recovery of $64M investment in FY2019 under the Gas System Enhancement Plan (GSEP). Rates were approved effective May 2019.
- **Upgrades of other low pressure systems outside of Massachusetts planned through 2019.** As part of the response to the Massachusetts over pressurization incident in September, the company plans to reprioritize the installation of upgrades to other similar low pressure (i.e., older) systems in Ohio, PA, and elsewhere, including the fitting of safety shutoff and remote monitoring systems to modernize them into medium pressure systems with regulators at each location. Although this is a $150M capital program in 2019, it is not expected to significantly change the company's 2019 $1.6-$1.7B annual capital plan as this is simply a reprioritization within the budget.
- **Light dividend increase points to turbulence in 2019, but cash flows will continue to improve nevertheless.** On Feb 1, NI raised its dividend only 2.5%, well below the expected 5%-7% that would be in-line with EPS growth. We expect dividend growth to resume a normal 5%-7% in 2020 and beyond. **Improving cash flows.** Still expect ~14%-15% FFO/Debt long-term, driven by a combination of strengthening cash flows and de-leveraging.

Regulatory Updates

- **Pending regulatory approvals:**

1) **Wind CPCN filings** made on Feb 1st, 2019 seeking approvals to develop 3 wind farms consistent with the IRP filed in the fall of 2018. Orders approving the PPAs on these filings were received on June 5, 2019 and the wind farms are expected to be built by yearend 2020. The three wind farms include Jordan Creek (400 MW), Roaming Bison (300 MW), and Rosewater (100 MW). On Oct 22, 2019, a Build-Transfer Agreement BTA was filed for Indiana Crossroads JV between NIPSCO and EDP Renewables (302 MW). An order is expected Feb 2020.

2) **Columbia Gas of MD** requested a $2.5M increase net of trackers on May 22, 2019. The request seeks to support continued replacement of aging

pipelines and adoption of pipeline safety upgrades. An order is expected in 4Q19.

3) **NIPSCO Electric** filed a partial settlement in its base ratecase in April 2019. The settlement addresses revenue requirement, federal tax reform and depreciation schedules and allows for 9.9% ROE. An order is expected in 4Q19.

- **Clarity from legislation in IN drives filing of a new gas TDSIC plan**. While the company continues to execute its approved TDSIC plans businesses through 2020 and 2022 for gas and electric, respectively, the passage of the H.B. 1470 provides clearer guidelines on items that can be included in a TDSIC plan. As result, management filed and received approval on Oct 16, 2019 for gas TDSIC10 covering $12.4M incremental capital between July 2018 and April 2019

- **Columbia Gas of Ohio received approval for a CEP rider covering $121.7M of investment in 2018 on Aug 28** with rates effective Sep. 2019.

    1) **Columbia Gas of Ohio CEP rider settlement for $74.5M was reached on Oct 25, 2018.** Essentially, this would apply some cash tax savings toward the deferred recovery of Capital Expense Program spending since 2011. Under a 2011 agreement, NI had been allowed to spend on non-IRP capital spending in Ohio with recovery deferred until a ratecase (at a 10.95% ROE) in 2020. However, given the new headroom in rates from a lower revenue requirement for a lower tax rate, management filed for an initial $69.8M of recovery starting Aug 2018 for investments through Dec 2015 but deferred through Dec 2017. Going forward, the company had also requested revenue requirement increases to $90.1M in Aug 2020 and $108M in Aug 2022 for additional investment. A 9/4/18 audit returned virtually no red flags (only $200k), but the settlement reached on Oct 25, 2018 includes a $74.5M annual increase. The CEP case is one to watch as this is the first filing of its kind and seeks recovery of a $400M regulatory asset.

- **Columbia Gas of Ohio Infrastructure Replacement Program.** On April 24th, 2019, the Public Utilities Commission of Ohio (PUCO) approved Columbia Gas of Ohio's (COH) annual Infrastructure Replacement Program tracker adjustment, allowing cost recovery of ~$199.6M of 2018 infrastructure investments. Recall that a 2017 settlement allowing COH to continue the IRP tracker through 2022 was previously approved in Jan 2018. The IRP program covers the replacement of priority mainline pipes and targeted customer service lines.

- **Partial settlement in Indiana ratecase, with final order expected by yearend for rates effective 1Q20.** The April 2019 partial settlement included revenue requirements and accelerated depreciation schedules related to early retirement of coal plants, including an agreement to reduce the book lives of $1.5B coal ratebase to match retirement plans at an average 2032 vs the prior 2030s-2040s. Non-protected accumulated deferred income tax passback amortization has also been agreed at a comfortable 10-year amortization period. Remaining talks appear to be more focused on rate design and allocation issues among customer groups rather than on the more investor-centric issues as discussed above. While these are all important policy issues, we note that the incremental revenue requirement in the case is only $22M.

    1) **Indiana electric rate case** filed 10/31 in conjunction with the new Integrated Resource Plan (IRP) calling for 100% coal retirements by 2028 (vs. prior plan for 50% by 2023), replaced with renewables rather than natural gas. The IRP calls for retirement of 80% of the coal fleet by 2023 and 100% by 2028 (vs. prior plan 50% by 2023). The plan also points toward rapidly declining-cost renewables (wind, solar, batteries) rather than the gas-fired replacements that were planned within the last 2016 IRP.

NIPSCO Electric filed a $21.4M annual base rate request on Oct 31, 2018 in conjunction with the new 2018 Integrated Resource Plan filing also filed on Oct 31. A partial settlement for the ratecase was filed on April 26th with an order is expected by yearend 2019 and if approved, rates would be effective as of 1Q20. With much of the new generation in service in 2023 and beyond, the ratecase is less important as a near-term earnings driver. The rate filing also includes changes to the depreciation schedules for the IRP's planned early retirements of coal, along with rate design changes to provide more tariff flexibility to industrial customers. A second all-source RFP is planned for later in 2019 and additional RFPs could be issued around 2021 to meet the 2023 80% goal (and take advantage of renewable tax credit programs before they completely ramp down). The IRP as submitted favors significant amounts of wind in the early years of the plan (take advantage of PTC tax credits in Phase 1 prior to 2020), although solar should become more economic after 2020. Management expects to have a better idea of timing on retirements and investment by mid-2019. Furthermore, we note that Indiana historically prefers utility ratebase generation vs. PPAs. For Phase 3 after 2023, the utility is likely to rely on PPA contracts for a remaining 400-MW hole. By 2028, all coal units including Michigan City are expected to be retired.

- **Another RFP for the Indiana Electric Integrated Resource Plan (IRP), which calls for 100% coal retirements by 2028.** A second all-source RFP was opened on Oct 1, 2019 for needs in 2023. NI takes a laddered approach to portfolio planning, so we expect to see a combination of PPAs and possible ratebase plants out of the process, with the possible acceleration of coal retirements. The first 2018 all-source RFP had seen a strong response (80 bidders) and the company filed for a Certificate of Public Convenience and Necessity (CPCN) on Feb 1, 2019 for a 20-year PPA for 100% of the output from the 400-MW Jordan Creek and 300-MW Roaming Bison wind farms. The company is also seeking approval for a BTA for the 100-MW Rosewater facility, a JV between NIPSCO and EDP Renewables. The final IRP will be developed in coordination stakeholders. The final IRP will be developed in coordination with stakeholders, with specific plans approved by regulators after RFP results.

1) **Renewables favored over CCGTs in the IRP.** This is a rather stunning development in our opinion, especially since it relates to a near-term need (next few years) rather than middle of next decade as has been the case with CMS's longer-term coal replacement plans. The company says that CCGTs offered into the RFP have been in the $800-$900/kW cost range, well above the ~$300/kW needed to compete with tax advantaged wind, solar, and storage. Note that solar becomes more attractive than wind after 2020 as both the wind PTC and solar ITC begin to sunset. As we've noted previously, regulated utilities will increasingly find themselves more competitive with ratebased solar after 2022 when the ITC drops to 10% and the disadvantage of required tax normalization doesn't handicap utilities as much vs. non-regulated third parties. For NIPSCO, the company's existing gas fleet will help balance the system as coal is replaced with renewables, although eventually (after 2028), more gas peakers may be needed. However, we would add here that with the cost of battery storage coming down too, gas peakers might eventually find themselves under threat as well.

2) **Use of tax equity proposed.** Regulated utilities that build solar projects in ratebase must amortize the Investment Tax Credit (ITC) over the life of assets to tax normalize the credit across present and future customers. While it has so far been unusual for regulated utilities to use tax equity, we note that NIPSCO has proposed a tax partnership structure within the Indiana IRP, a request that management acknowledges requires a special explanatory effort to regulators on the cost benefits vs the extra level of complexity. If

successful, we suspect that other utilities may try similar proposals in other states as well.

- **Columbia Gas of Massachusetts Gas System Enhancement Plan (GSEP)** received regulatory approval on Apr. 30th, 2019 allowing the recovery of $64M in investments and priority pipe replacement to be done in 2019. Note that this cost recovery is separate from those related to the Great Lawrence incident.

- **NIPSCO filed PHMSA Compliance Plan with the IN Utility Regulatory Commission on Dec. 31st, 2018**. This plan will cover $230M capital investment related to the federally mandated pipeline safety compliance plan for 2019 through 2023. Approval was received on Sept 4, 2019.

- **Remain on track for $30B in infrastructure investments, seven-year modernization programs.** NI has identified ~$30B in long-term infrastructure investment opportunities, with $20B from gas distribution operations and $10B from electric operations. After legal challenges, a filing this year was withdrawn that would have extended the 7-year NIPSCO Gas System Modernization Plan (TDSIC) past 2020. However, under the IURC-approved seven-year electric infrastructure modernization program remains in effect for now, and NIPSCO expects $1.2B in electric infrastructure investments to be made through 2022. The company's latest $131.1M tracker covers incremental capital investments made from Dec 2018 through June 2019 and remains pending before the IURC. An order is expected in 4Q19, with rates effective in Jan 2020.

Figure 2: NI Major Gas and Electric Utility Infrastructure Programs

	Authorized ROEs	Ratebase (YE 2018)	Total Identified Infrastructure Investments	Modernization Programs	Annual Modernization	Recovery Mechanism	Notes
Gas Distribution ~$20B in Identified Long-Term Infrastructure Investment Opportunities							
Columbia Gas Maryland	9.70%	$127M	$210M	$130M	$16-$20M	Tracked	New case filed May 22, 2019 for $3.7M ($2.5M net of trackers) with order expected 4Q19.
Columbia Gas Massachusetts	9.55%	$991M	$2.1B	$1.0B	$64-$120M	Tracked	Requested Increase: $24.1M, net of infrastructure trackers; filed: 4/13/2018 Settlement withdrawn Sept 19; refiling decision expected in late 2019 or early 2020
Columbia Gas of PA	Settlement - not specified	$1.7B	$4.3B	$3.2B	$240-$290M	Base rates (forward TY)	
NIPSCO Gas Base Rates	9.85%	$1.5B	$4.9B			Base rates	First base rate request in 25 years filed 9/27/17. Inclusive of various tracker programs, had sought annual revenue increase of $138.1M based on 10.7% ROE on 46.02% equity on $1.5B ratebase (yearend 2018), with ~half for higher depreciation rates. Settlement Filed for $107.3M on 4/20/2018 and was approved Sept 19 as filed. Rates effective Oct 1.
NIPSCO Gas System Modernization Program				$3.7B	$130-$190M	Tracked with TDSIC	7 Year plan update filing 4/2/18. Investment of ~$1.25B. • Long-term infrastructure modernization program • TDSIC10 filing covers $12.4M in incremental capital investments made between July 2018 and April 2019. • Filed June 25, 2019 • Order received Oct. 16, 2019 • New rates effective Nov. 2019
NIPSCO Gas - PHMSA	Recovery of Federally Mandated Pipeline Safety Compliance Plan Settled as part of Base Rate Case include $230M for 2019-2023						Filed Dec. 31, 2018 • Order received Sept. 4, 2019
Columbia Gas of Ohio IRP Annual Rider Update	Supports continued infrastructure replacement investments Includes $199.6M of capex in 2018						Filed 2/28/2019; Order received 4/24/2019; rate effective 5/1/2019
Columbia Gas of Ohio (CEP)	Recovery of certain capital investments and related deferred expenses not recovered through the IRP tracker • Order covers $121.7M of capital investments made in 2018						Filed Feb. 28, 2019 • Order received Aug. 28, 2019 • New rates effective Sept. 2019
Columbia Gas of Ohio (IRP)	Settlement - not specified	$2.8B	$5.6B	$3.0B	$230-$270M	Tracked	Settlement for IRP 5-year extension through Dec 2022 filed 8/18/17 with approval on 1/31/2018
Columbia Gas Virginia	Settlement - not specified	$711M	$1.8B	$0.5B	$35-$60M	Tracked	Base ratecase settlement approved in Mar 2017. Filed again in Aug 2018 for a $22M increase, including $8M of tracker roll-in. Settlement for $9.5M revenue increase and $1.3M net of infrastructure trackers filed 4/19/2019; Order received June 12 and and rates effective July 2019.
Columbia Gas Kentucky	Settlement - not specified	$302M	$1.1B	$850M	$30-$40M	Tracked	Seeks to recover $40.4M for 2020 capital investments • AMRP rider allows company to recover capital investments not currently recovered in base rates • Application includes request to recover capital to be spent on low-pressure systems safety enhancements Filed Oct. 15, 2019 • Order expected by YE2019 • Rates expected to be effective Jan. 2020
NIPSCO Electric ~$10B in in Identified Long-Term Infrastructure Investment Opportunities							
Wind CPCN Filings	Sought approval for 20-year PPAs to purchase 100% of the output from the Jordan Creek (400MW*) and Roaming Bison (300MW*). Also sought approval for Build-Transfer Agreement (BTA) for Rosewater (100MW*), a joint venture between NIPSCO and EDP Renewables. All three projects expected to be constructed by the end of 2020. BTA CPCN application filed for Indiana Crossroads (302MW), a second joint venture between NIPSCO and EDP Renewables						Filed Feb 1, 2019 with PPAS APPROVED June 5, 2019. Rosewater BTA approved Aug 2019. Indiana Crossroads CPCN filed Oct 22, 2019 - expect order Feb 2020 - expected in-service 4Q21
NIPSCO Indiana Base Ratecase	Seeks changes to the company's depreciation schedules related to the early retirements of coal-fired generation plants called for in the IRP. Proposes changes to tariffs to provide service flexibility for industrial customers to remain competitive in the global marketplace. Requests $21.4M annual revenue increase. Partial settlement that addresses revenue requirement, federal tax reform, depreciation schedules and allows for 9.9% ROE						Filed Oct 31, 2018; partial settlement filed 4/26/2019. Hearings July-Aug 2019 and order expected in 4Q19 and rates expected to be in effect 1Q20.
Integrated Resource Plan (IRP)	The 2018 IRP calls for retirement of nearly 80 percent of NIPSCO's coal-fired generation fleet by 2023 and the remaining coal-fired units by 2028. Replacement options point toward lower-cost renewable energy resources such as wind, solar and battery storage technology. The prior 2016 IRP had called for retiring 50% of coal-fired generation fleet by end of 2023, including Bailly 7/8 (MISO approved closure by mid-2018) and R.M. Schahfer Units 17 and 18.						Stakeholder process initiated Mar. 2018; third stakeholder meeting held 7/24/18. 2018 IRP submitted to IURC Oct 31, 2018. Second round of RFPs launched Oct. 1, 2019
Electric System Modernization (20+ years)	9.975%		$4.9B	$1.3B	$185-$215M	Tracked - TDSIC	Seven-year ~$1.25B electric system modernization program in progress 2016-2022 at $175M-$225M/yr. Focused on electric transmission and distribution investments designed to improve system reliability and safety. TDSIC 6 semi-annual tracker update filed Aug 2019 covering $131.1M in investments from December 2018 - June 2019. Expect order in 4Q19, rates effective Jan 2020.
Environmental Compliance (~7 years) at Michgan City, RM Schahfer stations	Address requirements under U.S. EPA's Effluent Limitation Guidelines (ELG) and Coal Combustion Residuals (CCR) rules		$0.4B		$10-$90M	Tracked - FMCA	Costs to be recovered through Federally Mandated Cost Adjustment (FMCA) mechanism. CCR $193M settlement approved 12/13/17. Construction underway, expected completion by 1Q19 ELG moved to a later proceeding.
Transmission Project I (100-mi, 345-kV Reynolds-Topeka; 2H18)			$350-$400M		$50-$120M	FERC Formula	Completed and in-service June 2018
Transmission Project II (65-mi, 765-kV Greentown-Reynolds Partnership; 2H18)			NI: $175-$200M		$25-$50M	FERC Formula	Completed and in-service June 2018

Source: Company data, Credit Suisse estimates

- **More gas utility rate activity:** Aside from annual filings in Pennsylvania, we expect filings every few years in NI's other jurisdictions to recover remaining capital not picked up under tracker mechanisms.
- **Rate headroom supports investment.** Following tax reform, NI's NOL carryforward had been revalued to $508M, which is expected to continue to provide a cash tax benefit that extends beyond 2025. The re-measurement of deferred tax liabilities decreases regulatory liabilities by ~$1.5B. The amortization of this regulatory liability and the reduction in the pass-through tax expense for customer bills provide additional rate headroom for incremental investments in necessary utility infrastructure.
- **O&M cost –** pipeline inspection and remediation costs notwithstanding, the company has previously guided to flattish O&M going forward, with some deviance due to timing issues.
- **Valuation:** We reduce our TP $1 to $29 after reducing our 2019-2021 estimates $0.02-$0.03 for higher line location inspection and remediation expense as well as increased dilution from $500-$700M equity to be issued in late 2020 to finance spending for the Lawrence incident not covered by insurance. Our TP remains based on peer 2021 electric and gas P/Es within our SoTP. We value the electric operation in Indiana at a 1.5x premium for excellent operations and supportive regulation, but apply a -0.5x discount to the gas utilities for increased operational and regulatory risk pending more clarity and certainty over safety management system installations across all NI gas service territories. With the impact from equity dilution now baked into our 2021 estimates, we have removed the explicit negative credit for ~$700M of unrecovered Greater Lawrence expense that had been in our SoTP previously, along with prior offsetting credit for the treatment of Lawrence expense carrying cost as a short-term phenomenon (i.e., we had assumed accelerated earnings growth at the top end of 5%-7% through 2022 previously). Risks include regulatory, interest rates, project execution, operational risk around gas line upgrades, and political/legislative changes.

Figure 3: NI Valuation

		BASE CASE			
	2021 EPS	Prem / Disc	Effective P/E	Equity	Equity / Sh
Electric	$0.65	1.5x	21.4x	$5,219	$13.83
Gas	$1.08	-0.5x	18.9x	$7,690	$20.37
Other	($0.28)		20.1x	($2,144)	($5.68)
Total EPS	**$1.46**			**$10,765**	**$29.00**
Diluted Shares Outstanding					377.4
Dividend					$0.76
Implied Yield					2.6%
Current Yield					2.8%
Implied P/E					19.8x
Prem / (Disc) To Group					2.2%
Upside/ (Dow nside) to Current Price					5.4%

Source: Company data, Credit Suisse estimates

1 November 2019

CREDIT SUISSE

Companies Mentioned *(Price as of 31-Oct-2019)*
NiSource Inc. (NI.N, $28.04, NEUTRAL, TP $29.0)

Disclosure Appendix

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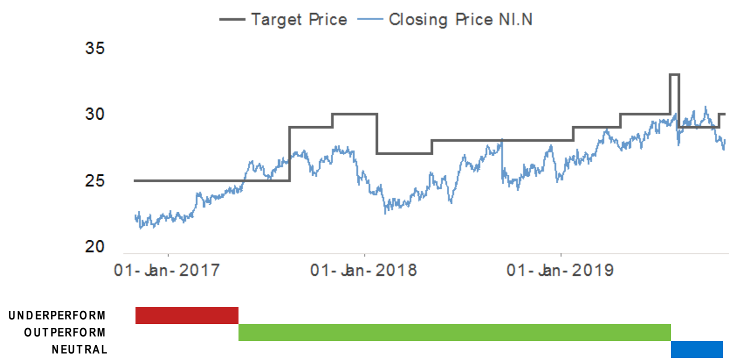
Michael Weinstein, ERP, Maheep Mandloi and Andres Sheppard each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
01-Nov-16	22.34	25.00	U
27-Jun-17	25.88		*
14-Aug-17	26.64	29.00	O
02-Nov-17	26.94	30.00	
23-Jan-18	24.17	27.00	
06-May-18	25.41	28.00	
23-Jan-19	26.83	29.00	
21-Apr-19	27.56	30.00	
22-Jul-19	29.14	33.00	
07-Aug-19	27.63	29.00	N
21-Oct-19	28.05	30.00	

** Asterisk signifies initiation or assumption of coverage.*



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Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
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Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: We arrive at our $29 target price for NI by applying a -0.5x discount to the gas segment peer 2021 P/E to reflect the increased operational and regulatory risk across its gas utilities after explosive incidents in both Mass and Pennsylvania in 2018 and 2019, respectively, despite otherwise constructive regulatory environments with capex trackers in place in the jurisdictions that NI operates. We also apply a 1.5x premium to the average peer electric utility 2021 P/E multiple for NIPSCO Electric utility in Indiana to reflect the favorable ratebase growth profile and regulatory environment in the state. Our Neutral rating reflects a forecasted total return that is equal the group average.

Risk: Risks to our $29 target price and Neutral rating are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particularly in the non-decoupled jurisdictions, 7) weather risk, and 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) Operational and regulatory risk in MA, PA and possibly other jurisdictions after explosive incidents involving the installation of new pipe systems and safety equipment.

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This research report is authored by:

Credit Suisse Securities (USA) LLC.. Michael Weinstein, ERP ; Maheep Mandloi ; Andres Sheppard

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NiSource Inc NI (XNYS)

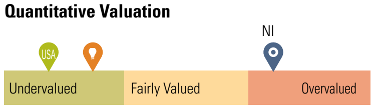
Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 07 Oct 2019 21:46, UTC	29.33 USD 07 Oct 2019	27.00 USD 10 Apr 2019 21:27, UTC	1.09	2.71 07 Oct 2019	2.73 07 Oct 2019	10.95 07 Oct 2019	Utilities - Regulated Gas	Standard

Morningstar Pillars

	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Overvalued
Uncertainty	Low	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.11	1.06	0.89	0.83
Price/Earnings	112.8	28.1	14.8	20.1
Forward P/E	21.1	—	13.7	13.9
Price/Cash Flow	16.5	8.5	6.5	13.1
Price/Free Cash Flow	—	75.8	13.1	19.5
Trailing Dividend Yield%	2.71	3.07	3.68	2.35

Source: Morningstar

Bulls Say

- We expect annual dividend growth to average 6% from 2020 to 2023.
- We believe the separation of the Columbia Pipeline Group from NiSource was good shareholder stewardship, as the market valued the individual businesses more highly at the time of the separation.
- New legislation has improved the regulatory framework in Indiana for NiSource's electric and natural gas distribution utilities.

Bears Say

- Industrial customers account for over half of NiSource's electric sales, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- Liabilities and fines from the September natural gas explosion in Massachusettes are likely to exceed the amounts covered by insurance and also strain regulatory relationships.
- NiSource's common shares increased 15% and it issued about $900 million of preferred shares in 2017 and 2018. The additional shares will be a headwind to EPS growth.

NiSource's Annual Dividend Growth Should Resume Mid-Single-Digit Levels in 2020

Business Strategy and Outlook

Charles Fishman, CFA, Eq. Analyst, 08 October 2019

NiSource completed its separation from Columbia Pipeline Group in 2015 and now derives all of its operating revenue from its regulated electric and natural gas distribution utilities. About two thirds of operating income comes from its seven natural gas distribution utilities. The remaining third comes from its electric utility business in Indiana.

NiSource's utilities have regulatory frameworks that include automatic rate tracker mechanisms for over 75% of planned capital expenditures, providing recovery of investments in less than 12 months. As a result of the favorable regulation, NiSource has stepped up its capital expenditures to almost $2 billion per year over the next five years. This is an investment level almost double the previous five years.

Over the next 20 years, NiSource plans to invest about $30 billion in infrastructure improvements. Over 50% of these investments are modernization programs for replacing steel and cast-iron pipe with plastic at its natural gas distribution utilities. Almost all of these investments receive rate tracker treatment. This allows NiSource to earn returns on these investments near allowed returns and reduces regulatory risk.

In September 2018, a natural gas explosion killed one person north of Boston on NiSource's Columbia Gas of Massachusetts system. Although the incident was caused by a contractor, the National Transportation Safety Board concluded at a September 2019 hearing that the ultimate responsibility for the incident rests with NiSource. Insurance should cover a significant portion of the costs, but the event was a public-relations nightmare and did have a negative effect on 2018 and 2019 earnings. Still, we expect annual earnings growth to be back to 6% by 2020.

NiSource cut its dividend in 2015 to $0.62 per share annualized after the separation from CPG. The company increased its dividend by 9.4% in 2017 and 11.4% in 2018. However, in part due to the Boston tragedy, dividend growth was only 2.6% in 2019. As earnings recover, we expect 6% annual dividend increases through 2023, at the midpoint of management's target of 5%-7%.

Analyst Note

Travis Miller, Strategist, 07 October 2019

We are reaffirming our fair value estimates and moat ratings for all U.S. utilities after updating our 2020-30 U.S. power generation forecast.

Our forecast shows natural gas generation expanding its leading market share in the U.S. power generation market through 2030. But our forecast also shows renewable energy moving into second place, overtaking coal, nuclear, and hydropower generation.

We think this sets up a "bloody" fight for market share by the end of the next decade: natural gas vs. renewable energy. Renewable energy has policy momentum and its costs are now competitive with natural gas generation even at today's low gas prices and without tax subsidies. But gas generators offer grid reliability, a key competitive advantage.

We forecast U.S. renewable energy will top 1,000 terawatt-hours by 2030, or 22% of U.S. electricity generation, excluding hydropower. The ramp down in solar and wind tax credits during the next five years won't slow growth as much as others assume. Our 8% CAGR in 2018-30 is higher than global growth rate forecasts and higher than the most recent U.S. Energy Information Administration reference case.

State renewable energy portfolio standards and corporate purchases will fill in any growth gaps related to tax roll-offs. We estimate 32 of the 38 states with renewable energy targets have not met their marks. New York (70% by 2030) and California (60% by 2030) represent one-third of our renewable energy growth forecast.

We forecast natural gas generation will grow 2% annually between 2019 and 2030, reaching 41% of U.S. generation. Coal and nuclear will each fall to 15% market share.

NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 07 Oct 2019 21:46, UTC	29.33 USD 07 Oct 2019	27.00 USD 10 Apr 2019 21:27, UTC	1.09	2.71 07 Oct 2019	2.73 07 Oct 2019	10.95 07 Oct 2019	Utilities - Regulated Gas	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
WEC Energy Group Inc WEC	USD	30,036	7,688	18.86	27.62
CMS Energy Corp CMS	USD	18,290	6,932	16.17	31.45
Alliant Energy Corp LNT	USD	12,774	3,580	19.67	24.88

Utilities with large renewable energy investment plans like NextEra Energy and Xcel Energy will continue to benefit from our higher renewable energy growth forecast. We think the market overlooks renewable energy growth potential from wide- and narrow- moat utilities like CMS Energy, NiSource, Edison International, Alliant Energy, and Dominion Energy.

Economic Moat

Charles Fishman, Eq. Analyst, 08 October 2019

Service territory monopolies and efficient scale advantages are the primary moat sources for NiSource's regulated utilities. State and federal regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their infrastructure. In exchange for regulated utilities' service territory monopolies, state and federal regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow NiSource's regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing.

NiSource derives roughly 65% of its operating earnings from the regulated distribution of natural gas. For natural gas distribution service, regulators set distribution rates and the commodity price for customers purchasing natural gas from NiSource. NiSource recovers its costs for natural gas that it sells with a pass-through charge to customers. Thus, NiSource has no commodity price risk that could weaken its moat. Customers may elect to purchase natural gas from independent retail energy suppliers and use and pay for distribution services only. NiSource exited the no-moat retail energy supply business in 2010.

Electricity generation, which contributes about 35% of operating earnings, is from operations in Indiana and is also regulated. The rates for this service are combined with regulated customer rates for transmission and distribution service. In exchange for its monopoly position, state and federal regulators set NiSource's electric rates.

Fair Value & Profit Drivers

Charles Fishman, Eq. Analyst, 08 October 2019

We are reaffirming our fair value estimate of $27 per share. Our estimate assumes investments will exceed $9.5 billion over 2019 to 2023, in line with our previous five-year capital expenditure estimate.

NiSource management has said it has combined casualty and property damage insurance coverage of $1.1 billion and they expect to recover the majority of costs associated with the Boston incident. Based on caps on fines in Massachusetts and the amount of insurance coverage, we believe the under recovery and effect on earnings could be roughly $1 billion pretax. Over 50% of this amount has already been spent or reserved and is included in our fair value estimate. Over the long term, we believe the earnings and cash flow benefits from the acceleration of capital expenditures to replace substandard pipe in NiSource's entire system will offset a material portion of these unrecovered expenses.

We use a 6% cost of capital in our discounted cash flow valuation, which incorporates a 7.5% cost of equity. Our cost of equity is lower than the 9% rate of return we expect investors will demand of a diversified equity portfolio. We believe our cost of equity reflects the risk associated with regulated electric and natural gas distribution utilities operating in states that have average to above-average regulatory frameworks.

Our pretax cost of debt assumption is 5.8%, as we incorporate a normalized long-term real rate environment and normalized credit spreads. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Our fair value estimate implies a 19.6 times multiple on 2020 earnings. This is a discount to market valuations for peer utilities that we think are overvalued as of early October.

Risk & Uncertainty

Charles Fishman, Eq. Analyst, 08 October 2019

Regulatory risk remains the key uncertainty; however, NiSource's regulatory exposure is diversified, owing to

NiSource Inc NI (XNYS)

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07 Oct 2019 21:46, UTC	07 Oct 2019	10 Apr 2019 21:27, UTC		07 Oct 2019	07 Oct 2019	07 Oct 2019		

operations in seven states and its federal-regulated electric transmission system. NiSource has reduced some of the regulatory uncertainty related to its planned natural gas distribution and electric utilities investments by securing preapprovals and favorable rate mechanisms that provide for automatic rate increases as infrastructure investments are made.

In 2018, NiSource announced it would eliminate all coal-fired generation from its power plant fleet within 10 years. This transition will require signing power purchase agreements for renewable energy; building new gas-fired power plants and solar and wind farms; and making modifications to its electric grid. There is a modest amount of execution risk to this dramatic transition from coal.

Stewardship

Charles Fishman, Eq. Analyst, 08 October 2019

We assign NiSource a Standard stewardship rating. We think management's decision to form Columbia Pipeline Partners and execute CPG's tax-free separation exhibited exemplary stewardship of shareholder capital. However, the CEO who probably drove those decisions left NiSource to go with CPG before he retired.

The National Transportation Safety Board found NiSource responsible for the tragic gas explosion north of Boston. The incident had a negative effect on shareholder capital and probably could have been handled better by management.

Joe Hamrock became CEO following the separation. He has been with NiSource since 2012 and previously ran the natural gas distribution business. Before joining NiSource, he was with American Electric Power. CFO Donald Brown joined NiSource in April 2015. Previously, he was with UGI Utilities and Constellation Energy. These individuals have significant utility experience, and we believe they will not stray from the strategy that has benefited shareholders.

Most of the members of NiSource's board of directors were involved in the separation of CPG and oversight of investment decisions. Given this, we are confident that the solid stewardship of shareholder capital is likely to continue.

NiSource Inc NI (XNYS)

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Analyst Notes Archive

NiSource's FVE Unchanged as Estimated Claims From Boston Gas Explosion Continue to Rise

Charles Fishman, Eq. Analyst, 01 May 2019

We are reaffirming our $27 per share fair value estimate after narrow-moat NiSource reported 2019 first-quarter operating EPS of $0.82 versus $0.77 in the same period last year.

However, operating earnings exclude roughly $0.30 per share of estimated costs related to the tragic natural gas explosion north of Boston in September 2018. We suspect some of these expenses may be recovered by insurance claims or regulatory relief and reversed later.

Third-party claims and other expenses have climbed to about $1.35 billion net of insurance recoveries from about $1.1 billion at 2018 year-end. We had thought most of the claims had been identified, but it appears more difficult to quantify some of the third-party claims for personal injury and property damage than we had suspected.

NiSource's insurance policies have a combined limit of $1.1 billion ($800 million of casualty and $300 million of property), but even if some of the $250 million of incremental claims and other expenses in the recently ended quarter are not recovered, we doubt it would have a material impact on our fair value estimate.

NiSource reaffirmed 2019 operating earnings guidance of $1.27-$1.30 per share and our estimate of $1.30 per share is unchanged. The utility also reaffirmed its 2019 capital expenditure guidance of $1.6 billion to $1.7 billion. Our estimate of $1.7 billion remains at the top end of the guidance.

We believe annual EPS growth will return to management's 5%-7% target after 2020 and our EPS growth rate estimate from 2020-23 equals 6.1%. We also expect annual dividend increases to average 6% starting next year after shareholders received only a 2.6% increase last quarter.

NiSource's Boston Natural Gas Explosion Costs Climb, but Should Remain Less Than Our Estimate

Charles Fishman, Eq. Analyst, 02 August 2019

We are reaffirming our $27 per share fair value estimate after narrow-moat NiSource reported 2019 second-quarter operating EPS of $0.05 versus $0.07 in the same period last year. Second-quarter earnings are usually barely above breakeven as the months of April to June are a relatively low period for electricity and gas sales.

Estimated third-party claims and other expenses related to the tragic natural gas explosion north of Boston in September 2018 increased by almost $100 million, to approximately $1.45 billion. NiSource has third-party liability insurance of $800 million, of which $670 million has been recorded and $535 million has been collected.

In addition, estimated the capital cost for pipeline replacement is approximately $255 million that we expect to be mostly covered by NiSource's $300 million of property insurance. These estimates do not include fines, penalties or settlements with other government authorities not included in the July 29 class-action settlement or other regulators. Massachusetts caps most of these fines and we don't expect them to add materially to the total incident expenses.

Thus, we estimate NiSource's exposure to the Boston incident is roughly $700 million pre-tax currently, $1.5 billion less $800 million of insurance proceeds. Our fair value estimate of $27 per share conservatively assumes roughly $1 billion of pre-tax expenses related to the incident.

NiSource reaffirmed 2019 operating earnings guidance of $1.27-$1.33 per share and our estimate of $1.30 per share is unchanged. The utility also reaffirmed its 2019 capital expenditure guidance of $1.6 billion to $1.7 billion. Our estimate of $1.7 billion remains at the top end of the guidance.

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The Next Battle Royale: Natural Gas Generation vs. Renewable Energy

Travis Miller, Strategist, 07 October 2019

We are reaffirming our fair value estimates and moat ratings for all U.S. utilities after updating our 2020-30 U.S.

NiSource Inc NI (XNYS)

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power generation forecast.

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Quantitative Equity Report | Release: 08 Oct 2019, 05:39 UTC | Reporting Currency: USD | Trading Currency: USD | Exchange:XNYS

NiSource Inc NI ★Q 08 Oct 2019 02:00 UTC

Last Close	Fair Value[Q]	Market Cap	Sector	Industry	Country of Domicile
07 Oct 2019	08 Oct 2019 02:00 UTC	07 Oct 2019			
29.33	26.49	10,950.3 Mil	Utilities	Utilities - Regulated Gas	USA United States

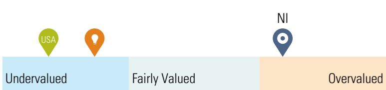
There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewables.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	97	93	94
Valuation	Overvalued	3	9	6
Quantitative Uncertainty	Medium	100	97	100
Financial Health	Moderate	76	59	76



Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.11	1.06	0.89	0.83
Price/Earnings	112.8	28.1	14.8	20.1
Forward P/E	21.1	—	13.7	13.9
Price/Cash Flow	16.5	8.5	6.5	13.1
Price/Free Cash Flow	—	75.8	13.1	19.5
Trailing Dividend Yield %	2.71	3.07	3.68	2.35
Price/Book	2.1	1.9	1.4	2.4
Price/Sales	2.1	1.7	1.4	2.4

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	2.4	4.9	9.8	12.9
Return on Assets %	0.6	1.2	3.3	5.2
Revenue/Employee (K)	647.6	597.8	1,274.9	325.9

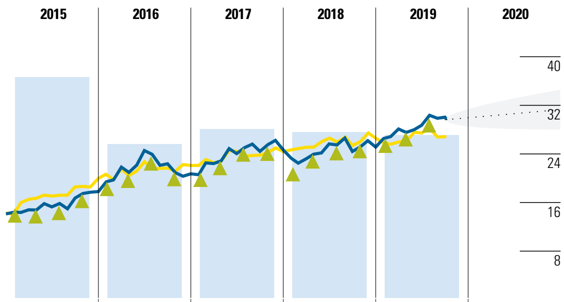
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	817.2	—	584.9	552.4
Assets/Equity	3.8	4.3	2.6	1.7
Long-Term Debt/Equity	1.2	1.5	0.7	0.4

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	4.9	3.2	2.0	-5.4
Operating Income %	-86.4	-46.0	-29.0	-18.0
Earnings %	—	—	—	—
Dividends %	11.4	-2.1	-4.5	-1.6
Book Value %	2.1	2.8	-7.0	-2.7
Stock Total Return %	20.6	11.8	8.3	17.0

Price vs. Quantitative Fair Value

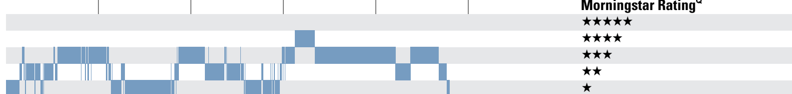


Quantitative Fair Value Estimate
Total Return
Sales/Share
Forecast Range
Forcasted Price
Dividend
Split

Momentum:	Neutral	
Standard Deviation:	14.38	
Liquidity:	High	
24.19	52-Wk	30.67
14.77	5-Yr	30.67

2015	2016	2017	2018	2019	
15.0	16.8	19.1	1.8	18.1	Total Return %
14.4	4.3	-2.4	6.8	-0.9	+/– Market (Morningstar US Index)
4.25	2.89	2.73	3.08	2.71	Trailing Dividend Yield %
3.18	2.87	2.73	3.08	2.73	Forward Dividend Yield %
12.8	23.3	31.3	-87.7	112.4	Price/Earnings
1.0	1.7	1.7	1.8	2.1	Price/Revenue

Morningstar Rating[Q]



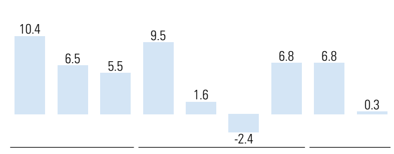
2014	2015	2016	2017	2018	TTM	Financials (Fiscal Year in Mil)
6,471	4,652	4,492	4,875	5,114	5,237	Revenue
14.4	-28.1	-3.4	8.5	4.9	2.4	% Change
1,184	802	857	916	126	445	Operating Income
8.7	-32.3	6.9	6.9	-86.3	253.5	% Change
530	287	332	129	-51	165	Net Income
1,320	1,457	803	742	540	657	Operating Cash Flow
-2,029	-1,361	-1,475	-1,696	-1,818	-1,829	Capital Spending
-709	96	-672	-954	-1,278	-1,172	Free Cash Flow
-11.0	2.1	-15.0	-19.6	-25.0	-22.4	% Sales
1.67	0.90	1.02	0.39	-0.18	0.26	EPS
-1.8	-46.1	13.3	-61.8	-146.2	—	% Change
-2.47	-1.28	-2.26	-2.47	-1.82	-3.17	Free Cash Flow/Share
1.02	0.83	0.64	0.70	0.78	0.79	Dividends/Share
19.01	11.91	11.79	12.95	12.57	13.65	Book Value/Share
316,037	319,110	323,160	337,016	372,364	373,347	Shares Outstanding (K)

2014	2015	2016	2017	2018	TTM	Profitability
8.8	5.7	8.4	3.1	-1.4	2.4	Return on Equity %
2.2	1.4	1.8	0.7	-0.3	0.6	Return on Assets %
8.2	6.2	7.4	2.6	-1.3	2.4	Net Margin %
0.27	0.22	0.25	0.25	0.24	0.25	Asset Turnover
4.0	4.6	4.6	4.6	4.5	4.3	Financial Leverage
32.6	34.0	36.7	35.8	19.6	26.6	Gross Margin %
18.3	17.2	19.1	18.8	2.5	8.5	Operating Margin %
8,004	5,903	6,058	7,512	7,105	7,110	Long-Term Debt
6,175	3,844	4,071	4,320	5,751	5,976	Total Equity
0.4	0.3	0.4	0.4	0.3	0.3	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2019	1,869.8	1,010.4	—	—	—
2018	1,750.8	1,007.0	895.0	1,461.7	5,114.5
2017	1,598.6	990.7	917.0	1,368.3	4,874.6
2016	1,436.6	897.6	861.3	1,297.0	4,492.5
Earnings Per Share ()					
2019	0.55	0.75	—	—	—
2018	0.81	0.07	-0.95	-0.05	-0.18
2017	0.65	-0.14	0.04	-0.16	0.39
2016	0.56	0.09	0.08	0.27	1.02

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

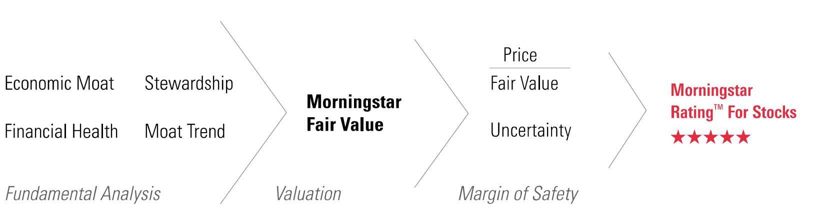
To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies



Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

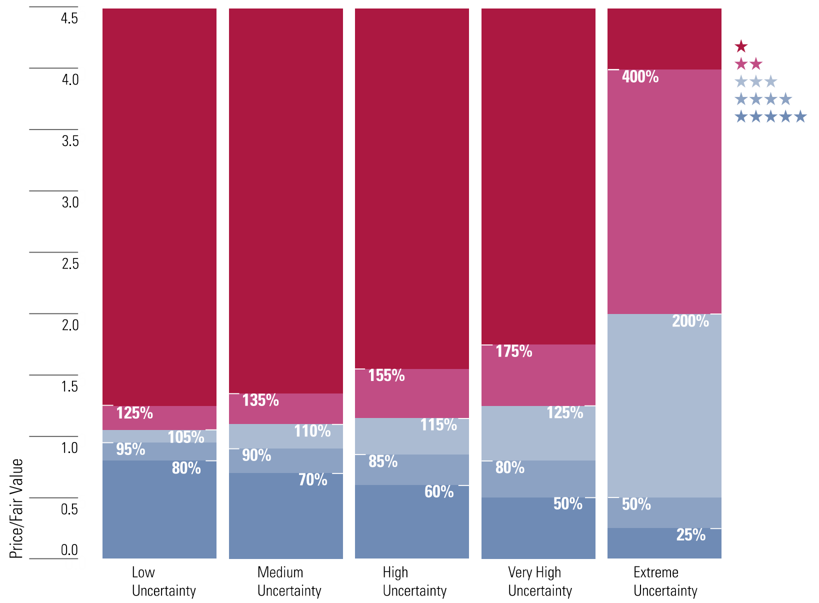
- Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.
Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ► Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- ► Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- ► Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview

The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings

Morningstar's quantitative equity ratings consist of:
(i) Quantitative Fair Value Estimate
(ii) Quantitative Star Rating
(iii) Quantitative Uncertainty
(iv) Quantitative Economic Moat
(v) Quantitative Financial Health
(collectively the "Quantitative Ratings").

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. (""Morningstar," "we," "our") calculates Quantitative Ratings for companies whether it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the quantitative fair value estimate using a statistical model derived from the fair value estimate Morningstar's equity analysts assign to companies. Please go to https://shareholders.morningstar.com for information about fair value estimates Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- ► Narrow: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- ► Wide: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- ► None: assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as 1-Star, 2-Star, 3-Star, 4-Star, and 5-Star.

★: the stock is overvalued with a reasonable margin of safety.
Log (Quant FVE/Price)<–1*Quantitative Uncertainty

★★: the stock is somewhat overvalued.
Log (Quant FVE/Price) between (–1*Quantitative Uncertainty, –0.5*Quantitative Uncertainty)

★★★: the stock is approximately fairly valued.
Log (Quant FVE/Price) between (–0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)

★★★★: the stock is somewhat undervalued.
Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)

★★★★★: the stock is undervalued with a reasonable margin of safety. Log (Quant FVE/Price) >1*Quantitative Uncertainty

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the quantitative fair value estimate. Generally, the lower the quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

- ► Low: the interquartile range for possible fair values is less than 10%.
- ► Medium: the interquartile range for possible fair values is less than 15% but greater than 10%.
- ► High: the interquartile range for possible fair values is less than 35% but greater than 15%.
- ► Very High: the interquartile range for possible fair values is less than 80% but greater than 35%.
- ► Extreme: the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- ► Weak: assigned when Quantitative Financial Health <0.2
- ► Moderate: assigned when Quantitative Financial Health is between 0.2 and 0.7
- ► Strong: assigned when Quantitative Financial Health >0.7

Research Methodology for Valuing Companies

Other Definitions

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Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

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This Report has not been made available to the issuer of the security prior to publication.

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NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	29.33 USD	27.00 USD	1.09	2.71	2.73	10.95	Utilities - Regulated Gas	Standard
07 Oct 2019 21:46, UTC	07 Oct 2019	10 Apr 2019 21:27, UTC		07 Oct 2019	07 Oct 2019	07 Oct 2019		

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NiSource Inc NI (XNYS)

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NiSource Inc

Affirming it is indeed still in 5-7% EPS CAGR despite more equity

Reiterate Rating: NEUTRAL | PO: 30.50 USD | Price: 28.05 USD

Bank of America Merrill Lynch

Equity | 22 October 2019

3Q Call thoughts: Equity forward pushed to YE'20 impact

Amidst the ongoing balance sheet needs arising from the Bay State Gas biz, we reiterate we expect another ~$600 Mn of equity support (largely between preferreds and equity) to bridge the gap between collected insurance ($800mn) & Merrimack costs ($1.4bn) and to shore up the FFO/debt figures (beyond the annual ~$300Mn/yr ATM + employee DRIP needs). Despite this potential added dilution vs. our earlier expectations (which we perceive to be upwards of -$0.07 incremental dilution over time), mgmt appears quite confident still in its 5-7% long-term EPS growth rate (off its $1.30 midpoint of 2019). We highlight it is possible for NI to stay within its '20 EPS range ($1.37-1.39) based on the timing & our expectation NI would issue forward equity; we expect shares for the $600mn need will start to hit in December 2020 and the rest in 2021, meaning dilution and EPS impact is more of a '21 issue. Further, we see mgmt's growth confidence as a notable *affirmation* of the company's outlook considering the challenges at its Bay State gas; we see strength via improving earned returns, pending NIPSCO ratecase (resolution of which expected late Jan/early Feb as Rate 831 is resolved), and future ratecases to be filed (which could include PA). Below, we include a 2020 EPS walk of $1.37/sh compared to Consensus of $1.38/sh; we assume +16c from normal programs & pension offset by -10c from ATM dilution, O&M expense & interest expense ($500mn @4%). We update share count to reflect timing of equity issuance & tweak ROEs up given upside potential such as a potential PA case. Finally for 3Q, we expect $0.00/sh vs. $0.07 Consensus.

Look for future growth discussion at EEI; IN RFP at 4Q

We suspect updates around EEI will be critical in positioning future growth as we acknowledge potentially meaningful shifts in gas-safety related capex programs. We note Street is still towards the mid-to-high end of its 5-7% LT EPS growth rate, while we model EPS closer to the lower end in '21 (reflecting equity issuance) & mid beyond. Finally, we look for updates following the RFP solicitation at NIPSCO; we expect more material RFP updates at 4Q call though given timing on proposal deadline. We reiterate our Neutral at an updated PO of $30.5/sh (prev $32) with a lower peer multiple of 19.1x electric & 19.5x gas to which a 5%/5.1% growth CAGR is applied; we see give a -1x disc to gas utes given safety issues & a +1x prem to NIPSCO electric given ownership opp.

Estimates (Dec)

(US$)	2017A	2018A	2019E	2020E	2021E
EPS	1.21	1.30	1.31	1.37	1.42
GAAP EPS	0.39	1.30	1.31	1.37	1.42
EPS Change (YoY)	14.2%	7.4%	0.8%	4.6%	3.6%
Consensus EPS (Bloomberg)			1.30	1.38	1.47
DPS	0.73	0.79	0.83	0.88	0.94

Valuation (Dec)

	2017A	2018A	2019E	2020E	2021E
P/E	23.2x	21.6x	21.4x	20.5x	19.8x
GAAP P/E	71.9x	21.6x	21.4x	20.5x	19.8x
Dividend Yield	2.6%	2.8%	3.0%	3.2%	3.3%
EV / EBITDA*	17.2x	16.6x	14.6x	13.7x	12.8x
Free Cash Flow Yield*	-9.1%	-12.2%	-5.1%	-7.0%	-6.6%

* For full definitions of *iQmethod* SM measures, see page 10.

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Refer to important disclosures on page 11 to 13. Analyst Certification on page 8. Price Objective Basis/Risk on page 8. 12055229

Timestamp: 22 October 2019 06:58AM EDT

Key Changes

(US$)	Previous	Current
Price Obj.	32.00	30.50
2019E EPS	1.30	1.31
2020E EPS	1.35	1.37
2021E EPS	1.46	1.42
2019E EBITDA (m)	1,737.8	1,750.1
2020E EBITDA (m)	1,826.4	1,853.3
2021E EBITDA (m)	1,943.0	1,986.7

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Stock Data

Price	28.05 USD
Price Objective	30.50 USD
Date Established	21-Oct-2019
Investment Opinion	B-2-7
52-Week Range	24.37 USD - 30.67 USD
Mrkt Val (mn) / Shares Out (mn)	10,472 USD / 373.3
Average Daily Value (mn)	77.25 USD
BofAML Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2019E)	9.6%
Net Dbt to Eqty (Dec-2018A)	156.7%

iQprofile SM NiSource Inc

iQmethod SM – Bus Performance*

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Return on Capital Employed	2.6%	3.9%	4.1%	4.1%	4.1%
Return on Equity	9.5%	10.1%	9.6%	9.2%	9.1%
Operating Margin	18.7%	18.3%	20.3%	21.0%	22.0%
Free Cash Flow	(954)	(1,278)	(533)	(732)	(687)

iQmethod SM – Quality of Earnings*

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash Realization Ratio	1.9x	1.2x	2.3x	2.3x	2.2x
Asset Replacement Ratio	3.0x	3.0x	2.4x	2.6x	2.6x
Tax Rate	71.0%	19.7%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	207.7%	156.7%	150.0%	140.6%	132.8%
Interest Cover	2.6x	2.6x	3.0x	3.1x	3.2x

Income Statement Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Sales	4,875	5,084	5,161	5,295	5,460
% Change	8.5%	4.3%	1.5%	2.6%	3.1%
Gross Profit	3,356	3,325	3,597	3,707	3,848
% Change	8.2%	-0.9%	8.2%	3.1%	3.8%
EBITDA	1,481	1,531	1,750	1,853	1,987
% Change	5.4%	3.4%	14.3%	5.9%	7.2%
Net Interest & Other Income	(468)	(335)	(353)	(363)	(373)
Net Income (Adjusted)	398	463	495	538	602
% Change	15.6%	16.6%	6.8%	8.7%	12.0%

Free Cash Flow Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Net Income from Cont Operations (GAAP)	129	463	495	538	602
Depreciation & Amortization	570	600	702	742	783
Change in Working Capital	(415)	110	(186)	(186)	(186)
Deferred Taxation Charge	307	(188)	117	126	140
Other Adjustments, Net	152	(445)	0	0	0
Capital Expenditure	(1,696)	(1,818)	(1,661)	(1,951)	(2,025)
Free Cash Flow	-954	-1,278	-533	-732	-687
% Change	-41.9%	-34.0%	58.3%	-37.3%	6.2%

Balance Sheet Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash & Equivalents	29	121	133	133	133
Trade Receivables	945	1,147	1,333	1,519	1,706
Other Current Assets	790	787	787	787	787
Property, Plant & Equipment	14,360	15,543	16,501	17,710	18,952
Other Non-Current Assets	3,839	4,206	4,206	4,206	4,206
Total Assets	19,962	21,804	22,960	24,355	25,784
Short-Term Debt	1,490	2,027	2,256	2,372	2,489
Other Current Liabilities	1,688	2,010	2,010	2,010	2,010
Long-Term Debt	7,512	7,105	7,351	7,729	8,109
Other Non-Current Liabilities	4,951	4,911	5,028	5,153	5,293
Total Liabilities	15,642	16,053	16,644	17,264	17,901
Total Equity	4,320	5,751	6,316	7,092	7,883
Total Equity & Liabilities	19,962	21,804	22,960	24,355	25,784

* For full definitions of *iQmethod* SM measures, see page 10.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

NI's positives including 5-7% earnings/dividend growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries with earned ROEs consistently near the allowed.However, we see increased regulatory lag associated with the MA incident. Moreover, with the outcome of Department of Justice investigation still unclear, we believe an overhang on shares will persist. Bottom line, we see more balanced risk/reward profile and as such we rate NI Neutral.

Stock Data

Average Daily Volume	2,805,672

Quarterly Earnings Estimates

	2018	2019
Q1	0.77A	0.82E
Q2	0.08A	0.05E
Q3	0.10A	0E
Q4	0.38A	0.44E

3Q19 NI Walk

We estimate 3Q19 EPS of $0.00 vs. $0.10 in 3Q18 and $0.07 Consensus.

- **Key Drivers**: We expect a strong quarter of D&A expense as well as pref dividend issuance and O&M. We see some strength in ratebase outcome and Ohio's CEP, but note that largely the high expenses results in an earnings-less quarter. Nonetheless, we expect the year of 2019 EPS falls within guidance of $1.27-1.33/sh.

Table 1: 3Q19 NI EPS Walk

NI 3Q19 Earnings Walk	EPS
NI 3Q18 EPS	0.10
Gas tracking mechanisms	0.00
Electric tracking mechanisms	0.00
Rate case outcome	0.02
CEP (Ohio) is also a gas benefit	0.02
Intr expense - more debt w/ Merrimack valley	(0.01)
Pension expense, SMS expenses	(0.01)
Preferred div issuance	(0.03)
D&A	(0.06)
Insurance Adjustment	(0.01)
O&M	(0.02)
Dilution	(0.01)
3Q19 BofAe Adjusted EPS	(0.00)
In Model	*(0.00)*
Consensus	0.07
BofAe 2019 EPS	1.31
Guidance	1.27-1.33
2019 Consensus	1.30
Shares Outstanding (3Q19)	383
Shares Outstanding (3Q18)	364
Tax Rate	21%

Source: BofA Merrill Lynch Global Research estimates, company report, Bloomberg

2020 NI Walk

On the 3Q call, we expect the company to provide a first look at 2020 earnings, inclusive of EPS, capital/financing plan and overall long term growth rate. We expect the company to narrow the ends of the $1.6-2Bn capital plan (as opposed to raising overall spend expectations) and note overall confidence from mgmt. around the 5-7% growth rate despite any equity needs. We estimate 2020 EPS of $1.37 vs. Consensus of $1.38.

- **Key Drivers**: Starting with a normalized 2019 guidance of $1.30/sh, we expect the company benefits $0.15/sh from tracked investments (assumes 75% of $1.8Bn growth is tracked within 12 months with a 50% equity layer and 9% ROE), and slightly from pension expense. We see the IN electric ratecase less of an EPS impact. Offsetting, we forecast -$0.04 from ATM program dilution (YE s/o from 284mn to 397mn), O&M, and incremental interest expense of -$0.03 (assuming $500mn debt at 4% interest).

Table 2: 2020 NI EPS Walk

2020 NI earnings walk	EPS
2019 Normalized Guidance	$1.30
Tracked investments (riders, mechanisms)	$0.15
Pension Expense	$0.01
IN Electric rate case	$0.00
Preferred Dividends/Additional Equity (likely YE20)	$0.00
Dilution from ATM program	($0.04)
O&M	($0.02)
Incremental Interest expense ($500mn @ 4%)	($0.03)
2020 BofAe Adjusted EPS	$1.37
2020 Consensus	$1.38

Source: BofA Merrill Lynch Global Research estimates, company report, Bloomberg

The latest on Merimack

Accounting for equity dilution

In addition to the ~$200-$300Mn of normal equity needs to execute NI's ongoing operations, latest discussions with mgmt. highlighted an expectation for permanent financing related to the $1.4Bn estimates from Merimack. While the company has insurance recovery of around $800Mn, it will need to address the $600Mn delta at some point in the future. Our sense is that the company is exploring a range of forward options including pure common equity as well as other instruments with an equity component (e.g. pref), but with no immediate need but likely at some point in 2020. Our latest model reflects an assumption of ~$300Mn each in 4Q20 and 1Q21. We expect this to be a key focal point on the 3Q call with the company likely to provide additional color around how they will pursue financing going forward; note that we had previously expected NI to potentially announce incremental financing in '19 to ensure the company maintains FFO/debt metrics of 14-15%. The financing (and capital) update on the 3Q call may include options such as pulling forward the $500mn **at-the-market (ATM) issuance** program from '20 into '19 and/or issuing a **preferred**, which is expected to receive a 50% equity credit weighting with credit agencies. We highlight the company issued two pref's last year, one before the incident (with a 5.65% rate that was somewhat earnings-neutral) and one after the incident (with a 6.5% rate).

NI appointment of Nick Stavropoulos positive

We see the move to appoint Mr Stavropoulos, former PG&E gas executive of late to the Bay State gas turnaround as a generally positive move. We note NI has in particular had success in recent years pulling key talent from across the industry into its biz units. We continue to see the Bay State gas properties as critically cautious despite what appears to be no sale as we do not believe recovery of associated spend from last year's incident will be recoverable. Looking at mid-2020 timing for a rate case filing in MA nonetheless.

Not clear sailing yet: we perceive MA DPU as still very much concerned

Earlier this fall, NI Columbia Gas of MA pipes were found leaking, coming from 146m of the new Lawrence system. Homes were evacuated. By day's-end NI found the cause was related to water valve work: Contractors inadvertently closed a gas valve that punctured an active gas main. NI was ordered to immediately inspect 45 gas valves over that weekend. We see the incident negatively: It highlights more safety issues and might be another reason to suggest the MA biz won't be able to get approval recover capex on fix.

Multiple state PUC changes: Watching MA DPU for NI

We highlight a number of recent changes across state PUCs in New England. The new chairman of the MA PUC is Matt Nelson, with significant experience at the DPU plus a history which includes approving the Hydro Quebec contract. In NH, Chairwoman Dianne Martin was approved after a nomination by Governor Sununu; she comes from the Attorney General's office without an energy background. The new CT PURA Chairwoman Marissa Gillett comes from the Energy Storage Association, with experience as a staffer at the Maryland PSC. Overall, turnover has been high driving uncertainty on decisions. In particular, we see NI Bay State gas issues will persist in MA despite turnover.

NIPSCO

RFP for more renewables is out

The key upside opportunity for NI is the success of its renewable build out program in Indiana. Earlier this month, NIPSCO requested proposals for 2.6GW of wind to meet its 2023 need as coal phases out (with 1.6GW Schahfer retiring first). Of this, 300MW was for wind (with or without storage) and 2.3GW was for solar (with or without storage). The RFP also opened 'economic opportunities' for thermal and other capacity sources. We are not surprised by the size of the RFP given the lower capacity weighting of renewables compared to fossil's more firm capacity. We see this as an upside opportunity for NI – especially if it is able to pursue more of the co-ownership potential as it did in the first RFP round (i.e. Rosewater Wind). We could see first contracts announced around the 4Q call.

Ratecase update: protracted timeline on industrials tariff issue

There continues to be no unilateral settlement agreed upon by all parties and intervener views remain largely unchanged on Industrial Rate 831. The outcome of Rate 831 impacts how much new capacity is needed to replace the 1.6GW of coal retirements by '23 proposed in NI's 2018 Integrated Resource Plan (IRP); this is because Rate 831 allows six large industrials to contract wholesale electric needs with MISO directly, resulting in a load decrease for the utility (we expect demand could decrease 200-400MW). We expect RFP results spill into 1Q20 given the continued Rate 831 disagreements.

Other key items to watch going forward

We highlight the following key issues to watch in the next year or so:

- Given the legislative and executive backdrop, we watch changes on the Indiana Regulatory Utility Commission (IUR) closely, particularly as a seat became available as early as next January 2020 and another in March 2021.
- We perceive influence in energy policy from the federal election given Indiana is VP Mike Pence's home state. We could see the timing of the Task Force possibly intentionally result in recommendations *after* the election to avoid any further announcement of coal retirements in the state in the run up to Nov '20.
- The use of IN coal vs. out-of-state resources remains an apparent dividing point with respect to scrutiny of any plant retirements.

EPS Estimates

Equity issuance

We update our equity issuance assumptions such that $300mn of additional equity (via a forward) is accounted for in 4Q 2020, and the remaining $300mn (for a total of $600mn) in 1Q 2021. We continue to assume the $200-300mn ATM and XX are consistent going forward as well.

ROEs

We expect NI goes in for a ratecase in PA next year, and as such we remove our underearning turn of -1% starting in 2020 and beyond. All other ROE assumptions stay the same – which include Columbia Gas of MA penalization after Merrimack as well as a +0.75% overearning potential in NIPSCO Gas due to the implementation of rates.

Table 3: NI Earned ROEs

Earned ROEs	2017A	2018E	2019E	2020E	2021E	2022E	2023E
Gas Utilities							
Columbia Gas of OH	10.39%	10.39%	10.39%	10.39%	10.39%	10.39%	10.39%
Columbia Gas of PA	10.00%	10.00%	9.00%	10.00%	10.00%	10.00%	10.00%
NIPSCO Gas	9.90%	9.88%	10.60%	9.85%	9.85%	9.85%	9.85%
Columbia Gas of MA	9.55%	-0.45%	1.05%	1.55%	3.55%	5.55%	7.55%
Columbia Gas of VA	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Columbia Gas of KY	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%
Columbia Gas of MD	9.70%	9.70%	9.70%	9.70%	9.70%	9.70%	9.70%
Electric Utilities							
NIPSCO Electric	9.98%	9.48%	9.48%	9.48%	9.48%	9.48%	9.48%

Source: BofA Merrill Lynch Global Research estimates

Estimates

We include our latest estimates below. Note we are close to the low end of 5-7% CAGR guidance in '21 but rebounds to around midpoint in years after. We anticipate further gas related capex could improve the outlook further, but stress that with earned ROEs near authorized ranges (including for PA, which has historically under-earned of late), we see few clear-cut paths towards improvement. While MA Bay State gas biz sale appears *off the table* for now as mgmt has appeared to talk down this prospect from earlier media articles (cautious in our view given what this implies for core biz value/operations still); this is in spite of continued pressure from MA DPU. While '20 EPS guide is intact with Street, protracted rate case timeline and uncertain outlook for shares keeps us away from getting more constructive.

Table 4: NI EPS Estimates: still below Street on forecasted '21 * '21... see low-to-mid range of EPS outlook on *current* capex

NI EPS Estimates		2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Gas		0.96	0.94	1.00	1.05	1.09	1.17	1.24	1.31	1.37
Electric		0.56	0.60	0.62	0.63	0.63	0.65	0.67	0.69	0.70
Parent/Other		-0.32	-0.23	-0.32	-0.31	-0.29	-0.28	-0.28	-0.27	-0.27
BofA EPS		1.21	1.30	1.31	1.37	1.42	1.54	1.64	1.73	1.81
Previous EPS		1.21	1.30	1.30	1.35	1.46	1.57			
-										
Guidance		1.17-1.20	1.26-1.32	1.27-1.33						
Consensus		1.19	1.28	1.30	1.38	1.47	1.55			
Consensus '17-'21 CAGR	5.1%									
5%-7% CAGR EPS guidance ('19-'22)	High End			1.33	1.39	1.49	1.59	1.70		
	Mid-Point			1.30	1.38	1.46	1.55	1.64		
	Low End			1.27	1.37	1.43	1.50	1.58		
BofA CAGR 2019-2022	5.6%									
5%-7% CAGR EPS guidance ('17-21)	High End	1.20	1.28	1.37	1.47	1.57	1.68	1.80		
	Mid-Point	1.19	1.26	1.33	1.41	1.50	1.59	1.68		
	Low End	1.17	1.23	1.29	1.35	1.42	1.49	1.57		
BofA CAGR 2017-2021	4.2%									
BofA DPS		0.73	0.79	0.83	0.88	0.94	0.99	1.05	1.12	1.18
Guidance		$0.70								
5%-7% CAGR DPS guidance	High End	0.70	0.75	0.80	0.86	0.92	0.98	1.05		
	Mid-Point	0.70	0.74	0.79	0.83	0.88	0.94	0.99		
	Low End	0.70	0.74	0.77	0.81	0.85	0.89	0.94		
BofA CAGR 2017-2021	6.6%									
Share Count		329	357	378	393	423	444	444	455	465

Source: BofA Merrill Lynch Global Research estimates, company report, Bloomberg

NI SOTP Valuation

We include our SOTP Valuation with the latest peer multiple of 19.5x for gas and 19.1x for electric. We keep our premium on at 1.0x NIPSCO Electric given confidence that the NIPSCO rate case proceed with ownership opportunities. Our PO is $30.5/sh. We maintain Neutral given our sense of risk around Massachusetts – we have yet to be convinced the company will be approved of full recovery of expenses related to Merrimack given latest conversations with stakeholders.

Table 5: NI SOTP Valuation

NI SOP Valuation	Metric		P/E Multiple				Equity Value		
	2022E EPS	Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Gas	-	-	19.5x	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Gas	-	-	5.10%	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Gas Utilities	-	-	20.5x	-	-	-	-	-	-
Columbia Gas of OH	$0.50	18.5x	20.5x	-1.0x	19.5x	20.5x	$9.31	$9.81	$10.32
Columbia Gas of PA	$0.25	18.5x	20.5x	-1.0x	19.5x	20.5x	$4.71	$4.97	$5.22
NIPSCO Gas	$0.21	18.5x	20.5x	-1.0x	19.5x	20.5x	$3.89	$4.10	$4.31
Columbia Gas of MA	$0.07	18.5x	20.5x	-1.0x	19.5x	20.5x	$1.24	$1.30	$1.37
Columbia Gas of VA	$0.08	18.5x	20.5x	-1.0x	19.5x	20.5x	$1.43	$1.51	$1.59
Columbia Gas of KY	$0.04	18.5x	20.5x	-1.0x	19.5x	20.5x	$0.81	$0.85	$0.90
Columbia Gas of MD	$0.02	18.5x	20.5x	-1.0x	19.5x	20.5x	$0.32	$0.34	$0.36
Group Peer Multiple - Electric			19.1x						
Group EPS '18-'22 CAGR - Electric			5.00%						
Electric Utilities			20.1x						
NIPSCO Electric	$0.65	20.1x	20.1x	1.0x	21.1x	22.1x	$13.08	$13.73	$14.38
Total Utility	$1.83	*19.1x*			*20.1x*	*21.1x*	$34.78	$36.61	$38.43
-Parent EPS Drag (ex-Interest Expense)	-$0.08	19.1x	0.0x		19.7x	20.7x	-$1.61	-$1.66	-$1.74
Total EPS *(incl. debt drag)*	$1.54								
Midpoint of 5-7% EPS	*$1.59*								
Holdco Debt @ Parent, *not* allocated to Utilities									
(50% Netting out Debt)				-$2,000	50%		-$1,000	-$1,000	-$1,000
(50% P/E multiple on Interest Exp)				5.5%	50%		-$828	-$871	-$915
Grand Total Equity Value							$28.96	$30.63	$32.27
Shares Outstanding 2022E								433	
Total Equity Value							$29.00	$30.50	$32.00
Implied Consolidated P/E									
Current Price								$28.01	
Dividend Yield (2019E)								3.0%	
Total Return								11.9%	

Source: BofA Merrill Lynch Global Research estimates, company report

Recent BofA Merrill Lynch Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Electric Utilities & IPPs: Weekly Power Points: DUK, EIX pos on FERC, NEP/ALA pipe, NI, JE, PJM	Julien Dumoulin-Smith	30 September 2019
US Electric Utilities & IPPs: Takeaways from Mgmt Meetings & Stakeholder Calls: WTR, ED, NI and ES	Julien Dumoulin-Smith	20 September 2019
US Electric Utilities & IPPs: Weekly Power Points: CNP ALJ, SRE Cameron, ALA, CAISO, GNRC, EVRG, NI	Julien Dumoulin-Smith	16 September 2019
US Electric Utilities & IPPs: Midweek Power Points: NI NTSB, PEGI Wind, AEE Solar, MDU, NEE, PCG, DTE IRP	Julien Dumoulin-Smith	05 September 2019
US Electric Utilities & IPPs: Power Points: NI Sales and thoughts; 2Q First takes for OGE, EVRG, LNG	Julien Dumoulin-Smith	08 August 2019
NiSource Inc: Refocusing onto Indiana and Procurement as Mass gets quiets	Julien Dumoulin-Smith	01 August 2019

Price objective basis & risk

NiSource Inc (NI)

Our $30.50 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2022 forward P/E multiples of 19.5x for gas utilities and 19.1x for electric utilities with a 1.0x premium to reflect NiSource's electric utility's strong growth rates and earned ROEs. We note that electric / gas peer P/E multiples are grossed up by 5% / 5.1% to reflect capital appreciation across the sector. We then subtract the value of excess holding company debt at the parent not supporting the utility opcos. This multiple is slightly below the LDC peer average but above the small-mid cap electric utility average. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its inline-ish multiple versus peers. We adjust gas utilities (including Columbia Gas of MA) to a -1.0x discount to reflect overhang of shares.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, and challenging steel production economics in Indiana

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Aqua America	WTR	WTR US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	Pattern Energy Group	PEGI	PEGI US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Terraform Power	TERP	TERP US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
RSTR				
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith

***iQ**method* SM **Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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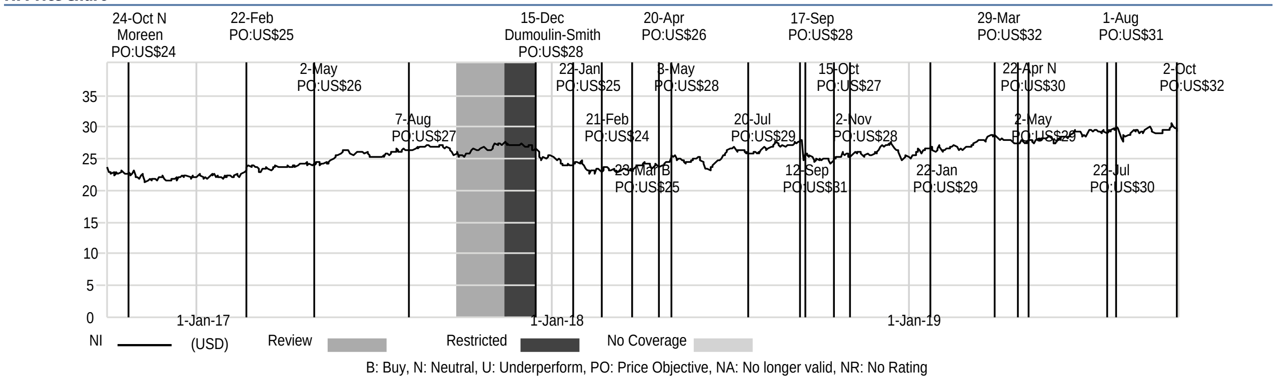
NI Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	89	55.97%	Buy	69	77.53%
Hold	36	22.64%	Hold	21	58.33%
Sell	34	21.38%	Sell	19	55.88%

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	67	47.86%	Buy	51	76.12%
Hold	36	25.71%	Hold	24	66.67%
Sell	37	26.43%	Sell	26	70.27%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1517	50.30%	Buy	964	63.55%
Hold	680	22.55%	Hold	434	63.82%
Sell	819	27.16%	Sell	408	49.82%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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NiSource Inc (NI)

Recent Developments

- Estimate Change
- Target Price Change

- **Update of Merrimack Valley Spending:** Heading into Q3, we do not expect much of a change in the capex spending related to the Mass incident in the Q3 update.

- **No New Earnings Guidance Expected in Q3:** NiSource will likely reiterate its 5-7% annual growth rate, but it doesn't typically update EPS guidance during Q3.

- **NiSource Takeaways from NTSB Report** (link)**:** For NiSource, there were three recommendations, including two that were already addressed: (1) revise the engineering plan and constructability review process, and 2) review and ensure that all records and documentation of natural gas systems are traceable, reliable, and complete.) The outstanding item identified was as follows:

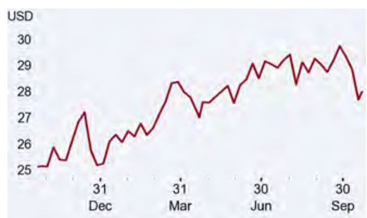
  "Review your protocols and training for responding to large-scale emergency events, including providing timely information to emergency responders, appropriately assigning NiSource emergency response duties, performing multi-jurisdictional training exercises, and participating cooperatively with municipal emergency management agencies."

- **Merrimack Valley Commission Order Inspection – Update with Q3 Release (If Not Sooner):** A few old pipes were not abandoned properly. The initial plan to go through the first 700 (out of 4900) service lines that were installed last year is complete, and 150 were found to be not properly abandoned. The next 2,200 lines are expected to be completed by November 15 (1/3 done already).

- **New Financing Plan:** The increasingly clarity on the incident's capex implications sets the stage for NiSource to update the market on its financing plans with the Q3 release. We expect the new financing plan to be rolled out this quarter and to consist of a mix of debt, common equity, and preferred equity. Below is the latest formal guidance, but we believe that up to $600M of incremental equity may be needed.

Neutral	2
Price (22 Oct 19 16:00)	US$28.27
Target price	US$30.00
from US$28.00	
Expected share price return	6.1%
Expected dividend yield	2.8%
Expected total return	9.0%
Market Cap	US$10,555M

Price Performance
(RIC: NI.N, BB: NI US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2018A	0.77A	0.07A	0.10A	0.38A	1.29A	1.30A	0.61A
2019E	0.82A	0.05A	0.05E	0.40E	1.32E	1.31E	1.32E
Previous	0.82A	0.13E	0.13E	0.24E	1.31E	na	na
2020E	0.92E	0.19E	-0.07E	0.35E	1.38E	1.38E	1.37E
Previous	0.82E	0.21E	0.21E	0.18E	1.41E	na	na
2021E	na	na	na	na	1.45E	1.48E	1.45E
Previous	na	na	na	na	1.52E	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus. VA Cons: Visible Alpha Consensus.
Click here for Visible Alpha consensus data

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NI.N: Fiscal year end 31-Dec

Price: US$28.27; TP: US$30.00; Market Cap: US$10,555m; Recomm: Neutral

Profit & Loss (US$m)	2017	2018	2019E	2020E	2021E
Sales revenue	4,875	5,115	4,825	4,540	3,941
Cost of sales	-2,089	-2,361	-2,055	-1,712	-1,084
Gross profit	2,786	2,754	2,770	2,828	2,856
Gross Margin (%)	57.1	53.8	57.4	62.3	72.5
EBITDA (Adj)	1,481	724	1,520	1,704	1,796
EBITDA Margin (Adj) (%)	30.4	14.2	31.5	37.5	45.6
Depreciation	-570	-600	-626	-582	-630
Amortisation	0	0	0	0	0
EBIT (Adj)	911	125	894	1,122	1,166
EBIT Margin (Adj) (%)	18.7	2.4	18.5	24.7	29.6
Net interest	-353	-353	-398	-430	-457
Associates	0	0	0	0	0
Non-Op/Except/Other Adj	-114	44	59	20	55
Pre-tax profit	443	-185	556	713	764
Tax	-315	180	-103	-123	-133
Extraord./Min.Int./Pref.div.	0	-15	-55	-55	-55
Reported net profit	129	-20	397	535	576
Net Margin (%)	2.6	-0.4	8.2	11.8	14.6
Core NPAT	398	462	499	535	576
Per share data	2017	2018	2019E	2020E	2021E
Reported EPS ($)	0.39	-0.06	1.05	1.38	1.45
Core EPS ($)	1.21	1.29	1.32	1.38	1.45
DPS ($)	0.70	0.78	0.80	0.83	0.84
CFPS ($)	2.26	1.64	3.23	3.03	2.20
FCFPS ($)	-2.90	-3.45	-0.93	-0.73	-1.47
BVPS ($)	13.20	13.67	14.02	14.99	15.95
Wtd avg ord shares (m)	319	347	367	377	387
Wtd avg diluted shares (m)	328	357	377	387	397
Growth rates	2017	2018	2019E	2020E	2021E
Sales revenue (%)	8.5	4.9	-5.7	-5.9	-13.2
EBIT (Adj) (%)	6.1	-86.3	617.1	25.5	3.9
Core NPAT (%)	15.6	16.2	8.0	7.2	7.7
Core EPS (%)	13.8	6.9	2.2	4.5	5.1
Balance Sheet (US$m)	2017	2018	2019E	2020E	2021E
Cash & cash equiv.	38	121	32	32	32
Accounts receivables	899	1,059	607	624	571
Inventory	471	423	317	325	300
Net fixed & other tangibles	16,066	17,631	18,727	19,599	20,423
Goodwill & intangibles	1,922	1,911	1,906	1,906	1,906
Financial & other assets	565	659	593	597	583
Total assets	19,962	21,804	22,183	23,083	23,816
Accounts payable	626	884	585	606	244
Short-term debt	1,490	2,027	1,990	1,749	1,836
Long-term debt	7,512	7,105	7,410	8,010	8,610
Provisions & other liab	6,014	6,037	6,050	6,057	5,939
Total liabilities	15,642	16,053	16,035	16,422	16,628
Shareholders' equity	4,320	5,751	6,148	6,661	7,187
Minority interests	0	0	0	0	0
Total equity	4,320	5,751	6,148	6,661	7,187
Net debt (Adj)	8,964	9,012	9,368	9,726	10,413
Net debt to equity (Adj) (%)	207.5	156.7	152.4	146.0	144.9

Valuation ratios	2017	2018	2019E	2020E	2021E
PE (x)	23.4	21.8	21.4	20.5	19.5
PB (x)	2.1	2.1	2.0	1.9	1.8
EV/EBITDA (x)	14.6	31.9	15.6	14.1	13.6
FCF yield (%)	-10.3	-12.2	-3.3	-2.6	-5.2
Dividend yield (%)	2.5	2.8	2.8	2.9	3.0
Payout ratio (%)	58	60	61	60	58
ROE (%)	3.1	-0.4	7.8	9.7	9.5
Cashflow (US$m)	2017	2018	2019E	2020E	2021E
EBITDA	1,481	724	1,520	1,704	1,796
Working capital	-416	110	1	0	-389
Other	-322	-249	-301	-533	-535
Operating cashflow	742	586	1,220	1,172	872
Capex	-1,696	-1,818	-1,571	-1,454	-1,454
Net acq/disposals	0	-104	-56	0	0
Other	-113	-4	1	0	0
Investing cashflow	-1,809	-1,926	-1,625	-1,454	-1,454
Dividends paid	-229	-273	-301	-321	-350
Financing cashflow	1,069	1,480	109	337	637
Net change in cash	2	140	-297	55	55
Free cashflow to s/holders	-954	-1,233	-351	-282	-582

For definitions of the items in this table, please click here.

- **New Financing Plan:** The increasingly clarity on the incident's capex implications sets the stage for NiSource to update the market on its financing plans. We expect the new financing plan to be rolled out this quarter and to consist of a mix of debt, common equity, and preferred equity. Below is the latest formal guidance, but we believe that up to $600M of incremental equity may be needed.

Figure 1. Current Financing Plan

NiSource Current Financing Plan		
($ in Millions)	2018 Actual	2019/2020* Estimated
Equity		
Common Equity Block Issuance	$606	None Planned
ATM (At-The-Market)	$239	$200 - $300 (Annually)
ESPP/401K/Other	$41	$35 - $60 (Annually)
Long-Term Debt		
Incremental Long-Term Debt	($410)	~$500 (Annually)
Other Financing		
Non-Convertible Subordinated Debt or Preferred Equity	$900	TBD

Source: Citi Research

- **No New Earnings Guidance Expected in Q3:** NiSource will likely reiterate its 5-7% annual growth rate, but it does not typically update EPS guidance during the third quarter. The 5-7% is annual guidance, so NiSource is guiding that each year, it will hit 5% or greater growth.

- **To Sell or Not to Sell the Massachusetts Business:** NiSource continues to take action that would both improve the value of the business under the NI ownership or a third-party owner. The actions taken around inspections and investments would help the outcome with potential future rate cases regardless of the entity's ownership.

- **Pending Rate Case in Indiana with Partial Settlement:** The decision keeps getting delayed. The current expectation is a late-February or January decision.

- **Joint Venture Wind Project Announced Yesterday:** The 300MW project with tax equity partners is moving forward in Indiana. The project originally had cost estimates of $1,400/kw, but we assume that those costs moved closer to $300M for the construction. NiSource is expected to get rate-based recovery for its contribution to this project.

- **NTSB Report Filed – No Big Surprises:** It was filed on September 24 (link) and highlighted the finding of its study and several recommendations. The probable cause was determined to be over-pressurization of the natural gas distribution system, and the resulting fires/explosions were due to Columbia Gas' weak engineering management. Inadequate planning, review, sequence, and oversight the construction project led to the abandonment of a cast iron main without first relocating regulator sensing lines to the new polyethylene main. Inadequate overpressure protection also was deemed to contribute to the accident.

- **NiSource Takeaways from NTSB Report:** For NiSource, there were three recommendations, including two that were already addressed: (1) revise the engineering plan and constructability review process, and 2) review and ensure that all records and documentation of natural gas systems are traceable, reliable, and complete.) The outstanding item identified was as follows:

  "Review your protocols and training for responding to large-scale emergency events, including providing timely information to emergency responders, appropriately assigning NiSource emergency response duties, performing multi-jurisdictional training exercises, and participating cooperatively with municipal emergency management agencies."

NiSource Inc

Company description

NiSource Inc (NI) is primarily a regulated utility with an integrated network of gas distribution in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana. The company serves around 4 million customers across seven states through its two main business segments, including 1) Gas Distribution, which delivers natural gas in several states, and 2) Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCO).

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). We believe that NI's long-term earnings are relatively stable due to diverse operations areas and constructive regulatory jurisdictions. Our estimates do not include 1) substantial industrial load growth at the utilities; 2) colder-than-normal weather and faster-than-average customer growth; or 3) slower-than-typical timeline in regulatory filing and approval process for new infrastructure projects and cost recovery mechanisms.

Valuation

We average multiple valuation methodologies to derive our $30 target price. Our NAV yields a value of $26. We value regulated assets at a multiple of 1.6x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $36 per share. Our P/E and EV/EBITDA analyses yield values of $30 and $28 per share, respectively.

Risks

The key risks to our investment thesis are as follows: (1) Rate Cases – We estimate that the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates. (2) Weather – Changes in weather impact the stability of earnings. (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. (4) Capital Markets — Access to cheap capital markets could be limited due to the size of the company. If the impact on the company from any of these factors proves to be greater/less than we anticipate, they may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target. (5) There is a risk that there will be negative political, financial, and regulatory backlash from the recent events in New England.

Appendix A-1

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NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research

Analyst: Ryan Levine
Covered since March 27 2018

	Date	Rating	Target Price	Closing Price
1	13-Dec-16 22:21:38	*1	*25.00	22.10
2	03-May-17 20:43:41	1	*28.00	24.01
3	17-Nov-17 13:17:37	1	*31.00	27.08
4	27-Mar-18 05:03:46	*2	*25.00	23.79
5	28-Nov-18 16:01:00	2	*26.00	25.76
6	03-May-19 06:40:08	2	*28.00	27.86

*Indicates Change

Rating/target price changes above reflect Eastern Time

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% of companies in each rating category that are investment banking clients	65%	63%	59%	68%	64%	68%

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04 Nov 2019 16:36:00 ET │ 10 pages

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North America │ United States

NiSource Inc (NI)

New 2020 $500-$700M Equity Issuance Plan – Overhang or Opportunity?

- **Setup:** NiSource stock has been weak over the last few weeks on the expectations that an equity issuance was coming. We highlighted the potential for a $600M discrete equity issuance for 2020 in our note (Recent Developments), but believe by the time of the earnings call, it was largely expected.

- **Guided Offering Amount - $500 - $700M block offering for 2020 target:** In our view, the equity issuance overhang will likely remain until the offering is executed on and the overhang is removed. NiSource indicated that it is looking to raise the money by the end of 2020 to hit credit metric and rating agency targets and which gives it some flexibility. The Greater Lawrence costs for NiSource was ~$600M, net of insurance reimbursement. If the demand is there, NiSource will likely go to the equity forward market to remove the potential overhang on the stock. If not, NiSource may consider a more traditional equity block sale, in our view.

- **Is Management Worried? – Artificial Intelligent Sentiment Reading Tool Takeaways:** Not surprisingly, NiSource management had a negative tone when announcing its plan to raise $500 to $700M in 2020 in common equity. There was also a similar tone when discussing that it wasn't in the plan to recover Greater Lawrence related expense sooner than guided. The AI based analysis (see page 3) of management tone on the earnings call did not seem very supportive of the near term bull argument that these issues will be addressed favorably and quicker than expected.

- **Guidance Reiterated:** NiSource reiterated its 2019 EPS guidance of $1.27 to $1.33 and its 5 to 7% long term EPS growth rate as expected. We assume NI is trending towards the lower end of the long EPS growth range due to the equity issuance, and Greater Lawrence related costs, net of insurance.

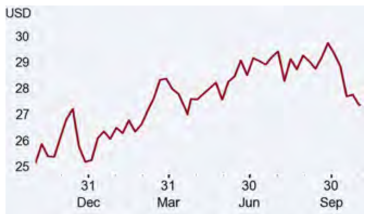
EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2018A	0.77A	0.07A	0.10A	0.38A	1.29A	1.30A	0.61A
2019E	0.82A	0.05A	0.00A	0.43E	1.29E	1.30E	1.31E
Previous	0.82A	0.05A	0.05E	0.40E	1.32E	na	na
2020E	0.72E	0.14E	0.18E	0.34E	1.37E	1.38E	1.38E
Previous	0.92E	0.19E	-0.07E	0.35E	1.38E	na	na
2021E	na	na	na	na	1.45E	1.46E	1.44E
Previous	na	na	na	na	1.45E	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus. VA Cons: Visible Alpha Consensus.
Click here for Visible Alpha consensus data

- Estimate Change

Neutral	2
Price (01 Nov 19 16:00)	US$27.65
Target price	US$30.00
Expected share price return	8.5%
Expected dividend yield	2.9%
Expected total return	11.4%
Market Cap	US$10,328M

Price Performance
(RIC: NI.N, BB: NI US)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

NI.N: Fiscal year end 31-Dec — Price: US$27.65; TP: US$30.00; Market Cap: US$10,328m; Recomm: Neutral

Profit & Loss (US$m)	2017	2018	2019E	2020E	2021E
Sales revenue	4,875	5,115	5,026	5,130	5,316
Cost of sales	-2,089	-2,361	-2,157	-2,069	-2,143
Gross profit	2,786	2,754	2,869	3,060	3,173
Gross Margin (%)	57.1	53.8	57.1	59.7	59.7
EBITDA (Adj)	1,481	724	1,581	1,807	1,954
EBITDA Margin (Adj) (%)	30.4	14.2	31.5	35.2	36.8
Depreciation	-570	-600	-671	-555	-603
Amortisation	0	0	0	0	0
EBIT (Adj)	911	125	909	1,252	1,352
EBIT Margin (Adj) (%)	18.7	2.4	18.1	24.4	25.4
Net interest	-353	-353	-382	-412	-443
Associates	0	0	0	0	0
Non-Op/Except/Other Adj	-114	44	1	0	0
Pre-tax profit	443	-185	528	840	909
Tax	-315	180	-96	-259	-282
Extraord./Min.Int./Pref.div.	0	-15	-55	-55	-55
Reported net profit	129	-20	377	526	572
Net Margin (%)	2.6	-0.4	7.5	10.3	10.8
Core NPAT	398	462	484	526	572
Per share data	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Reported EPS ($)	0.39	-0.06	1.01	1.37	1.45
Core EPS ($)	1.21	1.29	1.29	1.37	1.45
DPS ($)	0.70	0.78	0.80	0.83	0.84
CFPS ($)	2.26	1.64	3.57	2.90	3.06
FCFPS ($)	-2.90	-3.45	-0.89	-3.23	-1.64
BVPS ($)	13.20	13.67	13.69	16.26	17.18
Wtd avg ord shares (m)	319	347	366	374	384
Wtd avg diluted shares (m)	328	357	375	383	393
Growth rates	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Sales revenue (%)	8.5	4.9	-1.7	2.1	3.6
EBIT (Adj) (%)	6.1	-86.3	629.3	37.7	7.9
Core NPAT (%)	15.6	16.2	4.8	8.6	8.8
Core EPS (%)	13.8	6.9	-0.3	6.3	6.0
Balance Sheet (US$m)	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Cash & cash equiv.	38	121	37	37	37
Accounts receivables	899	1,059	674	697	723
Inventory	471	423	361	372	384
Net fixed & other tangibles	16,066	17,631	18,858	20,654	21,901
Goodwill & intangibles	1,922	1,911	1,903	1,903	1,903
Financial & other assets	565	659	638	644	651
Total assets	19,962	21,804	22,471	24,307	25,599
Accounts payable	626	884	789	802	816
Short-term debt	1,490	2,027	1,483	1,694	1,842
Long-term debt	7,512	7,105	8,004	8,504	9,104
Provisions & other liab	6,014	6,037	6,187	6,191	6,196
Total liabilities	15,642	16,053	16,463	17,191	17,958
Shareholders' equity	4,320	5,751	6,009	7,116	7,641
Minority interests	0	0	0	0	0
Total equity	4,320	5,751	6,009	7,116	7,641
Net debt (Adj)	8,964	9,012	9,450	10,161	10,909
Net debt to equity (Adj) (%)	207.5	156.7	157.3	142.8	142.8

Valuation ratios	2017	2018	2019E	2020E	2021E
PE (x)	22.8	21.4	21.4	20.2	19.0
PB (x)	2.1	2.0	2.0	1.7	1.6
EV/EBITDA (x)	14.4	31.5	14.8	13.3	12.6
FCF yield (%)	-10.5	-12.5	-3.2	-11.7	-5.9
Dividend yield (%)	2.5	2.8	2.9	3.0	3.0
Payout ratio (%)	58	60	62	61	58
ROE (%)	3.1	-0.4	7.5	9.3	8.8
Cashflow (US$m)	**2017**	**2018**	**2019E**	**2020E**	**2021E**
EBITDA	1,481	724	1,581	1,807	1,954
Working capital	-416	110	95	-23	-26
Other	-322	-249	-338	-671	-725
Operating cashflow	742	586	1,338	1,113	1,204
Capex	-1,696	-1,818	-1,674	-2,350	-1,850
Net acq/disposals	0	-104	-85	0	0
Other	-113	-4	1	0	0
Investing cashflow	-1,809	-1,926	-1,757	-2,350	-1,850
Dividends paid	-229	-273	-299	-318	-347
Financing cashflow	1,069	1,480	121	1,292	701
Net change in cash	2	140	-298	55	55
Free cashflow to s/holders	-954	-1,233	-335	-1,237	-646

For definitions of the items in this table, please click here.

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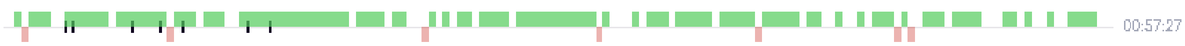
Sentiment Reads

We used a tool that can read sentiment of the earnings call. For NiSource, it was interesting to see which parts of the earnings call had an objectively negative tone (in red below). Of management comments, three had a negative tone by management and several questioners had a similar negative tone.

Figure 1. Sentiment Read from NiSource's Q3 Earnings Call (Green is Positive, Red is Negative; Left is beginning of call and right is end of call)



Source: Aiera

1) NiSource reading about "some of the statements made during this presentation will be forward-looking".

2) **"The primary change to our financing plan is that we now expect a block equity issuance in the range of $500 million to $700 million in 2020."**

3) Management reiterating that NiSource isn't guiding to, at this point, an acceleration coming out of from a pension asset recovery or faster than expected insurance recoveries.

Financing Plan

NiSource stock has been weak over the last few weeks on the expectations that an equity issuance was coming. We highlighted the potential for a $600M discrete equity issuance for 2020 in our note (Recent Developments), but believe by the time of the earnings call, it was largely expected. Below are key takeaways:

- **Guided Offering Amount:** The $500 - $700M block offering for 2020 target.
- **Flexible Timing:** NiSource indicated that it is looking to raise the money by the end of 2020 to hit credit metric and rating agency targets and which gives it some flexibility. If the demand is there, NiSource will likely go to the equity forward market to remove the potential overhang on the stock. If not, NiSource may consider a more traditional equity block sale.

  Citi's View: The equity issuance overhang will likely remain until it is executed on and the overhang is removed.

Guidance

NiSource reiterated its 5 to 7% long term EPS growth rate as expected. We assume NI is trending towards the lower end of the range due to the equity issuance, and Greater Lawrence related costs, net of insurance.

NiSource Inc

Company description

NiSource Inc (NI) is primarily a regulated utility with an integrated network of gas distribution in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana. The company serves around 4 million customers across seven states through its two main business segments, including: 1) Gas Distribution, which delivers natural gas in several states; 2) Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCO).

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). We believe NI's long-term earnings are relatively stable due to diverse operations areas and constructive regulatory jurisdictions. Our estimates do not include: 1) Substantial industrial load growth at the utilities; 2) Colder-than-normal weather and faster than average customer growth; or 3) Slower than typical timeline in regulatory filing and approval process for new infrastructure projects and cost recovery mechanisms.

Valuation

We average multiple valuation methodologies to derive our $30 target price. Our NAV yields a value of $28. We value regulated assets at a multiple of 1.6x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $33 per share. Our P/E and EV/EBITDA analyses yield values of $29 and $29 per share, respectively.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. (4) Capital Markets — Access to cheap capital markets could be limited due to the size of the company. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target. (5) There is a risk that there will be negative political, financial, and regulatory backlash from the recent events in New England.

Appendix A-1

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Fundamental Research

Analyst: Ryan Levine
Covered since March 27 2018

	Date	Rating	Target Price	Closing Price
1	13-Dec-16 22:21:38	*1	*25.00	22.10
2	03-May-17 20:43:41	1	*28.00	24.01
3	17-Nov-17 13:17:37	1	*31.00	27.08
4	27-Mar-18 05:03:46	*2	*25.00	23.79
5	28-Nov-18 16:01:00	2	*26.00	25.76
6	03-May-19 06:40:08	2	*28.00	27.86
7	23-Oct-19 22:00:00	2	*30.00	28.15

*Indicates Change

Rating/target price changes above reflect Eastern Time

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NYSE: NI

NISOURCE INC

NiSource Inc. is an energy holding company whose subsidiaries are fully regulated natural gas and electric utility companies serving approximately 4.0 million customers in seven states. NiSource is one of the nation's largest natural gas distribution companies, as measured by number of customers. NiSource's principal subsidiaries include NiSource Gas Distribution Group Inc., a natural gas distribution holding company, and NIPSCO, a regulated gas and electric company. NiSource derives substantially all of its revenues and earnings from the operating results of these rate-regulated utilities.

Analyst's Notes

Analysis by Gary Hovis, November 18, 2019

ARGUS RATING: BUY

- Continued strong fundamentals
- Our rating on NiSource is BUY based on valuation and historical performance.
- Our 12-month target price of $32 implies a potential total return, including the dividend, of about 20% from current levels.
- NiSource has reaffirmed its 2019 operating EPS guidance range of $1.27-$1.33.
- Our 2019 operating EPS estimate is $1.32 and our 2020 estimate is $1.42.

INVESTMENT THESIS

Our rating on NiSource Inc. (NYSE: NI) is BUY based on valuation and historical performance. NiSource recently completed a corporate restructuring that resulted in the spinoff of its pipeline group subsidiary. The balance sheet appears stable and, in our view, able to support the current dividend, which yields about 3.0%. Our 12-month target price of $32 implies a potential total return, including the dividend, of about 20% from current levels.

Our long-term rating is also BUY.

RECENT DEVELOPMENTS

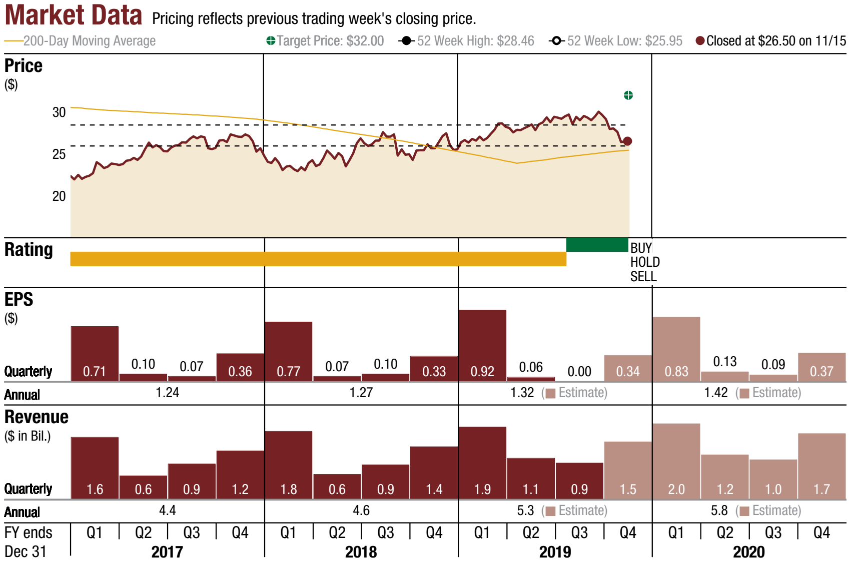
Over the past three months, NI shares have gained 12%, compared to an advance of 13% for the S&P 500. Over the past 52 weeks, the shares have risen 3%, compared to a 15% increase for the index. Over the last five years, NI shares have advanced 63%, versus a 64% gain for the S&P 500. The beta on NI is 0.09.

On October 30, NiSource Inc. reported a 3Q19 GAAP loss of $7.2 million or $0.02 per share, compared to a loss of $345.1 million or $0.95 per share in 3Q18. For the nine months ended September 30, GAAP net income was $481.0 million or $1.29 per share, compared to a loss of $45.8 million or $0.13 per share in 3Q18.

NiSource also reported a third-quarter non-GAAP net operating loss of $1.7 million or

Market Data

Pricing reflects previous trading week's closing price.



Argus Recommendations

Twelve Month Rating	SELL	HOLD	**BUY**
Five Year Rating	SELL	HOLD	**BUY**
Sector Rating	Under Weight	**Market Weight**	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 65% Buy, 34% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview	
Price	**$26.50**
Target Price	**$32.00**
52 Week Price Range	**$24.37 to $30.67**
Shares Outstanding	**373.54 Million**
Dividend	**$0.80**
Sector Overview	
Sector	**Utility**
Sector Rating	**MARKET WEIGHT**
Total % of S&P 500 Market Cap.	**3.00%**
Financial Strength	
Financial Strength Rating	**MEDIUM**
Debt/Capital Ratio	**61.4%**
Return on Equity	**9.9%**
Net Margin	**9.7%**
Payout Ratio	**0.61**
Current Ratio	**0.51**
Revenue	**$5.27 Billion**
After-Tax Income	**$510.70 Million**
Valuation	
Current FY P/E	**20.08**
Prior FY P/E	**20.87**
Price/Sales	**1.88**
Price/Book	**1.99**
Book Value/Share	**$13.30**
Market Capitalization	**$9.90 Billion**
Forecasted Growth	
1 Year EPS Growth Forecast	3.94%
5 Year EPS Growth Forecast	4.00%
1 Year Dividend Growth Forecast	2.56%
Risk	
Beta	**0.46**
Institutional Ownership	**93.14%**

Please see important information about this report on page 5

Analyst's Notes...Continued

breakeven on a per share basis, compared to operating earnings of \$35.3 million or \$0.10 per share in 3Q18. Nine-month operating earnings were \$325.1 million or \$0.87 per share, compared to \$321.4 million or \$0.91 per share in the same period a year earlier.

On the regulatory front, the company's Columbia Gas of Maryland's base rate case request remains pending before the Maryland Public Service Commission. Filed in May 2019, the request seeks to support the continued replacement of aging pipelines and the adoption of pipeline safety upgrades. If approved as filed, the request would increase annual revenues by \$3.7 million, including \$1.2 million of current infrastructure revenue. A commission order is expected by the end of 2019, with new rates likely to take effect in January 2020.

On August 28, the Public Utilities Commission of Ohio approved the company's Columbia Gas of Ohio application for the first annual adjustment to its Capital Expenditure Program (CEP) rider. The CEP rider, which was first approved by Ohio regulators in 2018, allows the company to recover capital investments and related deferred expenses. New rates took effect in September 2019.

On October 1, the company's Northern Indiana Public Service Co. subsidiary (NIPSCO) announced its next RFP for the development of new electric resources. The new RFP is consistent with NIPSCO's 2018 Integrated Resource Plan, which calls for the retirement of nearly 80% of its remaining coal-fired generation by 2023. All coal-fired generation is expected to be retired by 2028.

NIPSCO's electric base rate case remains pending before the Indiana Utilities Regulatory Commission (IURC). A partial settlement agreement filed on April 26 addresses the revenue requirement, federal tax reform and changes to the company's depreciation schedules related to the early retirement of coal fired generation mentioned above. If approved as filed, the settlement would establish a return on equity of 9.9%. The hearing concluded in August. An IURC order is expected by the end of 2019, with new rates effective in 1Q20.

NiSource is one of the largest fully regulated utilities in the U.S., serving approximately 3.5 million natural gas customers and 500,000 electric customers in seven states through its Columbia Gas and NIPSCO brands.

EARNINGS & GROWTH ANALYSIS

NiSource has reaffirmed its net operating non-GAAP EPS guidance range of \$1.27-\$1.33 for 2019. Our 2019 operating EPS estimate is \$1.32 and our 2020 estimate is \$1.42.

NiSource continues to rely on its utility infrastructure programs for earnings and dividend growth. The company's regulated gas and electric segments will primarily invest in pipelines and in transmission and distribution modernization programs, and should benefit from favorable regulation. In all, management expects the company to post operating earnings growth of 5%-7% annually from 2019 through 2022, resulting in total annual returns for shareholders of 6%-7%.

Growth & Valuation Analysis

GROWTH ANALYSIS					
($ in Millions, except per share data)	2014	2015	2016	2017	2018
Revenue	6,471	4,652	4,493	4,875	5,115
COGS	4,361	3,070	2,844	3,131	4,114
Gross Profit	2,110	1,582	1,649	1,744	1,000
SG&A	—	—	—	—	—
R&D	—	—	—	—	—
Operating Income	1,184	802	857	916	126
Interest Expense	444	379	346	349	347
Pretax Income	841	340	510	443	-231
Income Taxes	310	141	182	315	-180
Tax Rate (%)	39	42	35	71	—
Net Income	530	287	332	129	-51
Diluted Shares Outstanding	317	320	324	331	357
EPS	1.67	0.90	1.02	0.39	-0.18
Dividend	1.02	0.83	0.64	0.70	0.78
GROWTH RATES (%)					
Revenue	14.0	-12.0	-5.0	7.7	5.5
Operating Income	13.3	1.2	7.9	7.1	-86.4
Net Income	-0.4	-45.9	15.7	-61.2	—
EPS	14.1	-22.2	61.9	-61.8	—
Dividend	4.1	-18.6	-22.9	9.4	11.4
Sustainable Growth Rate	3.6	3.0	2.7	1.1	
VALUATION ANALYSIS					
Price: High	\$44.91	\$49.16	\$26.94	\$27.76	\$28.11
Price: Low	\$32.11	\$16.04	\$19.05	\$21.65	\$22.44
Price/Sales: High-Low	2.2 - 1.6	3.4 - 1.1	1.9 - 1.4	1.9 - 1.5	2.0 - 1.6
P/E: High-Low	26.9 - 19.2	54.6 - 17.8	26.4 - 18.7	71.2 - 55.5	— - —
Price/Cash Flow: High-Low	11.4 - 8.1	9.7 - 3.2	10.9 - 7.7	11.3 - 8.8	8.6 - 6.9

Financial & Risk Analysis

FINANCIAL STRENGTH	2016	2017	2018
Cash ($ in Millions)	26	29	113
Working Capital ($ in Millions)	-1,690	-1,415	-1,981
Current Ratio	0.51	0.55	0.51
LT Debt/Equity Ratio (%)	148.8	173.9	145.9
Total Debt/Equity Ratio (%)	194.3	208.4	187.5
RATIOS (%)			
Gross Profit Margin	36.9	36.0	19.6
Operating Margin	19.3	19.0	2.5
Net Margin	7.4	2.6	-1.3
Return On Assets	1.8	0.7	-0.3
Return On Equity	8.4	3.1	-1.4
RISK ANALYSIS			
Cash Cycle (days)	65.0	53.7	42.5
Cash Flow/Cap Ex	0.5	0.4	0.3
Oper. Income/Int. Exp. (ratio)	2.4	2.2	0.4
Payout Ratio	63.3	66.3	84.2

Please see important information about this report on page 5

Analyst's Notes...Continued

NiSource could also become a buyout target, as larger utilities and private equity firms have purchased smaller utilities because of their stable earnings growth and above-average dividend yields.

FINANCIAL STRENGTH & DIVIDEND

NiSource expects to complete capital investments of $1.7-$1.8 billion in 2019. The company remains committed to maintaining its current investment-grade credit ratings with Fitch (BBB), Moody's (Baa2), and Standard & Poor's (BBB+). As of September 30, 2019, NiSource had $1.4 billion in net available liquidity, consisting of cash and available capacity under its credit facility and accounts receivable securitization programs.

We believe that NiSource has improved its balance sheet by selling noncore assets, recalibrating capital expenditures, and carefully managing operating expenses and working capital.

NiSource pays an annualized dividend of $0.80 per share, for a yield of about 3.0%. Our dividend estimates are $0.80 for 2019 and $0.84 for 2020.

MANAGEMENT & RISKS

The CEO of NiSource is Joseph Hamrock, 53, who assumed the position in July 2015. Mr. Hamrock, who joined NiSource in 2012, previously served as executive vice president and Group CEO for NiSource's Gas Distribution segment. He also has experience as an executive with American Electric Power. Donald E. Brown is the CFO.

Management is committed to electric and gas service expansion strategies in the company's regulated service territories, and to the expansion of its gas transmission and storage business. We think the company's platform for a return to growth is solid, and we are confident in management's ability to provide shareholders with increased value over the long term.

Key risks for stocks in our electric utility universe include fluctuations in interest rates and commodity prices, the effect of adverse weather on revenue, regulatory issues (especially involving construction cost recovery), and potential environmental and safety liabilities. In addition, the capital-intensive nature of the utility industry creates ongoing liquidity risk that must be actively managed by each company.

COMPANY DESCRIPTION

NiSource Inc. is an energy holding company whose subsidiaries are fully regulated natural gas and electric utility companies serving approximately 4.0 million customers in seven states. NiSource is one of the nation's largest natural gas distribution companies, as measured by number of customers. NiSource's principal subsidiaries include NiSource Gas Distribution Group Inc., a natural gas distribution holding company, and NIPSCO, a regulated gas and electric company. NiSource derives substantially all of its revenues and earnings from the operating results of these rate-regulated utilities.

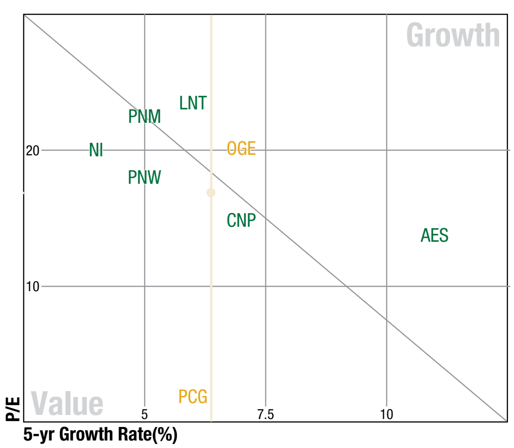
VALUATION

We think that NI shares are favorably valued at current prices

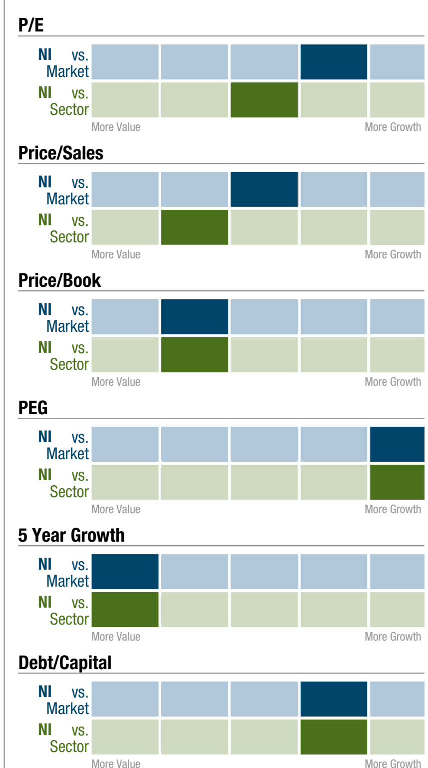
Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare NI versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how NI stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how NI might fit into or modify a diversified portfolio.**



Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
LNT	Alliant Energy Corp.	12,906	6.0	23.5	14.9	6.2	BUY
CNP	Centerpoint Energy Inc.	12,770	7.0	14.9	6.2	5.3	BUY
AES	AES Corp.	12,249	11.0	13.8	4.9	8.2	BUY
NI	Nisource Inc. (Holding Co.)	9,899	4.0	20.1	9.7	7.6	BUY
PNW	Pinnacle West Capital Corp.	9,848	5.0	18.1	14.1	4.3	BUY
OGE	Oge Energy Corp.	8,682	7.0	20.2	19.9	6.5	HOLD
PCG	PG&E Corp.	3,927	6.0	1.9	-66.2	12.7	HOLD
PNM	PNM Resources Inc	3,856	5.0	22.5	-.6	3.3	BUY
Peer Average		**9,267**	**6.4**	**16.9**	**.4**	**6.8**	



Analyst's Notes...Continued

near $26, toward the midpoint of the 52-week range of $24-$31. The shares trade at 18.4-times our 2020 EPS estimate, below the average of 21.7 for comparable electric and gas utilities. They are also trading at a price/book multiple of 2.3, close to the peer average of 2.4. The price/cash flow ratio is 16.1, above the peer average of 14.9. The shares trade near the midpoint of their historical range on P/E, price/book and price/cash flow. The dividend yield of 3.0% is slightly above the industry average of 2.8%. We are reiterating our BUY rating on NI with a 12-month target price of $32.

On November 18 at midday, BUY-rated NI traded at $26.52, up $0.02.

Please see important information about this report on page 5

METHODOLOGY & DISCLAIMERS

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

Argus Research Disclaimer

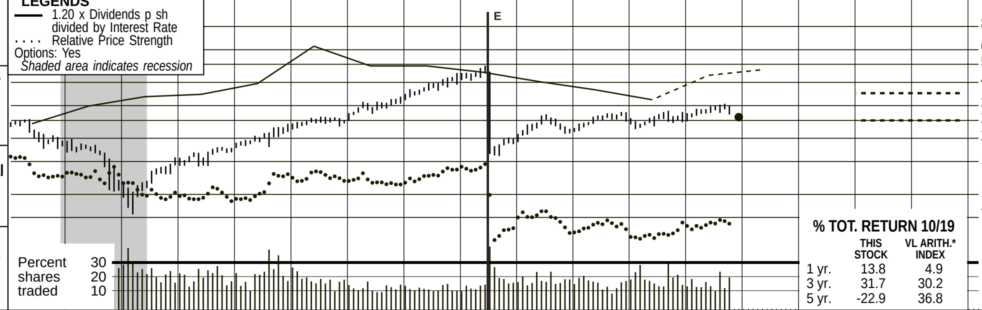
Morningstar Disclaimer

NISOURCE INC. NYSE-NI

RECENT PRICE 26.04 | P/E RATIO 19.6 (Trailing: 20.8 Median: 20.0) | RELATIVE P/E RATIO 1.12 | DIV'D YLD 3.1% | VALUE LINE

TIMELINESS 3 Lowered 4/5/19
SAFETY 2 Raised 11/29/19
TECHNICAL 1 Raised 11/8/19
BETA .55 (1.00 = Market)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
High:	19.8	15.8	18.0	24.0	26.2	33.5	44.9	49.2	26.9	27.8	28.1	30.7
Low:	10.4	7.8	14.1	17.7	22.3	24.8	32.1	16.0	19.0	21.7	22.4	24.7



Target Price Range 2022 2023 2024

18-Month Target Price Range

Low-High	Midpoint (% to Mid)
$26-$36	$31 (20%)

2022-24 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(+35%)	*11%*
Low	25	(-5%)	*3%*

Institutional Decisions

	4Q2018	1Q2019	2Q2019
to Buy	218	236	227
to Sell	203	184	187
Hld's(000)	347570	350564	346571

% TOT. RETURN 10/19

	THIS STOCK	VL ARITH.* INDEX
1 yr.	13.8	4.9
3 yr.	31.7	30.2
5 yr.	-22.9	36.8

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	© VALUE LINE PUB. LLC	22-24
23.78	24.63	28.97	27.37	28.96	32.36	24.02	22.99	21.33	16.31	18.04	20.47	14.58	13.90	14.46	13.74	*14.15*	*14.85*	Revenues per sh	*19.15*
3.47	3.47	3.14	3.18	3.20	3.32	2.96	3.19	2.98	3.13	3.41	3.60	2.27	2.71	2.07	2.82	*3.05*	*3.20*	"Cash Flow" per sh	*3.75*
1.59	1.62	1.08	1.14	1.14	1.34	.84	1.06	1.05	1.37	1.57	1.67	.63	1.01	.39	1.30	*1.25*	*1.40*	Earnings per sh A	*1.80*
1.10	.92	.92	.92	.92	.92	.92	.92	.92	.94	.98	1.02	.83	.64	.70	.78	*.80*	*.86*	Div'd Decl'd per sh B ■	*1.10*
2.19	1.91	2.17	2.33	2.88	3.54	2.81	2.88	3.99	4.83	5.99	6.42	4.26	4.57	5.03	4.88	*4.60*	*4.60*	Cap'l Spending per sh	*5.15*
16.81	17.69	18.09	18.32	18.52	17.24	17.54	17.63	17.71	17.90	18.77	19.54	12.04	12.60	12.82	13.08	*16.00*	*17.55*	Book Value per sh C	*20.00*
262.63	270.63	272.62	273.65	274.18	274.26	276.79	279.30	282.18	310.28	313.68	316.04	319.11	323.16	337.02	372.36	*374.00*	*370.00*	Common Shs Outst'g D	*350.00*
12.2	13.0	21.4	19.2	18.8	12.1	14.3	15.3	19.4	17.9	18.9	22.7	37.3	23.2	NMF	19.3	*Bold figures are*		Avg Ann'l P/E Ratio	*16.0*
.70	.69	1.14	1.04	1.00	.73	.95	.97	1.22	1.14	1.06	1.19	1.88	1.22	NMF	1.04	*Value Line*		Relative P/E Ratio	*.90*
5.7%	4.4%	4.0%	4.2%	4.3%	5.7%	7.6%	5.7%	4.5%	3.8%	3.3%	2.7%	3.5%	2.8%	2.8%	3.1%	*estimates*		Avg Ann'l Div'd Yield	*4.2%*

CAPITAL STRUCTURE as of 9/30/19
Total Debt $9479.8 mill. **Due in 5 Yrs** $2100 mill.
LT Debt $7853.8 mill. **LT Interest** $370 mill.
(Interest cov. earned: 2.2x) (57% of Cap'l)

Leases, Uncapitalized Annual rentals $11.1 mill.
Pension Assets-12/18 $2.1 bill. **Oblig.** $2.0 bill.

Pfd Stock $880 mill. **Pfd Div'd** $28.5 mill.

Common Stock 373,542,659 shs.
as of 10/22/19
MARKET CAP: $9.7 billion (Large Cap)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		22-24
6649.4	6422.0	6019.1	5061.2	5657.3	6470.6	4651.8	4492.5	4874.6	5114.5	*5300*	*5500*	Revenues ($mill)	*6700*
231.2	294.6	303.8	410.6	490.9	530.7	198.6	328.1	128.6	463.3	*465*	*515*	Net Profit ($mill)	*630*
41.8%	32.4%	35.0%	34.4%	34.8%	36.9%	41.6%	35.7%	71.0%	19.7%	*21.0%*	*21.0%*	Income Tax Rate	*21.0%*
--	--	--	--	--	--	--	--	2.9%	2.0%	*2.0%*	*2.0%*	AFUDC % to Net Profit	*2.0%*
55.1%	54.7%	55.6%	55.1%	56.3%	56.9%	60.7%	59.8%	63.5%	55.3%	*55.0%*	*54.0%*	Long-Term Debt Ratio	*53.0%*
44.9%	45.3%	44.4%	44.9%	43.7%	43.1%	39.3%	40.2%	36.5%	37.9%	*45.0%*	*46.0%*	Common Equity Ratio	*47.0%*
10819	10859	11264	12373	13480	14331	9792.0	10129	11832	12856	*13300*	*14000*	Total Capital ($mill)	*15000*
10592	11097	11800	12916	14365	16017	12112	13068	14360	15543	*16000*	*16500*	Net Plant ($mill)	*17000*
4.0%	4.5%	4.4%	5.0%	5.2%	5.3%	4.0%	5.0%	2.6%	5.0%	*5.0%*	*5.0%*	Return on Total Cap'l	*5.5%*
4.8%	6.0%	6.1%	7.4%	8.3%	8.6%	5.2%	8.1%	3.0%	8.1%	*8.0%*	*8.0%*	Return on Shr. Equity	*9.0%*
4.8%	6.0%	6.1%	7.4%	8.3%	8.6%	5.2%	8.1%	3.0%	9.3%	*8.0%*	*8.0%*	Return on Com Equity	*9.0%*
NMF	.8%	.9%	2.5%	3.1%	3.4%	NMF	3.0%	NMF	3.7%	*3.0%*	*3.0%*	Retained to Com Eq	*3.0%*
110%	87%	85%	67%	62%	61%	NMF	63%	NMF	61%	*64%*	*62%*	All Div'ds to Net Prof	*67%*

CURRENT POSITION ($MILL.)

	2017	2018	9/30/19
Cash Assets	29.0	112.8	28.0
Other	1734.3	1942.6	1350.3
Current Assets	1763.3	2055.4	1378.3
Accts Payable	625.6	883.8	494.9
Debt Due	1490.0	2027.2	1626.0
Other	1062.8	1125.8	1218.8
Current Liab.	3178.4	4036.8	3339.7
Fix. Chg. Cov.	259%	246%	255%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '16-'18 to '22-'24
Revenues	-7.0%	-5.5%	*5.5%*
"Cash Flow"	-2.5%	-4.5%	*6.5%*
Earnings	-3.0%	-7.5%	*12.5%*
Dividends	-2.5%	-5.5%	*9.0%*
Book Value	-3.5%	-6.5%	*7.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2016	1436.6	897.6	861.3	1297.0	4492.5
2017	1598.6	990.7	917.0	1368.3	4874.6
2018	1750.8	1007.0	895.0	1461.7	5114.5
2019	1869.8	1010.4	931.5	*1488.3*	*5300*
2020	*1900*	*1100*	*1000*	*1500*	*5500*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2016	.58	.09	.07	.27	1.01
2017	.65	d.14	.04	d.16	.39
2018	.77	.07	.10	.38	1.30
2019	.82	.05	--	*.38*	*1.25*
2020	*.85*	*.10*	*.10*	*.35*	*1.40*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2015	.26	.26	.155	.155	.83
2016	.155	.155	.165	.165	.64
2017	.175	.175	.175	.175	.70
2018	.195	.195	.195	.195	.78
2019	.200	.200	.200	.200	

BUSINESS: NiSource Inc. is a holding company for Northern Indiana Public Service Company (NIPSCO), which supplies electricity and gas to the northern third of Indiana. Customers: 472,000 electric in Indiana, 3.5 million gas in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland, Massachusetts through its Columbia subsidiaries. Revenue breakdown, 2018: electrical, 33%; gas, 67%; other, less than 1%. Generating sources, 2018: coal, 69.4%; purchased & other, 30.6%. 2018 reported depreciation rates: 2.9% electric, 2.2% gas. Has 8,087 employees. Chairman: Richard L. Thompson. President & Chief Executive Officer: Joseph Hamrock. Incorporated: Indiana. Address: 801 East 86th Ave., Merrillville, Indiana 46410. Tel.: 877-647-5990. Internet: www.nisource.com.

Since our August review, shares of NiSource have staged a bit of a correction. Over that time frame, the equity's price declined about 11%. This largely reflects the challenging operating environment in the second and third quarters.

The September-period results were mixed. On the upside, revenues climbed 4.1% on a year-over-year basis, to $931.5 million. This reflected rising contributions from the Gas Distribution and Corporate divisions. The Electric operations were also complementary to the business mix, but did fall about 2% versus last year. On the profitability front, margins were compressed due to rising depreciation and amortization, other taxes, and interest expense. On balance, the third-quarter bottom line fell precipitously to break-even levels. This was modestly below our call for earnings of $0.05 a share. Consequently, we have sliced a nickel off our 2019 earnings estimate, to $1.25 a share. This figure would represent a year-over-year downturn of approximately 4%.

We look for annual earnings to rebound in 2020. NiSource appears well positioned for an almost 4% rise in revenues next year, to $5.5 billion. This should be supported by an active capital expenditure budget. For example, the company's electric generation strategy in Indiana is progressing nicely, with the approval of the Rosewater wind project and its joint venture wind project known as Indiana Crossroads. In total, management has roughly $1.75 billion earmarked for growth initiatives next year. What's more, once approved, the Maryland base rate case is anticipated to add $3.7 million in incremental revenues. Elsewhere, the company's NIPSCO utility division has filed an electric base rate case that would generate a return on capital projects of almost 10%. All told, these factors may well equate to a 12% rise in earnings to $1.40 a share.

Shares of NiSource are not overly compelling at this juncture. The equity's quotation is trading inside our Target Price Range, suggesting that it offers limited upside potential for the pull to 2022-2024. In the near term, the stock is ranked to just mirror the broader market averages in the year ahead.

Bryan J. Fong *November 29, 2019*

(A) Dil. EPS. Excl. nonrec. gains (losses): '05, (4¢); gains (losses) on disc. ops.: '05, 10¢; '06, (11¢); '07, 3¢; '08, ($1.14); '15, (30¢); '18, ($1.48). Next egs. report due late January. Qtl'y egs. may not sum to total due to rounding.
(B) Div'ds historically paid in mid-Feb., May, Aug., Nov. ■ Div'd reinv. avail.
(C) Incl. intang in '18: $1911.4 million, $5.13/sh.
(D) In mill.
(E) Spun off Columbia Pipeline Group (7/15)

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	25
Earnings Predictability	35

WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Underweight
Integrateds – Market Overweight
IPPs – Market Overweight
Gas/Power Infrastructure – Market Overweight

November 3, 2019

THE UTILITY TRADER

Utilities vs Market all tied up and heading to Game 7

- **Utilities and S&P 500 both up 21% through October; we think market wins**
  After a long headline-filled year, the S&P 500 broke out to new highs last month and caught up to utilities, both up a little over 21% through October. The market has climbed a wall of doubters, while our recent poll shows utilities continuing to gain investor support. From a contrarian standpoint, we take the market. Investors have been leaning defensive most of the year such that a typical year-end defensive trade seems unlikely. In fact, the defensive trade over the past few weeks has been to buy depressed value stocks and cyclicals. Utilities still trade at a 17% premium to the market and we would like to see them closer to the average to be more constructive.

- **PPL the top performer in Oct (been a long time); event issues hit other names**
  Utilities were the worst performing income sector other than MLPs last month falling 0.8% while the market rose 2%. Event risk hit several names. EIX/SRE were hurt by CA fire season fears, EXC faced increased fear over IL political risks, EVRG had the Sibley outcome and midstream exposure hurt DTE and CNP/ OGE. So who did well? PPL believe it or not. The FT article about potential merger talks with Ibedrola/AGR was the main driver. But the improving UK pound and views that Brexit was moving toward a more stable outcome also helped. High-quality utilities were middle of the pack for the month with the exception of NEE, which is now ahead of WEC and AWK for the year. We think NEE's position as an election trade into a potential Democrat win in 2020 is spurring incremental buyers. We still like NEP for this too.

- **Equity issuance in focus again…who's next?**
  With very successful equity/convert deals done by DTE and XEL last week, we are getting a lot of questions on who might be next for equity. NI is the clear one since they plan to do $500-$700M in 2020 beyond their $200-$300M ATM. Investors want them to get this done ASAP but they seem to prefer doing this during 2020. EIX needs another $500M assuming they get their 52% equity ratio request approved. This may be done through ATM though. Other possibilities seem more like 2020 events: AEP if they get more renewables approved and maybe CNP and DUK for balance sheets (we'll know after earnings this week).

- **Midstream: another bad month especially for MLPs**
  The AMZ fell 7.4% in October. Our Wolfe C-corp index beat the AMZ again but still declined 3.7%. Companies are hitting numbers so far in earnings season and guiding in line. However, we see investors increasingly focused on producer dynamics which raise concerns. This includes weaker production plans for 2020 at current price curves and some producers tenuous credit profile. Please see our last Weekly report on this topic (link). LNG remains a top idea less exposed to these trends.

- **Focus stocks – FE, D, AEE for now; EIX and EXC with patience**
  D had a very good earnings call and we think investors are starting to appreciate the story outside of ACP. FE reports tomorrow and we think the pure play turnaround story is intact and growth fears are misguided. AEE is a high-quality utility at a reasonable price. EIX and EXC have a lot of overhang to YE, but we see great value and better visibility in 2020.
  Source for all exhibits in this report: FactSet, Wolfe Research; prices as of 10/31/19.

Ex 1: 2019 Income Sectors Perf

Sector	2019 Performance
WR YieldCo Index	30.4%
REIT Index (FNER)	26.2%
S&P Utility	**21.3%**
S&P 500	21.2%
S&P Consumer Staples	20.2%
S&P Telecom	18.6%
Wolfe Midstream C-corp basket	15.5%
WR IPP Index	9.7%
S&P Pharma	3.8%
XLE Index	1.1%
MLP Index (AMZ)	(3.1%)

Source: FactSet, Wolfe Research

Ex 2: 2019 Utilities Perf

Company	Ticker	YTD Perf
Top 10	**Top 10**	
TerraForm Power	TERP	51.3%
Pattern Energy	PEGI	50.5%
Southern Co	SO	42.7%
Entergy Corp.	ETR	41.1%
NextEra Energy	NEE	37.1%
WEC Energy Group	WEC	36.3%
American Water	AWK	35.8%
Sempra	SRE	33.6%
Xcel Energy	XEL	28.9%
Eversource Energy	ES	28.8%
Bottom 10	**Bottom 10**	
NiSource	NI	10.6%
Pinnacle West Cap	PNW	10.5%
OGE Energy	OGE	9.9%
Duke Energy	DUK	9.2%
Clearway Energy	CWEN	5.1%
CenterPoint	CNP	3.0%
NRG Energy	NRG	1.3%
Exelon Corp.	EXC	0.9%
Avangrid	AGR	(0.1%)
PG&E Corp.	PCG	(74.0%)

Source: FactSet, Wolfe Research

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WOLFE RESEARCH

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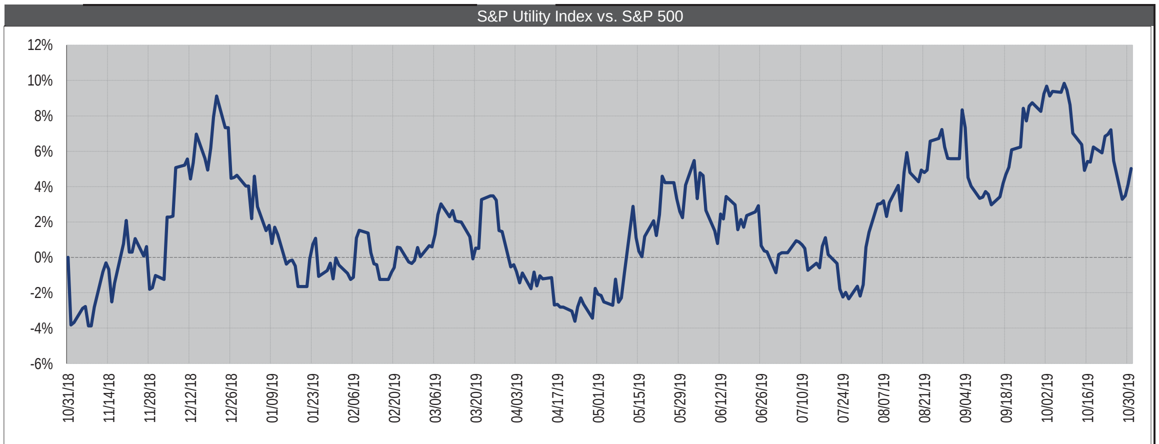
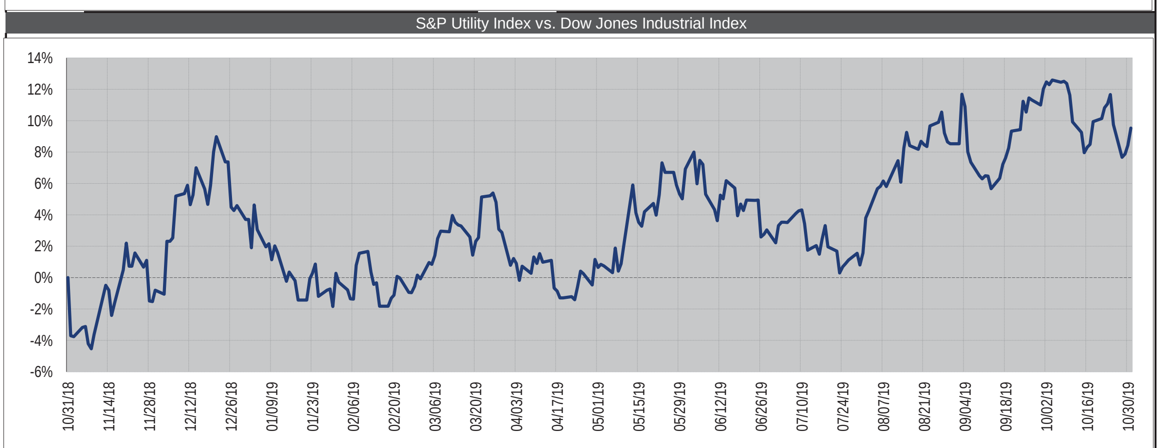
S&P Utility Index vs Market

Utilities underperformed the S&P 500 by 285bps in October, bringing the group in-line with the market YTD. The utility sector was influenced by sharp movements in the 10-year yield during the month – starting at 1.70%, falling to 1.50% in the first few days, rising to 1.80% by mid-month, then ending at 1.68%. Also, despite the impact being limited to handful of companies, the California wildfires caused sentiment on the entire utility sector to wane a bit.

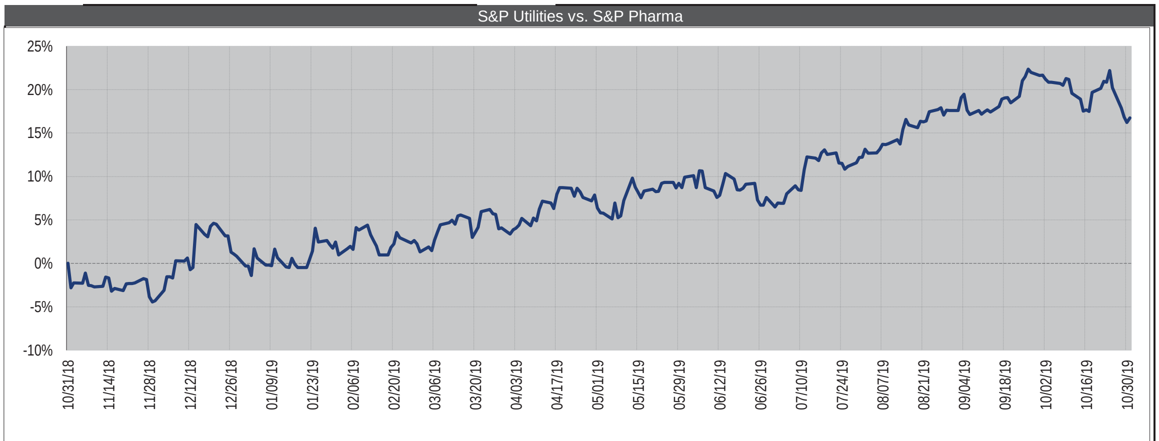


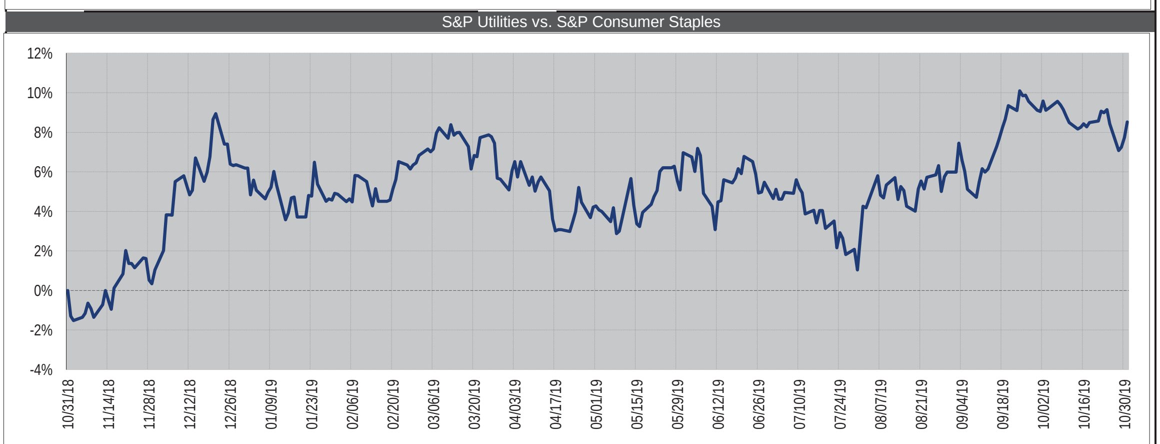


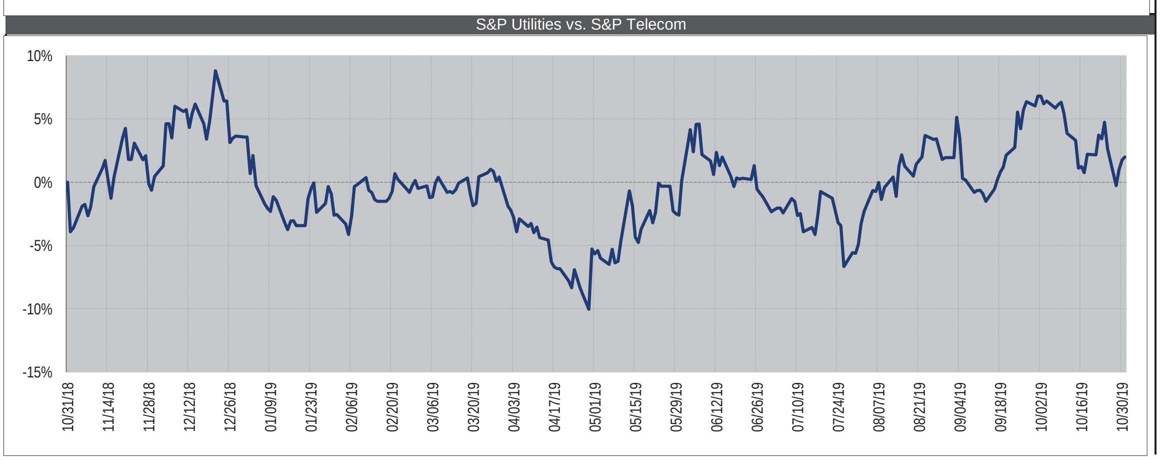
WOLFE RESEARCH

Utilities vs Other Sectors

Pharma (+4.0%) was the top performing income sector in October. Both Telecom (+1.2%) and Staples (-0.3%) fared better than Utilities.



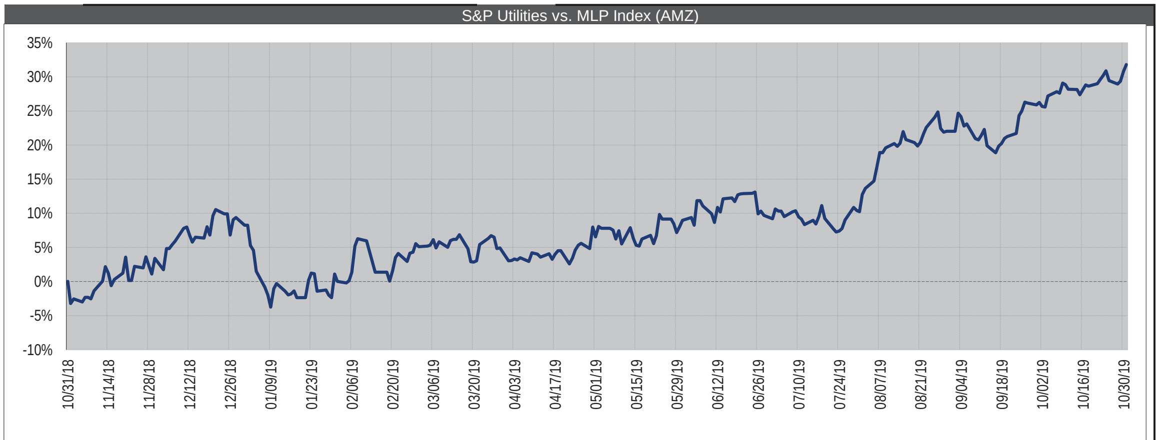


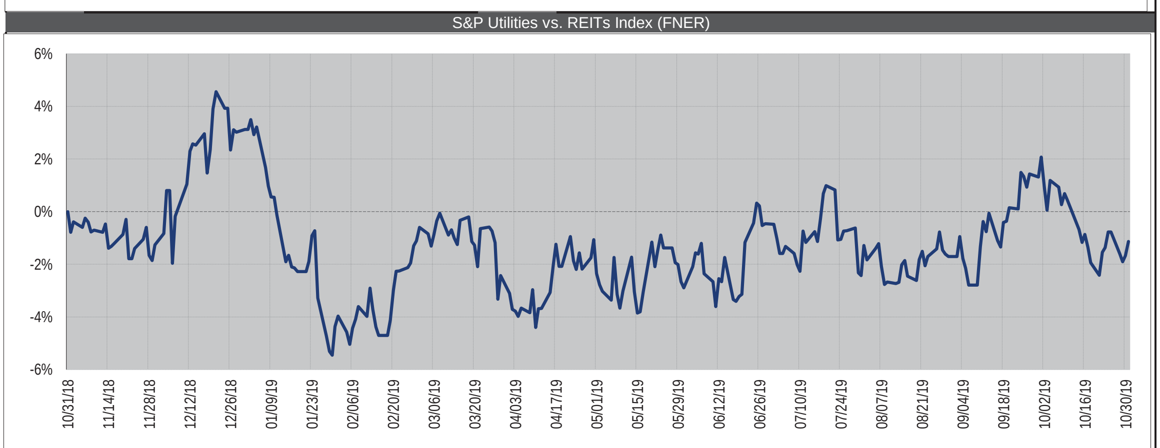


WOLFE RESEARCH

Utilities vs Other Sectors continued

Midstream struggled in October as the E&Ps commitment to decelerated production growth in 2020 began to materialize and investors tussled with midstream capex levels. The AMZ index turned negative for the year while the generally more defensive C-corps extended their YTD outperformance over the MLPs by an additional 3.6%.

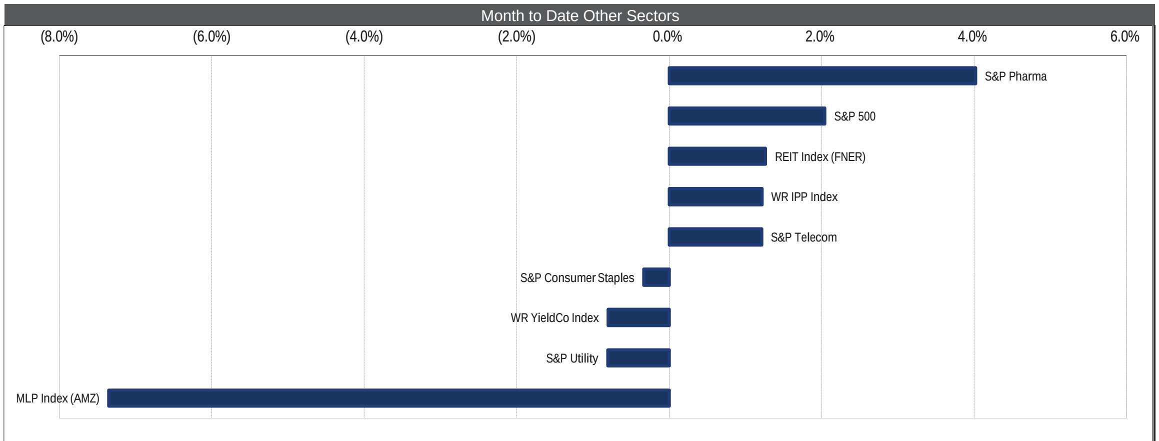


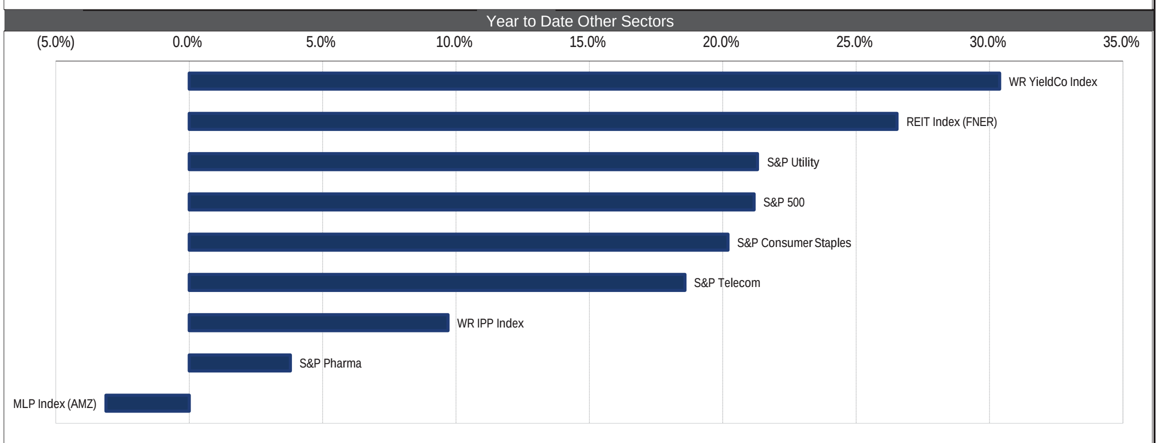


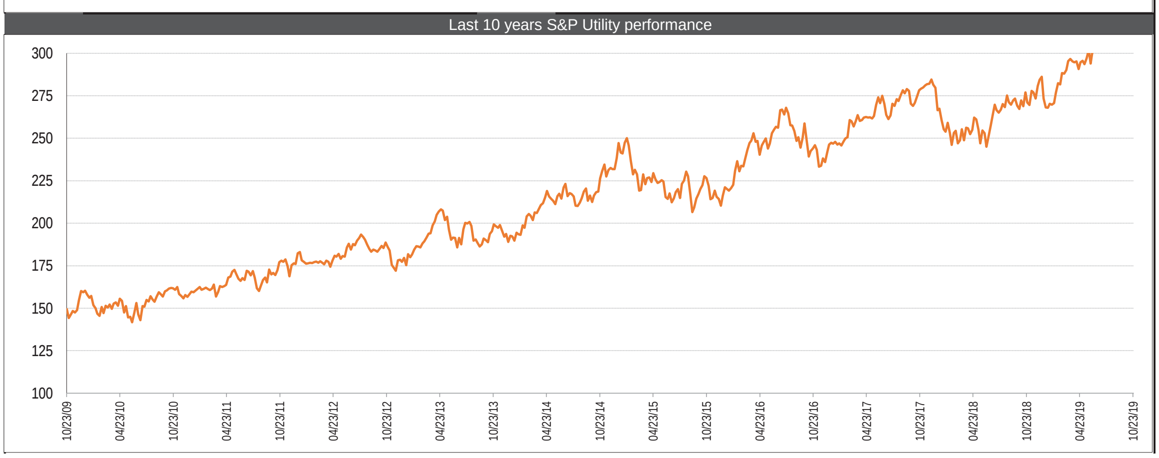
WOLFE RESEARCH

Month to Date and Year to Date performance of income sectors

The Yieldco group maintained its lead YTD, followed by REITS. Utilities and Staples are now trading in-line with the overall market. MLPs fell to the back of the pack on the year after falling 740bps in October.



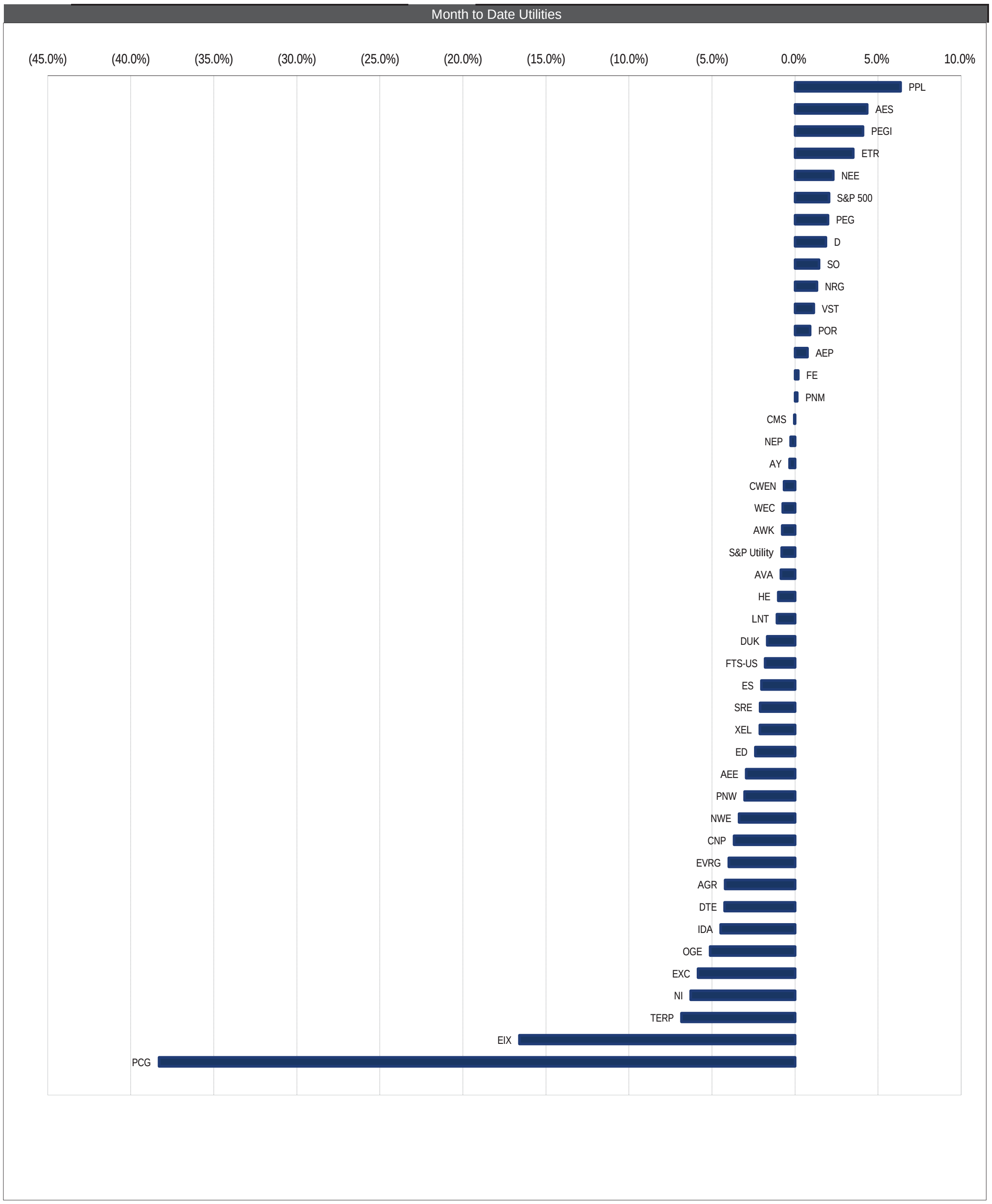




WOLFE RESEARCH

Month to Date performance of Utilities Group

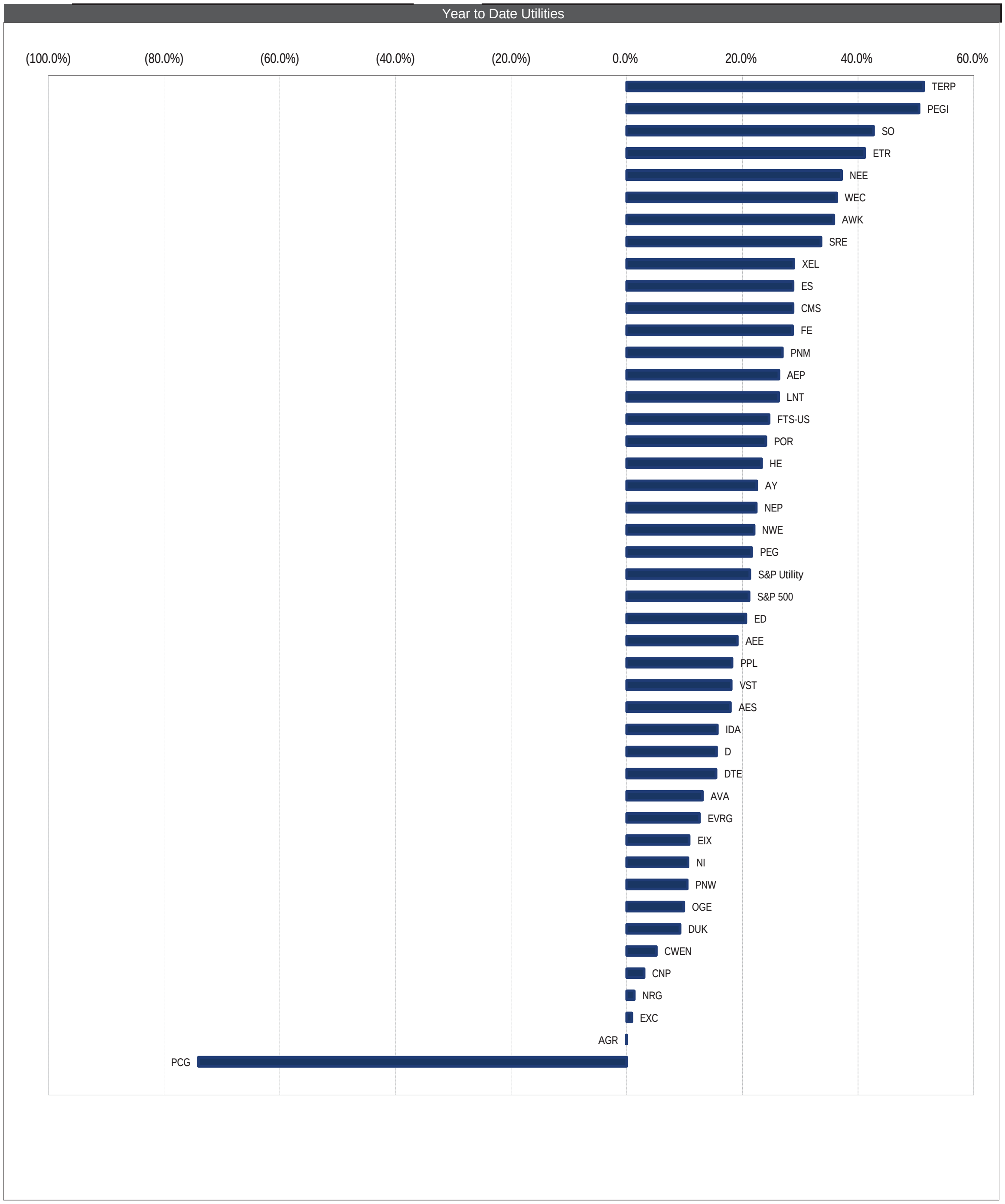
PPL was the top performer in October. The stock caught a bid possibly on rumors that Iberdrola/AGR were considering to acquire PPL. AES also fared well as management has done a nice job communicating that the company's LT growth targets are still intact despite potential pressures (e.g., Argentina). NEE continued its strong performance after a solid Q3 report where the company highlighted a record backlog of renewable projects. PCG was the worst performer by a wide margin; worst fears were realized during the month after several wildfires broke out, likely complicating the company's bankruptcy exit plans. EIX was down due to wildfires in its service territory too, though we believe the move was overdone. EXC was down due to IL political noise, which prompted utility head Anne Pramaggiore to resign.



WOLFE RESEARCH

Year to Date performance of Utilities Group

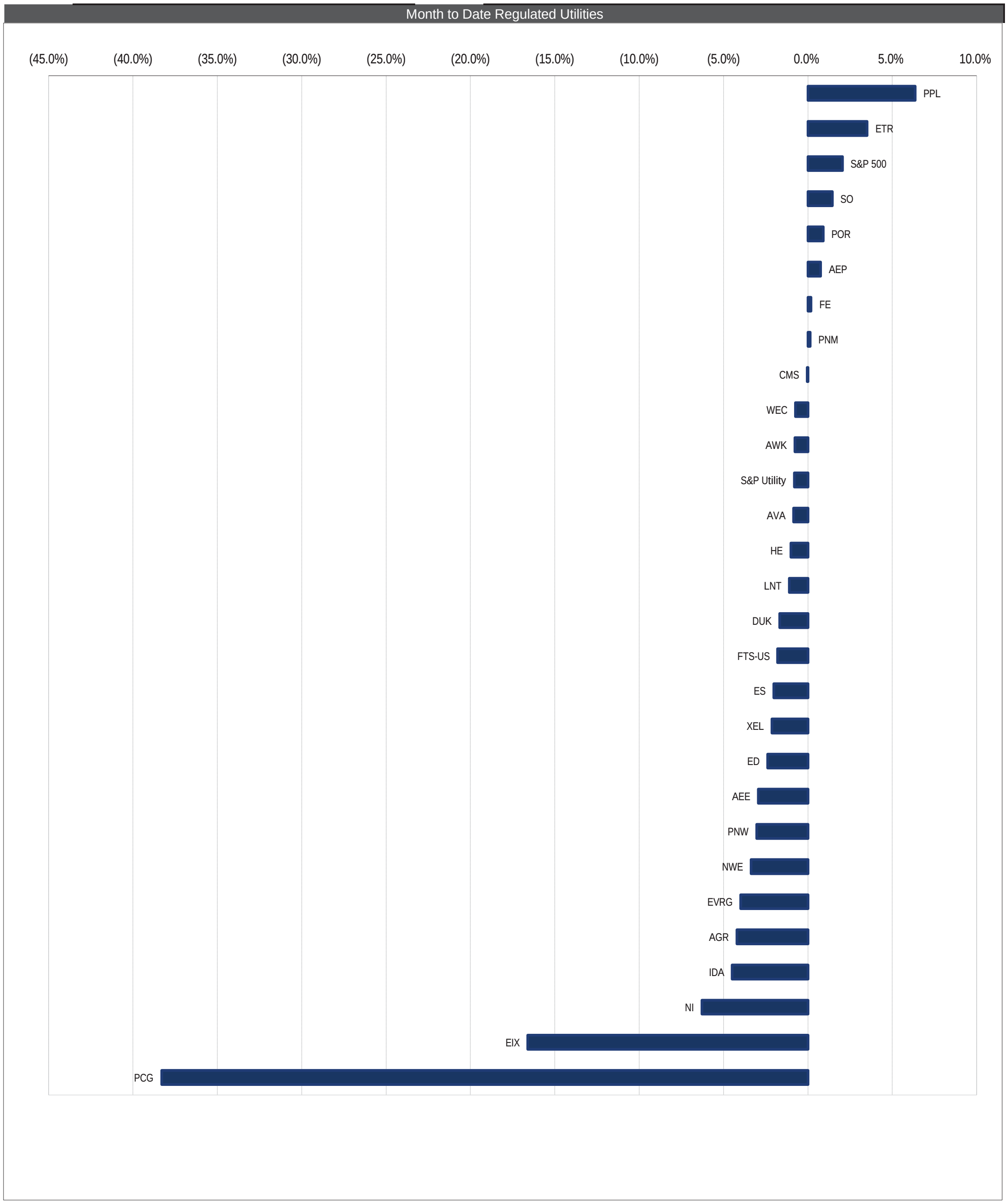
TERP is still leading YTD, despite weak performance in October. Fellow YieldCo, PEGI, is also a top performer. SO's strength has largely been tied to optimism for Vogtle's construction schedule. ETR's strong performance stems from a midyear guidance/capex raise. AWK and WEC remain top performers due to their high quality / safety characteristics. PCG remains at the back of the pack due to bankruptcy related issues. NRG's weakness stems from a lackluster power price environment earlier in the year. CNP and AGR weakness both stem from recent earnings disappointments, among other issues. EXC has been plagued by IL political noise, which recently prompted the head of Exelon utilities to resign.



WOLFE RESEARCH

Month to Date performance of Regulated Utilities

PPL was the top performing regulated in October. The stock caught a bid possibly on rumors that Iberdrola/AGR were considering to acquire PPL. ETR's momentum continued into October, where toward the month end, ETR reported a Q3 beat and raised 2019 guidance modestly. SO maintained its lead YTD given continued execution on Vogtle and after reporting a Q3 beat and 2019 guidance raise. PCG was the worst performer by a wide margin; worst fears were realized during the month after several wildfires broke out, likely complicating the company's bankruptcy exit plans. EIX was down due to wildfires in its service territory too, though we believe the move was overdone. AGR was also weak after yet another disappointing earnings report, which has become commonplace for the company.

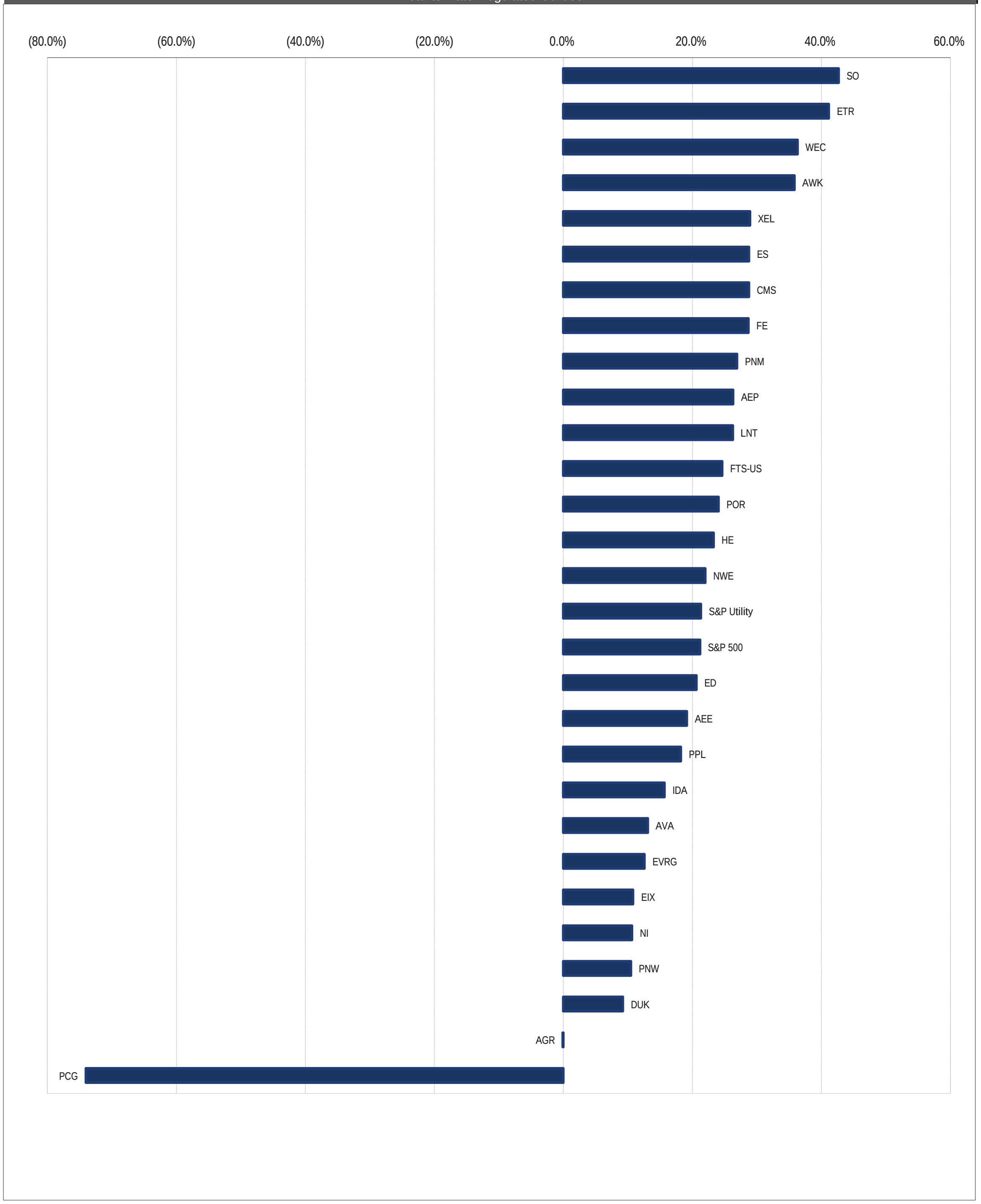


WOLFE RESEARCH

Year to Date performance of Regulated Utilities

SO maintained its lead YTD. SO's strength this year is largely tied to optimism on Vogtle's construction schedule as well as execution at its utilities. ETR has also fared well, sustaining momentum after raising EPS / capex guidance in July. High quality / low risk names like AWK and WEC are toward the top of the pack, due in part to macroeconomic tailwinds (e.g., low interest rates). PCG remains the worst performing regulated as the company continues to wrestle with issues tied to its bankruptcy. DUK has been mired by a number of issues, with ACP uncertainty and failed NC legislation being near the top of the list. AGR's weakness stems from the company's inability to execute on its financial targets the past four quarters, among other things (e.g., mega project risk).

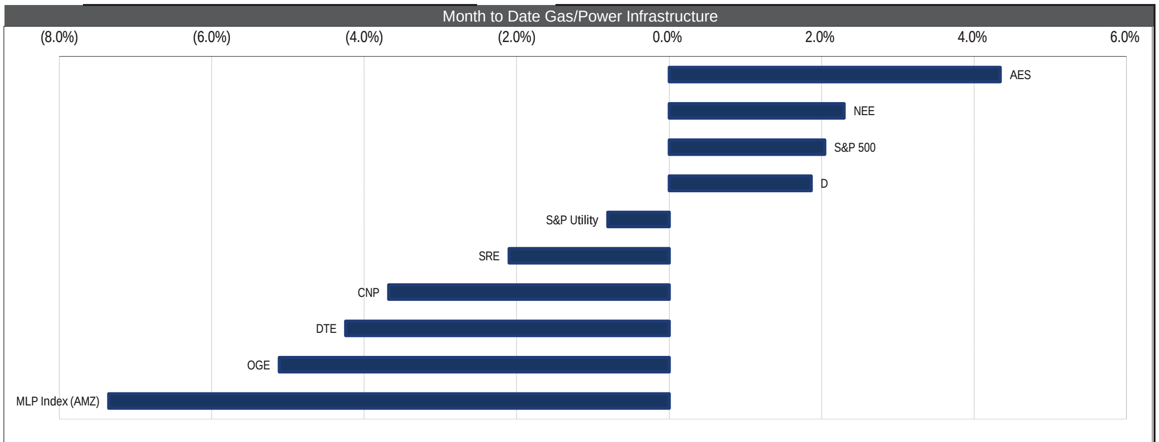
Year to Date Regulated Utilities

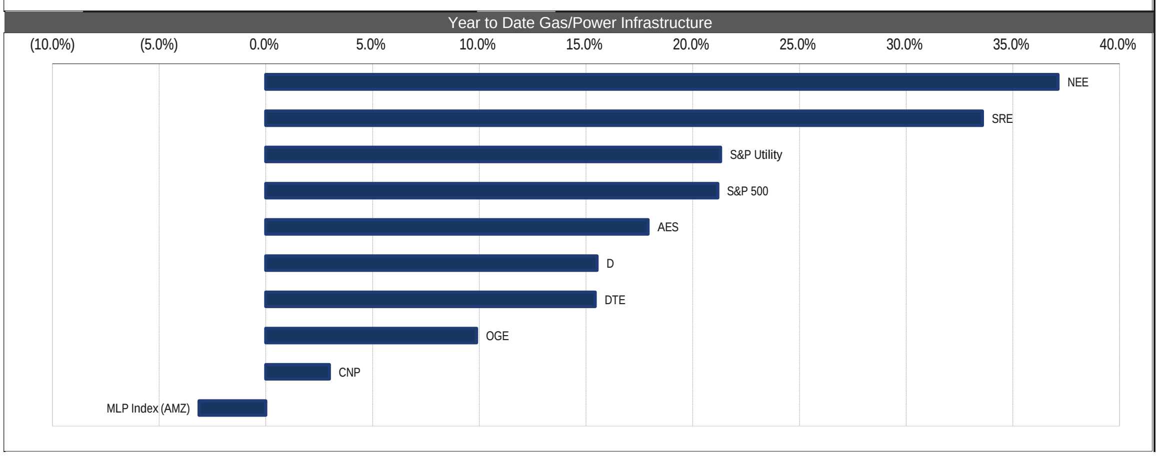


WOLFE RESEARCH

Month to Date and Year to Date performance of Gas/Power Infrastructure

AES was the top performer in October; management has done a nice job communicating that the company's LT growth targets are still intact despite potential pressures (e.g., Argentina). NEE continued its strong performance after a solid Q3 report where the company highlighted a record backlog of renewable projects. OGE was the worst performer, possibly on ENBL weakness (down 16% in the month). DTE was also weak on its recent acquisition of a Haynesville gas gathering system.

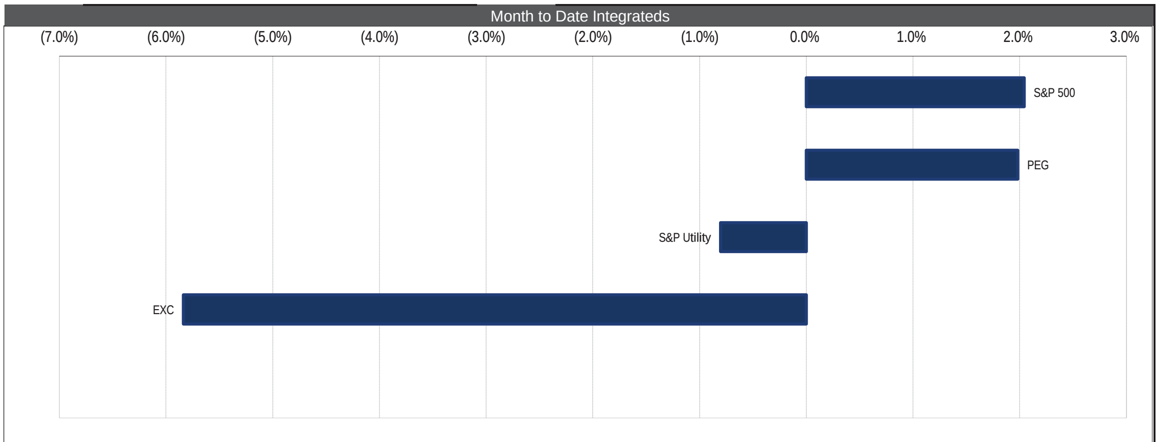


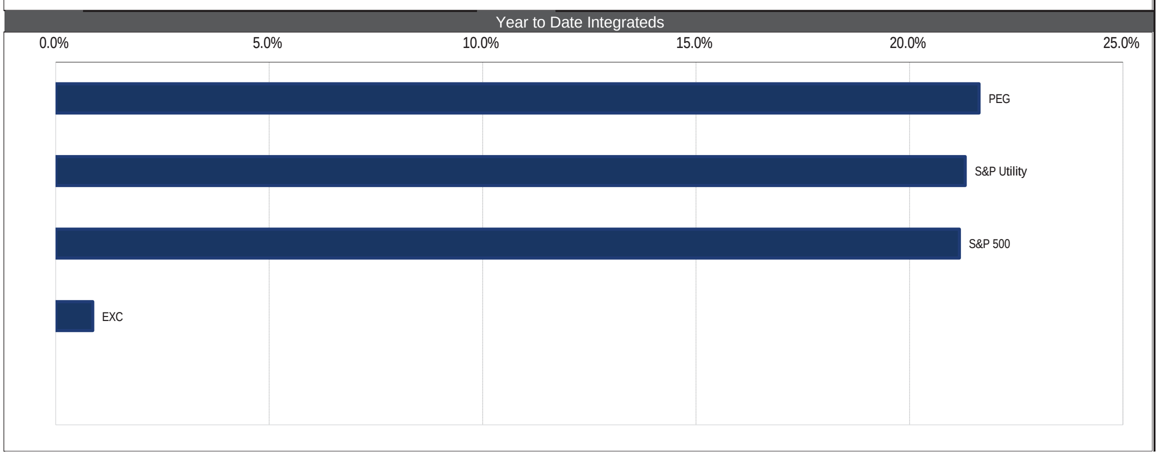


WOLFE RESEARCH

Month to Date and Year to Date performance of Integrateds

PEG outperformed lone integrated peer EXC by a decent margin in October. PEG likely caught a bid as EXC came under pressure after subpoenas in IL coming back into focus. Head of Exelon utilities, Anne Pramaggiore, resigned during the month due to the IL political situation, further causing investor consternation on EXC.

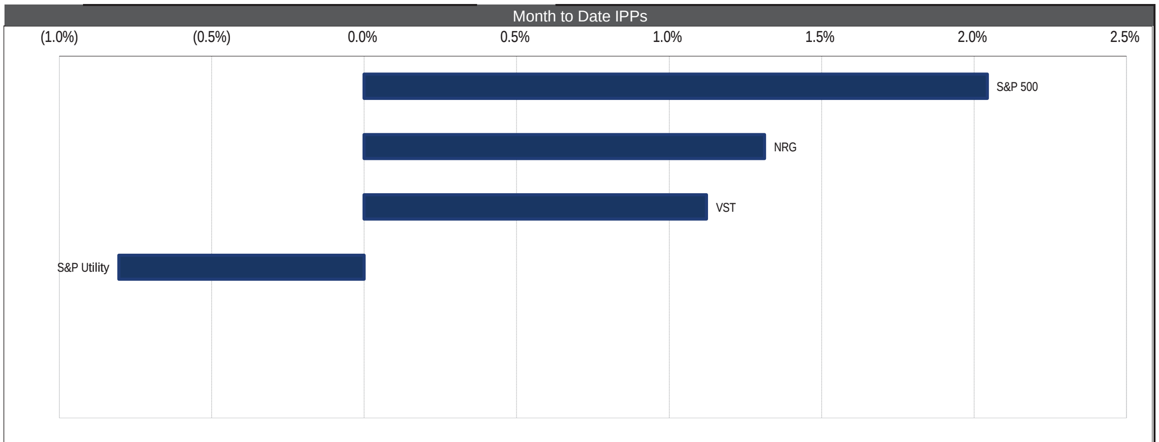


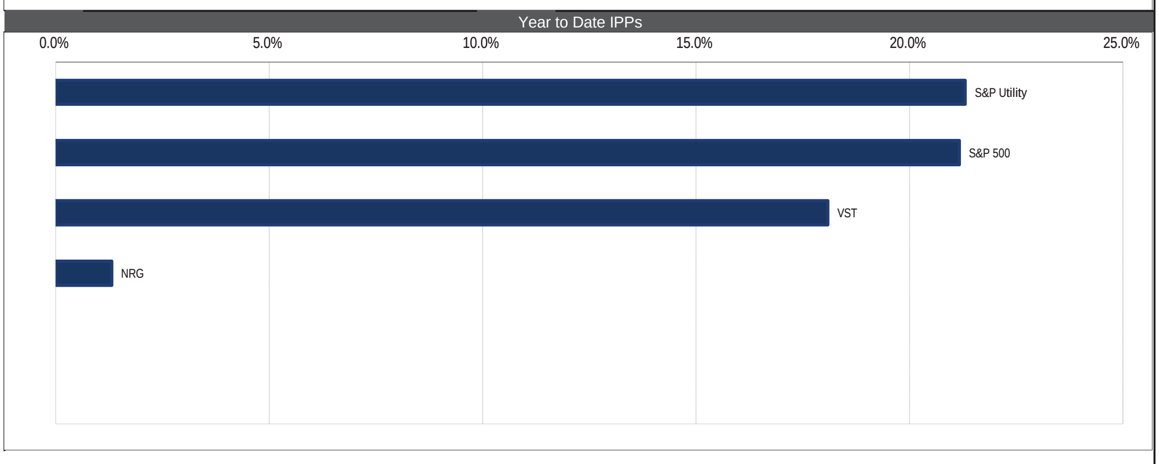


WOLFE RESEARCH

Month to Date and Year to Date performance of IPPs

NRG outperformed VST in October and both fared better than the utility average. News flow was relatively quiet for both names, but power prices moved in the right direction during the month. We expect both IPPs to provide solid 2020 guides along with their Q3 earnings.

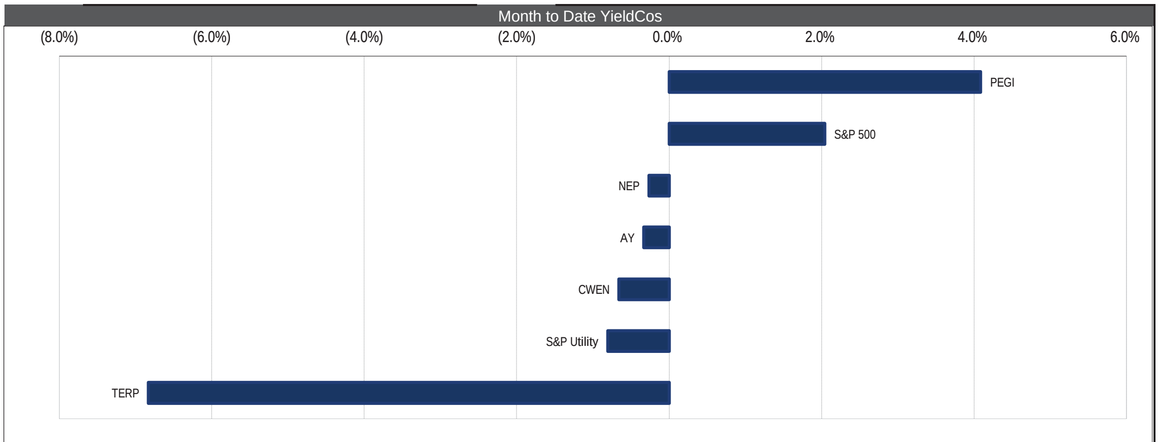


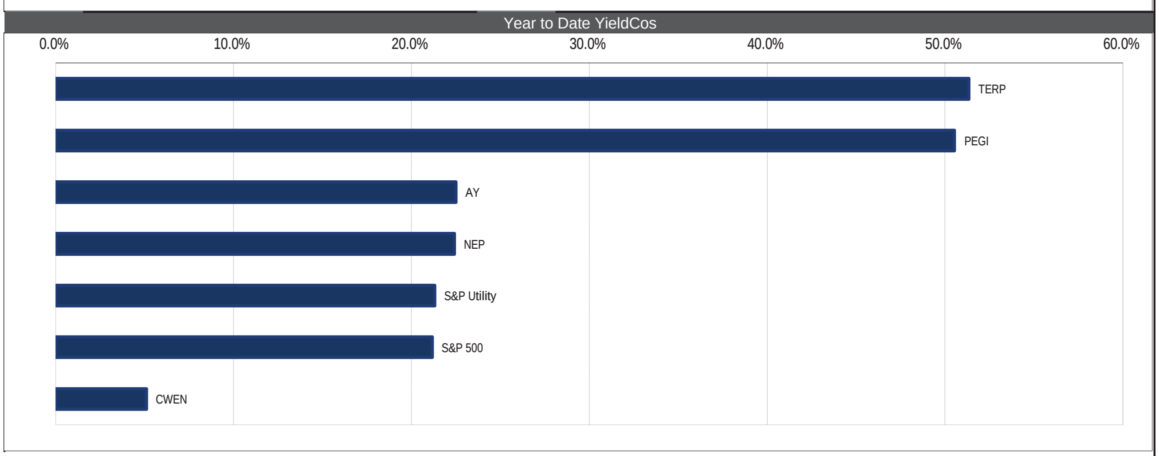


WOLFE RESEARCH

Month to Date and Year to Date performance of YieldCos

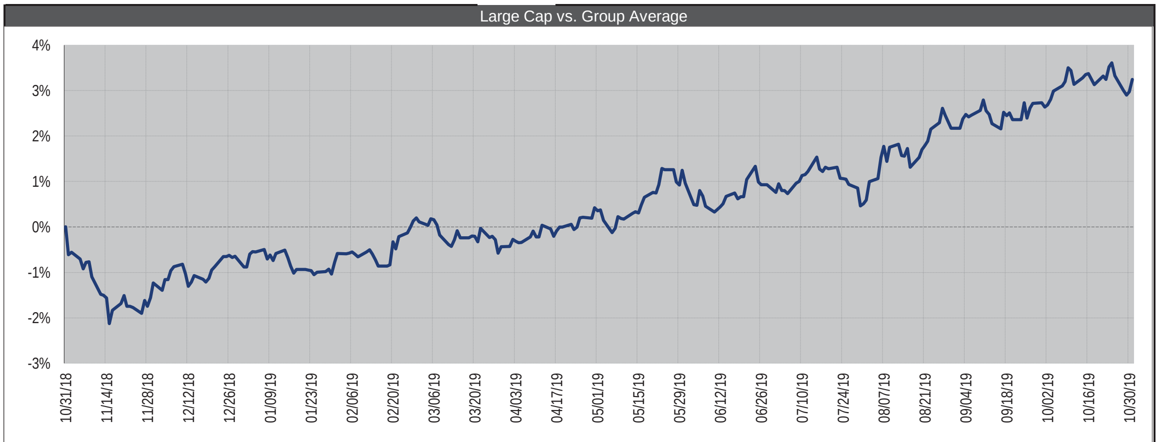
PEGI was the only YieldCo that finished in the green in October. During the month, PEGI announced a $260Mprivate placement of preferred stock to acquire two operating wind facilities in New Mexico. TERP underperformed its peers by a wide margin, falling over 500bps on the day the company announced a $250M common stock offering. CWEN was also weak due to concerns over key customer PCG; we downgraded CWEN to Peer Perform from Outperform during the month on fear that the PCG bankruptcy process would be elongated due to recent wildfires.

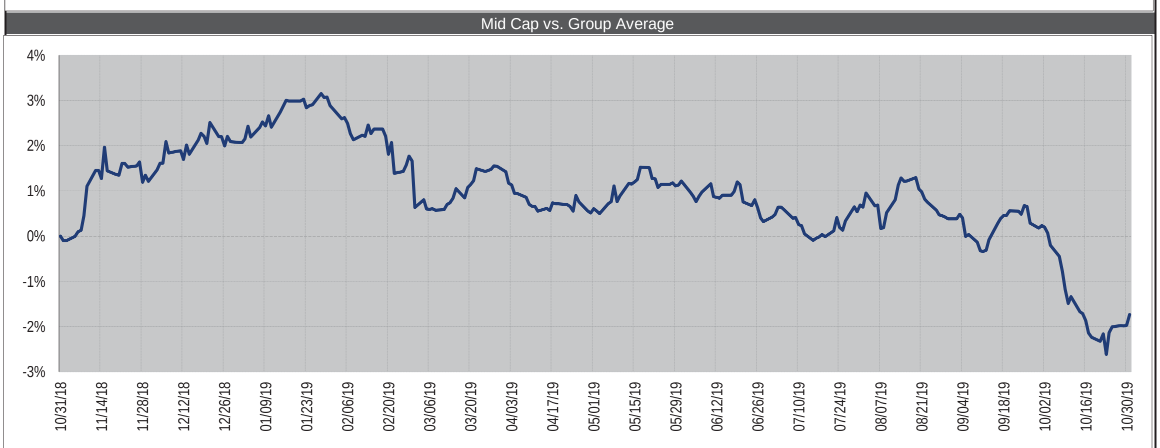


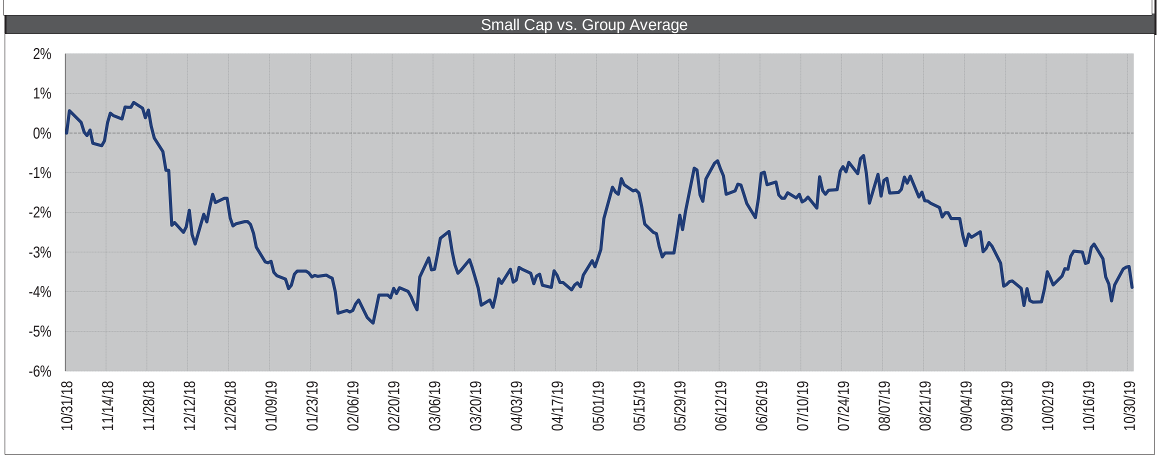


Utilities Performance by Market Cap

- Large-caps outperformed the broader utility group in October, led by PPL / NEE / SO
- Mid-caps underperformed the broader utility group in October, led by NI and AGR
- Small-caps finished in-line with the group average in October



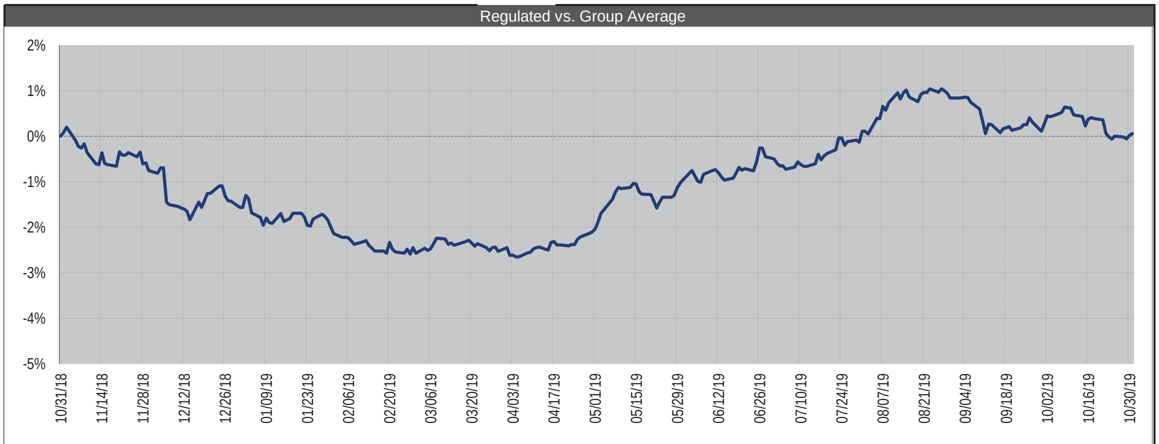


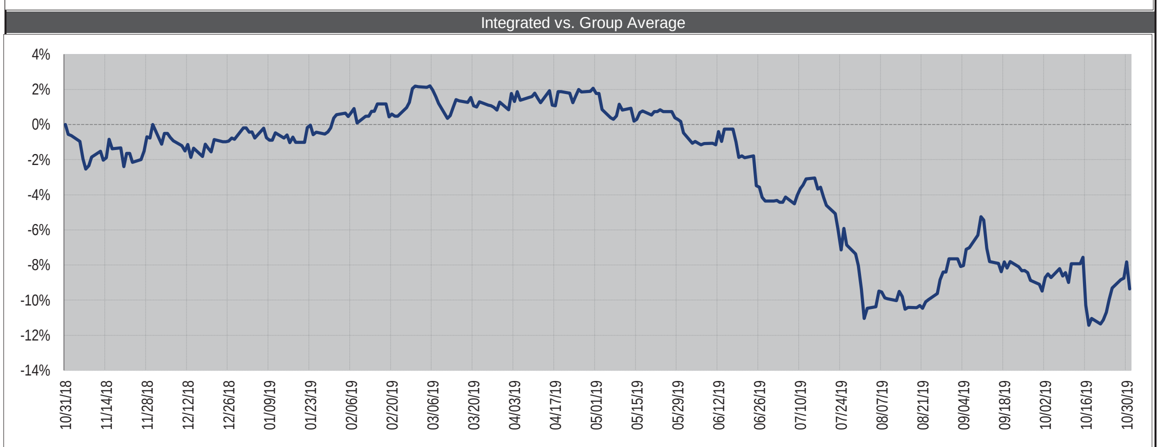


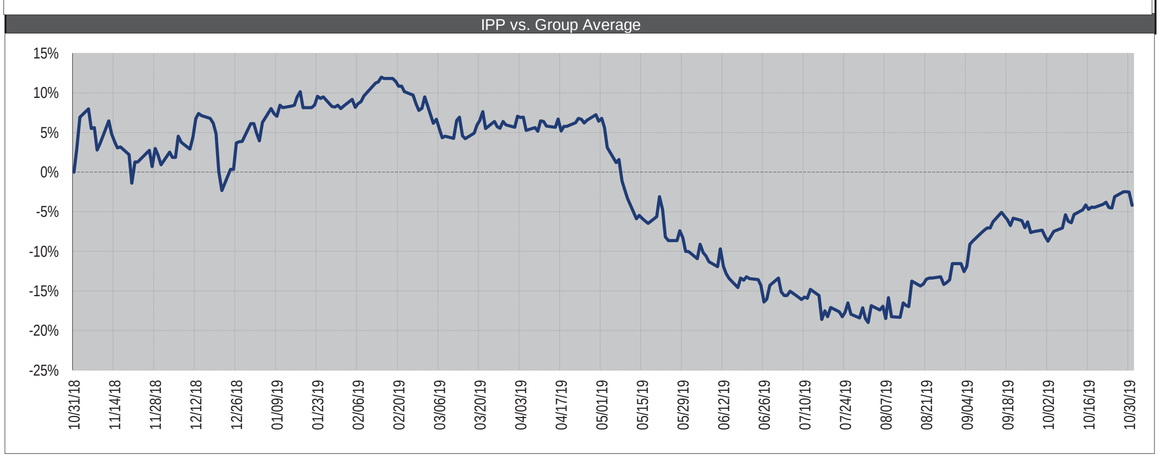
WOLFE RESEARCH

Utilities Performance by Segment

- Regulateds performed in-line with group average in October
- Integrateds finished in-line with the broader utility group in October, as PEG's performance largely offset the weakness from EXC
- The IPPs outperformed the group average for the second consecutive month; both VST and NRG outperformed the UTY during October



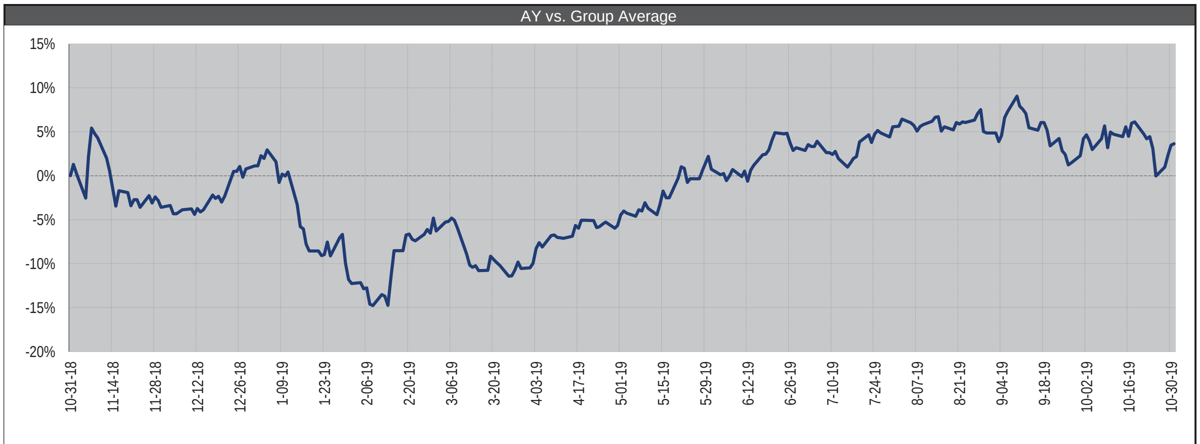


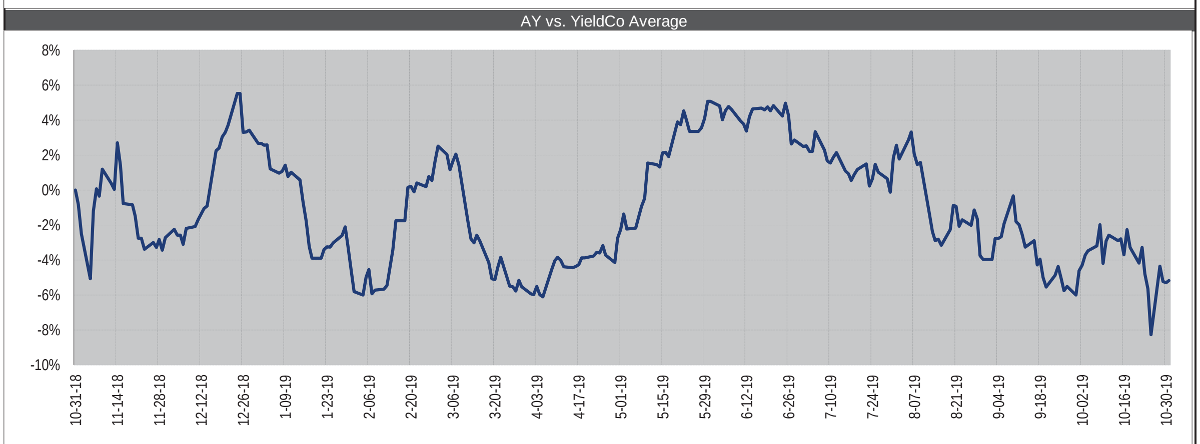


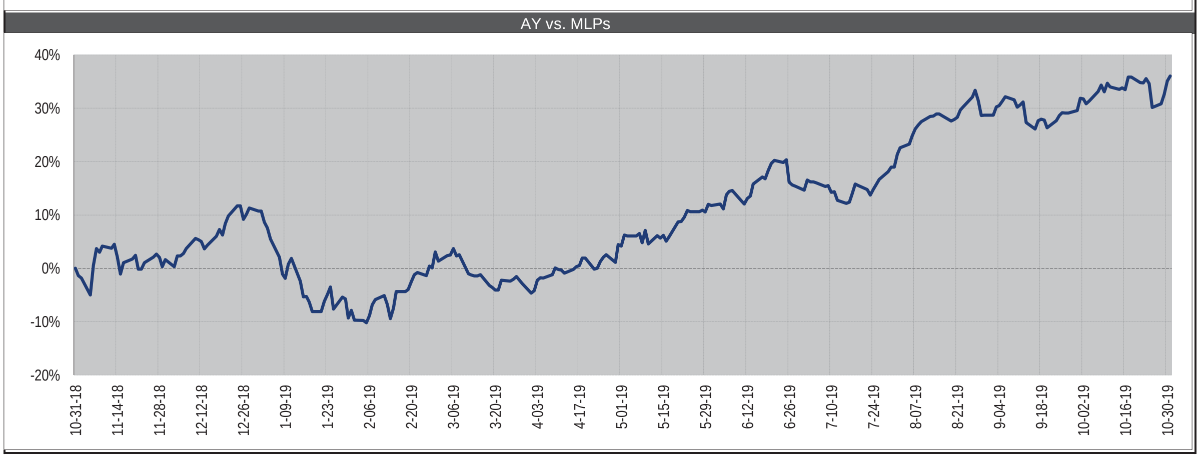
WOLFE RESEARCH

Atlantica Yield (AY) $24.01, NR

Atlantica Yield underperformed slightly in October with the stock seeing a lot of volatility in the last week of the month



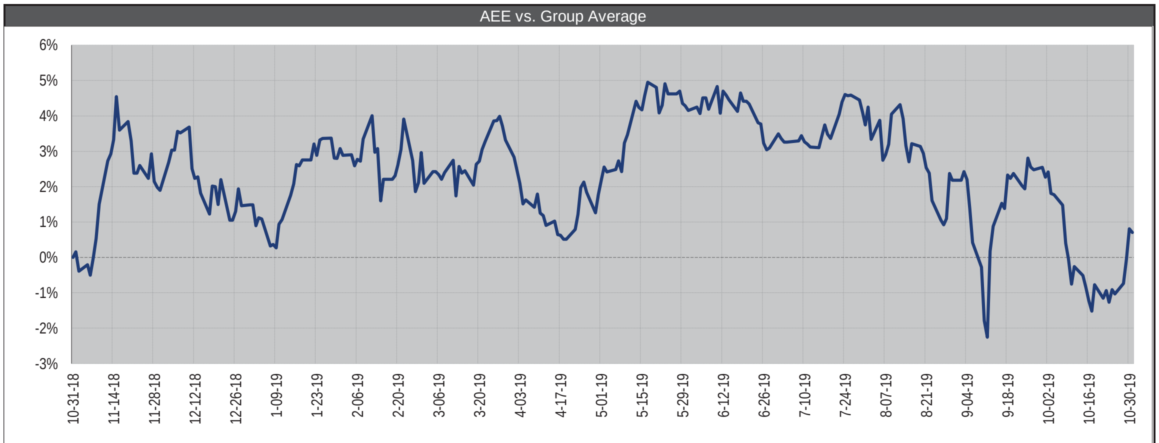


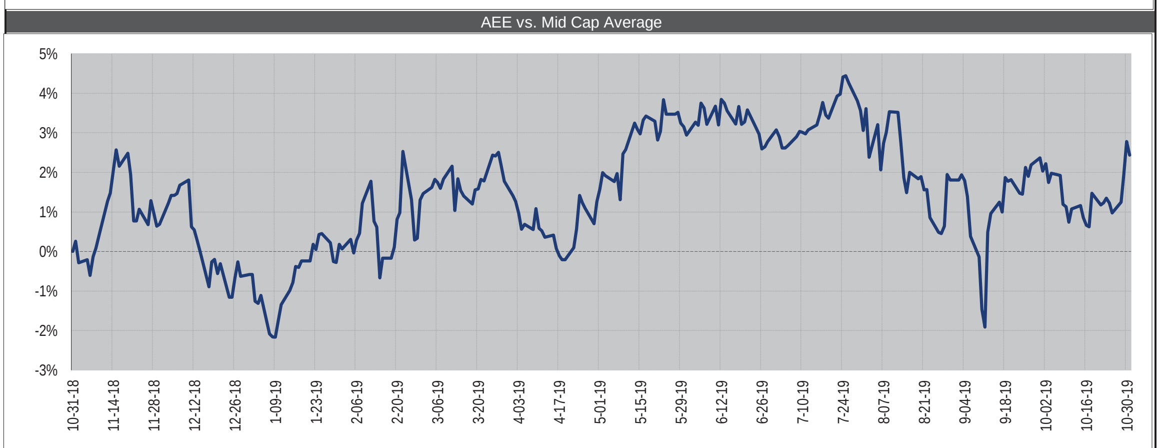


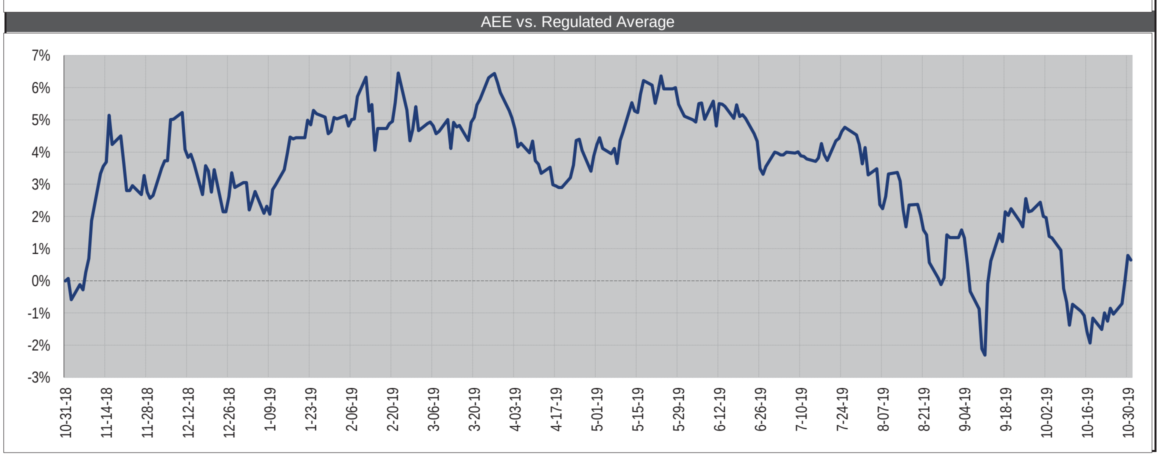
WOLFE RESEARCH

Ameren (AEE) $77.70, Outperform, $81 PT

AEE nearly set a 52-week relative low for a second consecutive month, but AEE rallied in second half of Oct, likely on the MoPSC suggesting the Sibley order is a one-off and the 30-yr UST yield off its lows.



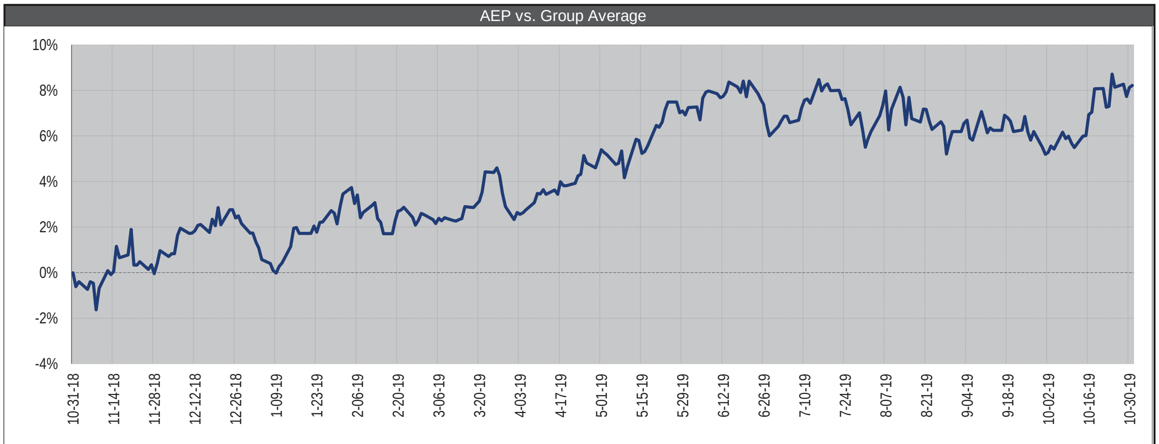


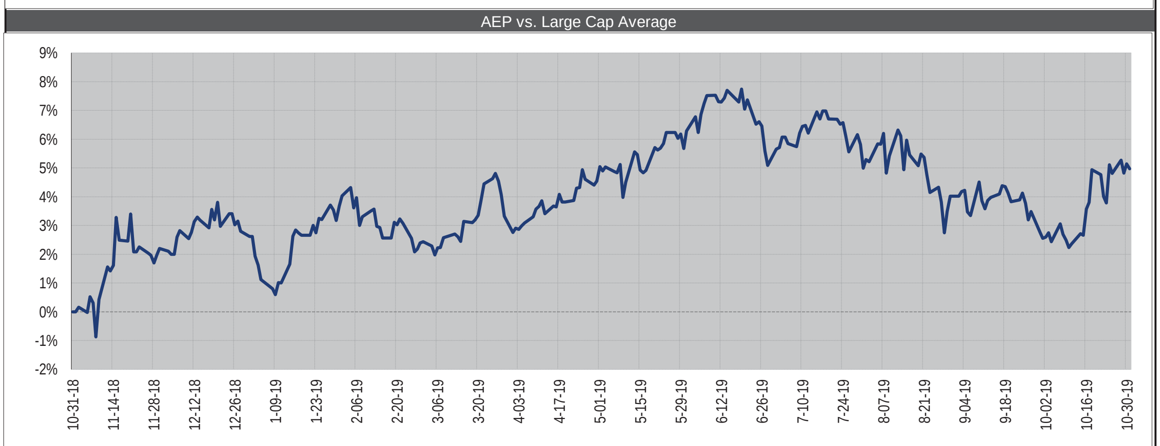


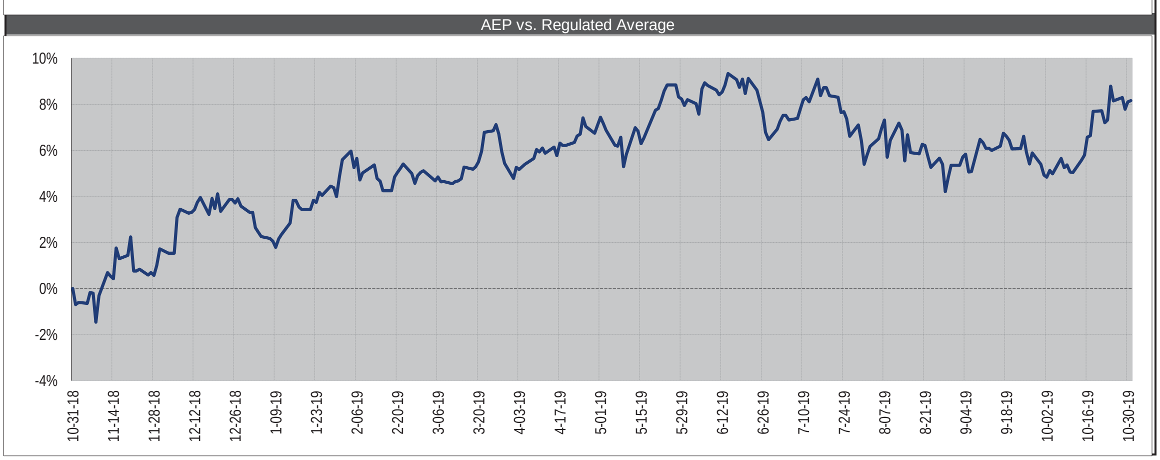
WOLFE RESEARCH

American Electric Power (AEP) $94.39, Outperform, $101 PT

AEP solidly outperformed regulateds in Oct, as the company continued to suggest it could meet growth targets despite weak load earlier in the year; AEP also settled its AR rate case.



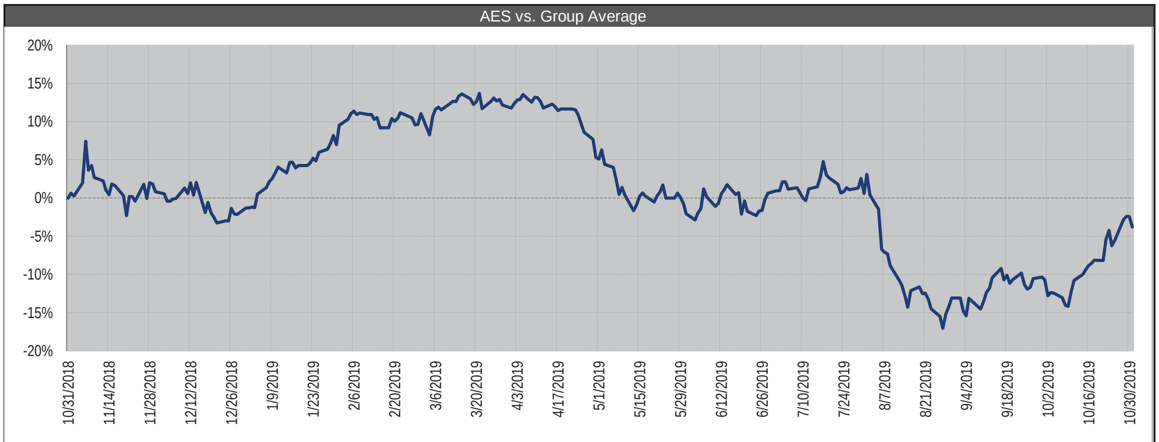


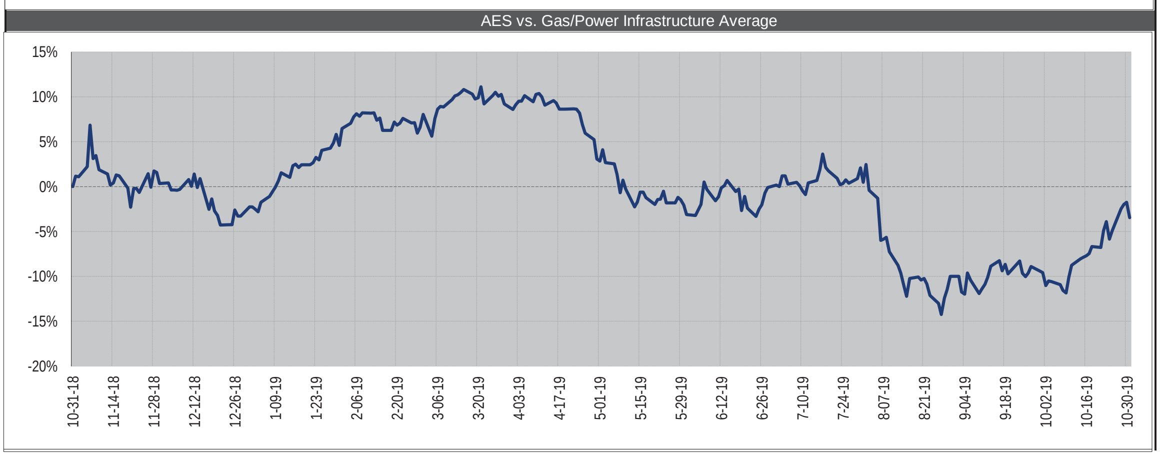


WOLFE RESEARCH

AES Corporation (AES) $17.05, Peer Perform, $17 PT

AES was one of the top performers in October. In recent meetings, management has expressed confidence in being able to offset pressures (e.g., Argentina) and still hit the company's growth targets. We think AES' recent performance (outperformed UTY by 550bps+ over last two months) reflects investors taking comfort in the company's ability to execute going forward.

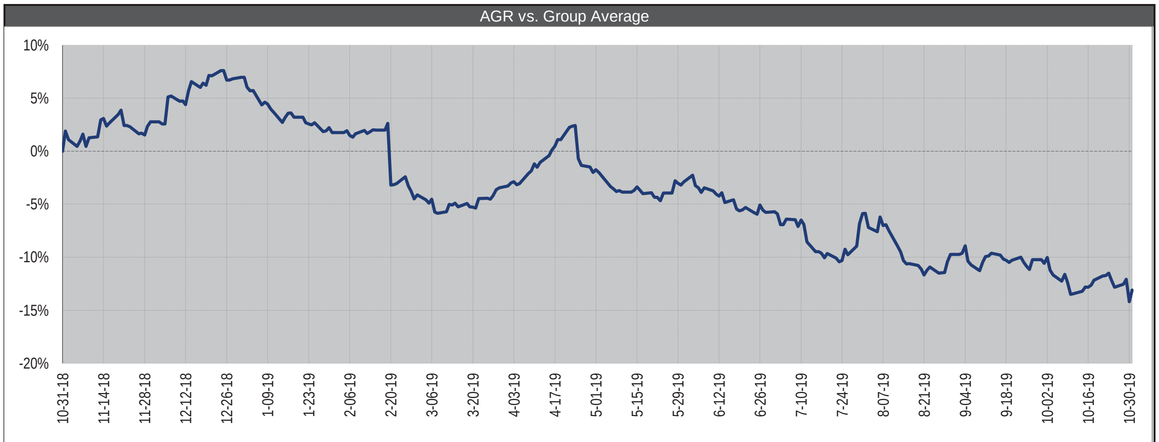


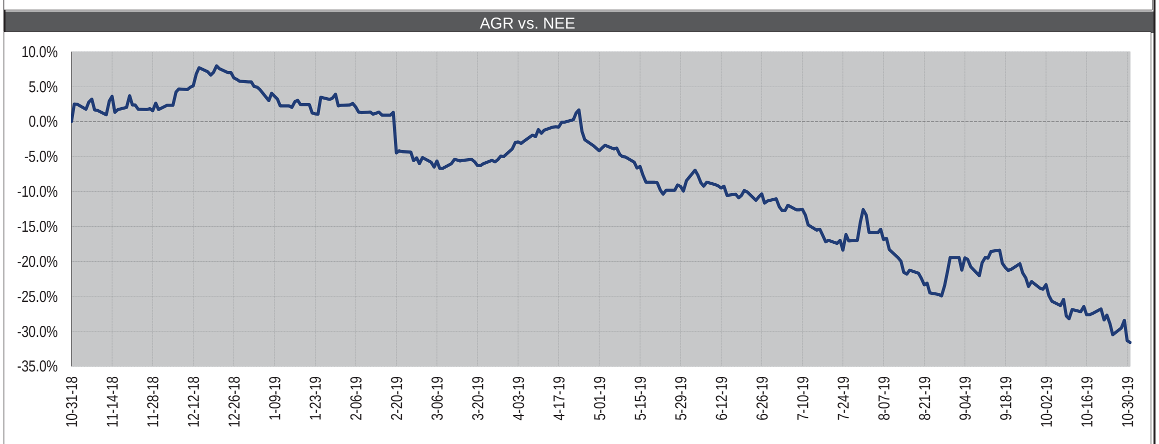


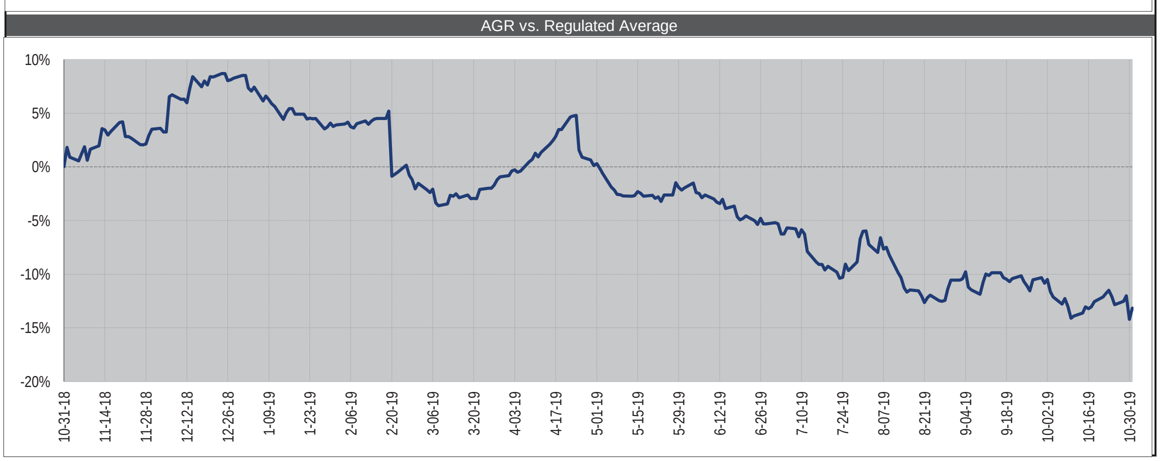
WOLFE RESEARCH

Avangrid (AGR) $50.05, Underperform, $47 PT

- AGR underperformed again in October and continues to hover near relative lows – it is also still the worst-performing regulated in 2019 (excluding PCG). AGR reported a Q3 miss with a low quality 2019 guidance reiteration that includes over $0.20/sh of asset sales. It's mega-projects – NECEC and Vineyard Wind – also continue to face delays. There were also reports of a potential merger between AGR and PPL during the month.

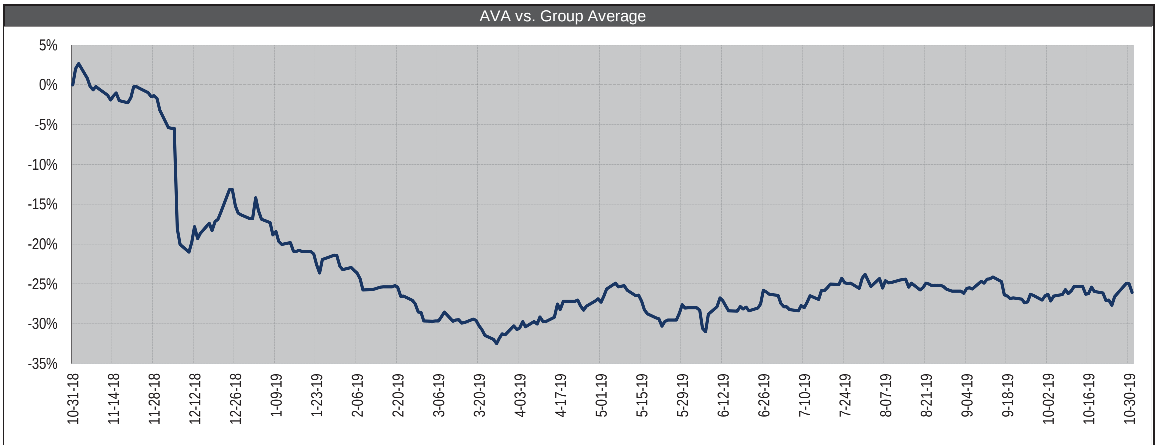


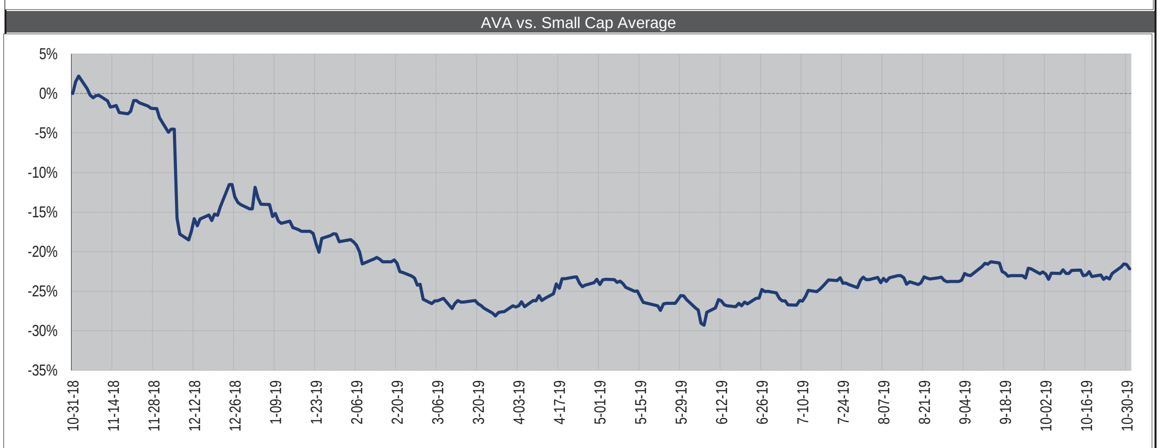


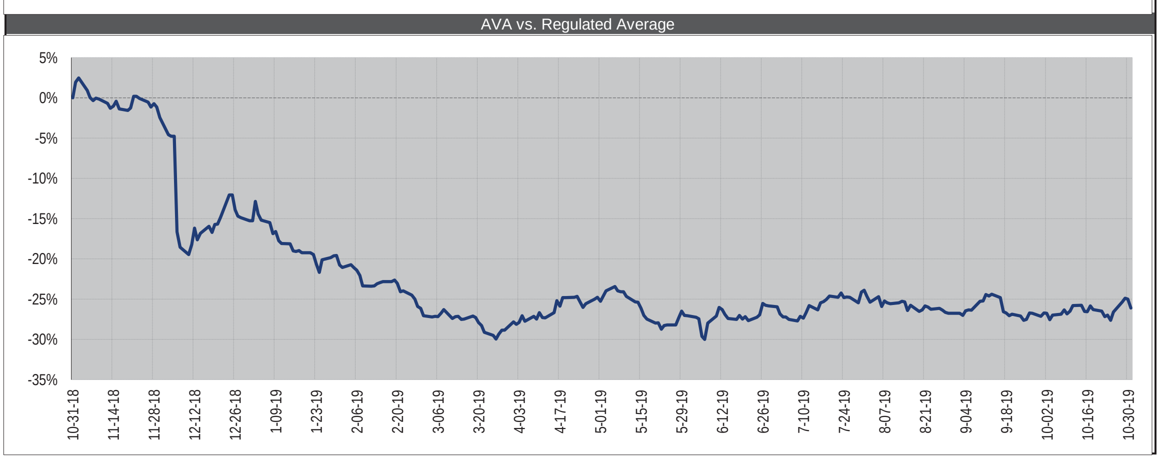


WOLFE RESEARCH

Avista Corporation (AVA) $48.03, NR



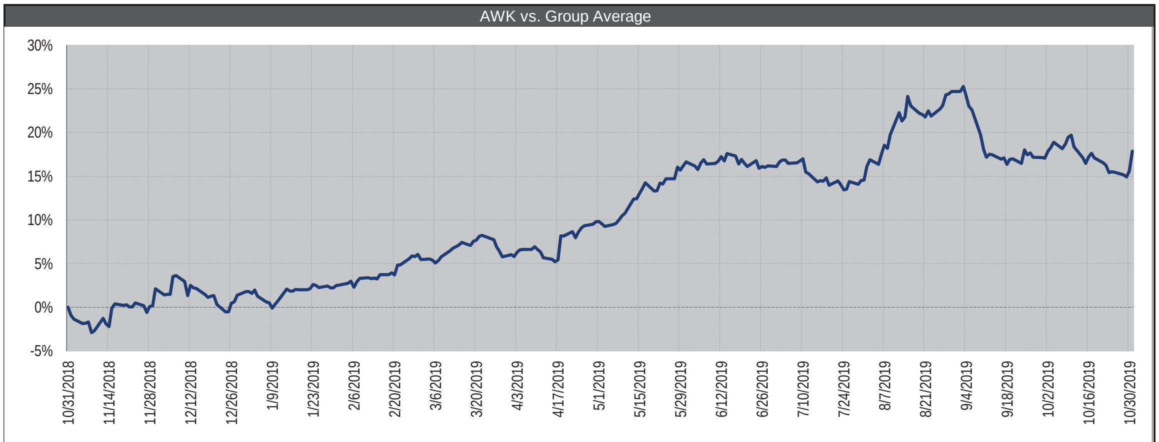


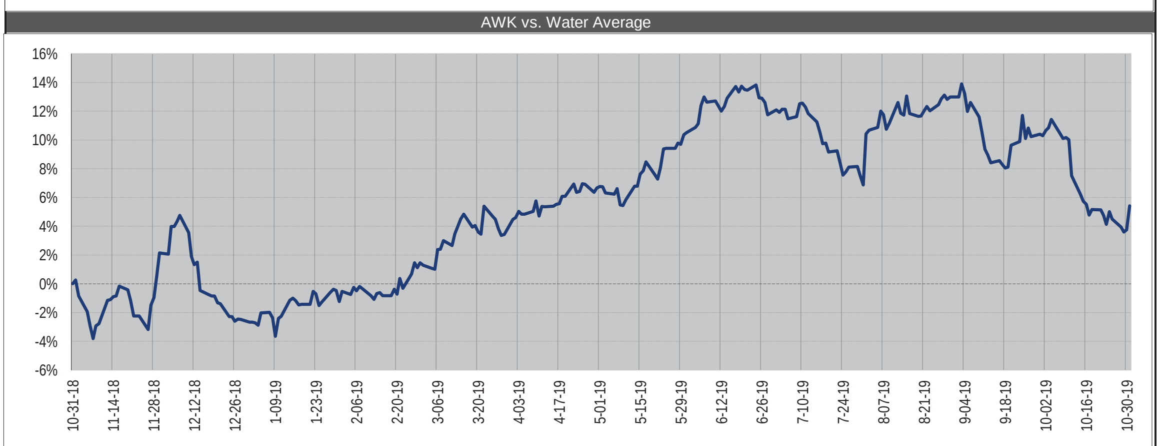


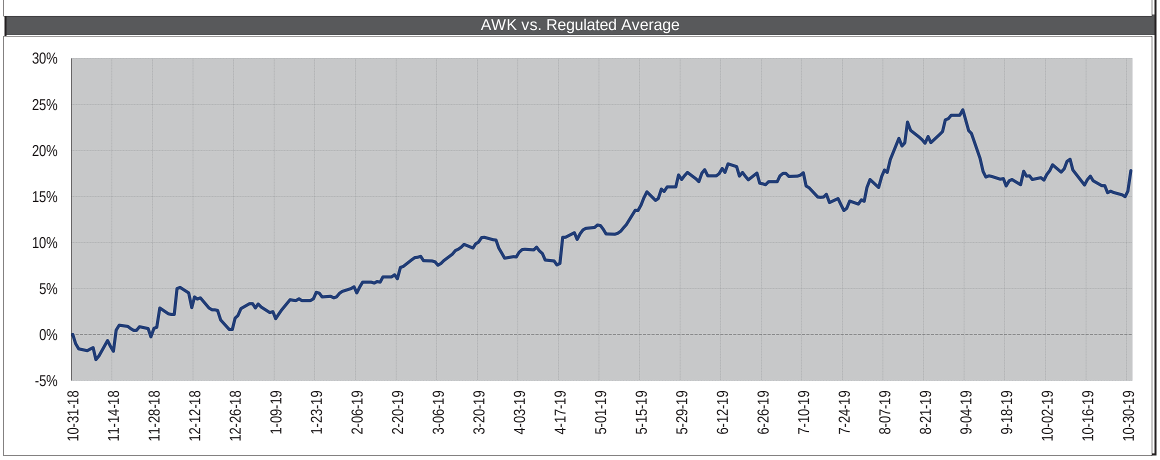
WOLFE RESEARCH

American Water Works (AWK) $123.27, Peer Perform, $126 PT

AWK finished in-line with the regulated average but underperformed its water peers in October. We believe most of AWK's performance during the month was influenced by macro factors – namely the 10-yr., which went a on roller coaster ride – starting at 1.70%, falling to 1.50% in the first few days, rising to 1.80% by mid-month, then ending at 1.68%.





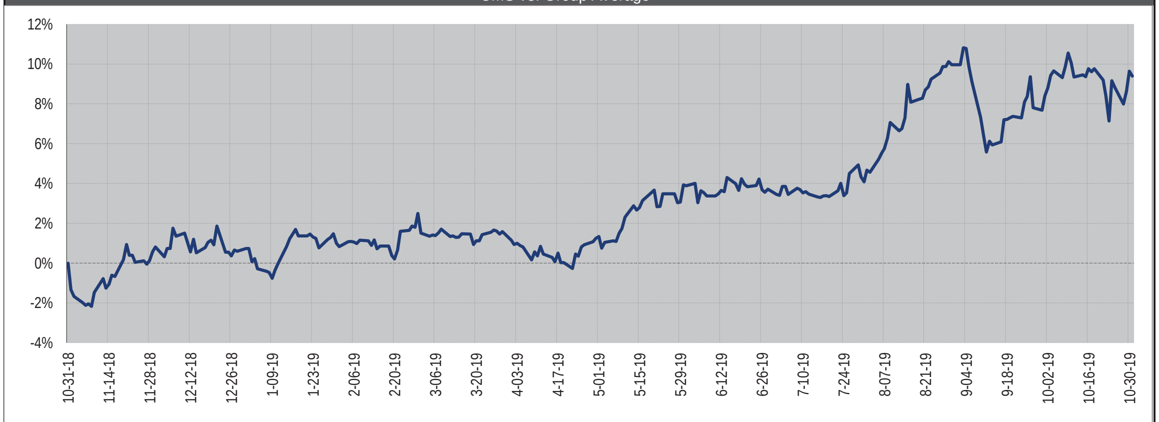


WOLFE RESEARCH

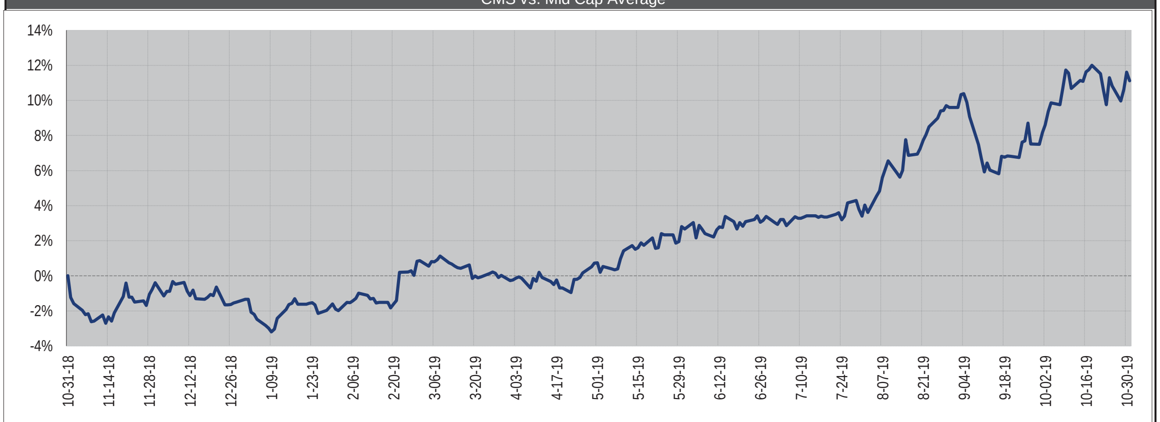
CMS Energy (CMS) $63.92, Peer Perform, $66 PT

- CMS outperformed in October and remains ahead of peers for the year. CMS reported a solid Q3 – beating consensus, reaffirming 2019 guidance, and initiating 2020 guidance – all consistent with its plan to grow earnings at 6-8% long-term. As part of the Q3 update, CMS also boosted its 10-year capex plan to $25B and hinted at potential upside.

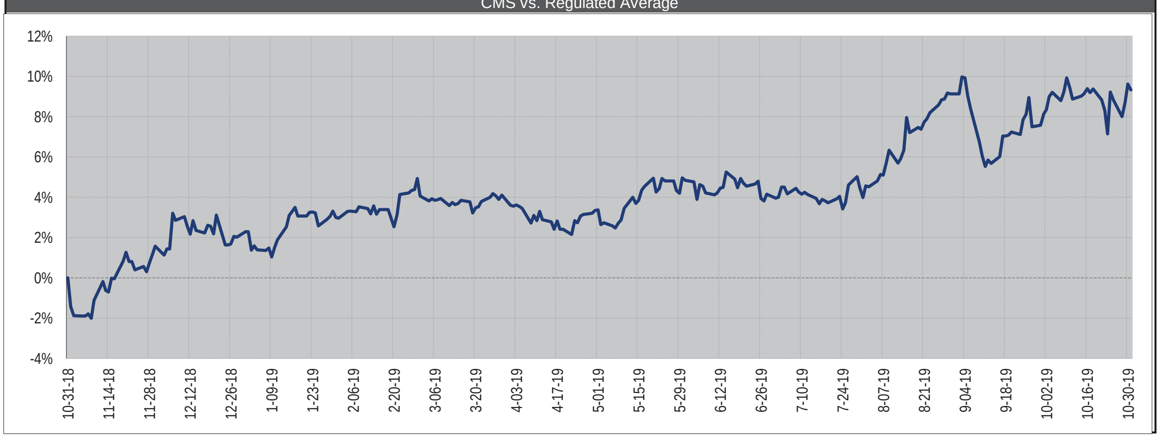
CMS vs. Group Average



CMS vs. Mid Cap Average



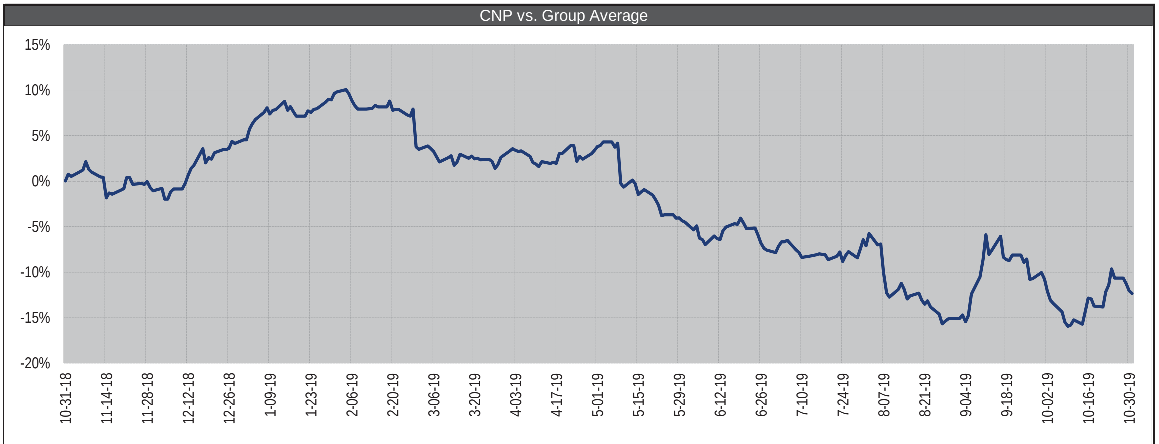
CMS vs. Regulated Average

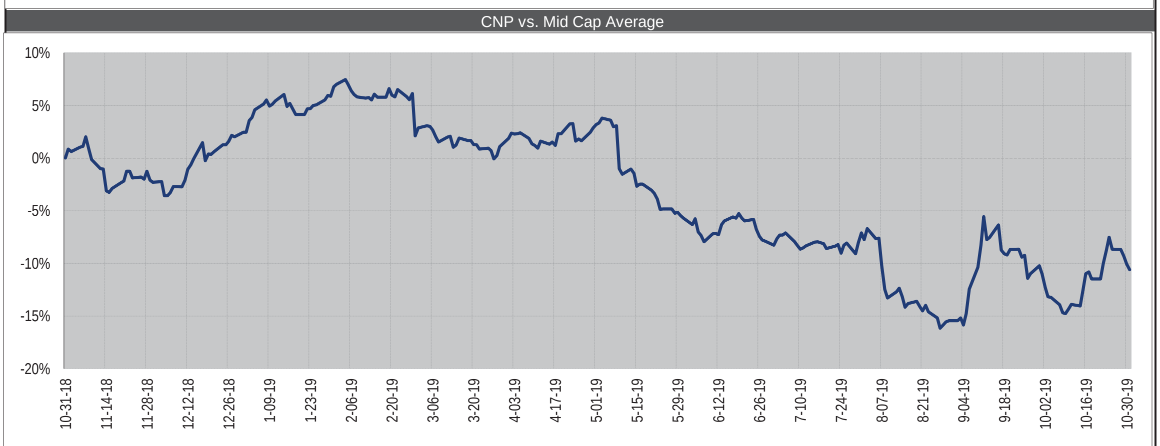


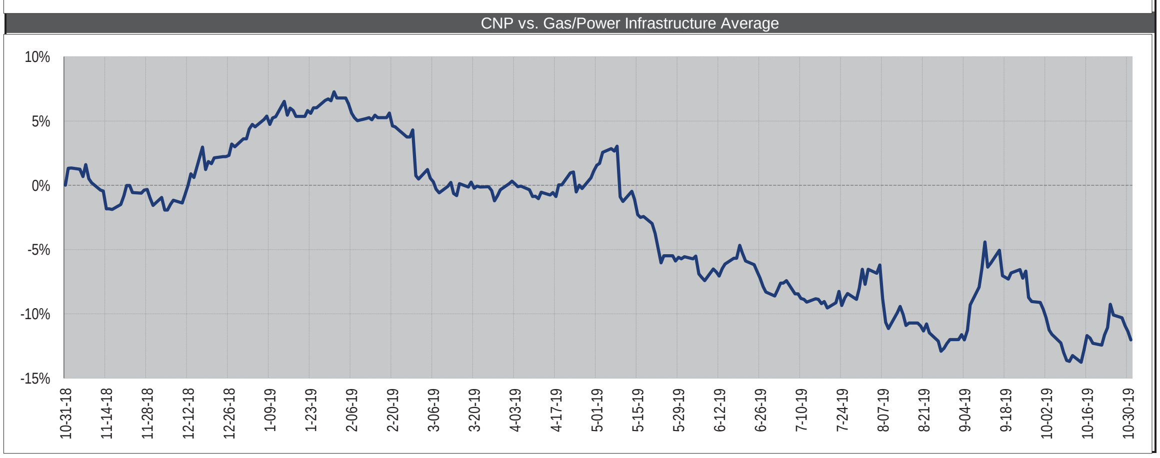
WOLFE RESEARCH

CenterPoint Energy (CNP) $29.07, Peer Perform, $32 PT

CNP underperformed the utility average in October. The stock went on a bit of a roller coaster ride – significantly underperforming in the 1H of the month after management voiced substantial frustration with the ALJ's rec in the company's TX rate case. However, the stock rallied in the 2H on news reports that CNP is considering a sale of its Infrastructure Services business.



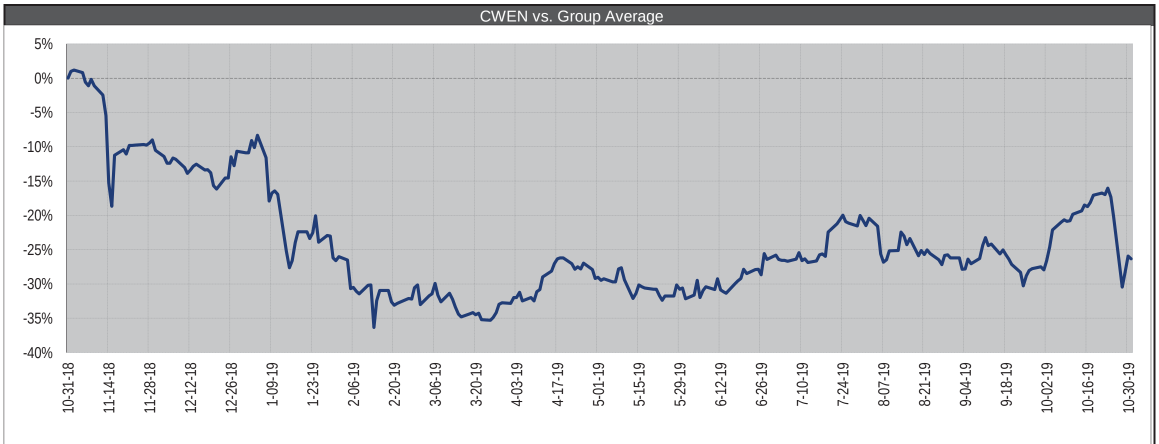


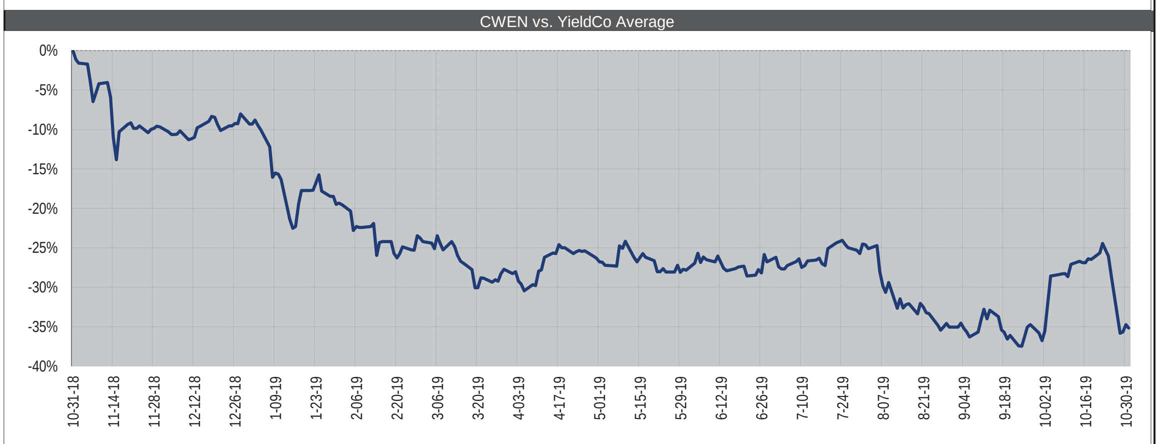


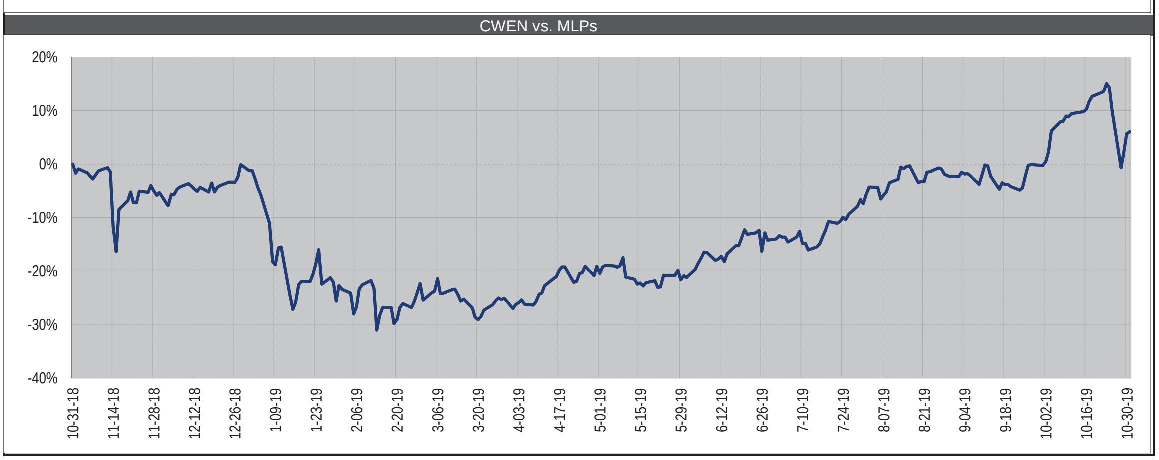
WOLFE RESEARCH

Clearway Energy (CWEN) $18.13, Peer Perform, $19 PT

CWEN underperformed slightly in October as key customer PCG saw risks from new fires that could complicate the exit from bankruptcy



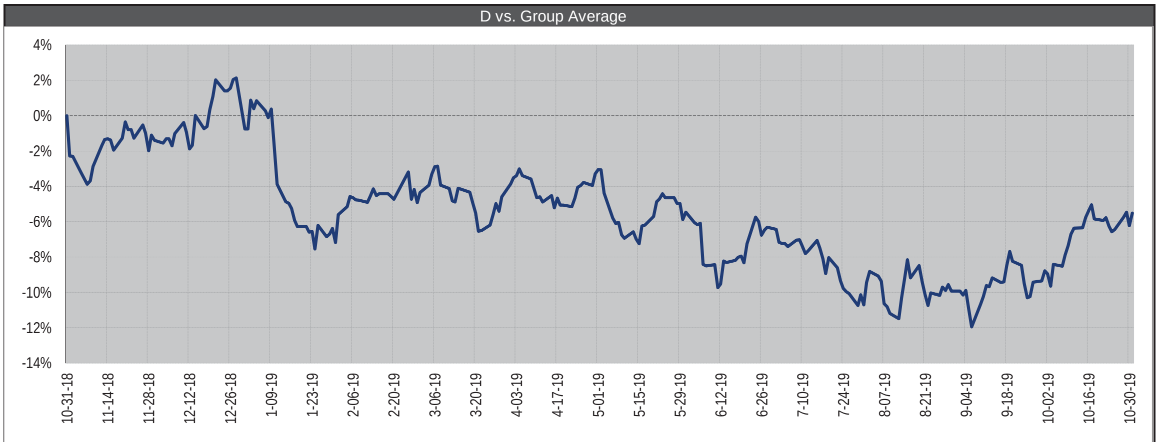


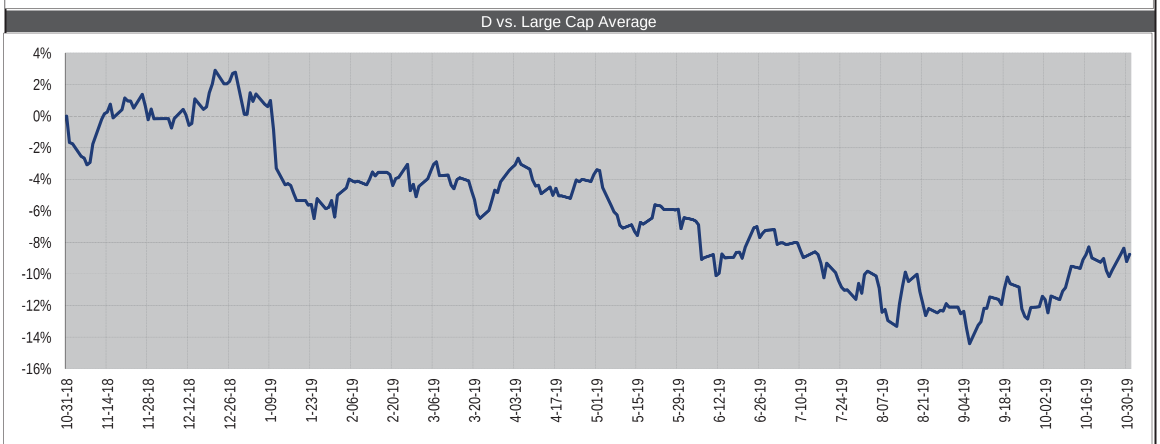


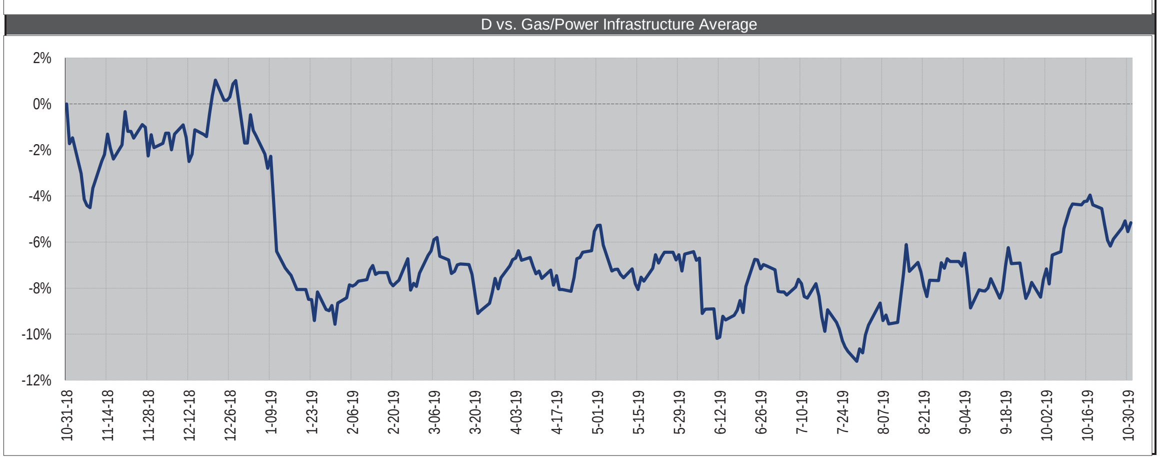
WOLFE RESEARCH

Dominion Resources (D) $82.55, Outperform, $92 PT

D outperformed the utility average in October. The stock jumped at the beginning of the month after the US Supreme Court granted cert to ACP's appeal of the 4th Circuit's decision regarding the Appalachian Trail crossing issue. D also sold a 25% stake in its Cove Point facility for $2B (~12x EBITDA), with proceeds being used to reduce future equity needs and reinvest at VEPCO.



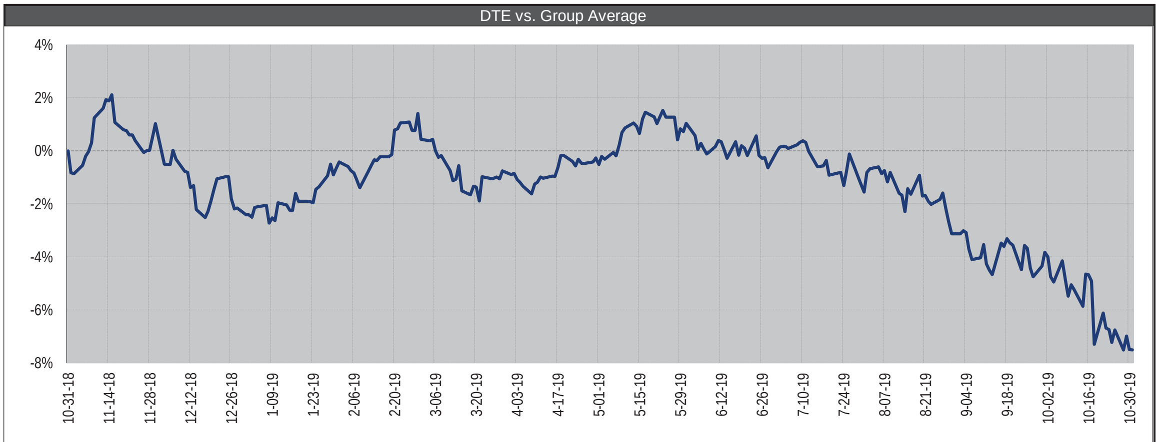


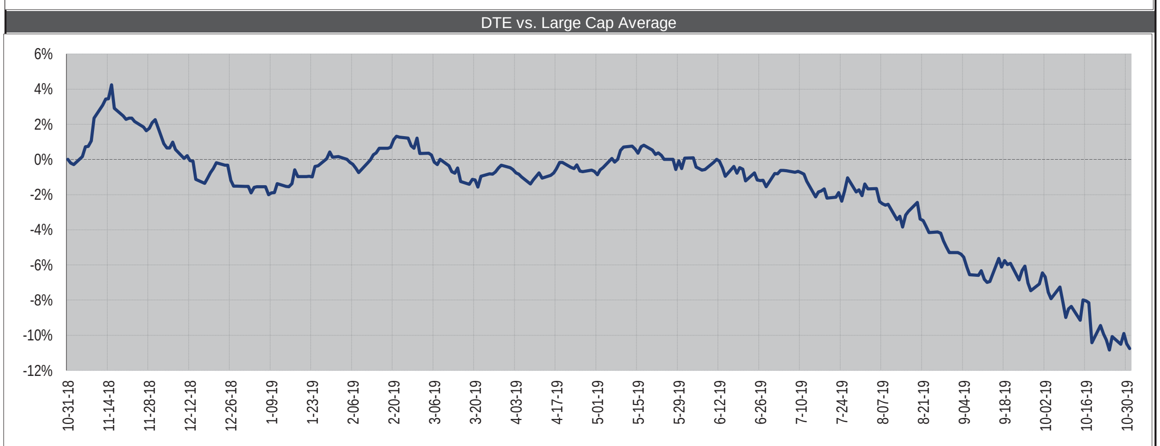


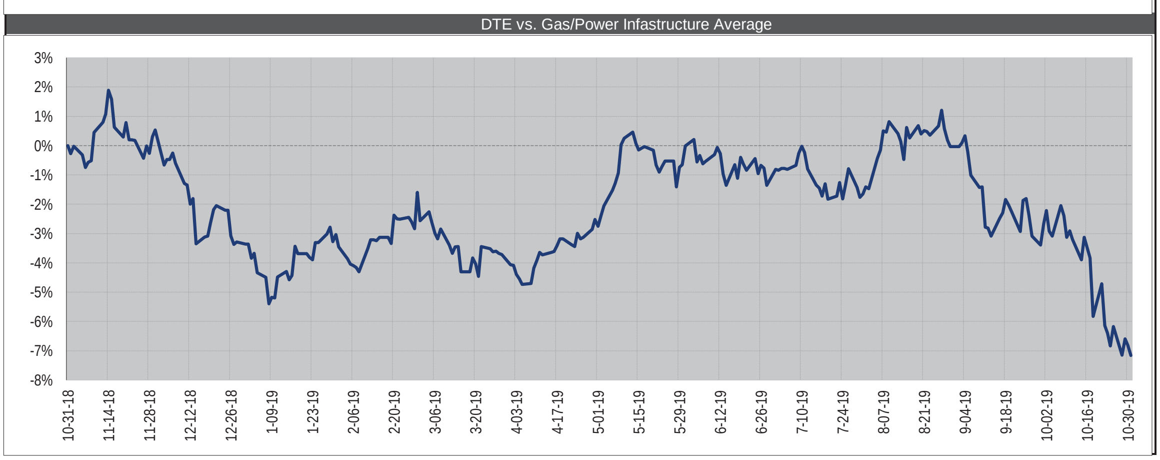
WOLFE RESEARCH

DTE Energy (DTE) $127.32, Peer Perform, $135 PT

- The stock continued its steady underperformance in October, which was exacerbated by the announcement of a $2.65B Haynesville gathering acquisition. The stock remains at relative lows and is underperforming most of the group in 2019. The Q3 print was mostly solid – upping 2019 guidance, initiating 2020 guidance at 7.5% growth, and re-basing the long-term 5-7% EPS growth rate higher off 2020. That said, there continues to be investor concerns around the midstream business and mgmt. will likely have to climb a wall of skepticism.



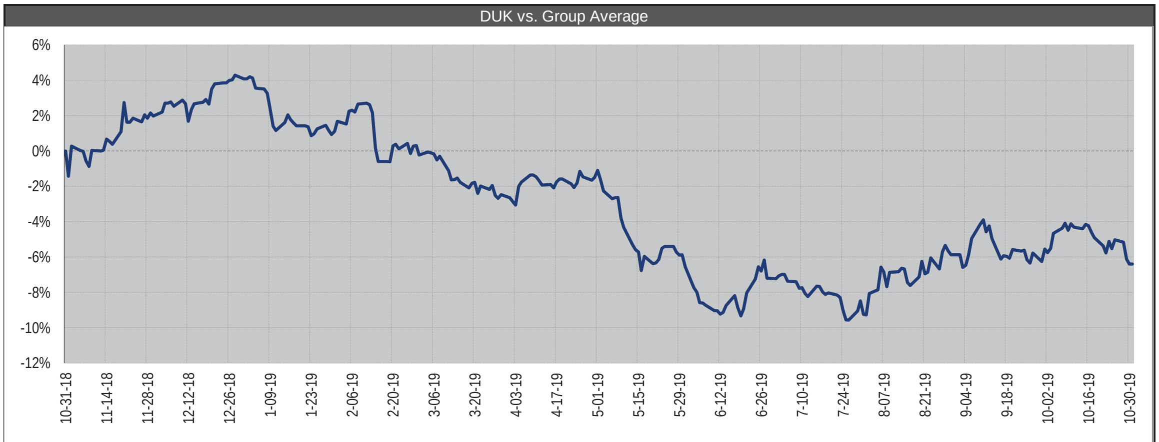


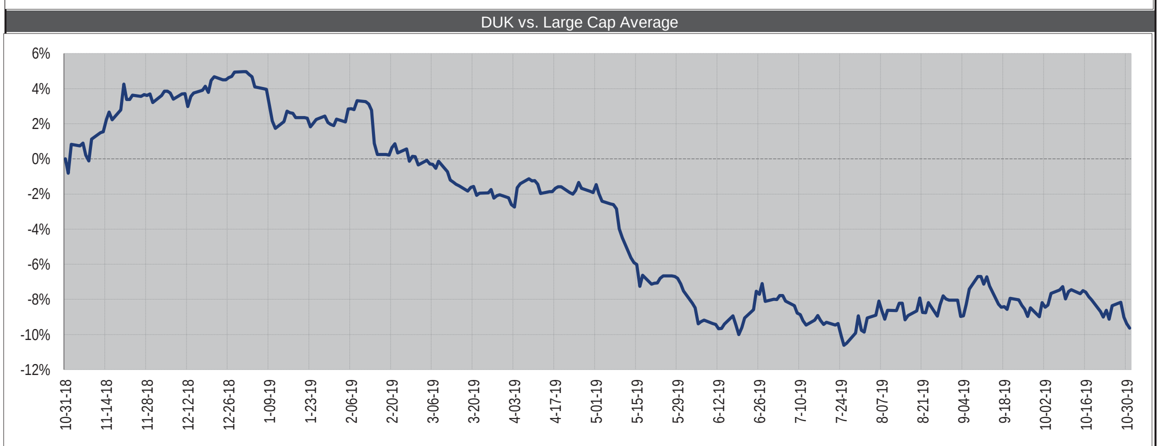


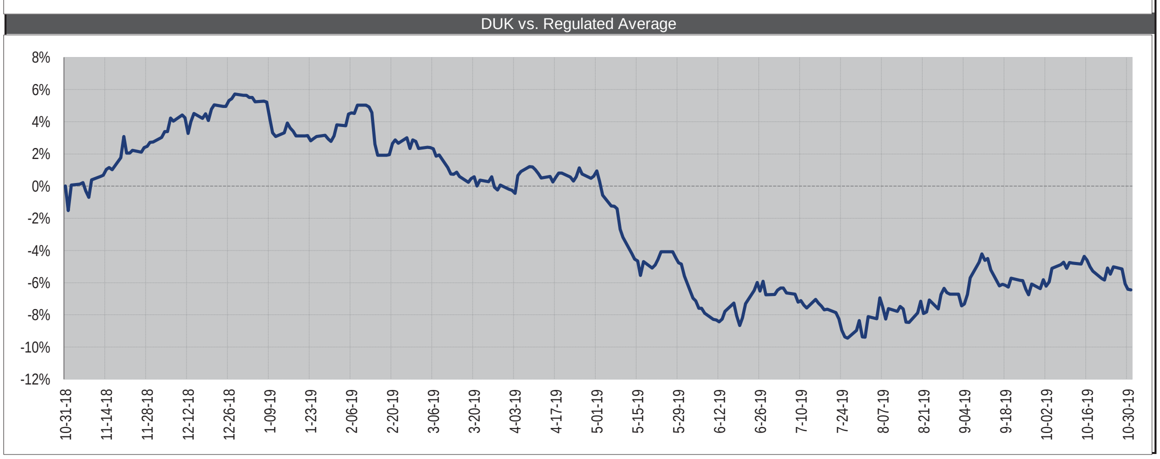
WOLFE RESEARCH

Duke Energy (DUK) $94.26, Peer Perform, $98 PT

DUK started Oct well, with NC legislation being resurrected, but the stock gave back relative gains by the end of the month, as key provisions of the legislation were removed.



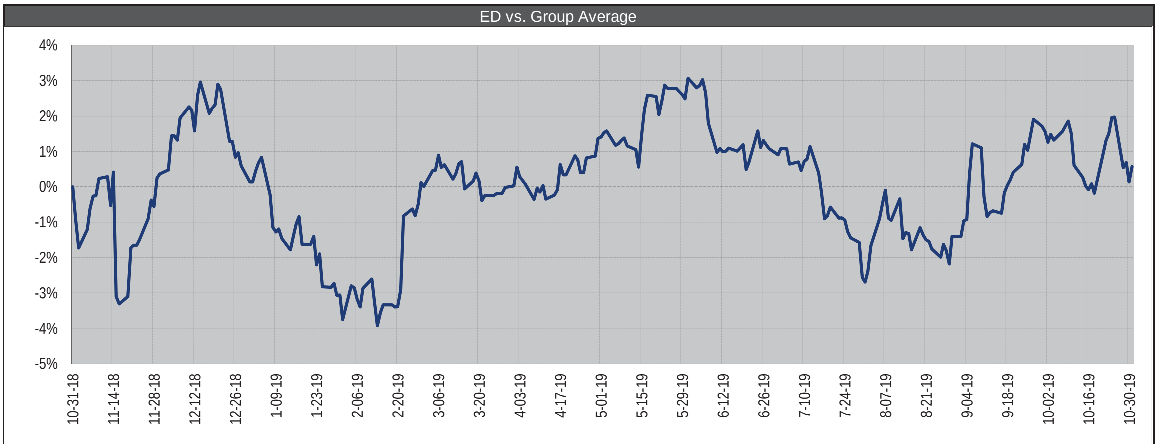


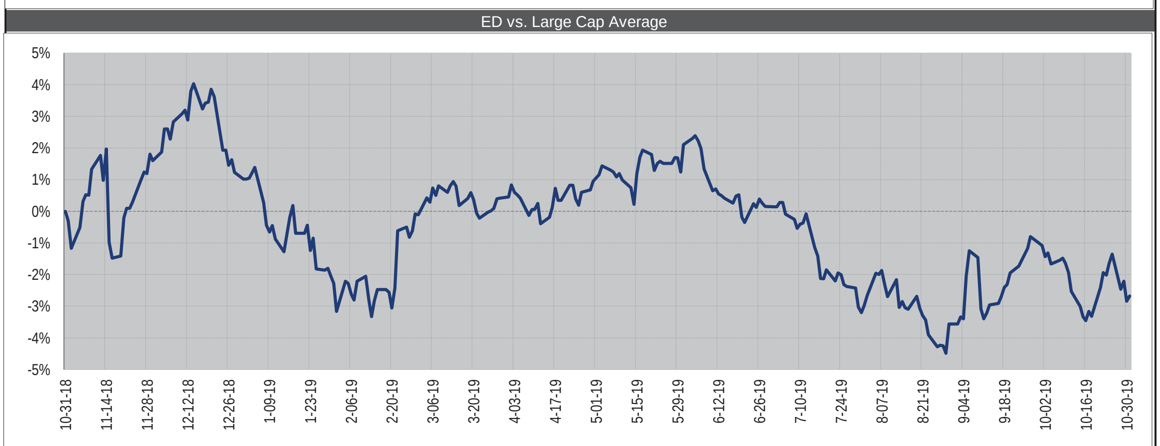


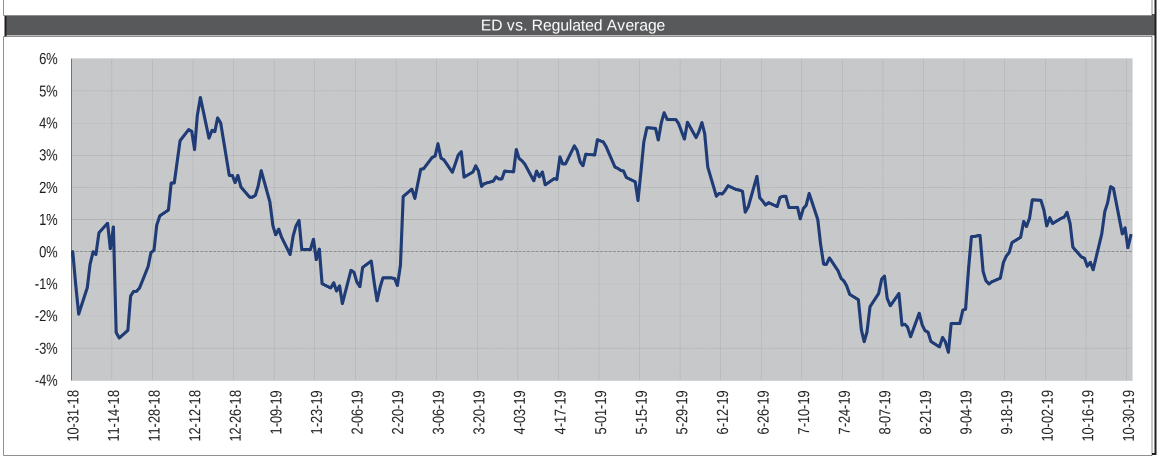
WOLFE RESEARCH

Consolidated Edison (ED) $92.22, Underperform, $90 PT

ED modestly underperformed the regulated average in October. The stock was underperforming more meaningfully up until CECONY's settlement details were made public. Our sense is that some investors were optimistic on ED's ability to earn well-above the allowed ROE of 8.80% via the proposed incentives. Simply removing the rate case overhang could explain some of the performance too.



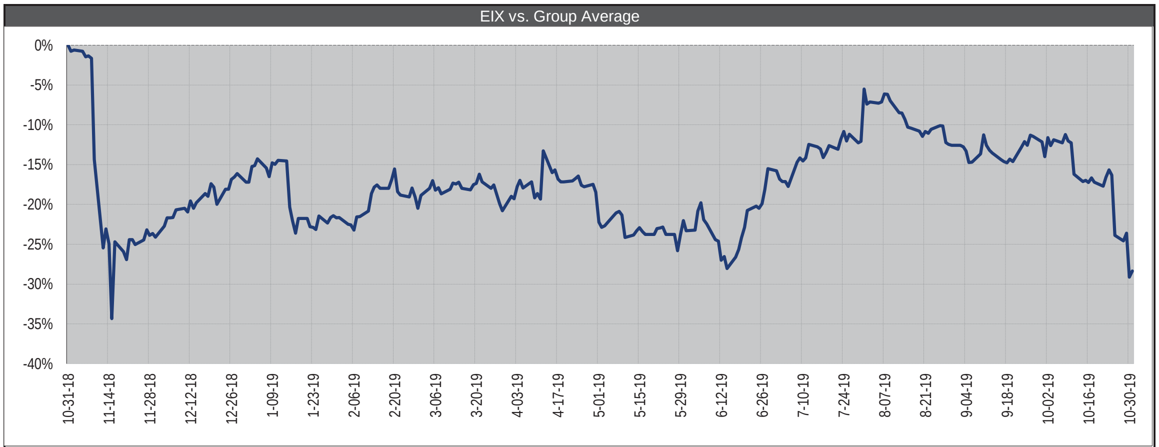


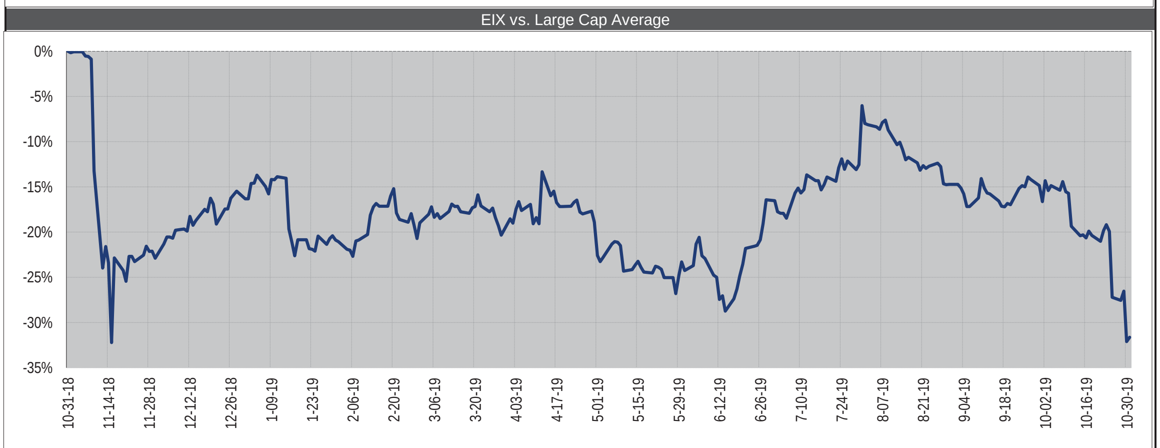


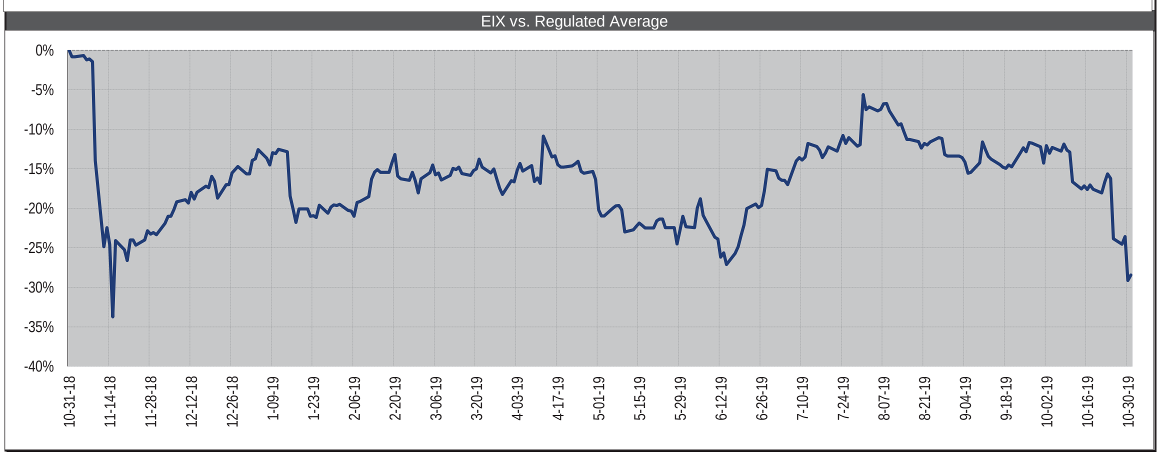
WOLFE RESEARCH

Edison International (EIX) $62.90, Outperform, $80 PT

EIX lost about 1,500bp relative to peers, as investors fled when fires broke out in mid-Oct and accelerated the last two weeks during the fiercest winds of the year; we see it as an overreaction.



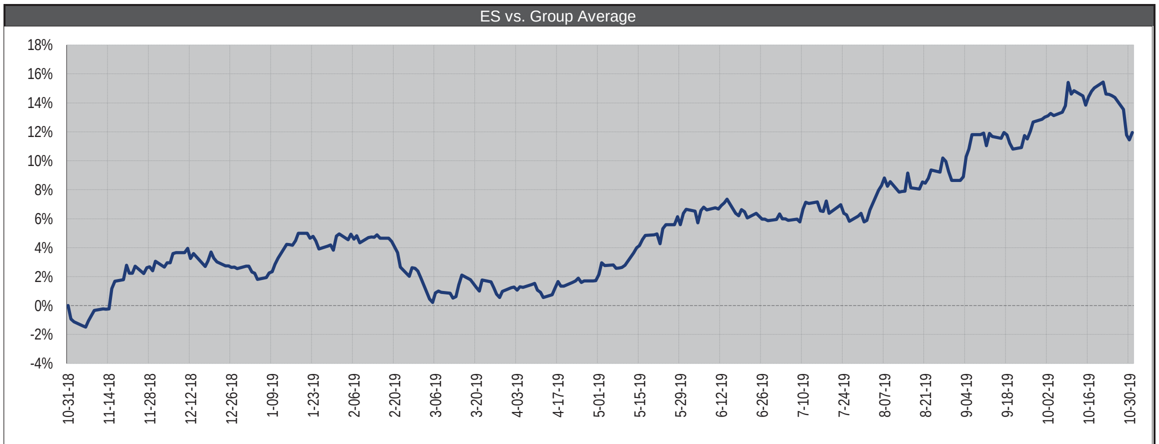


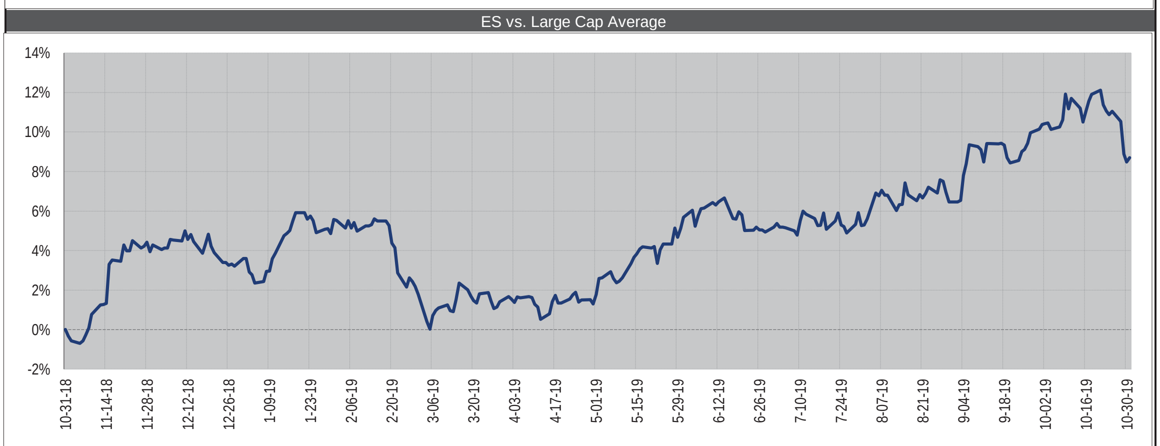


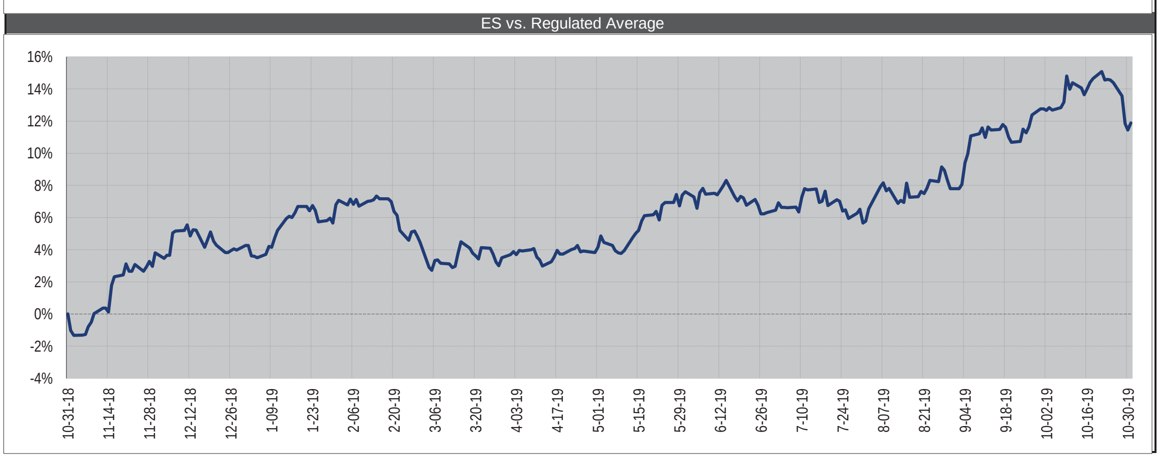
WOLFE RESEARCH

Eversource Energy (ES) $83.74, Outperform, $85 PT

ES rose over 200bp, hitting another 52-week relative high this month, but gave back all those gains after Orsted cut returns and capacity factors for offshore wind.



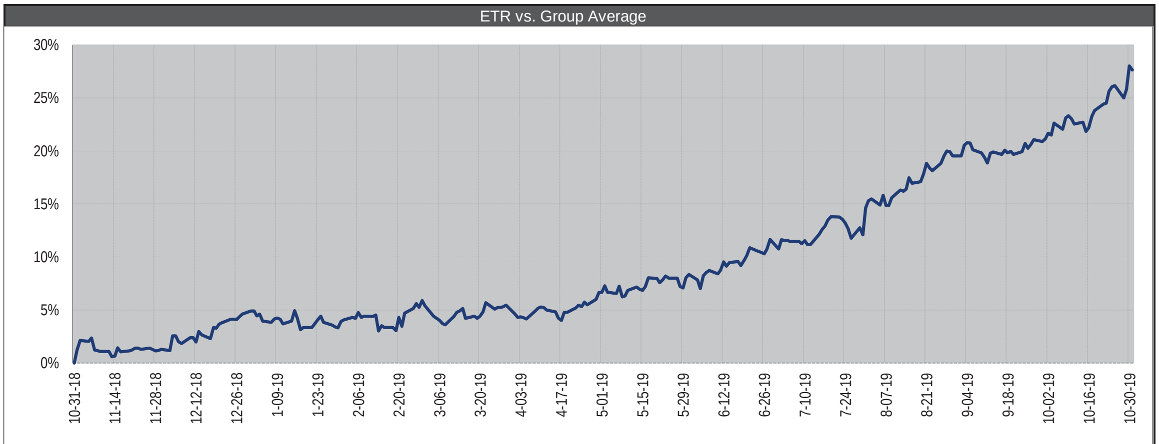


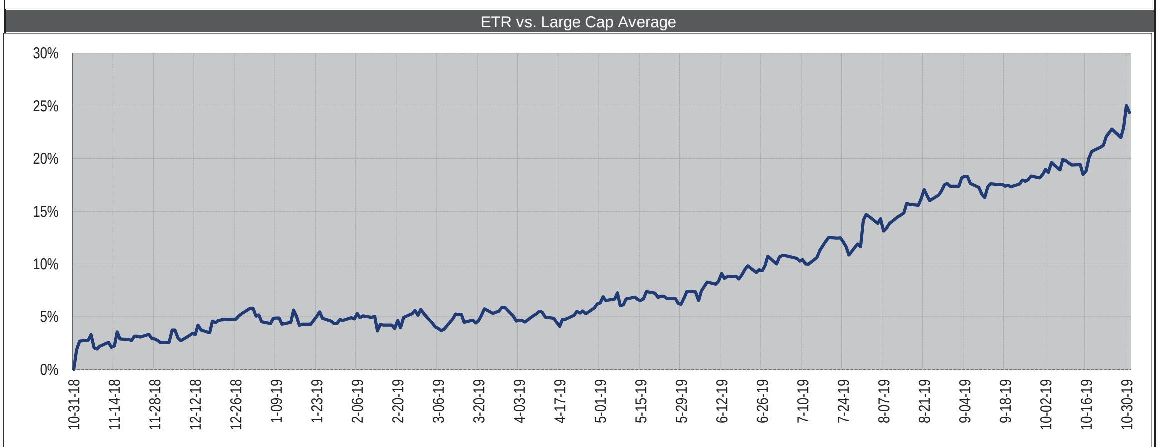


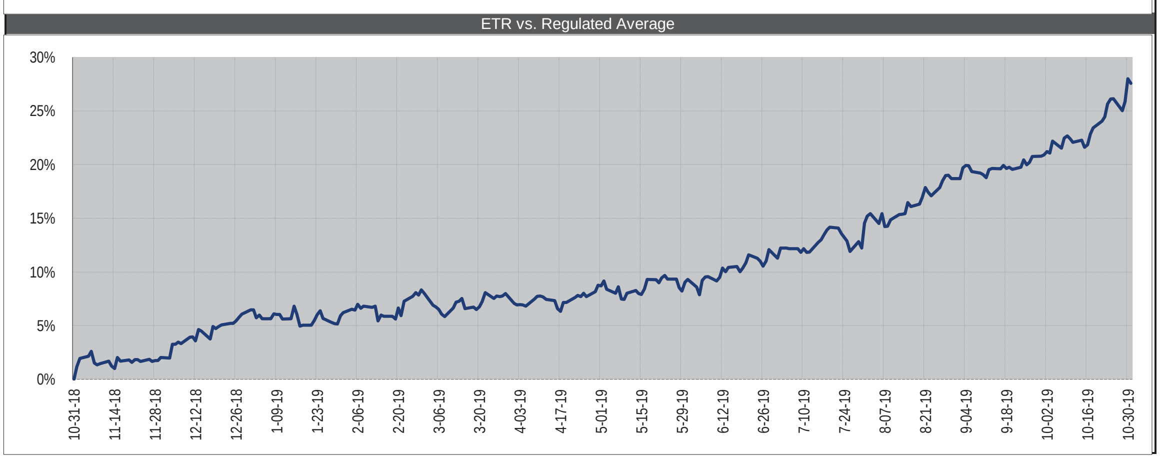
WOLFE RESEARCH

Entergy (ETR) $121.48, Peer Perform, $119 PT

ETR reached yet another 52-week relative high in Oct, following another solid earnings report.



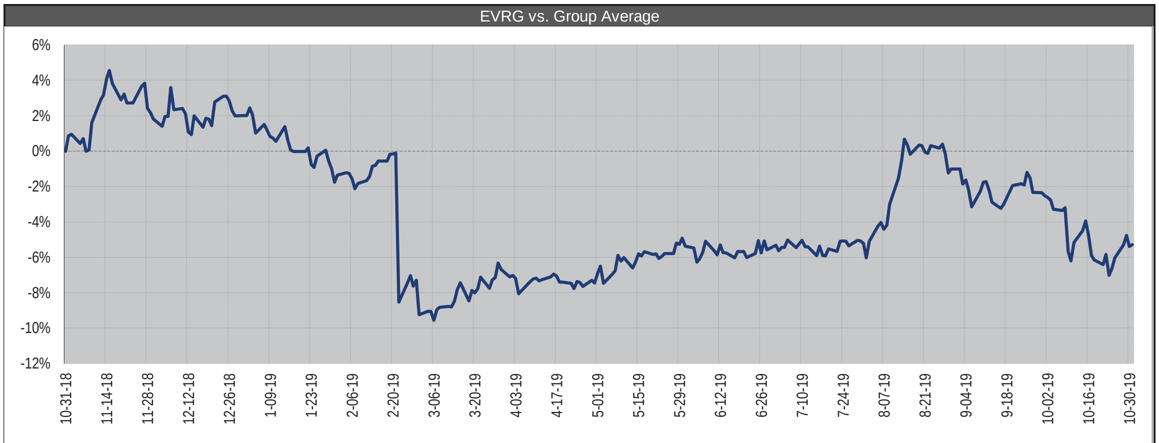


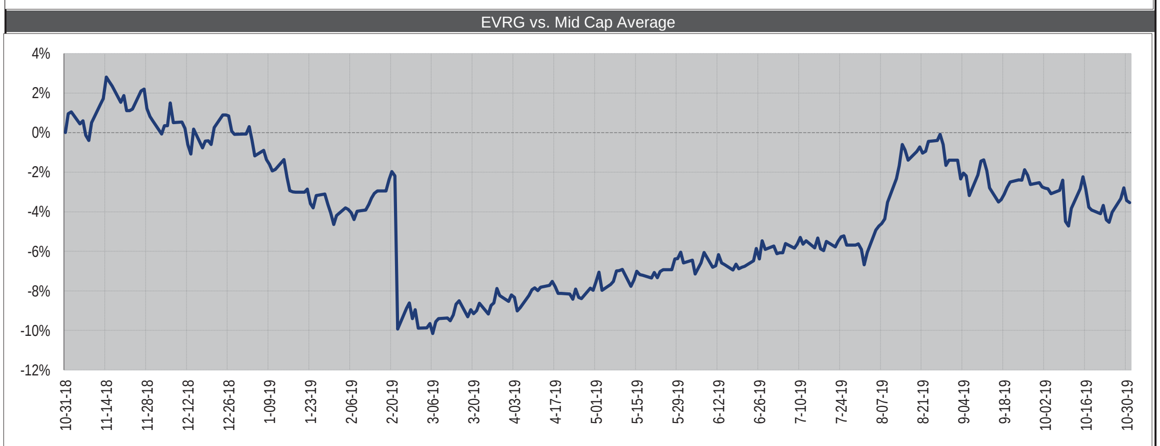


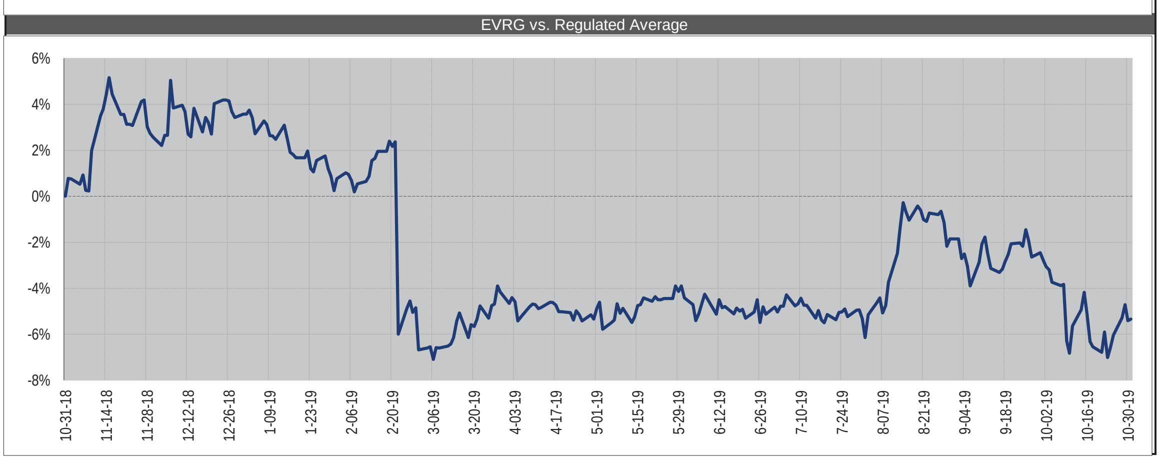
WOLFE RESEARCH

Evergy (EVRG) $63.91, Outperform, $68 PT

- EVRG underperformed most of the group in October, after the stock fell dramatically when the Missouri PSC initially indicated it would side with MECG/OPC (and against the company) in the Sibley accounting complaint. The stock then bounced some, before falling when the Missouri PSC confirmed its initial discussion by issuing a final order. EVRG filed for rehearing, which was ultimately denied, and now must decide what the deferral amount on the cost savings will be.



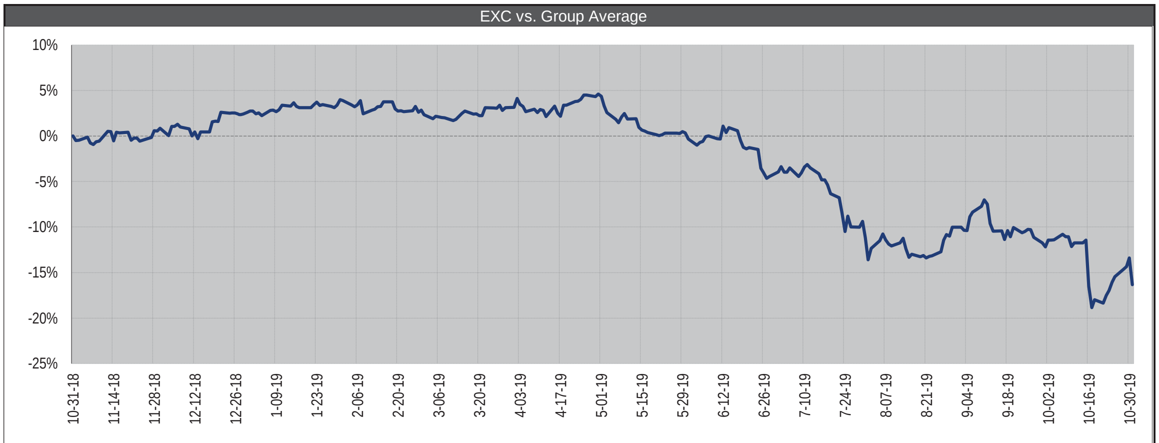


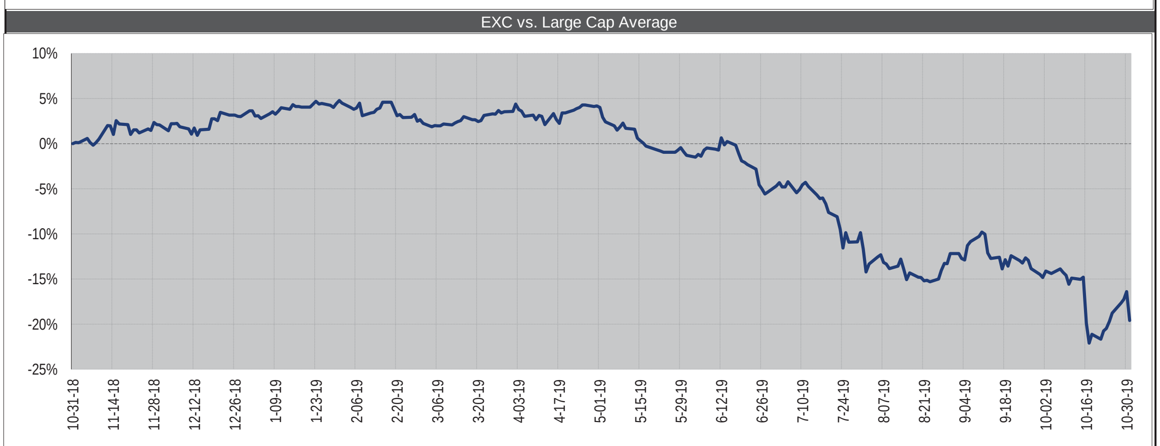


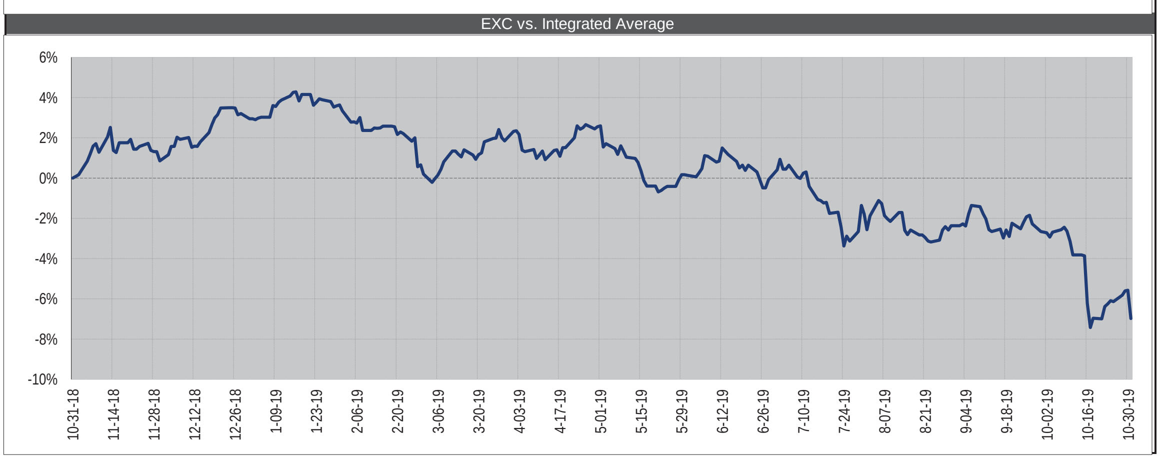
WOLFE RESEARCH

Exelon (EXC) $45.49, Outperform, $55 PT

The stock fell over 400bp, hitting another 52-week relative low vs peers in Oct, as federal investigations of IL lawmakers and lobbying have embroiled EXC, among other individuals/entities.



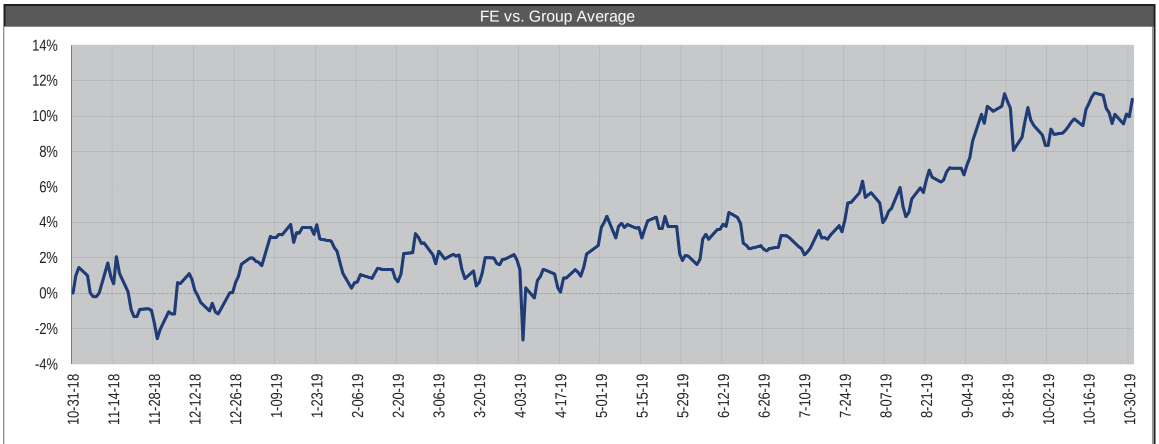


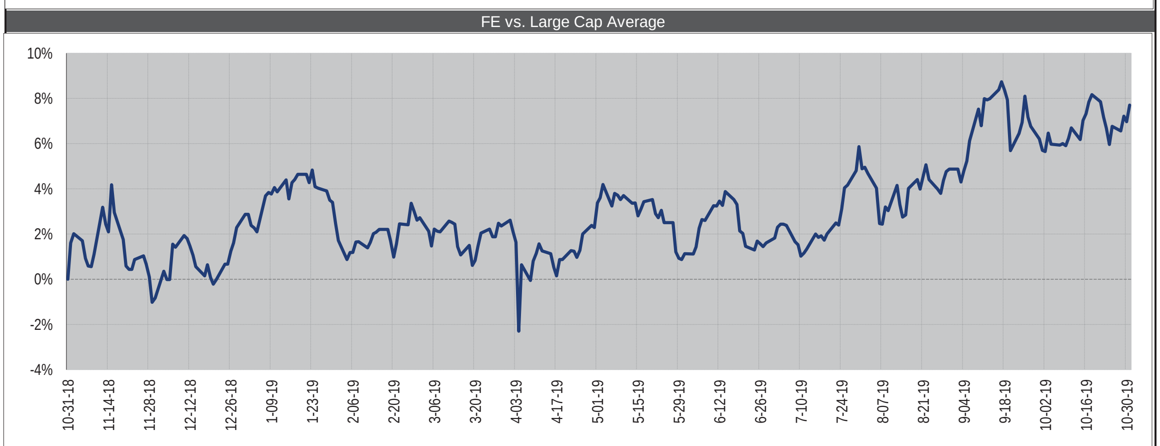


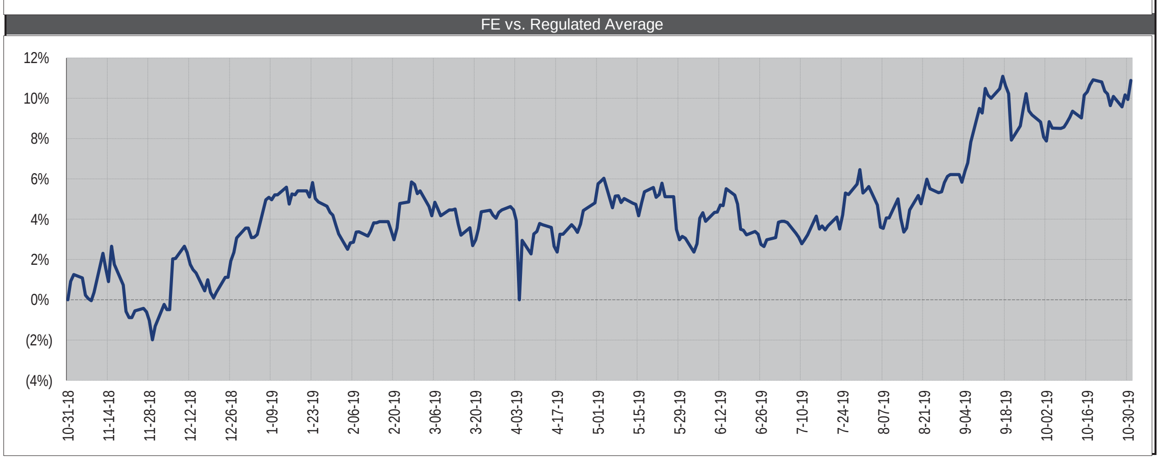
WOLFE RESEARCH

FirstEnergy (FE) $48.32, Outperform, $53 PT

- FE continued to outperform in October and is sitting near relative highs. The company saw two positive developments as it relates to FES – the bankruptcy court approved its plan of reorganization (leaving emergence on track for year-end) and HB6 in Ohio avoided a veto referendum (effectively locking in decoupling off a beneficial weather year in 2018.



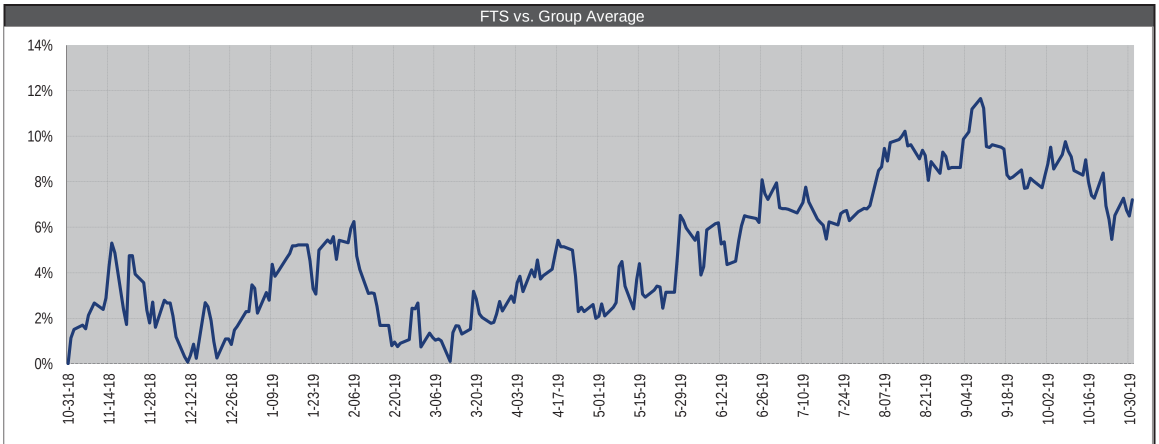


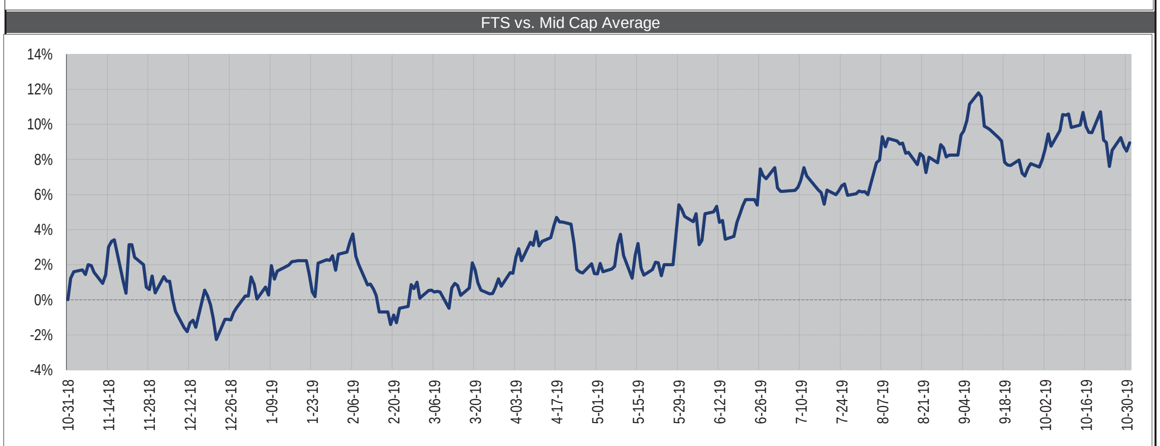


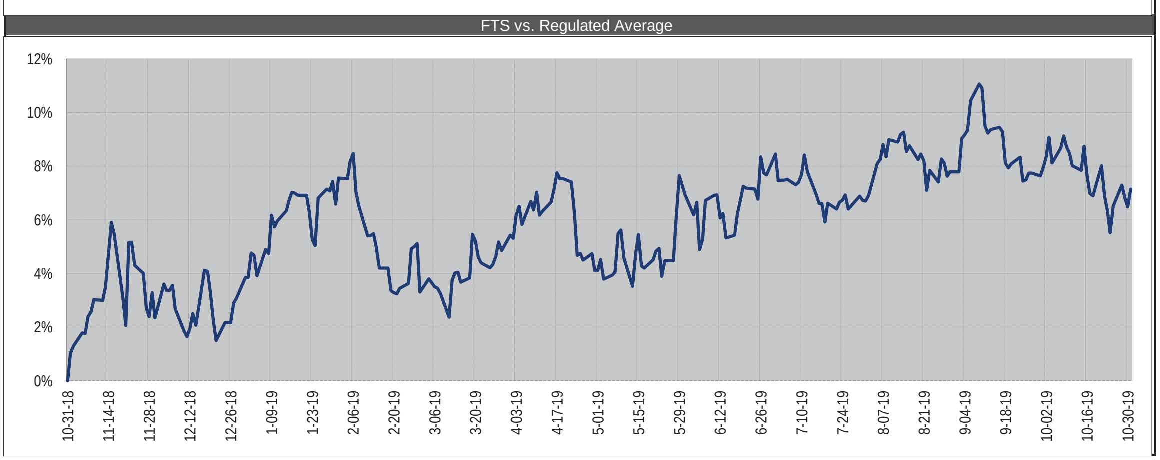
WOLFE RESEARCH

Fortis (FTS) $41.57, Peer Perform, $45 PT

- FTS modestly underperformed the group in October, but is still ahead of most peers for the year. We rolled out coverage with a Peer Perform rating on October 9. Later in the month, FTS received a relatively reasonable Staff recommendation in its Arizona rate case – an allowed ROE of 9.3% and equity ratio at 53% (versus 9.75% and 50% currently).



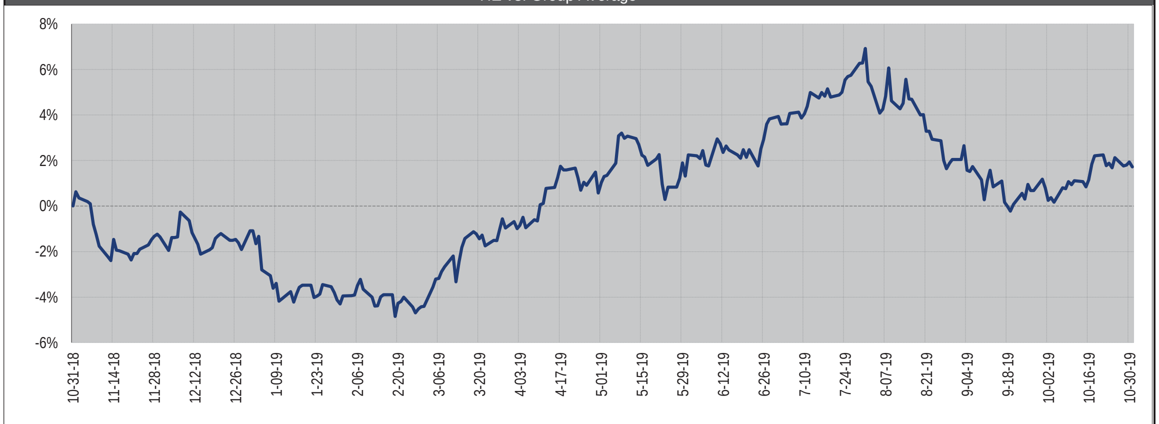




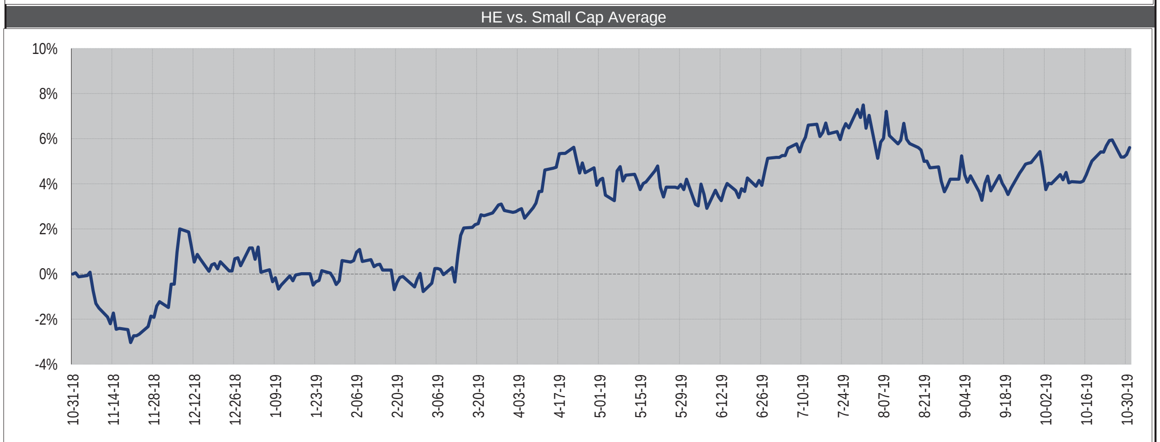
WOLFE RESEARCH

Hawaiian Electric (HE) $45.15, NR

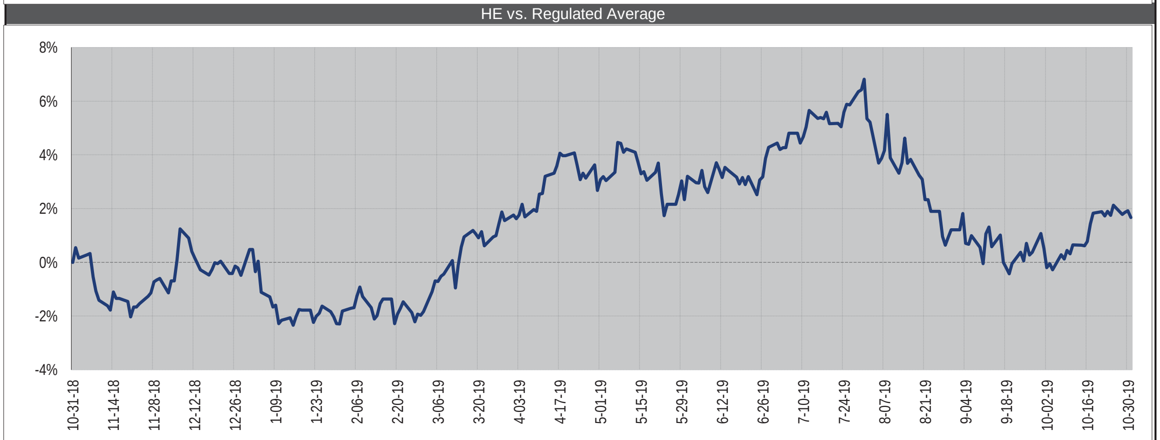
HE vs. Group Average



HE vs. Small Cap Average



HE vs. Regulated Average

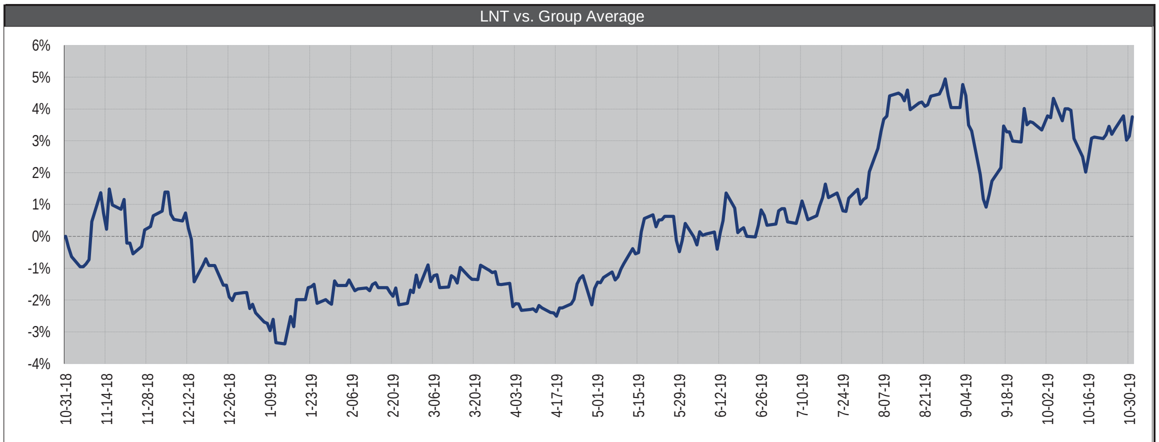


WOLFE RESEARCH

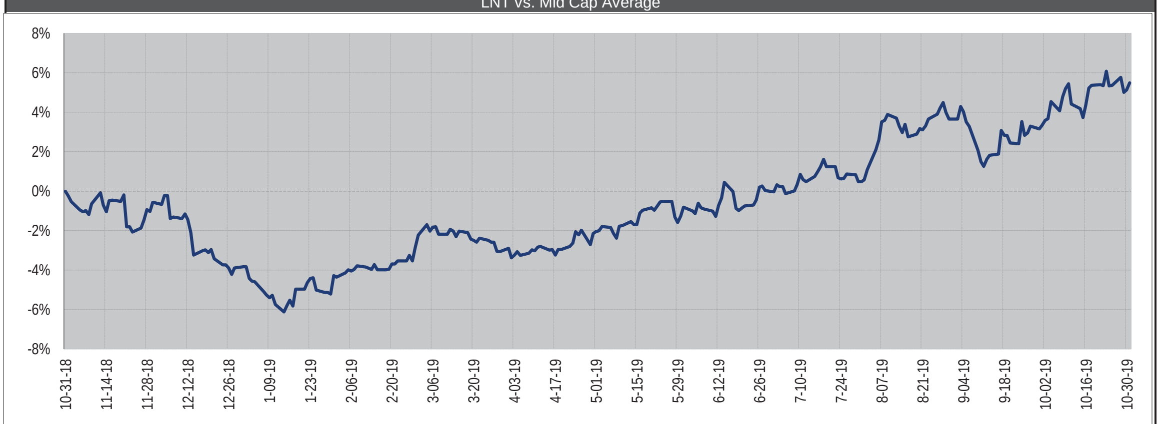
Alliant Energy (LNT) $53.34, Peer Perform, $53 PT

- For the second consecutive month – LNT underperformed significantly to start the month before making it all back into month-end. LNT also remains ahead of peers in 2019. The company reached constructive rate settlements in both its electric and gas cases in Iowa – notably preserving allowed ROEs around the mid-9%s, raising equity ratios to 51%, and obtaining a renewables rider.

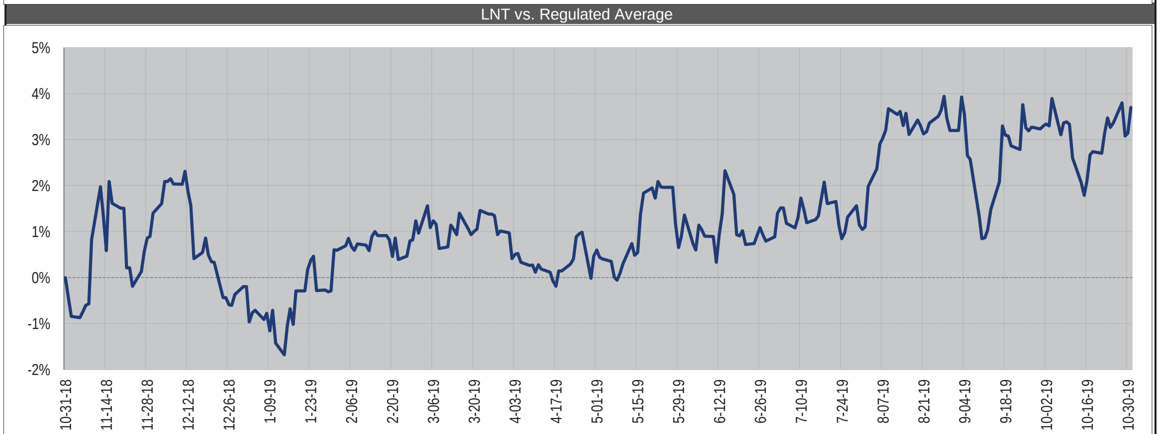
LNT vs. Group Average



LNT vs. Mid Cap Average



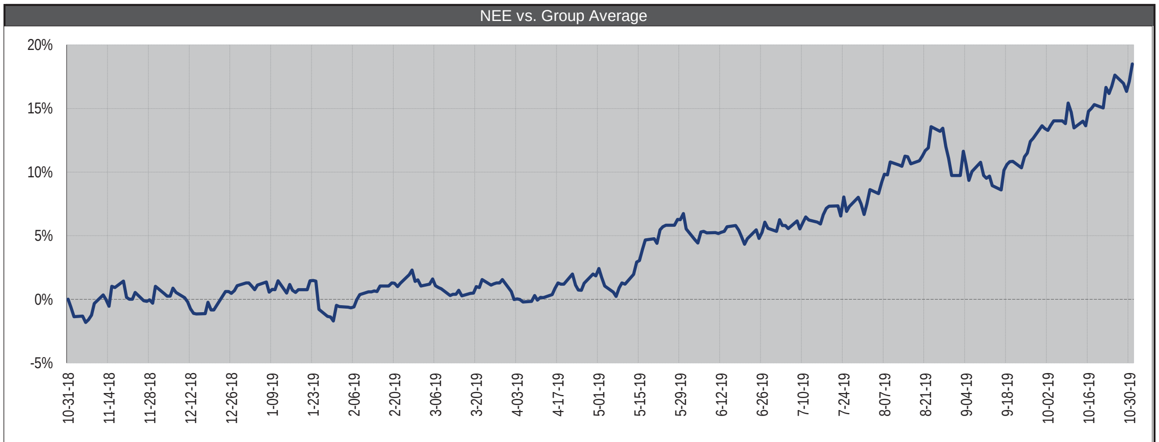
LNT vs. Regulated Average

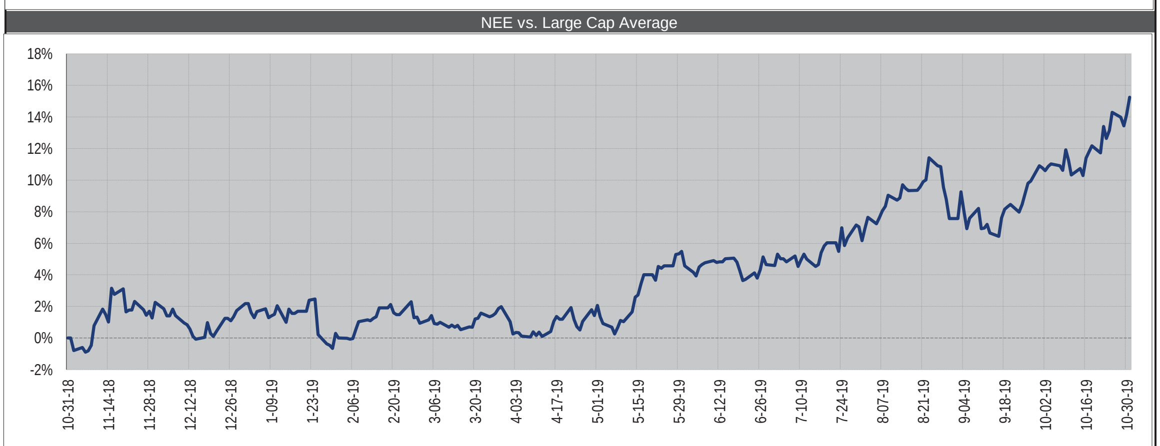


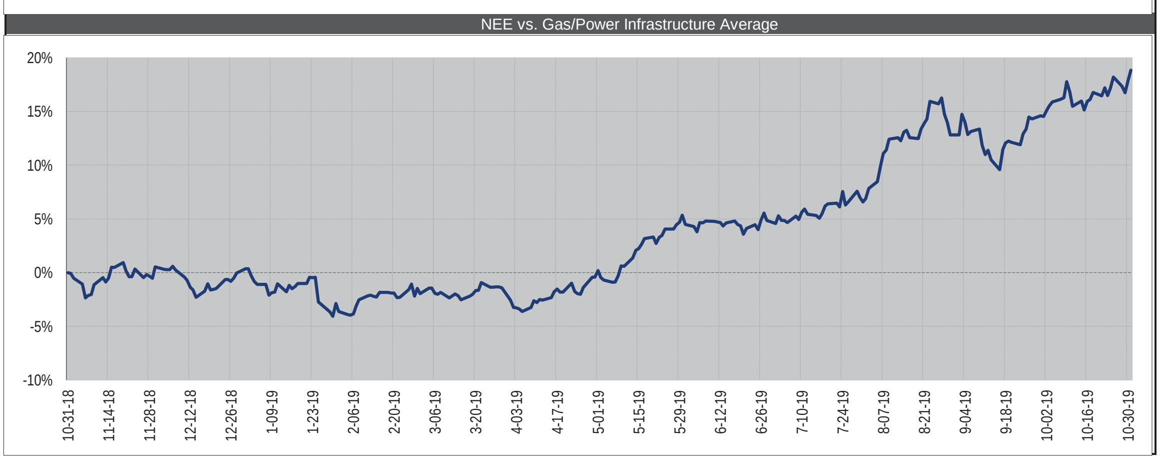
WOLFE RESEARCH

NextEra Energy (NEE) $238.34, Outperform, $240 PT

- NEE continued to outperform in October and is outperforming YTD as well. The company reported a solid Q3 – beating on earnings, reaffirming the 2019 guidance range, and reiterating 6-8% EPS growth long-term. The company is likely also benefitting from tailwinds tied to the 2020 election focus, where renewables players have caught a recent bid.

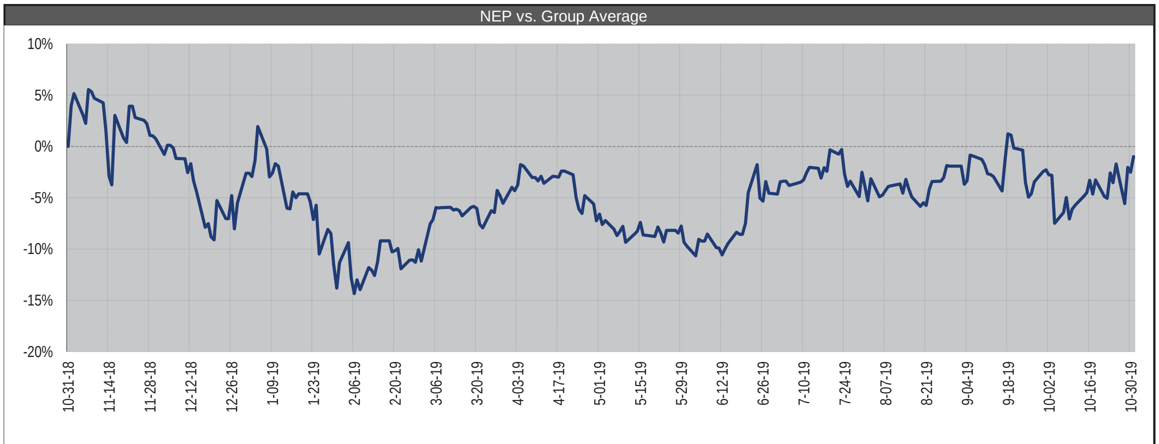


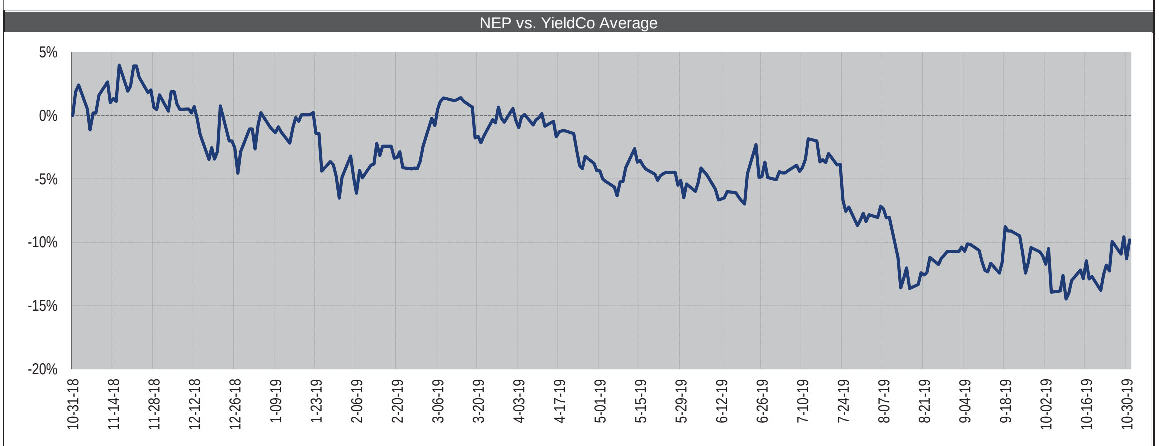


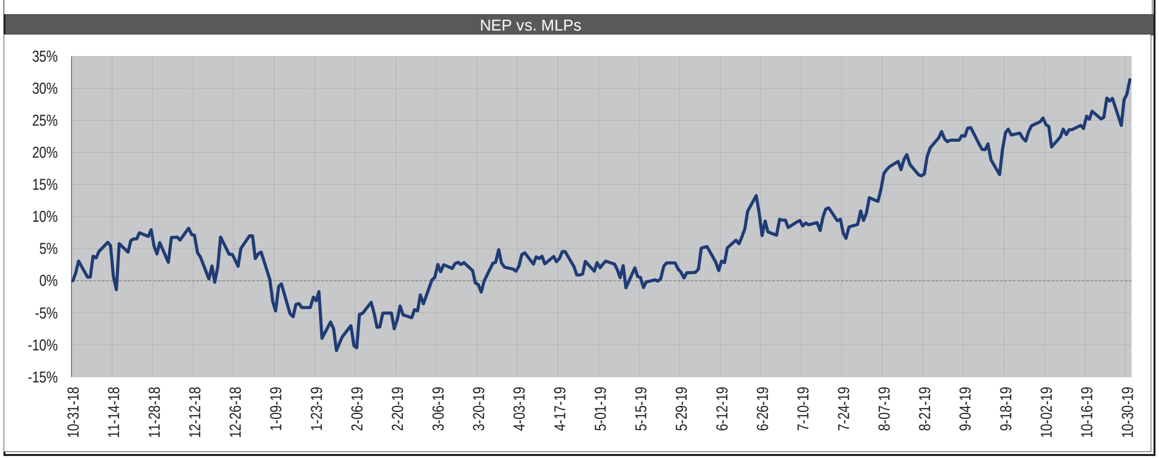


NextEra Energy Partners (NEP) $52.70, Outperform, $61 PT

- NEP experienced a choppy month of trading in October. Similar to NEE, the stock seemed to benefit from tailwinds related to the 2020 election trade (in the event a Democrat wins). However, fires in California in late-October brought renewed focus on NEP's exposure to PCG contracts at its renewables projects. That said, NEP has freed up $45M of cash traps at the Genesis project and has only $55M at Desert Sunlight. We still expect PCG to honor its PPAs.



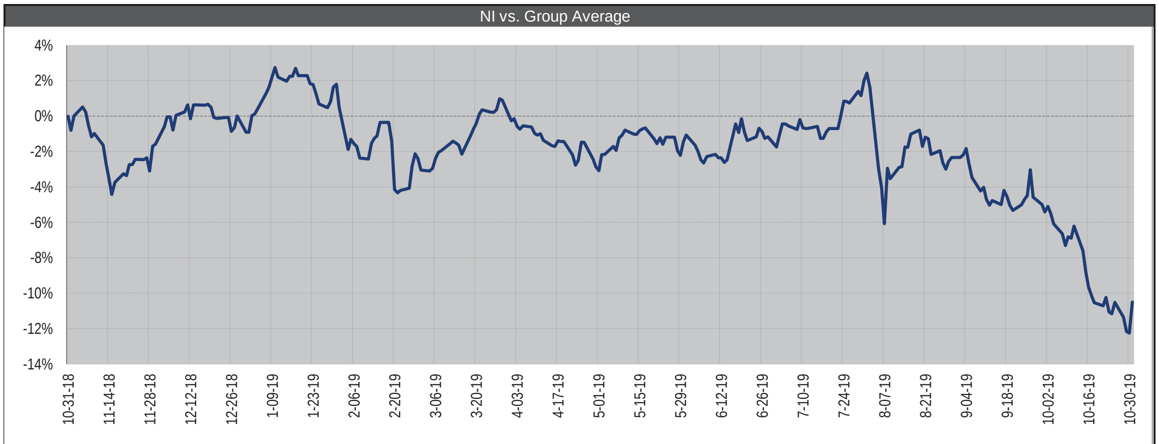


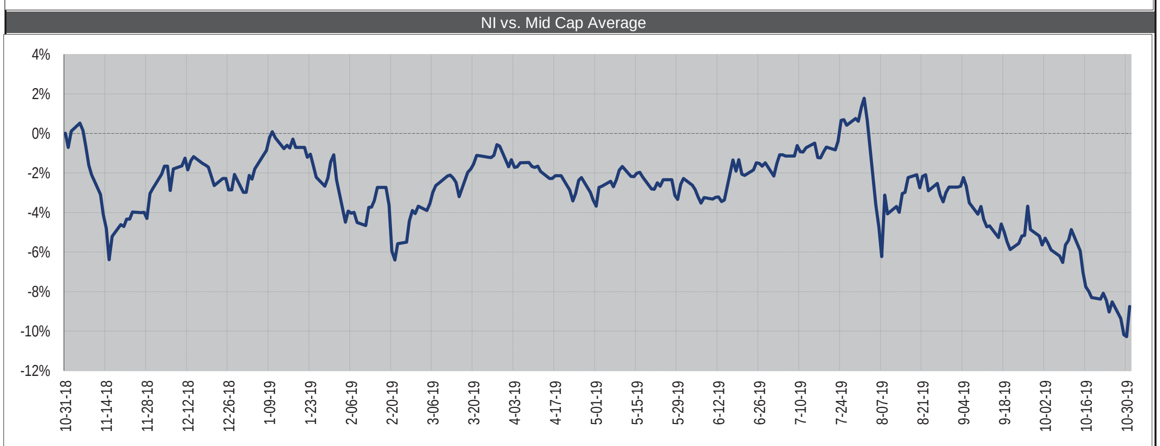


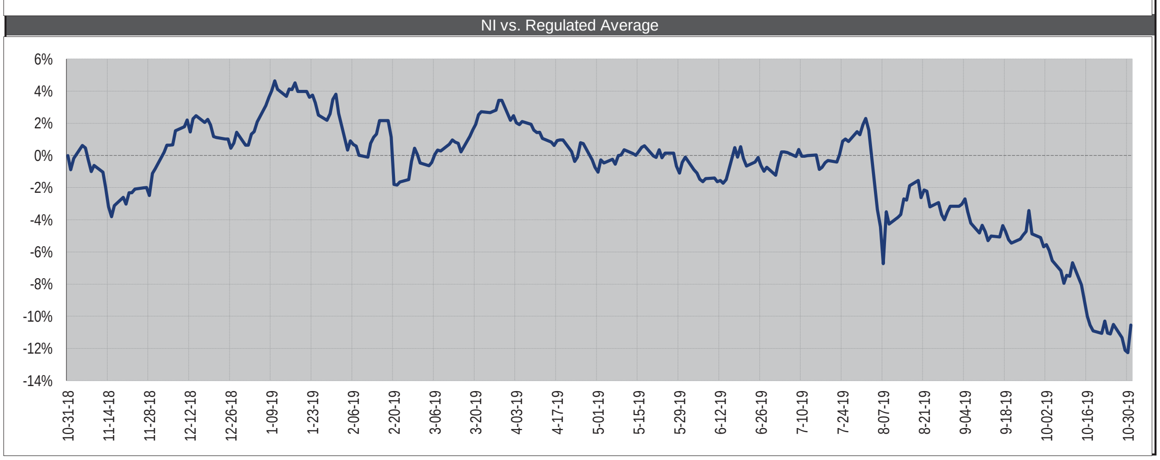
WOLFE RESEARCH

NiSource (NI) $28.04, Peer Perform, $29 PT

NI was a dog for most of October, underperforming every utility (ex PCG and EIX). We believe the weakness showed investor concern around NI's ability to operate safety (i.e., continued issues in Mass.). NI also messaged it needed incremental equity to pay for MA costs above its insurance heading into its Q3 earnings call.



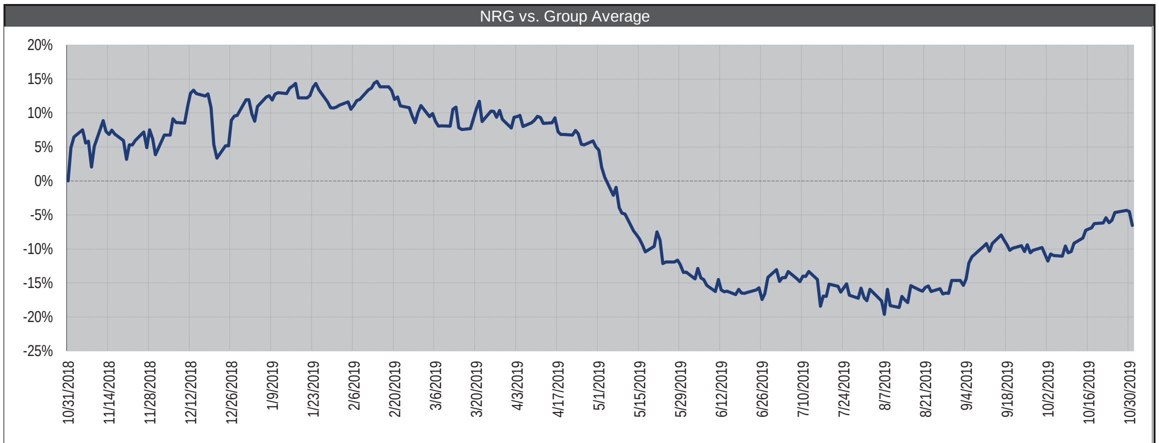


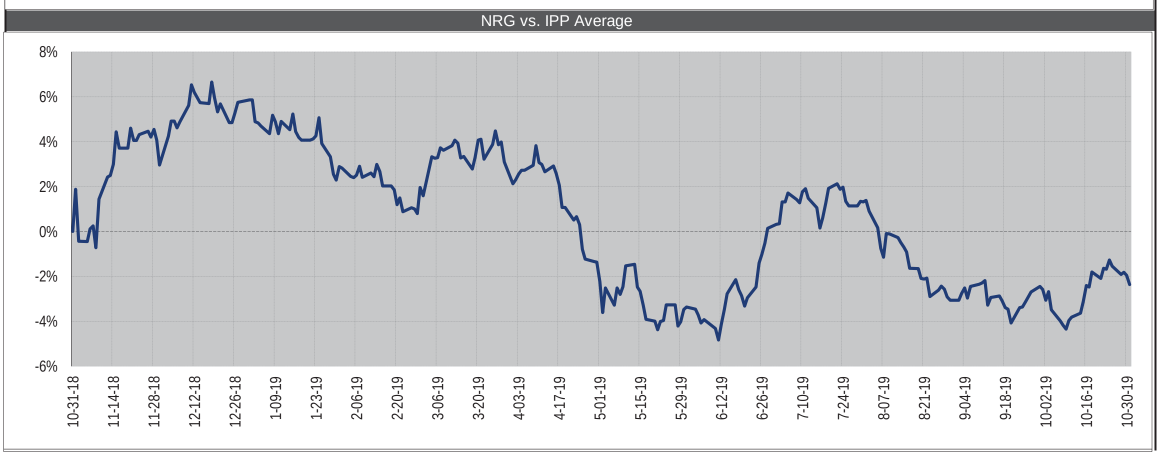


WOLFE RESEARCH

NRG Energy (NRG) $40.12, Outperform, $44 PT

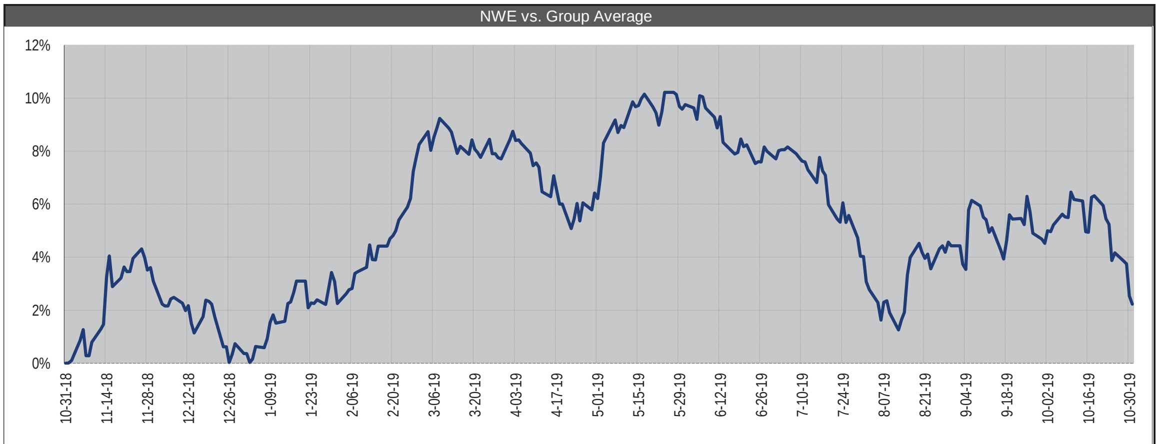
NRG was a middling performer in October in a relatively quiet month post summer as investor wait for 2020 guidance this month and eventually more disclosure on capital allocation plans.

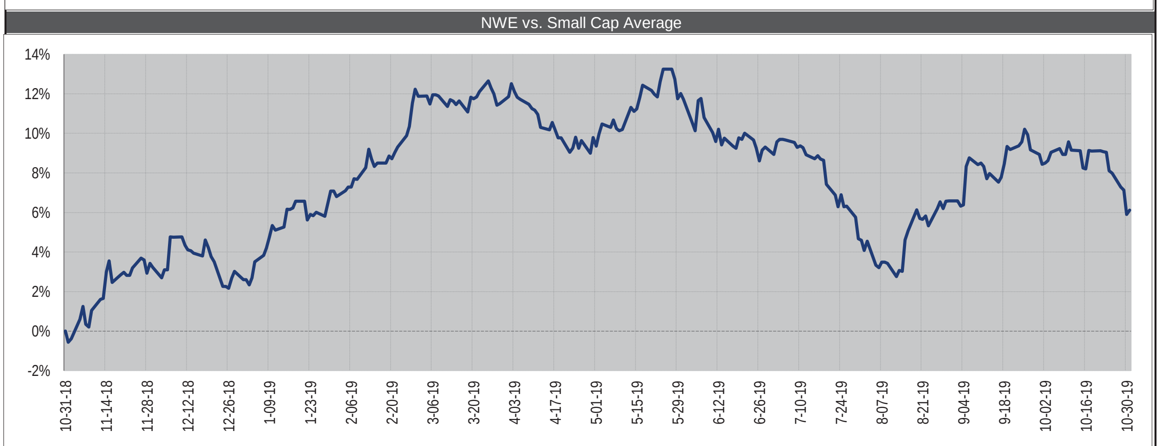


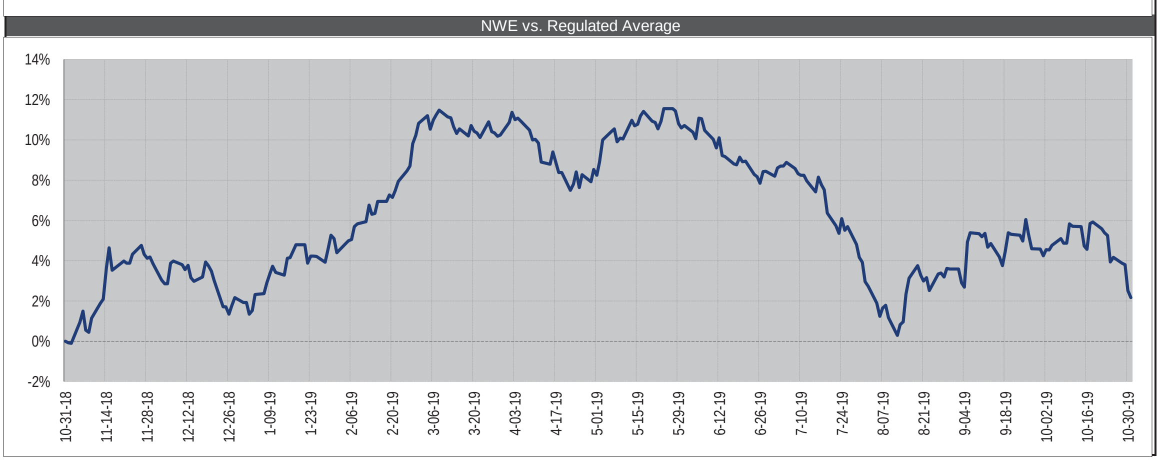


WOLFE RESEARCH

NorthWestern Corp (NWE) $72.52, NR



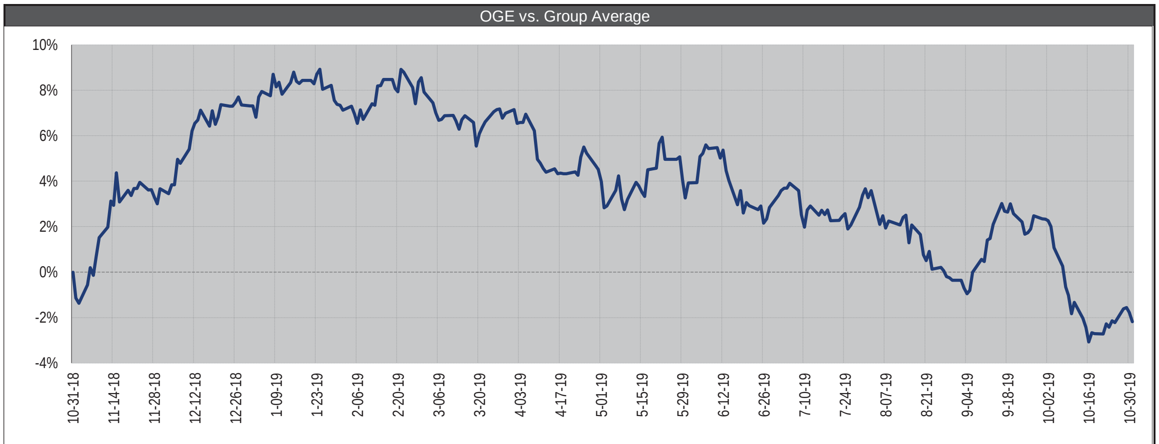


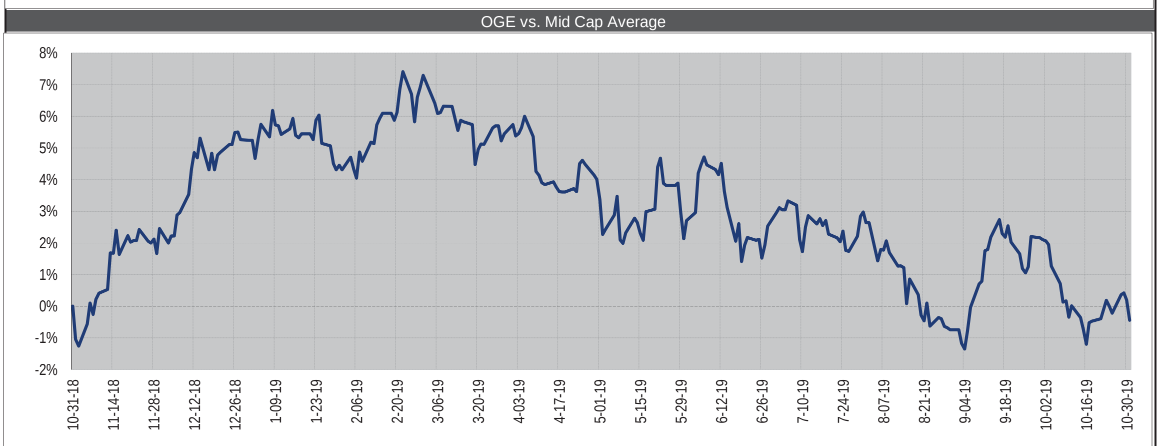


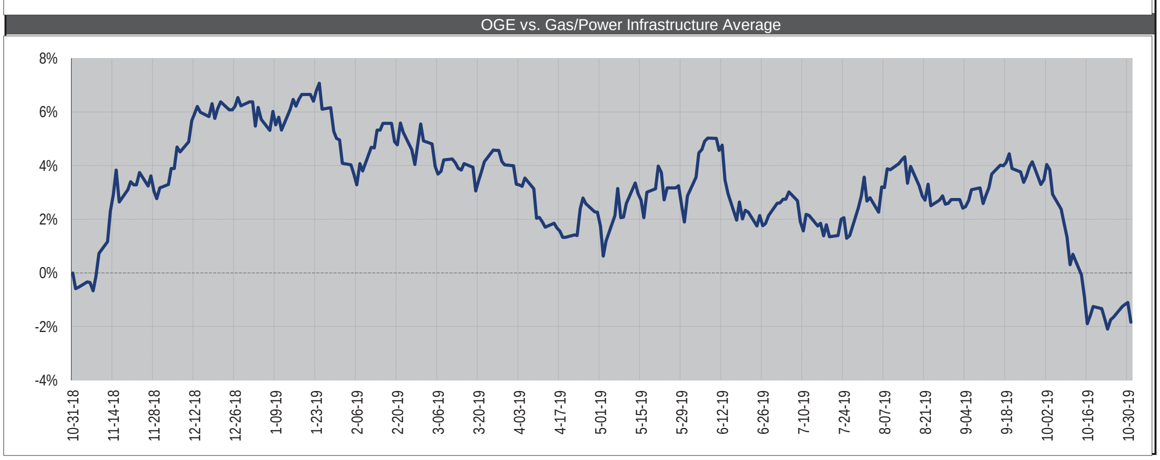
WOLFE RESEARCH

OGE Energy (OGE) $43.06, Peer Perform, $45 PT

OGE finished toward the back of the pack in October. Perhaps some of the underperformance was on expectations that OGE might raise its utility growth rate on its Q3 earnings call (management recently played the possibility down). ENBL also fell 16% in October, underperforming the AMZ 800bps+.



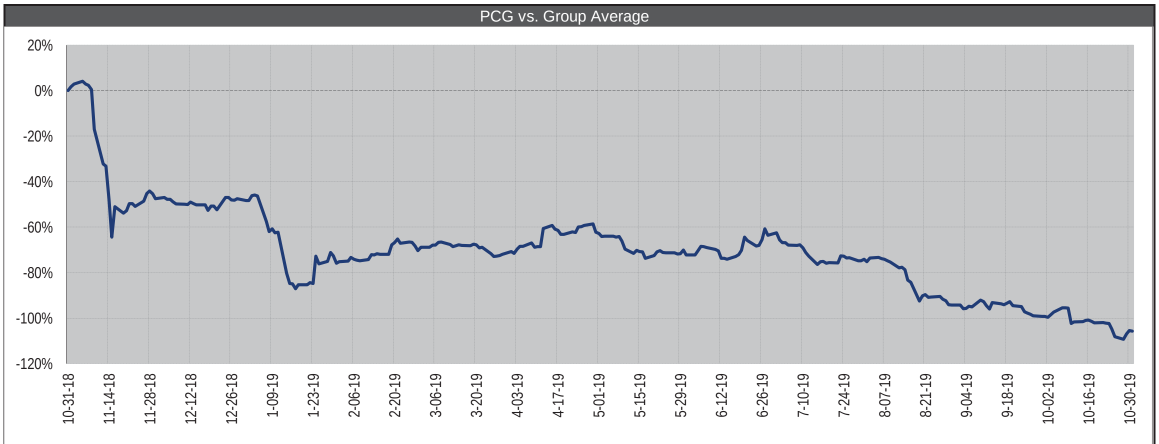


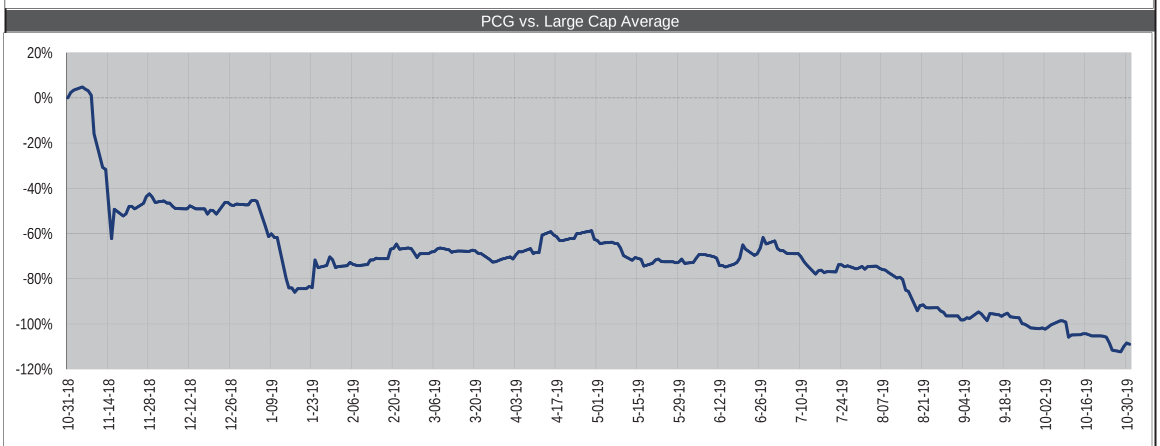


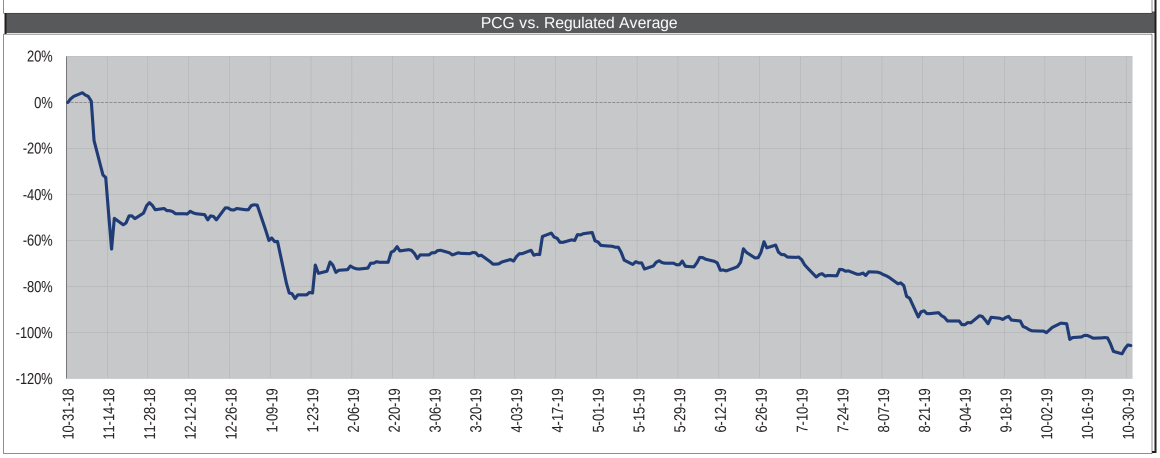
WOLFE RESEARCH

PG&E Corporation (PCG) $6.17, Peer Perform, $3 PT

PCG hit another 52-week relative low to peers in Oct, first due to creditors/torts being allowed to compete against PCG's BK exit plan, followed by the Kincade Fire; the stock staged a comeback after the BK judge appointed a mediator and progress was made on Kincade.



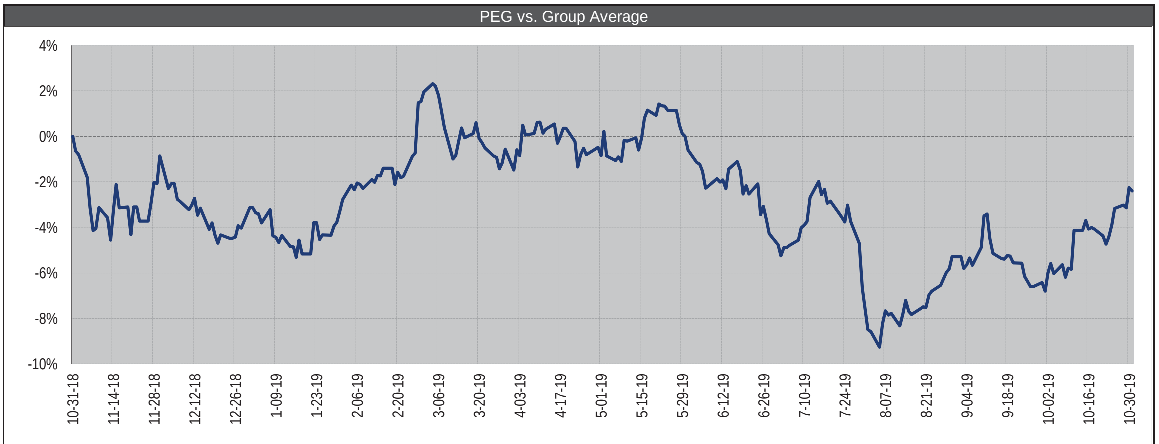


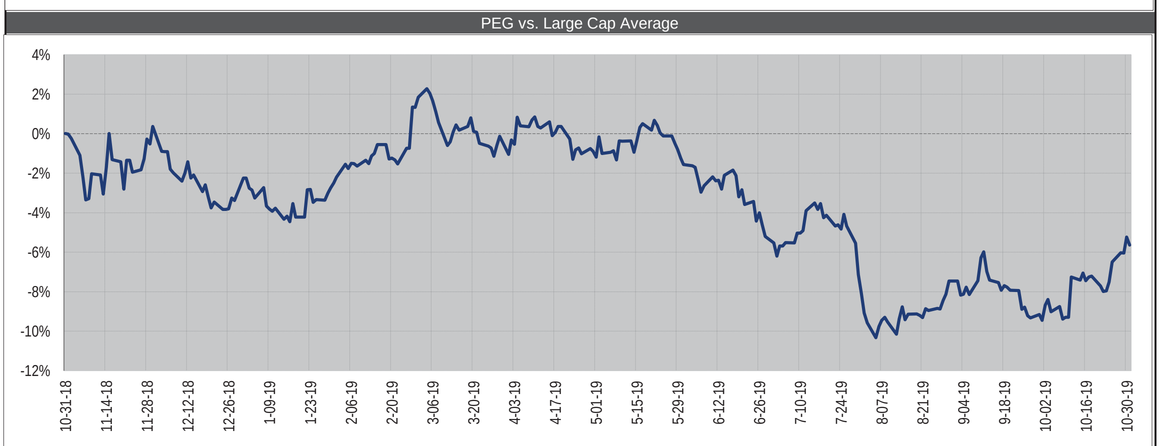


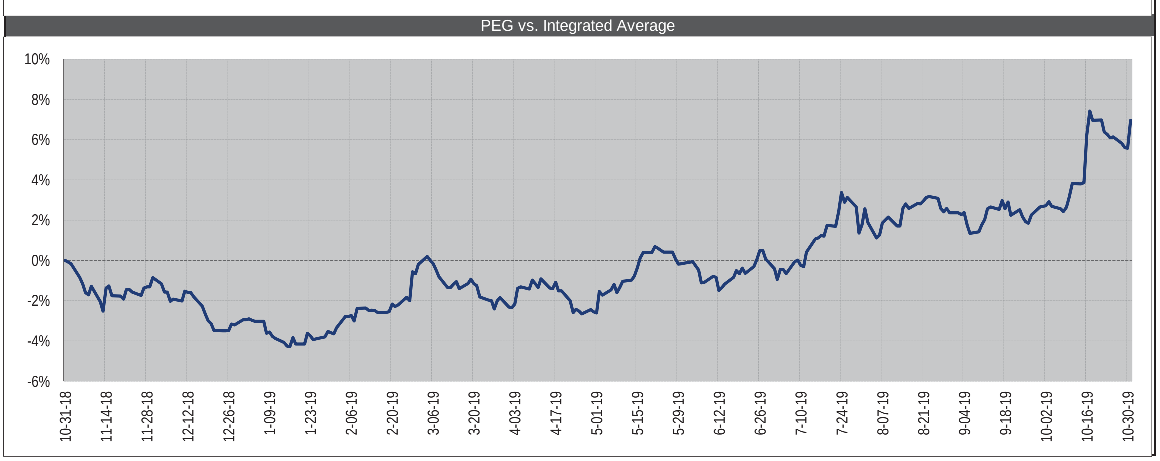
WOLFE RESEARCH

Public Service Enterprise Group (PEG) $63.31, Outperform, $69 PT

- The stock outperformed the group in October – likely catching a bid as its Integrated peer EXC came under pressure following subpoenas in IL coming back into focus. PEG reported earnings on the last day of the month – Q3 beat expectations and 2019 guidance was tightened at the midpoint.



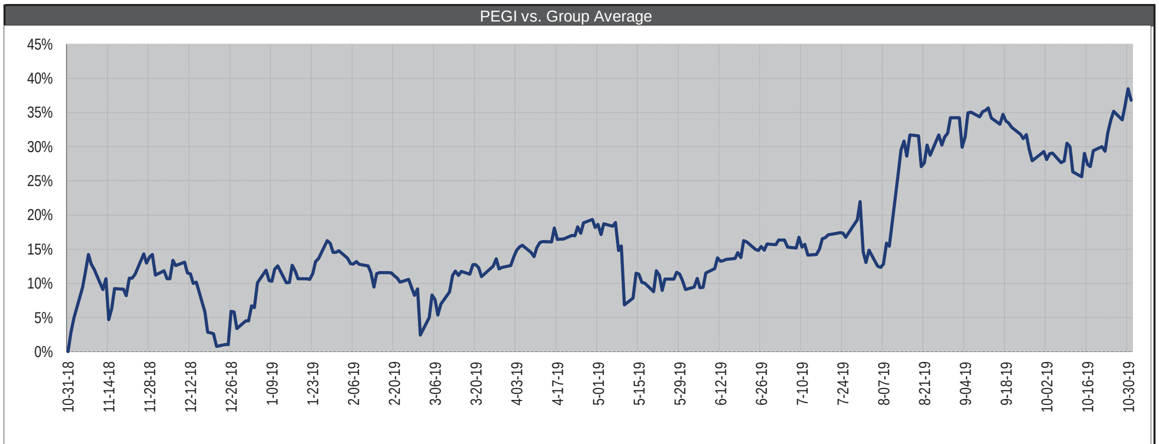


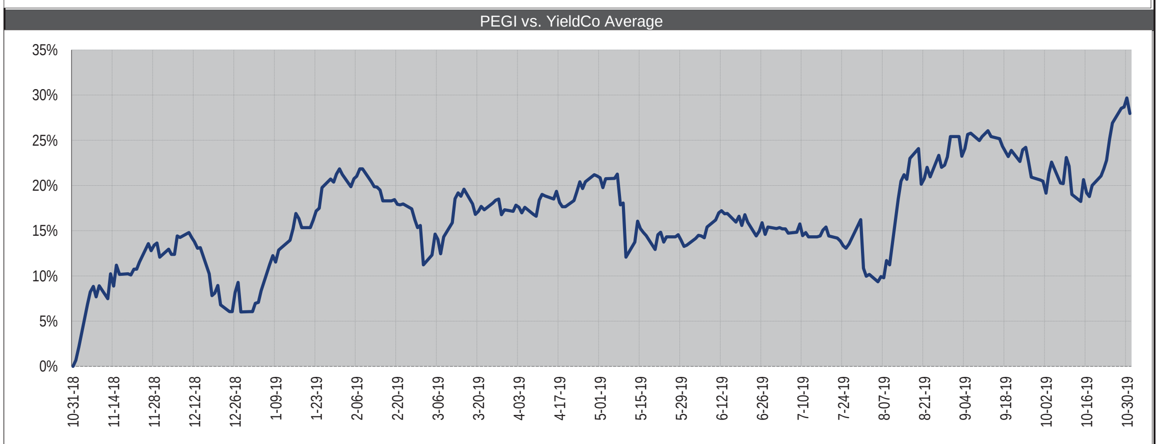


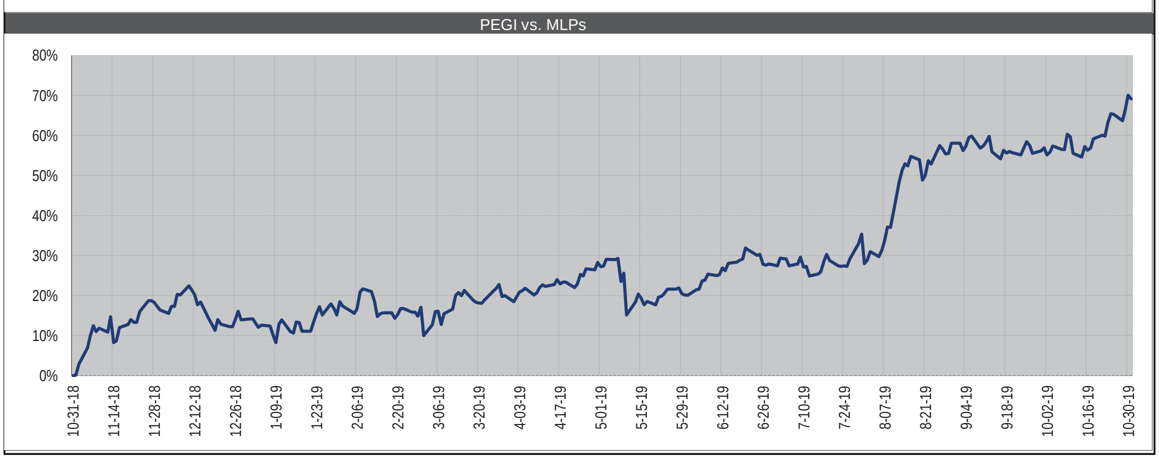
WOLFE RESEARCH

Pattern Energy (PEGI) $28.03, NR

Pattern had a strong October and is now up over 50% YTD. The stock did well in the second half of October alongside updated reports on the strategic review that could result in the sale of the company.

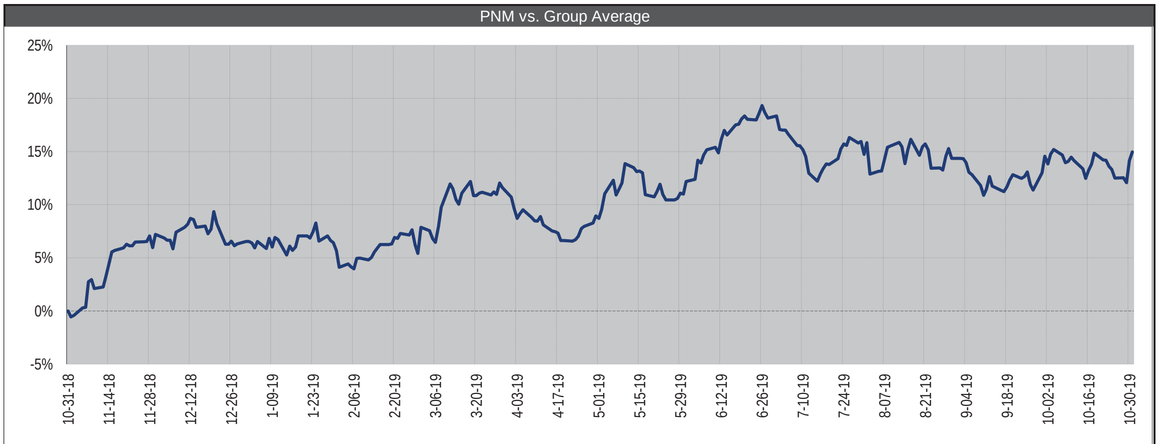


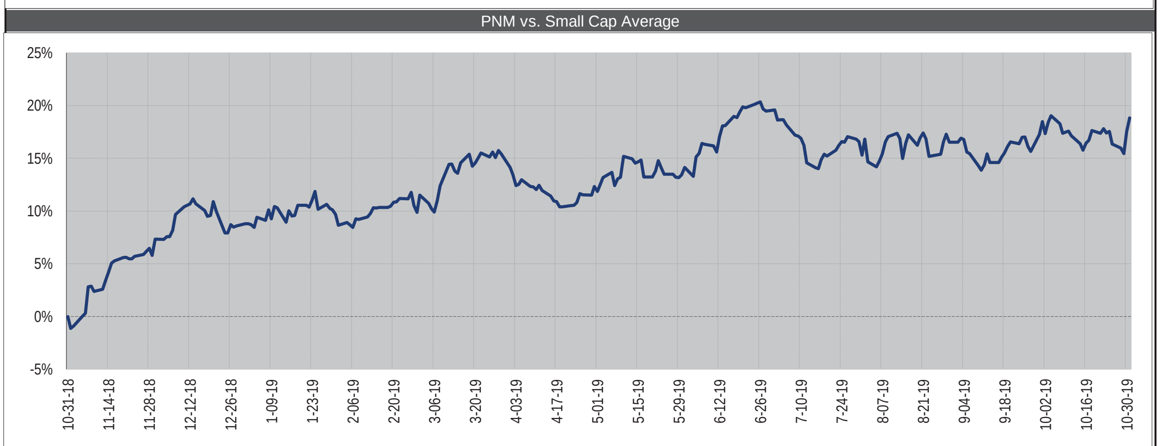


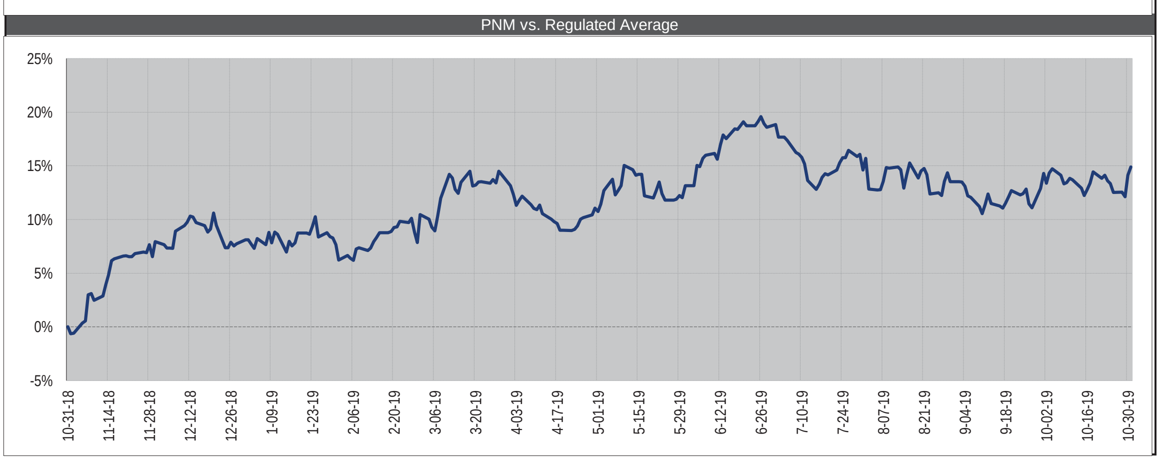


WOLFE RESEARCH

PNM Resources (PNM) $52.15, NR



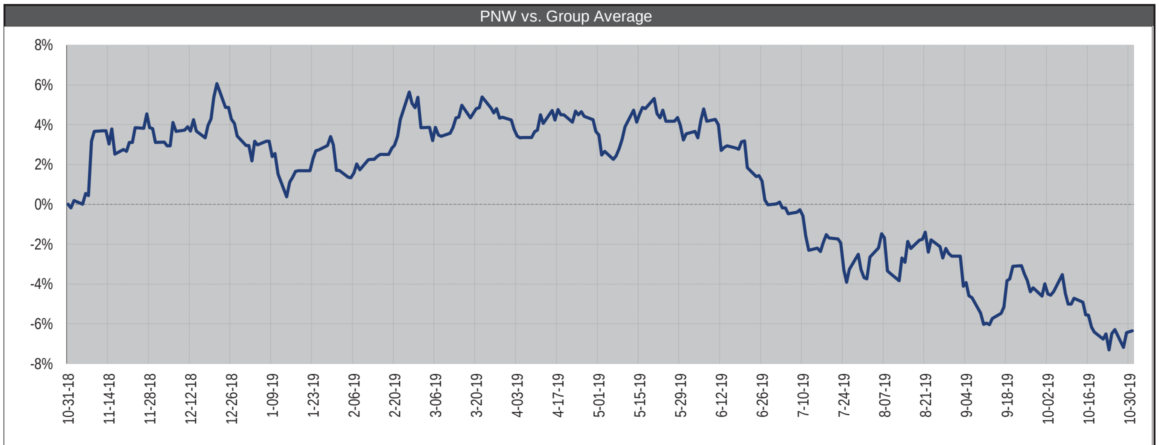


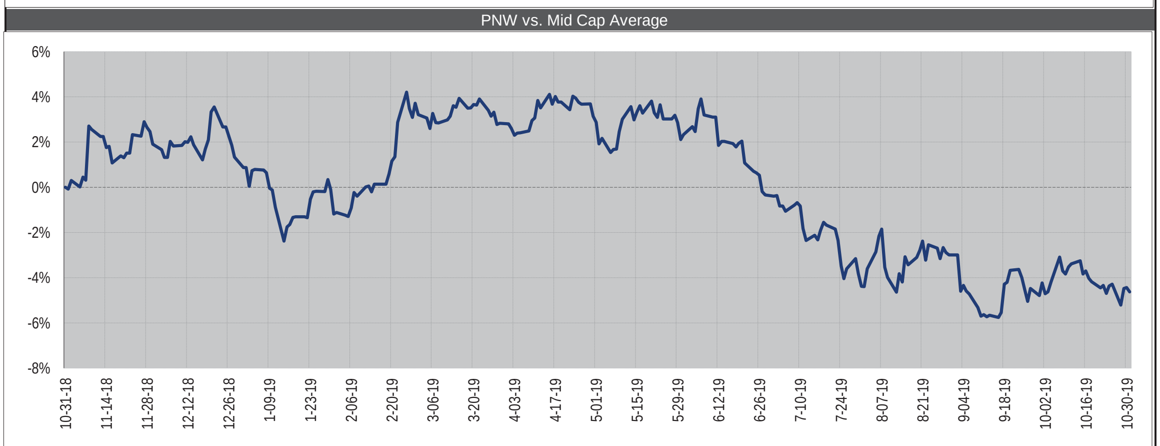


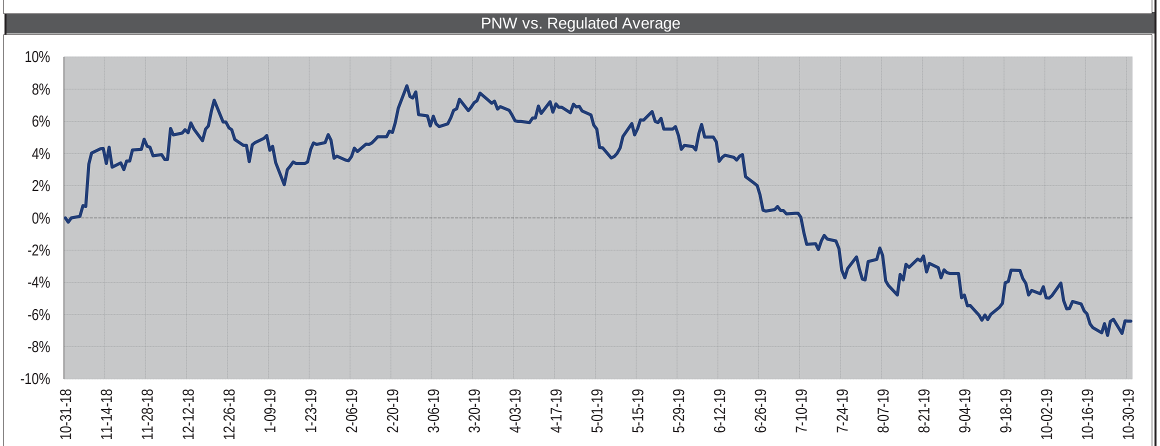
WOLFE RESEARCH

Pinnacle West Capital (PNW) $94.12, Underperform, $94 PT

PNW underperformed the utility average in October. There was little news during the month. Our best sense is that the underperformance is explained by uncertainty associated with APS' highly anticipated rate case which was filed on the final day of the month.

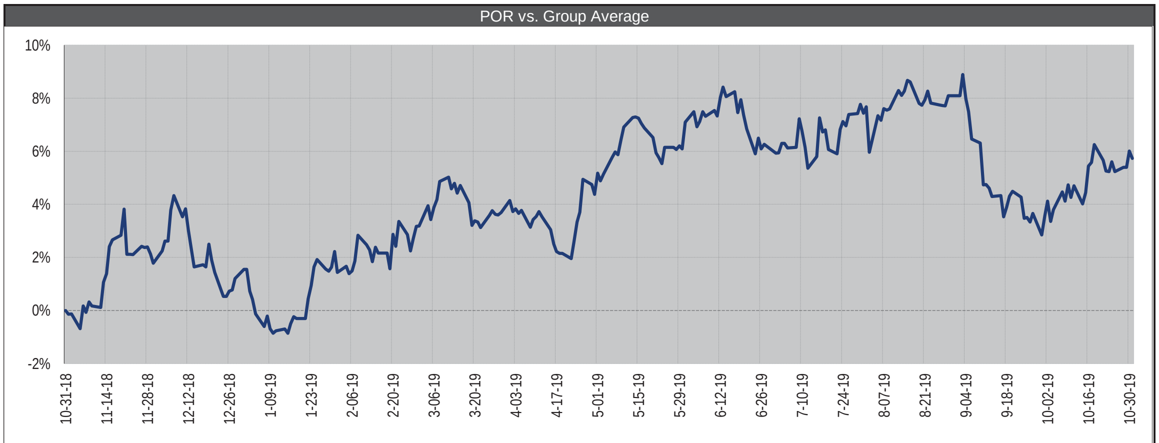


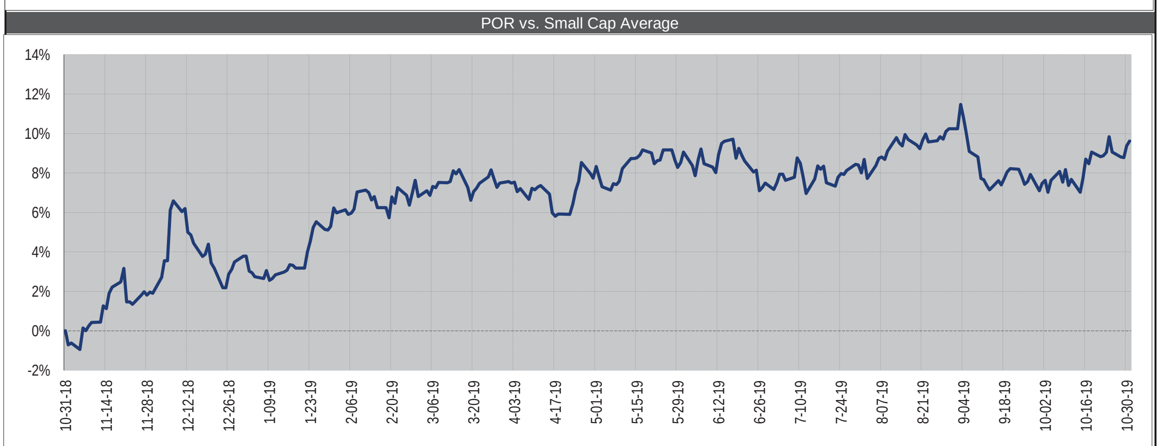


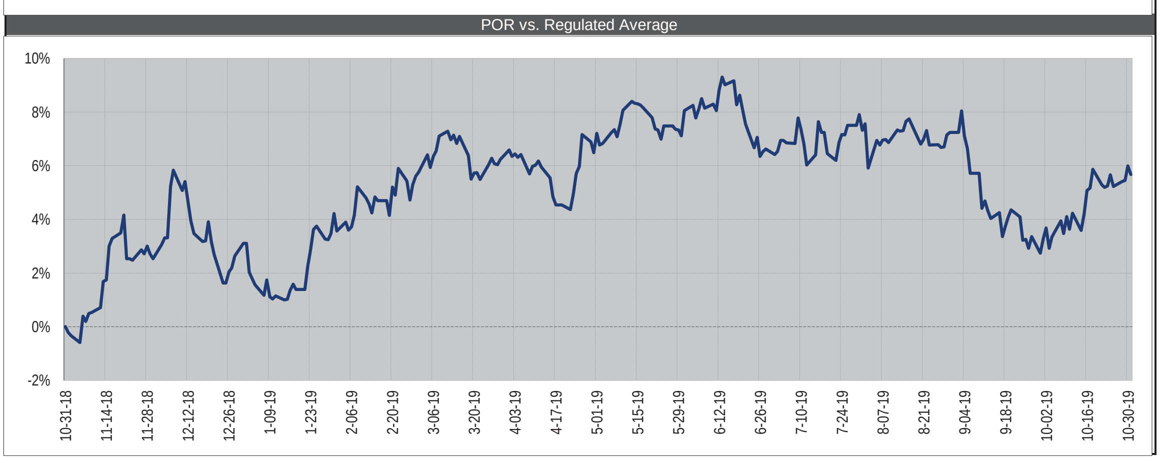


Portland General (POR) $56.88, Underperform, $55 PT

POR outperformed the utility average in October. During the month, OR PUC Staff provided initial comments on POR's IRP plans. The stock fared well despite PUC staff highlighting several major concerns with the company's action plan to add 450 MW of renewables by 2023.



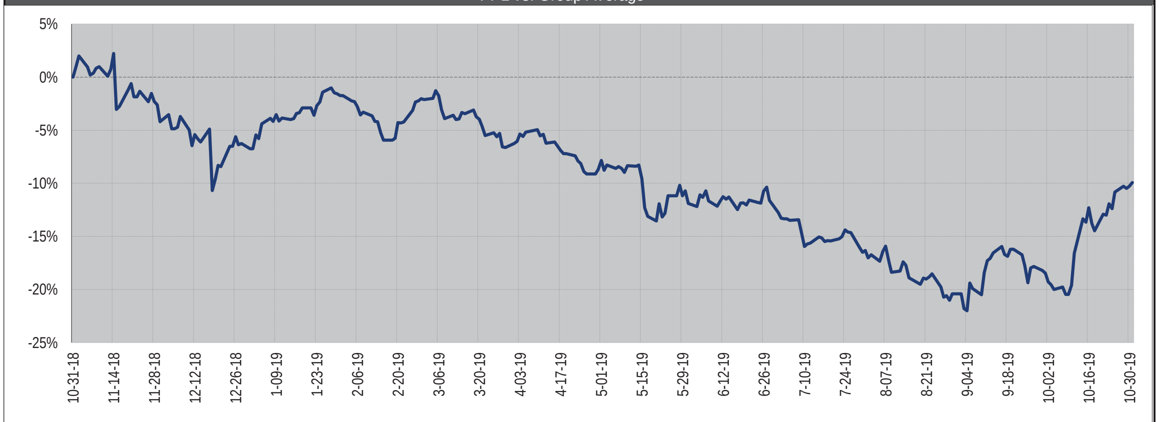




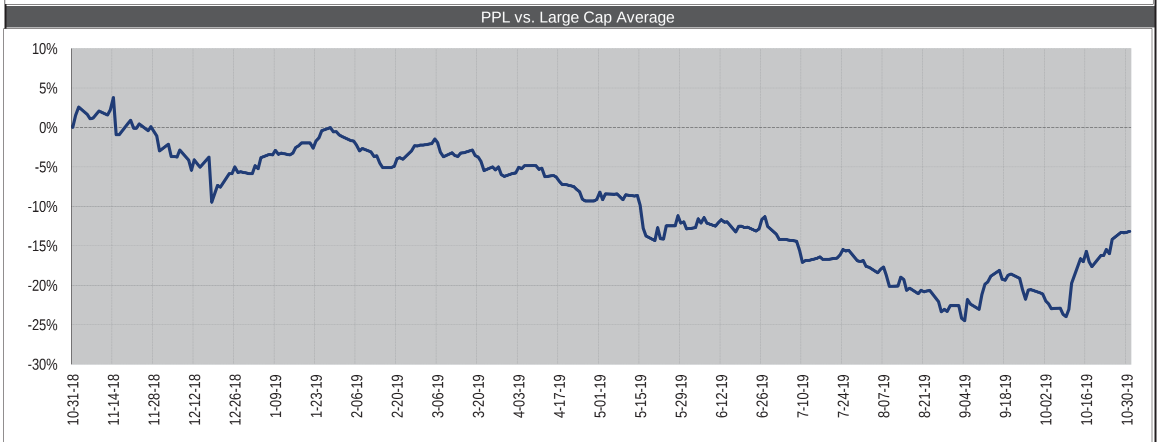
PPL Corporation (PPL) $33.49, Outperform, $36 PT

PPL gained over 800bp relative to peers in Oct, as the FT reported AGR-PPL had talks about a deal (though no confirmation of ongoing talks) and as the GBP stabilizes with Brexit possibly nearing a resolution (though with an election expected in Dec)

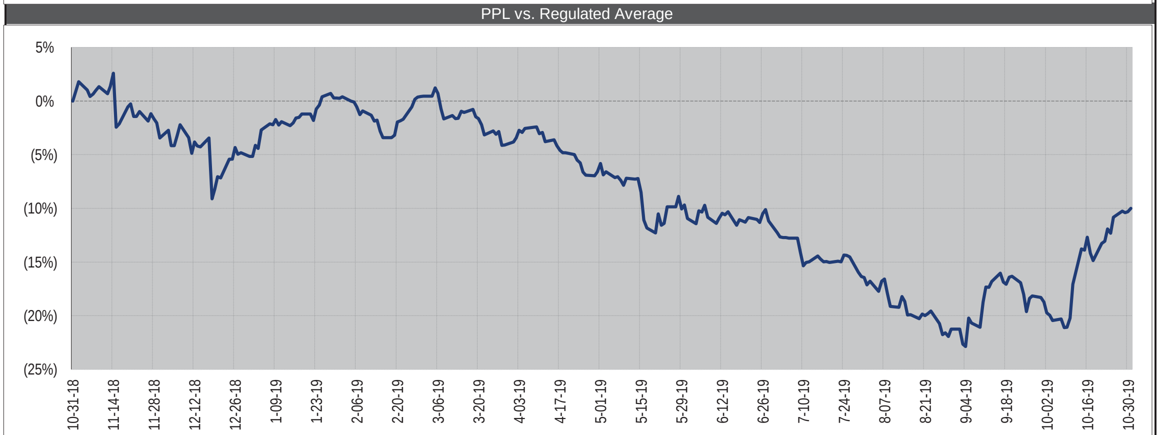
PPL vs. Group Average



PPL vs. Large Cap Average



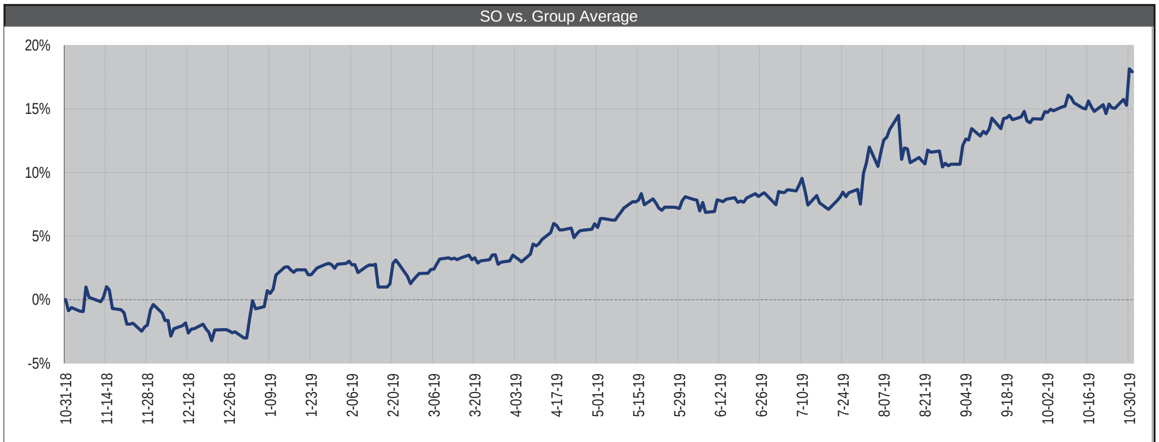
PPL vs. Regulated Average

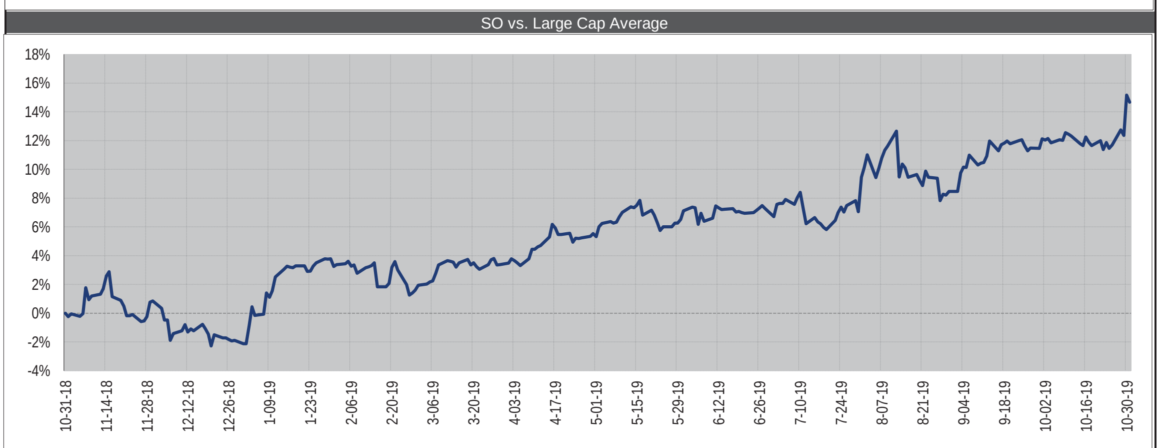


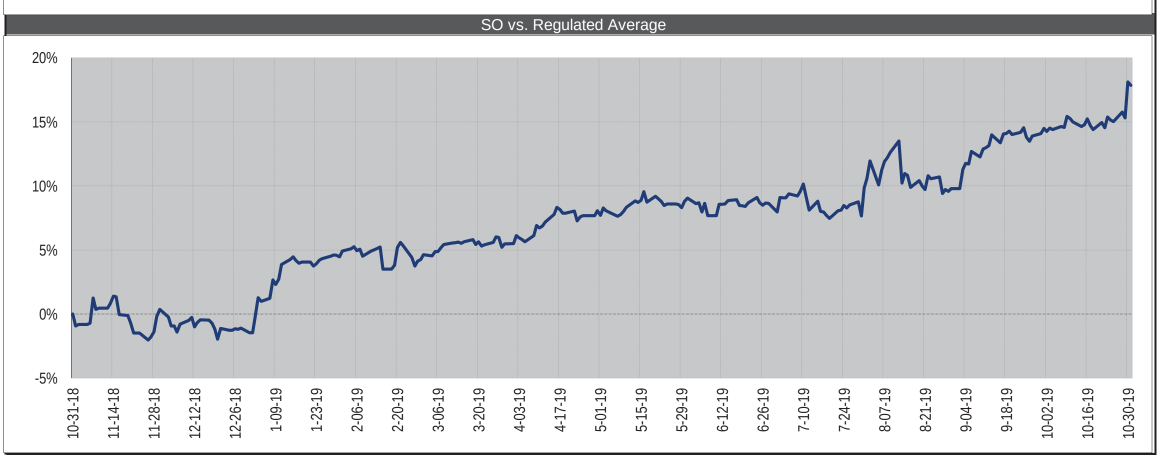
WOLFE RESEARCH

Southern Company (SO) $62.66, Underperform, $62 PT

The stock reached another 52-week high relative to peers on the last day of the month – when SO reported a solid Q3 earnings report with no surprises from Vogtle; SO is the best performing stock under coverage YTD with a 42% gain and is beating the UTY by over 2,000bp.



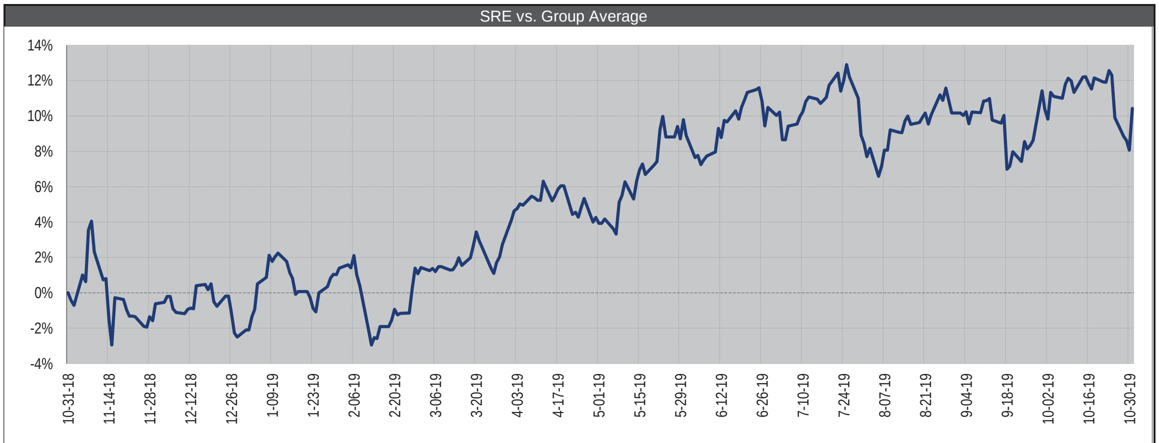


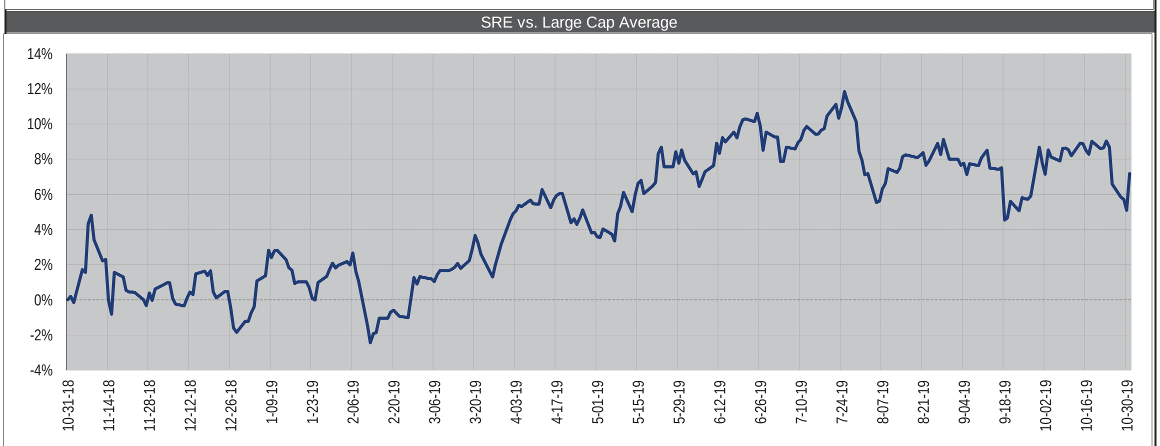


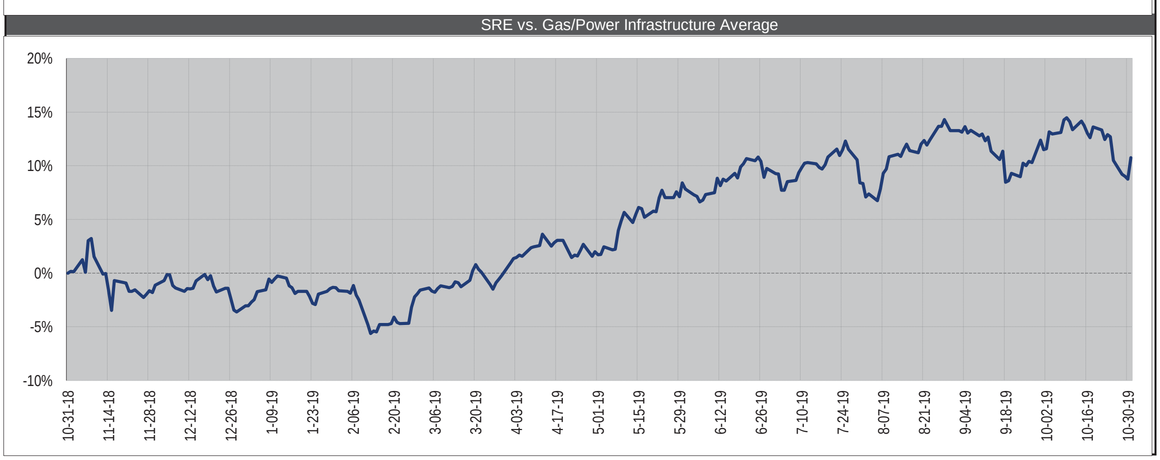
WOLFE RESEARCH

Sempra Energy (SRE) $144.51, Outperform, $149 PT

Sempra fell a little over 2% in October, about middle of the pack in the gas/power infrastructure group; it remains the second best performer in the group YTD after NEE. October featured the very strong sale of the Chilean utility assets, which drove total proceeds from the South American utility sale to $4.6B (net of tax), as well as the announcement of an MOU with Mitsui on ECA LNG export and a Cameron expansion.





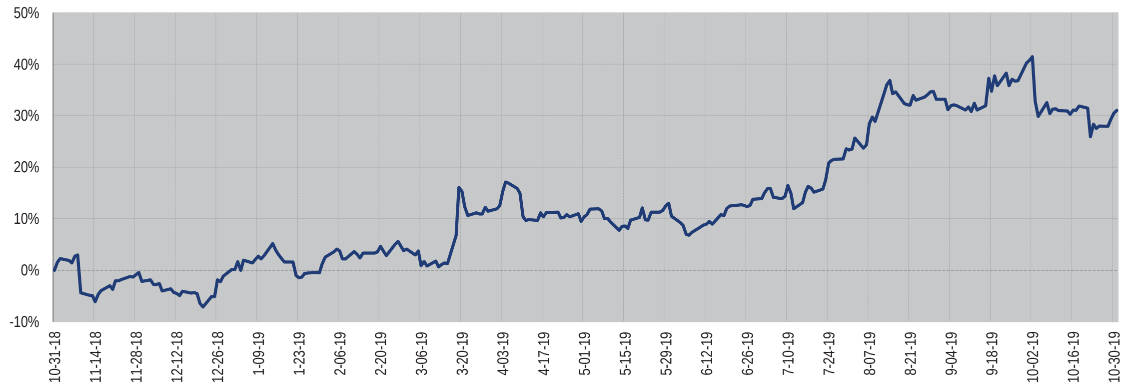


WOLFE RESEARCH

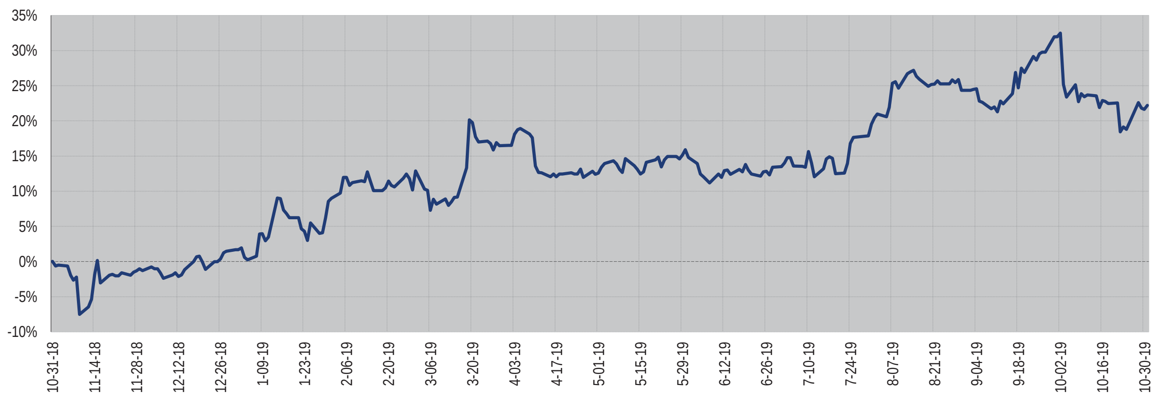
TerraForm Power (TERP) $16.98, NR

TERP had a bad October and underperformed, although the stock still leads the YieldCo group YTD with over a 50% return. TERP fell early in the month alongside a $250M public equity offering.

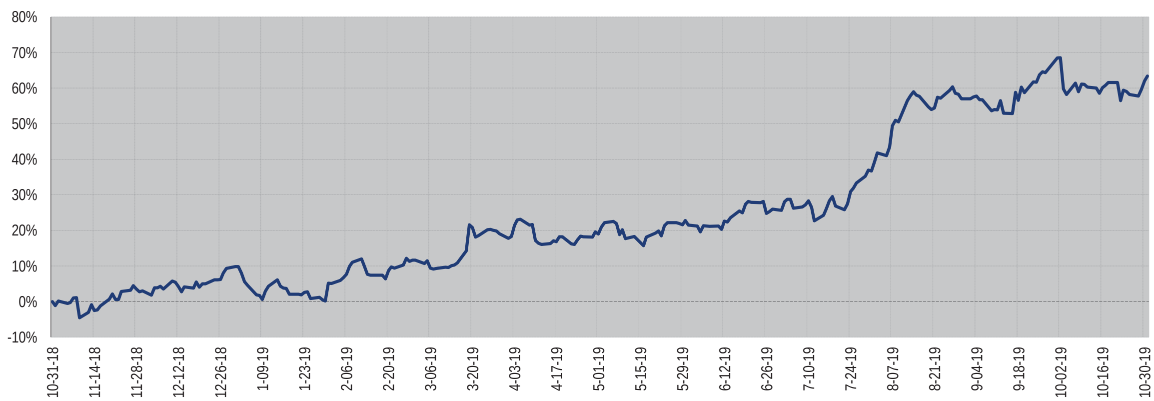
TERP vs. Group Average



TERP vs. YieldCo Average



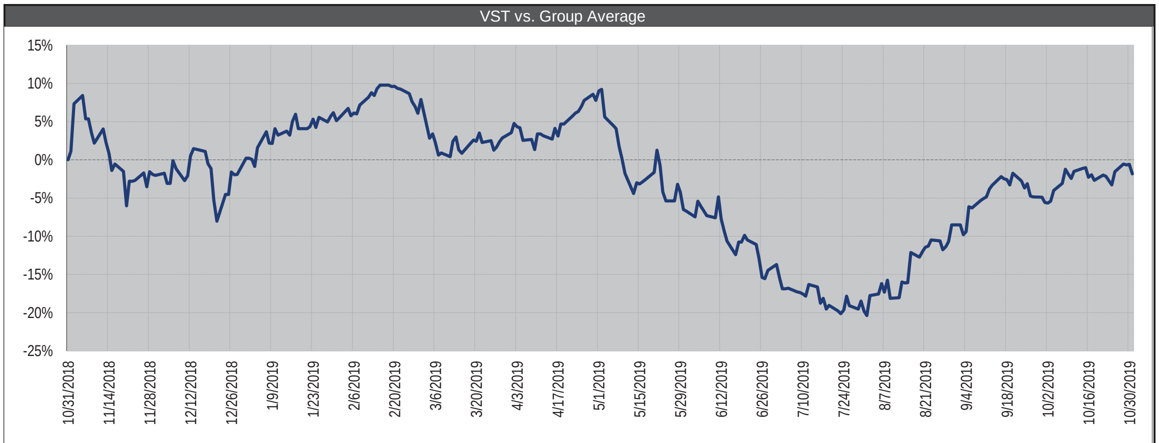
TERP vs. MLPs

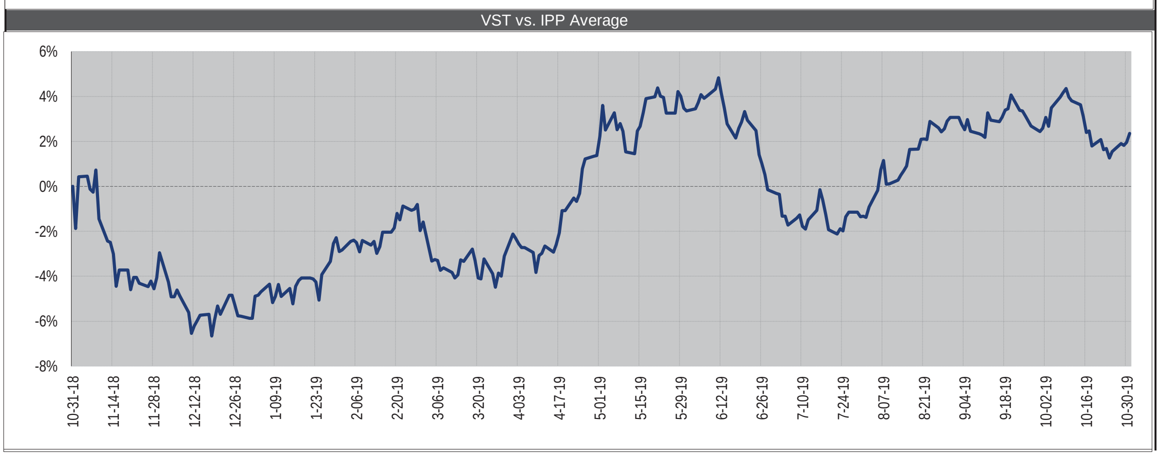


WOLFE RESEARCH

Vistra Energy (VST) $27.03, Outperform, $34 PT

- VST outperformed in October – continuing its rally that started in late-summer. The stock has climbed all the way from towards the bottom of the YTD standings to the middle of the pack. News flow in October was relatively quiet for once, though we expect a generally constructive Q3 update – 2019 guidance tightened at the midpoint, 2020 guidance above consensus, and a long-term view that alleviates fears around the sustainability of financial performance without the contribution of out of favor coal assets.

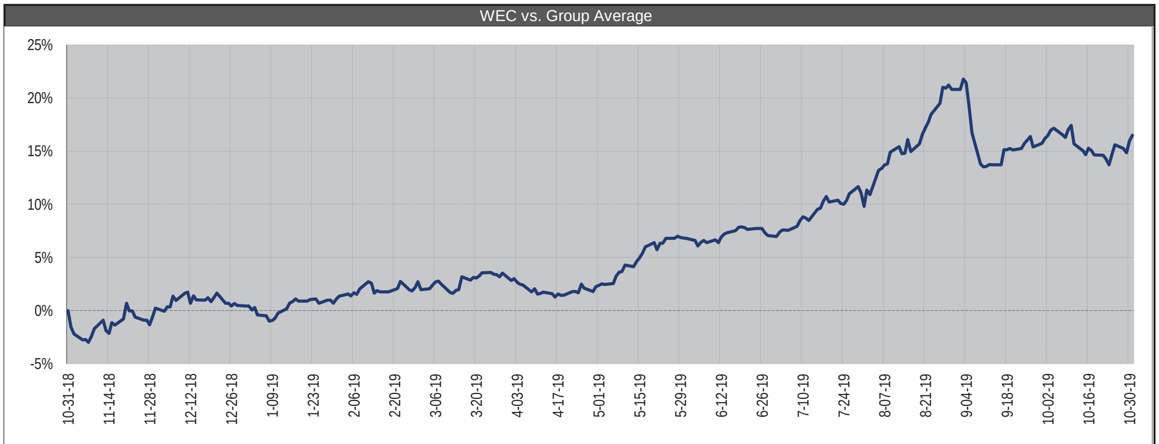


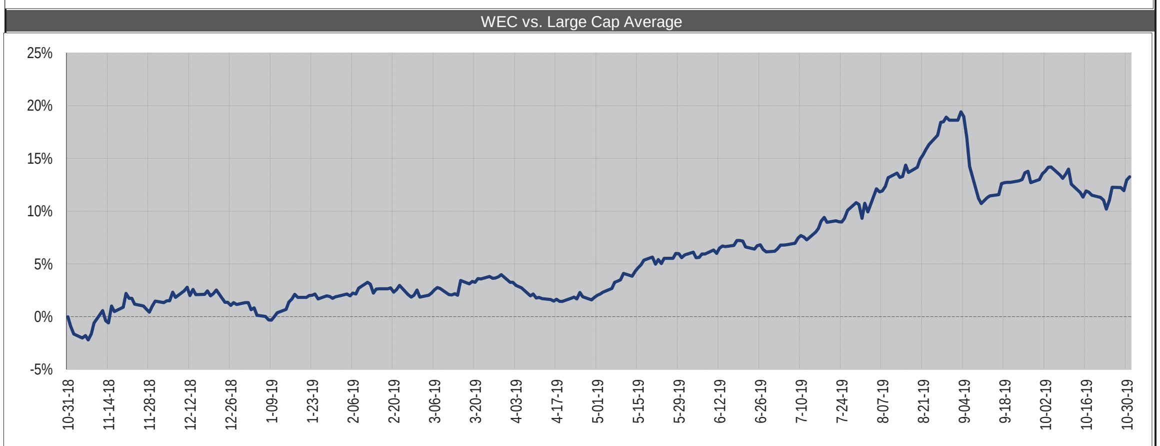


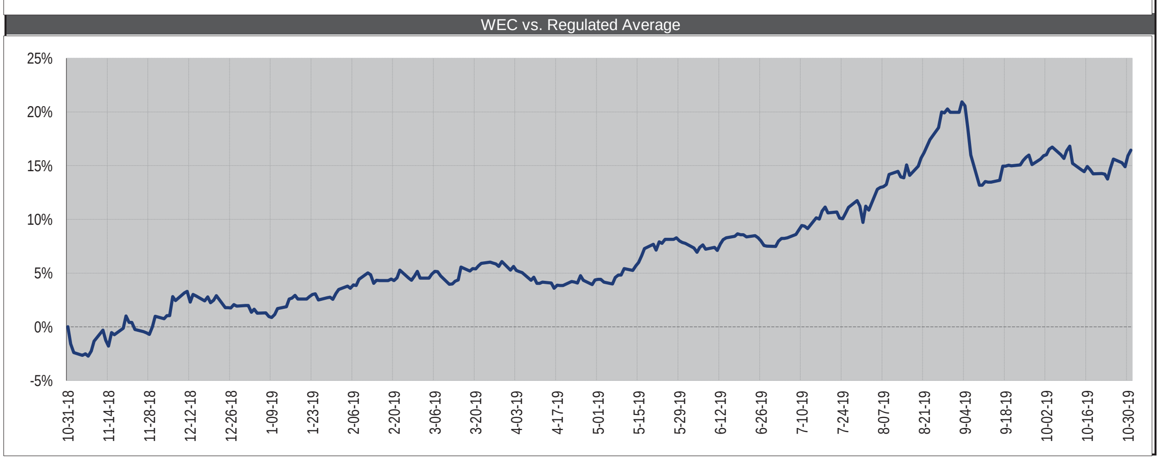
WOLFE RESEARCH

WEC Energy Group (WEC) $94.40, Underperform, $92 PT

- WEC traded in-line with the group in October and is still one of the best performers in 2019.

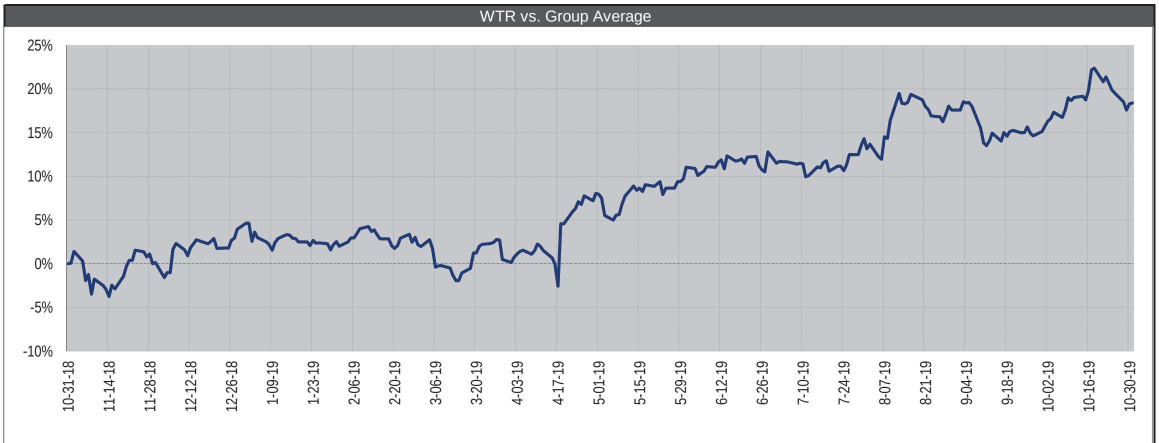


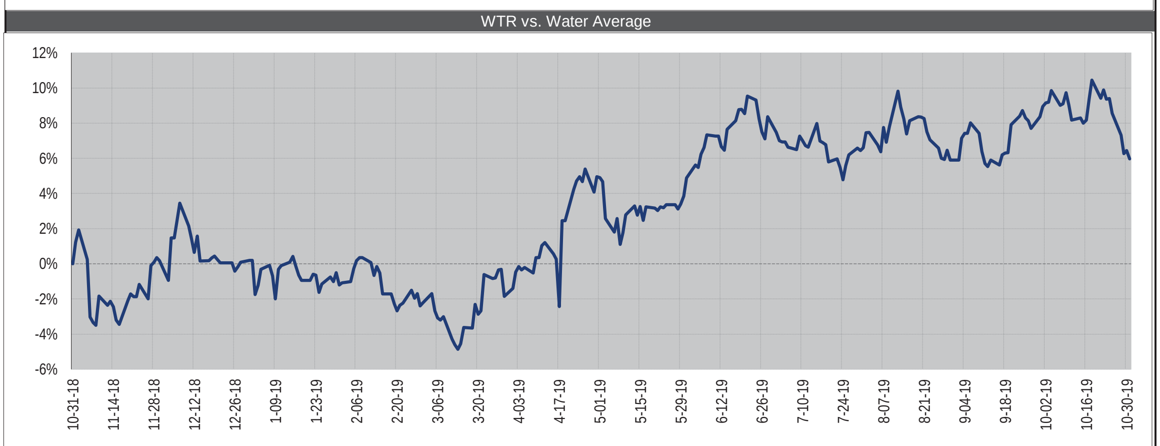


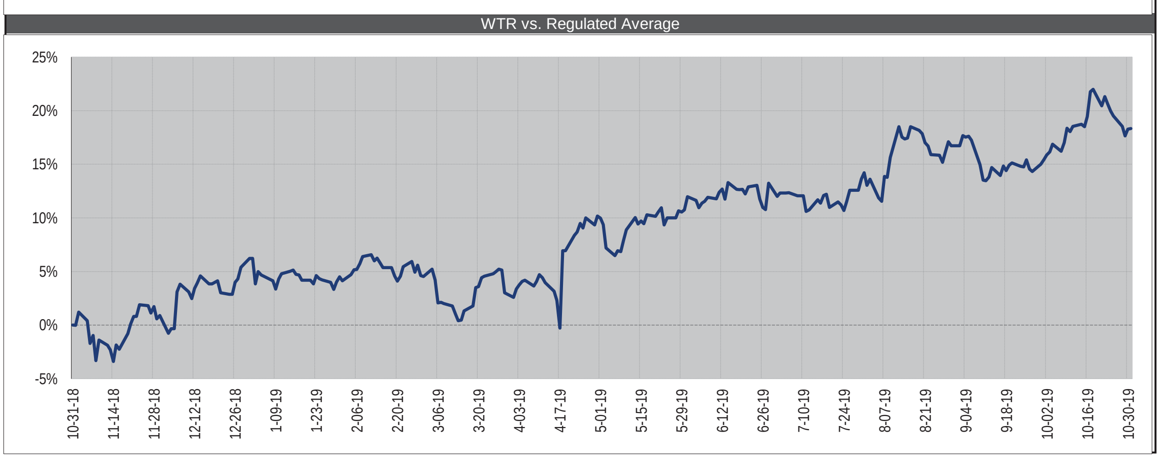


WOLFE RESEARCH

Aqua America (WTR) $45.33, NR



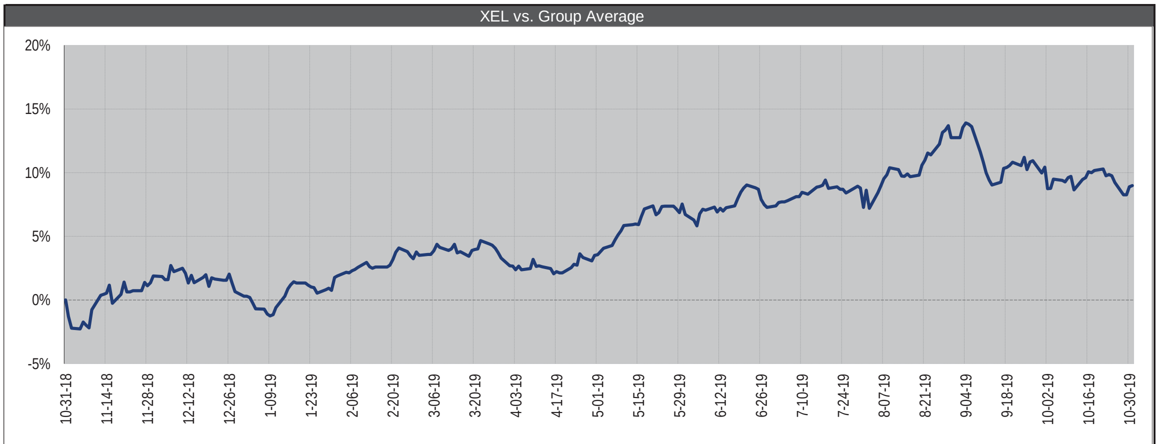


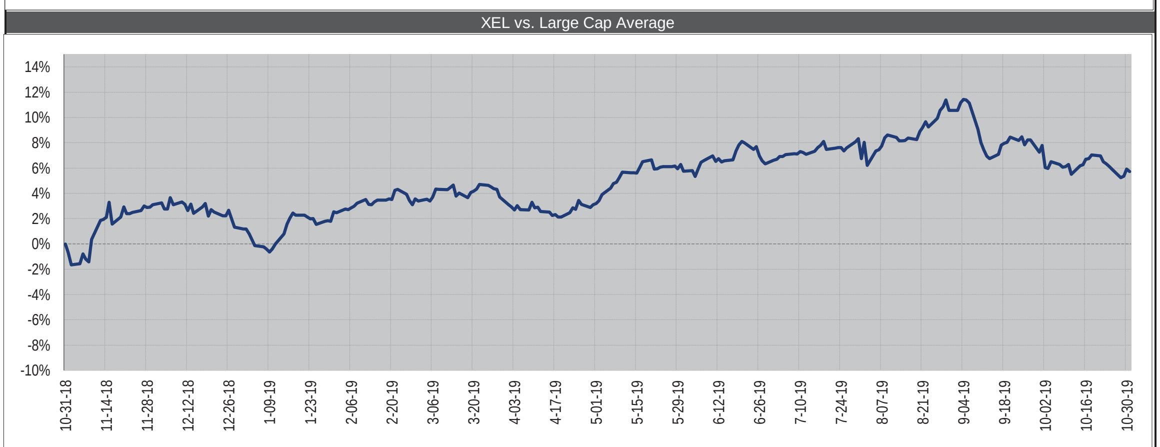


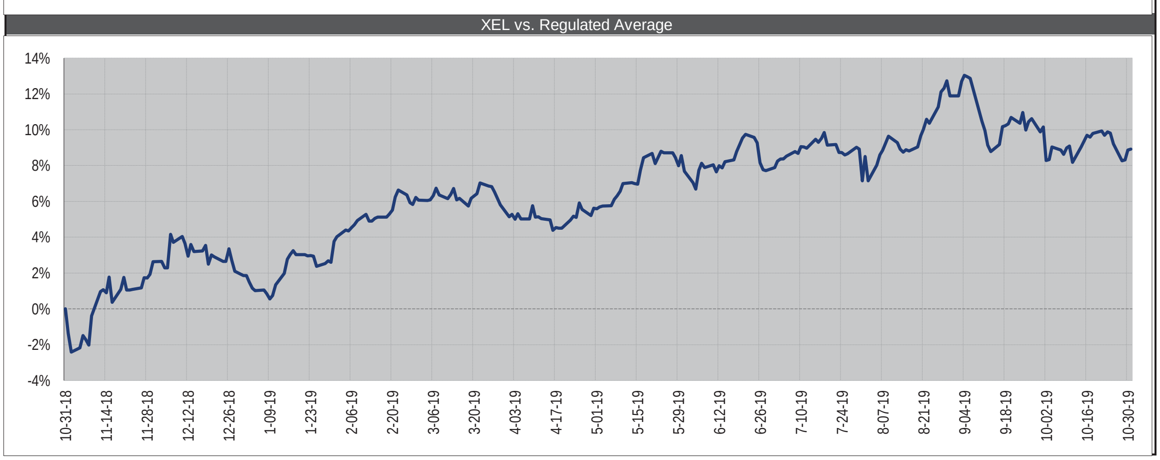
WOLFE RESEARCH

Xcel Energy (XEL) $63.51, Peer Perform, $65 PT

XEL finished in-line with the regulated average in October. XEL reported a solid update along with 3Q earnings, but it was overshadowed by the decision to purchase Mankato as an unregulated asset. Concerns of the company's PPA buyout strategy were abated at month end after the MPUC approved XEL's proposal to rate base the Longroad wind acquisition. XEL also announced a $750M equity forward offering toward month end, which priced at no discount.







Comparable Tables

Exhibit 3: Regulated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2019E	P/E 2020E	P/E 2021E	P/E 2022E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Alliant Energy	LNT	$53.23	238	$12,642	23.4x	22.3x	21.0x	19.9x	2.7%	6.0%	62%	2.7x	43%
Ameren	AEE	77.59	246	19,072	23.9x	22.0x	20.5x	19.4x	2.4%	4.0%	59%	2.4x	45%
American Electric	AEP	94.18	494	46,520	22.4x	21.3x	20.1x	18.9x	2.8%	6.0%	64%	2.4x	41%
Avangrid	AGR	49.90	309	15,419	22.1x	20.0x	18.5x	17.2x	3.5%	2.5%	78%	1.0x	68%
CMS Energy	CMS	63.83	284	18,118	25.5x	23.9x	22.4x	20.8x	2.4%	7.0%	61%	3.8x	27%
Con Edison	ED	91.95	332	30,541	21.1x	20.3x	19.5x	18.9x	3.2%	3.5%	68%	1.7x	47%
Duke Energy	DUK	93.99	729	68,481	18.8x	18.1x	17.2x	16.5x	4.0%	2.5%	76%	1.5x	43%
Edison International	EIX	62.88	359	22,547	13.1x	14.2x	13.3x	12.5x	3.9%	3.0%	51%	2.0x	42%
Entergy	ETR	121.19	199	24,127	22.6x	21.6x	20.3x	19.2x	3.0%	3.0%	68%	2.5x	35%
Evergy	EVRG	63.78	235	15,018	22.4x	20.7x	19.6x	18.8x	3.0%	7.0%	67%	1.7x	48%
Eversource Energy	ES	83.53	324	27,030	24.2x	22.7x	21.7x	20.5x	2.6%	6.0%	62%	2.3x	44%
FirstEnergy	FE	48.20	540	26,025	19.4x	19.4x	18.2x	17.2x	3.2%	6.0%	61%	3.5x	26%
Fortis*	FTS	54.75	437	23,904	21.6x	19.8x	18.5x	17.6x	3.3%	6.0%	71%	1.5x	42%
NiSource	NI	27.99	373	10,448	21.7x	20.4x	19.3x	18.1x	2.9%	2.5%	62%	1.9x	40%
PG&E	PCG	6.15	529	3,252	1.6x	15.1x	14.6x	N/A	0.0%	0.0%	0%	0.3x	86%
Pinnacle West	PNW	93.93	112	10,549	19.7x	18.6x	17.9x	17.0x	3.1%	6.0%	62%	2.0x	48%
Portland General	POR	56.74	89	5,071	23.7x	21.8x	20.5x	19.9x	2.7%	6.5%	64%	2.0x	50%
PPL Corp.	PPL	33.45	722	24,156	13.8x	13.1x	13.6x	N/A	4.9%	1.5%	68%	2.0x	35%
Southern Company	SO	62.51	1,049	65,551	20.1x	19.6x	18.8x	17.4x	4.0%	3.4%	80%	2.4x	39%
WEC Energy Group	WEC	94.17	315	29,705	26.7x	25.2x	23.7x	22.2x	2.5%	7.0%	67%	3.0x	46%
Xcel Energy	XEL	63.53	524	33,315	24.3x	22.8x	21.6x	20.3x	2.5%	6.0%	62%	2.6x	44%
Average					**20.6x**	**20.1x**	**19.1x**	**18.5x**	**3.0%**	**4.5%**	**62%**	**2.2x**	**45%**
Average (ex EIX, PCG, PPL)					**22.4x**	**21.1x**	**20.0x**	**18.9x**	**3.0%**	**5.0%**	**66%**	**2.3x**	**43%**

Source: Wolfe Utilities & Power Research

Exhibit 4: Gas Power Infrastructure Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2019E	P/E 2020E	P/E 2021E	P/E 2022E	Div Yield	Div Growth	Payout Ratio
The AES Corporation	AES	$17.03	664	$11,305	12.8x	11.8x	10.8x	10.0x	3.2%	5.0%	41%
CenterPoint	CNP	29.03	502	14,579	17.8x	16.4x	15.6x	15.1x	4.0%	4.0%	70%
Dominion	D	82.31	822	67,652	19.7x	18.6x	17.6x	16.9x	4.5%	8.0%	88%
DTE Energy	DTE	127.09	189	24,064	20.5x	19.3x	18.2x	17.0x	3.0%	7.0%	61%
NextEra	NEE	237.36	489	116,016	28.3x	26.3x	24.2x	22.7x	2.1%	13.0%	60%
OGE Energy	OGE	43.07	200	8,621	20.4x	18.8x	18.2x	17.8x	3.6%	10.0%	74%
Sempra	SRE	143.92	275	39,513	24.2x	21.2x	19.5x	18.3x	2.7%	8.0%	65%
Average					**21.8x**	**20.1x**	**18.9x**	**18.0x**	**3.3%**	**9.6%**	**70%**

Source: Wolfe Utilities & Power Research

Exhibit 5: YieldCo Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2019E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBITDA 2022E	Div Yield
Clearway Energy	CWEN	18.06	193	3,482	10.3x	9.2x	8.4x	N/A	4.4%
NextEra Energy Partners	NEP	52.75	156	8,228	9.9x	8.5x	9.3x	9.2x	3.9%
Atlantica Yield*	AY	23.99	102	2,437	9.1x	8.1x	7.7x	N/A	6.7%
Pattern Energy*	PEGI	28.05	98	2,762	13.6x	11.7x	11.3x	N/A	6.0%
TerraForm Power*	TERP	16.93	227	3,844	12.2x	11.3x	10.9x	N/A	4.8%
Average					**10.9x**	**8.5x**	**9.3x**	**9.2x**	**5.3%**

Source: Wolfe Utilities & Power Research
*Not covered by Wolfe Research, estimates based on consensus

Exhibit 6: Integrated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2019E	P/E 2020E	P/E 2021E	P/E 2022E	Implied Genco EV / EBITDA 2019E	Implied Genco EV / EBITDA 2020E	Implied Genco EV / EBITDA 2021E	Implied Genco EV / EBITDA 2022E	Div Yield	Div Growth	Payout Ratio
Exelon	EXC	45.50	972	44,202	14.5x	14.7x	15.2x	14.5x	9.3x	9.4x	9.4x	9.1x	3.2%	5.0%	46%
PSEG	PEG	63.19	506	31,951	19.6x	18.1x	18.1x	18.2x	3.9x	3.8x	3.7x	4.0x	3.0%	4.2%	58%
Average					**17.1x**	**16.4x**	**16.6x**	**16.4x**	**6.6x**	**6.6x**	**6.5x**	**6.6x**	**3.1%**	**4.5%**	**52%**

Source: Wolfe Utilities & Power Research

Exhibit 7: IPP Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2019E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBITDA 2022E	Free Cash Flow Yield 2019E	Free Cash Flow Yield 2020E	Free Cash Flow Yield 2021E	Free Cash Flow Yield 2022E
NRG Energy	NRG	40.04	253	10,130	8.1x	7.6x	7.7x	7.1x	12.0%	15.3%	15.2%	16.2%
Vistra Energy	VST	27.00	492	13,275	6.9x	6.2x	6.1x	5.9x	15.8%	16.6%	16.4%	17.4%
Average					**7.5x**	**6.9x**	**6.9x**	**6.5x**	**13.9%**	**15.9%**	**15.8%**	**16.8%**

Source: Wolfe Utilities & Power Research

Group Classifications

Group:
AEE AEP AES ALE AVA CMS CNP CWEN D DTE DUK ED EIX
ES ETR EVRG EXC FE FTS HE IDA LNT NEE NI NRG NWE OGE
PCG PEG PNM PNW POR PPL SO SRE WEC XEL

Large Cap:
AEP D DTE DUK ED EIX ES ETR EXC FE NEE PCG PEG PPL SO SRE
WEC XEL

Mid Cap:
AEE CMS CNP EVRG LNT NI PNW SCG OGE

Small Cap:
ALE AVA EE HE IDA NWE PNM POR

Regulated:
AEE AEP ALE AVA CMS DUK ED EIX ES ETR EVRG FE FTS HE IDA
LNT NI NWE PCG PNM PNW POR PPL SCG SO WEC XEL

Gas/Power Infrastructure:
AES D DTE NEE OGE SRE

Integrated:
EXC PEG

IPPs:
NRG VST

YieldCos:
AY NEP CWEN PEGI TERP

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Market Weight (MW):	Expect the industry to perform approximately in line with the primary market index for the region (S&P 500 in the U.S.) over the next 12 months.
Market Underweight (MU):	Expect the industry to underperform the primary market index for the region (S&P 500 in the U.S.) by at least 10% over the next 12 months.

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Peer Perform:	44%	2% Investment Banking Clients
Underperform:	12%	0% Investment Banking Clients

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NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
25.60 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

COVID-19 Likely to Pressure NiSource’s C&I Sales and Capital Investment

Updated Forecasts and Estimates from 30 Mar 2020

Charles Fishman, CFA
Equity Analyst
Morningstar

Business Strategy and Outlook 30 Mar 2020

NiSource completed its separation from Columbia Pipeline Group in 2015 and now derives all of its operating revenue from its regulated electric and natural gas distribution utilities. About 60% of operating income comes from its six natural gas distribution utilities. The remaining 40% comes from its electric utility business in Indiana.

NiSource's utilities have regulatory frameworks that include the automatic rate tracker mechanisms, with almost 80% of planned capital expenditures, providing recovery of investments in less than 18 months. As a result of the favorable regulation, we expect NiSource to step up its capital expenditures to almost $2 billion per year over the next five years. This is an investment level almost double the previous five years.

Over the next 20 years, NiSource plans to invest about $30 billion in infrastructure improvements. Over 50% of these investments are modernization programs for replacing steel and cast-iron pipe with plastic at its natural gas distribution utilities. Almost all of these investments receive rate tracker treatment. This allows NiSource to earn returns on these investments near allowed returns and consistently above its cost of capital.

In September 2018, a natural gas explosion killed one person north of Boston on NiSource's Columbia Gas of Massachusetts system. Insurance should cover roughly one half of the almost $2 billion of claims, penalties and other expenses, but the event was a public relations nightmare. On Feb. 27, 2020, NiSource announced the sale of the Massachusetts utility for $1.1 billion. The transaciton will avoid a planned $500 million block equity issuances.

Although the economic impact from the COVID-19 pandemic will pressure earnings in 2020 and 2021 due in part to NiSource's high percentage of commercial and industrial customers, we expect a rebound in EPS to near the top end of management's 5%-7% target from 2022 to 2024. Dividend growth will likely lag EPS growth due to the lingering impact of COVID-19 and the capital investment acceleration.

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The primary analyst covering this company does not own its stock.

Research as of 30 Mar 2020
Estimates as of 30 Mar 2020
Pricing data as of 30 Mar 2020 10:41
Rating updated as of 30 Mar 2020 10:41

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Vital Statistics

Market Cap (USD Mil)	9,465
52-Week High (USD)	30.67
52-Week Low (USD)	19.56
52-Week Total Return %	-10.8
YTD Total Return %	-10.3
Last Fiscal Year End	31 Dec 2019
5-Yr Forward Revenue CAGR %	4.6
5-Yr Forward EPS CAGR %	4.8
Price/Fair Value	0.90

Valuation Summary and Forecasts

Fiscal Year:	2018	2019	*2020(E)*	*2021(E)*
Price/Earnings	19.5	21.1	*20.6*	*18.3*
EV/EBITDA	25.6	10.4	*11.5*	*10.8*
EV/EBIT	147.3	16.1	*18.9*	*17.3*
Free Cash Flow Yield %	-13.5	-2.1	*-6.0*	*-2.8*
Dividend Yield %	3.1	2.9	*3.4*	*3.6*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2018	2019	*2020(E)*	*2021(E)*
Revenue	5,115	5,209	*5,407*	*5,675*
Revenue YoY %	4.9	1.9	*3.8*	*5.0*
EBIT	126	1,305	*1,052*	*1,150*
EBIT YoY %	-86.3	936.7	*-19.4*	*9.4*
Net Income, Adjusted	463	495	*468*	*542*
Net Income YoY %	16.0	6.8	*-5.5*	*16.0*
Diluted EPS	1.30	1.32	*1.20*	*1.35*
Diluted EPS YoY %	7.6	1.2	*-8.9*	*12.8*
Free Cash Flow	-1,337	-75	*553*	*32*
Free Cash Flow YoY %	37.7	-94.4	*-841.6*	*-94.2*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource’s electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewables.

NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
25.60 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

NISource's Heavy C&I Customer Exposure Increases Impact Of COVID-19 30 Mar 2020

We are reducing our fair value estimate to $27 per share from $27.50 for NiSource due to the impact of COVID-19 on earnings and capital investment. On Feb. 28, NiSource pulled earnings guidance following the agreement to sell its troubled Columbia Gas of Massachusetts unit. However, management expressed confidence it could achieve 5%-7% EPS growth off a new 2021 base when guidance was reestablished.

We expect earnings growth to rebound to near the top end of guidance from 2022-2024. However, COVID-19 changes our estimate of the 2021 EPS base, which we lowered by $0.08, to $1.35.

Supply chain disruptions and staffing issues will make it difficult for NiSource to fully execute our five-year, $10 billion capital expenditures estimate and we reduced it by 5%, or $500 million. Less investment translates into lower-rate base growth and earnings.

Northern Indiana Public Service Company, contributing about 40% of earnings and heavily dependent on commercial and industrial, or C&I, customers, will experience significantly reduced sales following Indiana's stay-at-home order. In 2019, C&I customers represented about 78% of retail electric sales.

NiSource's gas utilities, about 60% of earnings, will also be affected by stay-at-home orders in Ohio, Pennsylvania, and Indiana. In 2019, C&I sales represented about 70% of sales and transportation volumes.

Bad debt/uncollectible expense will also pressure near-term earnings. On March 19, the Edison Electric Institute announced that all members have suspended electricity disconnections. NiSource is a member of EEI.

Operating expenses will increase as safety measures are instituted. Maintaining minimum staffing levels could be challenging and the increase in overtime costs. We expect most, but not necessarily all, expenses related to COVID-19 to eventually be recovered in rates. If COVID-19 costs become significant, regulators might allow cost-recovery deferrals or securitization, similar to large weather-related expenses.

Fair Value & Profit Drivers 30 Mar 2020

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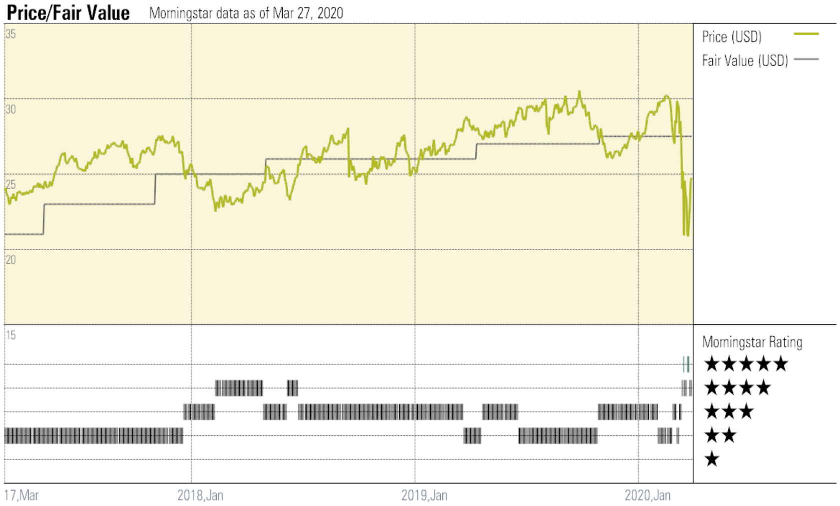
Price/Fair Value Morningstar data as of Mar 27, 2020



impacted by stay-at-home orders in Ohio, Pennsylvania, and Indiana. In 2019, C&I sales represented about 70% of sales and transportation volumes.

We use a 6% cost of capital in our discounted cash flow valuation, which incorporates a 7.5% cost of equity. Our cost of equity is lower than the 9% rate of return we expect investors will demand of a diversified equity portfolio. We believe our cost of equity reflects the risk associated with regulated electric and natural gas distribution utilities operating in states that have average to above-average regulatory frameworks.

Our pretax cost of debt assumption is 5.8%, as we incorporate a normalized long-term real rate environment and normalized credit spreads. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Our fair value estimate implies a 20 times multiple on 2021 earnings. This is in line with market valuations for peer combination electric and gas distribution utilities in late March.

Scenario Analysis

Our uncertainty rating is low. If we assume capital expenditures are 25% lower than our estimate during the next five years, then our annual EPS growth would decline about 5% and our fair value estimate would decrease approximately $3 per share. We believe it is unlikely that capital expenditures will materially exceed our estimate.

A 50-basis-point change in our cost of equity assumption changes our fair value estimate by $3 per share.

Economic Moat

Service territory monopolies and efficient scale advantages are the primary moat sources for NiSource's regulated utilities. State and federal regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their infrastructure. In exchange for regulated utilities' service territory monopolies, state and federal regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow NiSource's regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing.

NiSource derives roughly 60% of its operating earnings from the regulated distribution of natural gas. For natural gas distribution service, regulators set distribution rates and the commodity price for customers purchasing natural gas from NiSource. NiSource recovers its costs for natural gas that it sells with a pass-through charge to customers. Thus, NiSource has no commodity price risk that could weaken its moat. Customers may elect to purchase natural gas from independent retail energy suppliers and use and pay for

NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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distribution services only. NiSource exited the no-moat retail energy supply business in 2010.

Electricity generation, which contributes about 40% of operating earnings, is from operations in Indiana and is also regulated. The rates for this service are combined with regulated customer rates for transmission and distribution service. In exchange for its monopoly position, state and federal regulators set NiSource's electric rates.

Moat Trend

We believe NiSource's moat trend is stable. We do not foresee a long-term change to the firm's business as a monopoly provider of natural gas and electricity, nor do we see changes to its compact with regulators. All operating earnings are from FERC-regulated electric transmission and state-regulated natural gas and electric utilities. We think it is unlikely that the FERC or the state regulatory frameworks will change. As with almost all regulated utilities, we believe regulatory caps on revenue and returns preclude NiSource from establishing a wide economic moat.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
25.60 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Bulls Say/Bears Say

Bulls Say

- We expect annual dividend growth to average near 5% from 2020 to 2024.
- We believe the separation of the Columbia Pipeline Group from NiSource was good shareholder stewardship, as the market valued the individual businesses more highly at the time of the separation.
- New legislation has improved the regulatory framework in Indiana for NiSource's electric and natural gas distribution utilities.

Bears Say

- Industrial customers account for over half of NiSource's electric sales, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- NiSource's electric and natural gas distribution businesses have substantial commercial and industrial customer exposure, increasing the impact of the COVID-19 pandemic.
- NiSource issued almost $2 billion of common and preferred shares in 2018 and 2019. The additional shares will be a headwind to EPS growth.

NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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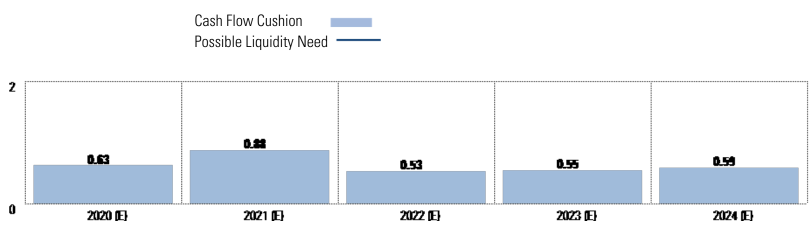
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2020(E)	2021(E)	2022(E)	2023(E)	2024(E)
Cash and Equivalents (beginning of period)	148	240	170	202	136
Adjusted Available Cash Flow	433	331	445	359	590
Total Cash Available before Debt Service	581	572	615	561	726
Principal Payments	-542	-266	-755	-598	-809
Interest Payments	-383	-386	-400	-414	-430
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-925	-652	-1,155	-1,012	-1,239

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	148	3.0
Sum of 5-Year Adjusted Free Cash Flow	2,158	43.3
Sum of Cash and 5-Year Cash Generation	2,307	46.3
Revolver Availability	1,500	30.1
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	3,807	76.4
Sum of 5-Year Cash Commitments	-4,983	—

Financial Strength

NiSource issued over $1 billion of common and $880 million of preferred shares in 2018 and 2019 because of infrastructure investments, the negative impact of tax reform on its balance sheet, and the Boston tragedy. These issuances strengthened the debt/capital ratio of NiSource's balance sheet to about 61% versus almost 68% at year-end 2017.The company was planning to issue $500 million of equity in 2020, but the sale of the Columbia Gas of Massachusetts eliminated the need for the block equity transaction. We now project that the ratio will remain near 60% over the next five years, owing in large part to the annual at-the-market and employee plan equity issuances of about $300 million and cash from operating earnings. We expect NiSource's EBIT/interest expense ratio will recover to over 3 times over the next five years after sinking to only 0.4 in 2018 because of the impact of the Boston tragedy. This is still slightly below the industry average, but we view it as sufficient, given that NiSource's diversified regulated operations provide fairly consistent earnings and cash flow.NiSource began increasing its dividend in 2012; this marked the first increase in 10 years, following a 2003 dividend cut to strengthen its balance sheet after the Columbia Energy Group acquisition. NiSource reduced its common dividend to $0.62 per share annualized following the separation from CPG, but this represented an 8% total increase for shareholders when combined with the CPG dividend.The company raised its dividend in mid-2016 by 6.5% and again by 6.1% in the first quarter of 2017. NiSource rewarded shareholders with an 11.4% increase in 2018. In 2019, following the Boston gas explosion, the annual increase was only 2.6%. The increase in first-quarter 2020 was 5% and we expect annual increases near this level for the foreseeable future.

Risk & Uncertainty

Regulatory risk remains the key uncertainty; however, NiSource's regulatory exposure is diversified, owing to

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
25.60 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

operations in seven states and its federal-regulated electric transmission system. NiSource has reduced some of the regulatory uncertainty related to its planned natural gas distribution and electric utilities investments by securing preapprovals and favorable rate mechanisms that provide for automatic rate increases as infrastructure investments are made.In 2018, NiSource announced it would eliminate all coal-fired generation from its power plant fleet within 10 years. This transition will require signing power purchase agreements for renewable energy; building new gas-fired power plants and solar and wind farms; and making modifications to its electric grid. There is a modest amount of execution risk to this dramatic transition from coal.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
JOSEPH HAMROCK	CEO/Director/President,Director	546,233	28 Feb 2020	—
CARRIE J. HIGHTMAN	Chief Legal Officer/Executive VP	346,401	04 Mar 2020	—
MR. DONALD BROWN	Executive VP/CFO	145,309	28 Feb 2020	—
MS. VIOLET G. SISTOVARIS	Executive VP/President, Subsidiary	132,473	28 Feb 2020	—
EILEEN O'NEILL ODUM		97,086	24 Mar 2009	—
MR. PABLO A. VEGAS	Executive VP/President, Divisional	91,627	28 Feb 2020	—
DR. CAROLYN Y. WOO	Director	48,810	07 May 2019	—
DR. ARISTIDES S. CANDRIS	Director	45,429	07 May 2019	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
T. Rowe Price Capital Appreciation Fund	4.25	1.16	5,527	29 Feb 2020
T. Rowe Price Equity Income Fund	2.89	1.44	730	29 Feb 2020
Vanguard US Total Market Shares ETF	2.88	0.03	272	29 Feb 2020
Vanguard Total Stock Market Index Fund	2.88	0.03	156	29 Feb 2020
Vanguard Mid-Cap Index Fund	2.56	0.25	12	29 Feb 2020
Concentrated Holders				
FT Dow Target Dividend 1Q 2020	0.01	5.71	1	29 Feb 2020
Maple-Brown Abbott Global Listed Infras	0.30	4.64	—	29 Feb 2020
Renaissance Global Infrastructure Fund	0.47	4.55	—	29 Feb 2020
Miller/Howard - Utilities Plus SMA-UBS	0.00	4.53	0	29 Feb 2020
Maple-Brown Abbott Glb Infras	0.19	4.52	16	29 Feb 2020

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Newport Trust Co.	2.28	0.64	8,521	29 Feb 2020
Bank of New York Mellon Corp	0.99	0.03	3,697	29 Feb 2020
Equitable Holdings Inc	0.75	0.04	2,790	29 Feb 2020
D. E. Shaw & Co LP	0.98	0.12	2,560	29 Feb 2020
Millennium Management LLC	1.12	0.15	2,318	29 Feb 2020
Top 5 Sellers				
Zimmer Partners LP	1.79	2.57	-8,048	29 Feb 2020
AllianceBernstein L.P.	0.75	0.04	-6,187	29 Feb 2020
Brookfield Asset Management Inc	—	—	-4,857	29 Feb 2020
Brookfield Asset Management Private Institutional Capital Adviser	—	—	-4,857	29 Feb 2020
Capital Research and Management Company	—	—	-4,508	29 Feb 2020

Stewardship 30 Mar 2020

We assign NiSource a Standard stewardship rating. We think management's decision to form Columbia Pipeline Partners and execute CPG's tax-free separation exhibited exemplary stewardship of shareholder capital. However, the CEO who probably drove those decisions left NiSource to go with CPG before he retired.

The National Transportation Safety Board found NiSource responsible for the tragic gas explosion north of Boston. The incident had a negative effect on shareholder value and has been a public relations nightmare. The good news is that management found a buyer for the utility at an attractive purchase price for NiSource shareholders. We expect the transaction to close in the second-half of 2020.

Joe Hamrock became CEO following the separation. He has been with NiSource since 2012 and previously ran the natural gas distribution business. Before joining NiSource, he was with American Electric Power. CFO Donald Brown joined NiSource in April 2015. Previously, he was with UGI Utilities and Constellation Energy. These individuals have significant utility experience, and we believe they will not stray from the strategy that has benefited shareholders.

Most of the members of NiSource's board of directors were involved in the separation of CPG and oversight of investment decisions. Given this, we are confident that the solid stewardship of shareholder capital is likely to continue.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
25.60 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

NISource's Heavy C&I Customer Exposure Increases Impact Of COVID-19 30 Mar 2020

We are reducing our fair value estimate to $27 per share from $27.50 for NiSource due to the impact of COVID-19 on earnings and capital investment. On Feb. 28, NiSource pulled earnings guidance following the agreement to sell its troubled Columbia Gas of Massachusetts unit. However, management expressed confidence it could achieve 5%-7% EPS growth off a new 2021 base when guidance was reestablished.

We expect earnings growth to rebound to near the top end of guidance from 2022-2024. However, COVID-19 changes our estimate of the 2021 EPS base, which we lowered by $0.08, to $1.35.

Supply chain disruptions and staffing issues will make it difficult for NiSource to fully execute our five-year, $10 billion capital expenditures estimate and we reduced it by 5%, or $500 million. Less investment translates into lower-rate base growth and earnings.

Northern Indiana Public Service Company, contributing about 40% of earnings and heavily dependent on commercial and industrial, or C&I, customers, will experience significantly reduced sales following Indiana's stay-at-home order. In 2019, C&I customers represented about 78% of retail electric sales.

NiSource's gas utilities, about 60% of earnings, will also be affected by stay-at-home orders in Ohio, Pennsylvania, and Indiana. In 2019, C&I sales represented about 70% of sales and transportation volumes.

Bad debt/uncollectible expense will also pressure near-term earnings. On March 19, the Edison Electric Institute announced that all members have suspended electricity disconnections. NiSource is a member of EEI.

Operating expenses will increase as safety measures are instituted. Maintaining minimum staffing levels could be challenging and the increase in overtime costs. We expect most, but not necessarily all, expenses related to COVID-19 to eventually be recovered in rates. If COVID-19 costs become significant, regulators might allow cost-recovery deferrals or securitization, similar to large weather-related expenses.

Trouble For U.S. Gas Utilities Has Been Simmering; New York Just Made it Worse 29 Mar 2020

Policymakers--not COVID-19 or global energy markets--are becoming the biggest threat for gas distribution utilities.

Earlier this month, New York regulators asked the state's utilities to review ways to reduce or eliminate gas infrastructure. Areas of California have banned new gas service. If anti-gas policies like these spread, it could hurt the industry's long-term growth.

Total returns for U.S. utilities with sizable gas operations are down 19% during the last six months, compared with 14% down for the Morningstar U.S. utilities index. New Jersey Resources, CenterPoint Energy, Atmos Energy, NiSource, and DTE Energy recently traded well below our fair value estimates.

We think states with aggressive clean energy policies are most likely to push customers away from gas. Sixteen states have 100% clean energy targets. We expect renewable energy to grow 8% annually during the next decade.

We believe New Jersey Resources faces the most risk since the bulk of its earnings come from residential gas service in a state with aggressive clean energy policy. New Jersey policymakers support gas use for now, but we anticipate

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Analyst Notes

that could change in the next decade. We recently cut our long-term growth rate assumption for NJR to 3% from 4%, lowering our fair value estimate to $37 per share from $39.

New York City's Consolidated Edison and California utilities Sempra Energy and PG&E also face risk but have larger electric distribution businesses that could benefit from electric growth. We think there is less risk for gas utilities in the Southeast and Midwest where Republicans in five states have proposed legislation that would prohibit gas bans.

Acquisition premiums that had inflated gas utilities' valuations also have faded. Eversource Energy recently paid 24 times earnings for Columbia Gas. This is still rich but below deal values for Piedmont (30 P/E), Peoples Gas (30 P/E), and WGL (26 P/E). M&A premiums don't affect our fair value estimates.

COVID-19 Could Slow Utilities' Near-Term Growth but Long-Term Outlook Still Bright 26 Mar 2020

After assessing COVID-19 data and commentary from utilities this week, we still believe the sector offers buying opportunities for defensive, income-seeking investors. U.S. utilities trade at a median 10% discount to our fair value estimates and 3.5% yield even after rallying 23% on March 24-26.

Although some utilities reaffirmed their outlooks this week, we think 2020 earnings for many utilities will be at the low end or below management guidance ranges due to COVID-19 issues. We expect near-term lower commercial and industrial energy demand, tighter financing, growth project delays, and higher expenses. We are reaffirming our moat and moat trend ratings.

Utilities with a large share of C&I customers, usage-based rates, and less-adaptive ratemaking have the most near-term risk. Among these are Southern Company, Entergy, American Electric Power, Duke Energy, Evergy, and Ameren. Utilities with non-utility businesses such as DTE Energy, CenterPoint, and OGE also could face weaker near-term earnings. Our updates led to 2%-5% fair value estimate cuts.

Utilities with more residential customers, usage-decoupled rates, and forward-looking rate structures are less at risk. These include Edison International, Eversource Energy, NextEra Energy, and American Water Works.

We expect most utilities to shift 5%-10% of their 2020 growth investments into 2021-22 due to tight capital and labor markets. In general, this shift has little or no impact on our fair value estimates or long-term outlooks. We don't believe COVID-19 will impact utilities' policy-based investments in safety, clean energy, and grid modernization that support our long-term growth outlooks.

COVID-19 shutdowns might reduce U.S. C&I electricity demand more than the record 5.5% drop in mid-2009. In China, government data suggests electricity demand is down more than 8% year to date. European countries reported 2%-7% drops in electricity use last week. C&I demand is about 60% of total U.S. electricity use.

With New York City now the epicenter of the COVID-19 outbreak, we cut Consolidated Edison's fair value estimate to $80 per share from $84. We reduced our 2020-24 capital expenditures forecast by 10%, to $18.9 billion, and cut our 2020 EPS estimate to $4.00 from $4.43 after incorporating our expectations for lower C&I electricity use and higher expenses for bad debt, uncollectibles, additional employee safety measures, and extra staffing costs. Con Ed has a strong balance sheet, and we believe its dividend is secure but now expect it to grow only 1%-3% annually for the next

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Analyst Notes

few years.

Our $58 per share fair value estimate for Southern Company is down from $60 after making a 5% cut in our 2020-24 capital investment assumption and a 5% cut in our 2020 earnings estimate due to slack C&I sales, which represent two thirds of Southern's sales. We still consider Southern an attractive buying opportunity at current prices due to its strong balance sheet, secure dividend, and constructive regulation. Its headline project, the Vogtle nuclear plant expansion, continues to move forward with extra COVID-19 precautions, according to comments from CEO Tom Fanning in news reports this week.

We cut our fair value estimate to $105 per share from $110 for Entergy due to the impact of COVID-19 on earnings, investment, and rate base growth.

We cut our fair value estimate for Evergy to $55 per share from $59 based on our assumption of lower C&I demand, which represented 63% of Evergy's retail electric sales in 2019, higher expenses with limited rate recovery until 2022-23 rate cases, and less growth investment. We think Evergy's recently announced $1.5 billion acceleration of its investment plan will be difficult to achieve and now estimate 3% rate base growth, at the low end of management's guidance.

We cut our fair value estimates for both Michigan utilities, CMS Energy and DTE Energy, in part due to their non-utility businesses. Our $114 per share fair value estimate for DTE Energy is down from $123 based on a likely slowdown in its gas storage and pipeline segment earnings. For CMS Energy, weaker bank earnings and lower commercial demand led to our 4% fair value estimate cut to $46 per share.

Other utilities with recent fair value estimate cuts due primarily to lower C&I sales include Sempra Energy ($128 to $125), Duke Energy ($99 to $95), American Electric Power ($86 to $83), WEC Energy ($80 to $79), Alliant Energy ($48 to $47), and Ameren ($74 to $72).

We recently reaffirmed our $70 per share fair value estimate for Edison International, one of our top picks. Despite California's shelter-in-place mandates, we expect Edison's residential-heavy customer base, usage-decoupled rates, and forward-looking rate structures to mitigate any COVID-19 impacts. Most of Edison's growth is based on California's clean energy policies, which we don't expect to change based on COVID-19. We expect California regulators to approve most of its $5 billion annual investment plan later this year. Edison secured its 2020 financing needs with an $800 million term loan on March 20.

With many states declaring emergency precautions, we expect many utilities will seek regulatory approval to recover most, if not all, COVID-19-related costs in future customer rates. If COVID-19 costs become significant, regulators might allow cost recovery deferrals or securitization, similar to treatment for costs related to severe weather events. This would reduce the impact on shareholder value.

We Like NiSource's Decision to Sell Columbia Gas of Massachusetts 28 Feb 2020

We are reaffirming our $27.50 per share fair value estimate after narrow-moat NiSource reported solid 2019 operating EPS, announced the sale of Columbia Gas of Massachusetts, and pulled its 2020 earnings guidance. Eversource Energy is acquiring the Massachusetts gas distribution utility for $1.1 billion, a price we estimate is roughly 24 times normalized earnings and in line with recent natural gas distribution transactions.

However, we doubt the utility has come anywhere near this level of earnings contribution following the tragic natural gas explosion that killed one person north of Boston in

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Analyst Notes

September 2018. The incident has resulted in close to $2 billion of claims, penalties and other expenses (roughly one-half of the costs should be covered by insurance) and has been a significant distraction for management and a public relations nightmare.

In our opinion, the decision to sell the Massachusetts utility was good stewardship of shareholder capital as regulatory, political and customer relationships would likely be strained for years. The roughly $1 billion of proceeds will allow NiSource to forgo a $500 million block equity issuance that had been planned for later this year.

Although pulling earnings guidance, management was confident that the company could return to its long-term target of 5%-7% EPS growth, off a new 2021 earnings base, following the completion of the transaction. Our revised earnings estimates result in approximately 6% EPS growth from 2021-2024.

On January 31, NiSource increased its dividend by 5% and we expect increases in line with EPS growth for the foreseeable future. In our opinion, the dividend is secure and provides a yield of approximately 3% at the February 27 market closing price.

Boston Gas Explosion Costs Finally Firm; Increasing NiSource's Fair Value Estimate 30 Oct 2019
We are increasing our fair value estimate to $27.50 per share from $27 after narrow-moat NiSource reported break even 2019 third-quarter operating EPS, initiated 2020 earnings guidance in line with our estimate, and modestly increased the lower end of its 2020-22 capital expenditure guidance.

The financial impact from the tragic natural gas explosion north of Boston in September 2018 appears to be quantified and was one of the drivers for the $0.50 per share increase in our fair value estimate. For the first time since the tragedy, the estimate of total costs related to the event were unchanged versus last quarter. We reduced our estimate of the costs, net of insurance recovery, to $850 million from our previous estimate of $1 billion.

The increase in our capital expenditure estimate also had a positive impact on our fair value estimate. The $100 million bump in the lower end of the three-year annual capital expenditure guidance range, to $1.7 billion-$2.0 billion, increases our confidence in our estimates that were already above the midpoint of management's previous guidance. We increased our average annual capital expenditures over the next three years by approximately $30 million, to an average of $1.93 billion per year.

We have a high level of confidence that these investments will achieve returns above our 6% estimate of NiSource's weighted average cost of capital since approximately 78% are covered by rate trackers and reflected in rates in 12 months or less after the investment. This favorable regulatory framework reduces regulatory lag, improving returns on invested capital.

The third quarter is normally weak since about two thirds of NiSource's earnings are from natural gas distribution. NiSource's break even third-quarter results compare with $0.10 per share in the same period last year. NiSource reaffirmed its 2019 EPS guidance range of $1.27-$1.33, and our estimate of $1.30 is unchanged.

The Next Battle Royale: Natural Gas Generation vs. Renewable Energy 07 Oct 2019
We are reaffirming our fair value estimates and moat ratings for all U.S. utilities after updating our 2020-30 U.S. power generation forecast.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Analyst Notes

Our forecast shows natural gas generation expanding its leading market share in the U.S. power generation market through 2030. But our forecast also shows renewable energy moving into second place, overtaking coal, nuclear, and hydropower generation.

We think this sets up a "bloody" fight for market share by the end of the next decade: natural gas vs. renewable energy. Renewable energy has policy momentum and its costs are now competitive with natural gas generation even at today's low gas prices and without tax subsidies. But gas generators offer grid reliability, a key competitive advantage.

We forecast U.S. renewable energy will top 1,000 terawatt-hours by 2030, or 22% of U.S. electricity generation, excluding hydropower. The ramp down in solar and wind tax credits during the next five years won't slow growth as much as others assume. Our 8% CAGR in 2018-30 is higher than global growth rate forecasts and higher than the most recent U.S. Energy Information Administration reference case.

State renewable energy portfolio standards and corporate purchases will fill in any growth gaps related to tax roll-offs. We estimate 32 of the 38 states with renewable energy targets have not met their marks. New York (70% by 2030) and California (60% by 2030) represent one-third of our renewable energy growth forecast.

We forecast natural gas generation will grow 2% annually between 2019 and 2030, reaching 41% of U.S. generation. Coal and nuclear will each fall to 15% market share.

Utilities with large renewable energy investment plans like NextEra Energy and Xcel Energy will continue to benefit from our higher renewable energy growth forecast. We think the market overlooks renewable energy growth potential from wide- and narrow- moat utilities like CMS Energy, NiSource, Edison International, Alliant Energy, and Dominion Energy.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2017	2018	2019	*2020* (Forecast)	*2021* (Forecast)	*5-Year Proj. CAGR*
Revenue	*5.1*	8.5	4.9	1.9	*3.8*	*5.0*	*4.6*
EBIT	*15.0*	6.9	-86.3	936.7	*-19.4*	*9.4*	*1.7*
EBITDA	*12.9*	5.9	-51.2	178.8	*-15.0*	*7.2*	*2.1*
Net Income	*12.1*	13.8	16.0	6.8	*-5.5*	*16.0*	*7.8*
Diluted EPS	*6.6*	11.2	7.6	1.2	*-8.9*	*12.8*	*4.8*
Earnings Before Interest, after Tax	*18.0*	-10.8	-118.4	-1,098.1	*-17.2*	*8.1*	*2.1*
Free Cash Flow	—	61.4	37.7	-94.4	*-841.6*	*-94.2*	—

Profitability	3-Year Hist. Avg	2017	2018	2019	*2020*	*2021*	*5-Year Proj. Avg*
Operating Margin %	*15.4*	18.8	2.5	25.1	*19.5*	*20.3*	*20.7*
EBITDA Margin %	*27.8*	30.5	14.2	38.8	*31.8*	*32.5*	*33.1*
Net Margin %	*8.9*	8.2	9.1	9.5	*8.7*	*9.6*	*10.0*
Free Cash Flow Margin %	*-15.8*	-19.9	-26.1	-1.4	*10.2*	*0.6*	*3.3*
ROIC %	*4.1*	6.4	-0.6	6.3	*5.7*	*6.3*	*6.3*
Adjusted ROIC %	*4.5*	7.2	-0.7	6.9	*6.2*	*6.9*	*6.8*
Return on Assets %	*0.6*	0.7	-0.3	1.5	*2.0*	*2.3*	*2.3*
Return on Equity %	*2.7*	3.1	-1.4	6.6	*8.7*	*9.3*	*9.4*

Leverage	3-Year Hist. Avg	2017	2018	2019	*2020*	*2021*	*5-Year Proj. Avg*
Debt/Capital	*0.64*	0.68	0.61	0.62	*0.59*	*0.58*	*0.58*
Total Debt/EBITDA	*7.80*	6.06	12.59	4.77	*5.52*	*5.31*	*5.18*
EBITDA/Interest Expense	*3.87*	4.21	2.05	5.34	*4.49*	*4.78*	*4.90*

Valuation Summary and Forecasts

	2018	2019	*2020(E)*	*2021(E)*
Price/Fair Value	0.98	1.01	—	—
Price/Earnings	19.5	21.1	*20.6*	*18.3*
EV/EBITDA	25.6	10.4	*11.5*	*10.8*
EV/EBIT	147.3	16.1	*18.9*	*17.3*
Free Cash Flow Yield %	-13.5	-2.1	*-6.0*	*-2.8*
Dividend Yield %	3.1	2.9	*3.4*	*3.6*

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	6.0
Long-Run Tax Rate %	25.0
Stage II EBI Growth Rate %	7.0
Stage II Investment Rate %	100.0
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	832	4.1	2.11
Present Value Stage II	—	—	—
Present Value Stage III	19,520	95.9	49.41
Total Firm Value	**20,352**	**100.0**	**51.51**
Cash and Equivalents	448	—	1.14
Debt	-9,643	—	-24.41
Preferred Stock	-880	—	-2.23
Other Adjustments	300	—	0.76
Equity Value	**10,577**	**—**	**26.77**
Projected Diluted Shares	395		
Fair Value per Share (USD)	**27.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2017	2018	2019	*2020*	*2021*
Revenue	**4,875**	**5,115**	**5,209**	***5,407***	***5,675***
Cost of Goods Sold	1,519	1,761	1,535	*1,695*	*1,779*
Gross Profit	**3,356**	**3,353**	**3,674**	***3,713***	***3,897***
Selling, General & Administrative Expenses	1,612	2,353	1,355	*1,702*	*1,753*
Other Operating Expense (Income)	257	275	297	*291*	*300*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	570	600	717	*668*	*694*
Operating Income (ex charges)	**916**	**126**	**1,305**	***1,052***	***1,150***
Restructuring & Other Cash Charges	6	1	415	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**911**	**125**	**891**	***1,052***	***1,150***
Interest Expense	353	353	379	*383*	*386*
Interest Income	-114	-2	-5	*10*	*12*
Pre-Tax Income	**443**	**-231**	**507**	***679***	***776***
Income Tax Expense	315	-180	124	*156*	*178*
Other After-Tax Cash Gains (Losses)	0	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	-15	-55	*-55*	*-55*
Net Income	**129**	**-66**	**328**	***468***	***542***
Weighted Average Diluted Shares Outstanding	331	357	376	*390*	*401*
Diluted Earnings Per Share	**0.39**	**-0.18**	**0.87**	***1.20***	***1.35***
Adjusted Net Income	400	463	495	*468*	*542*
Diluted Earnings Per Share (Adjusted)	**1.21**	**1.30**	**1.32**	***1.20***	***1.35***
Dividends Per Common Share	0.70	0.78	0.80	*0.84*	*0.88*
EBITDA	**1,481**	**724**	**1,608**	***1,719***	***1,844***
Adjusted EBITDA	**1,486**	**726**	**2,023**	***1,719***	***1,844***

NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
25.60 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2017	2018	2019	Forecast 2020	Forecast 2021
Cash and Equivalents	38	121	148	*240*	*170*
Investments	—	—	—	—	—
Accounts Receivable	899	1,059	857	*963*	*1,011*
Inventory	471	423	425	*534*	*560*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	355	453	424	*400*	*425*
Current Assets	**1,763**	**2,055**	**1,854**	***2,137***	***2,167***
Net Property Plant, and Equipment	14,360	15,543	16,912	*17,114*	*18,234*
Goodwill	1,691	1,691	1,486	*1,486*	*1,486*
Other Intangibles	232	221	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,625	2,002	2,014	*2,290*	*2,340*
Long-Term Non-Operating Assets	292	293	394	*394*	*394*
Total Assets	**19,962**	**21,804**	**22,660**	***23,421***	***24,620***
Accounts Payable	626	884	666	*696*	*731*
Short-Term Debt	1,490	2,027	1,787	*1,500*	*1,500*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,063	1,126	1,293	*1,350*	*1,450*
Current Liabilities	**3,178**	**4,037**	**3,746**	***3,546***	***3,681***
Long-Term Debt	7,512	7,105	7,856	*8,000*	*8,300*
Deferred Tax Liabilities (Long-Term)	1,293	1,331	1,485	*1,662*	*1,844*
Other Long-Term Operating Liabilities	2,737	2,519	2,352	*2,500*	*2,600*
Long-Term Non-Operating Liabilities	921	1,061	1,234	*1,234*	*1,234*
Total Liabilities	**15,642**	**16,053**	**16,673**	***16,942***	***17,658***
Preferred Stock	—	880	880	*880*	*880*
Common Stock	3	4	4	*4*	*4*
Additional Paid-in Capital	5,529	6,404	6,666	*6,966*	*7,266*
Retained Earnings (Deficit)	-1,073	-1,399	-1,371	*-1,231*	*-1,042*
(Treasury Stock)	-96	-100	-100	*-100*	*-100*
Other Equity	-43	-37	-93	*-41*	*-46*
Shareholder's Equity	**4,320**	**5,751**	**5,987**	***6,478***	***6,962***
Minority Interest	—	—	—	—	—
Total Equity	**4,320**	**5,751**	**5,987**	***6,478***	***6,962***

NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
25.60 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in December

	2017	2018	2019	*Forecast 2020*	*Forecast 2021*
Net Income	129	-51	383	*523*	*598*
Depreciation	570	600	717	*668*	*694*
Amortization	—	—	—	—	—
Stock-Based Compensation	40	29	26	*43*	*44*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	307	-188	118	*177*	*181*
Other Non-Cash Adjustments	76	42	399	—	—
(Increase) Decrease in Accounts Receivable	-52	-186	188	*-106*	*-48*
(Increase) Decrease in Inventory	19	41	-2	*-109*	*-26*
Change in Other Short-Term Assets	-396	-14	54	*-76*	*-25*
Increase (Decrease) in Accounts Payable	49	268	-300	*30*	*35*
Change in Other Short-Term Liabilities	—	—	—	*57*	*100*
Cash From Operations	**742**	**540**	**1,583**	***1,206***	***1,552***
(Capital Expenditures)	-1,696	-1,818	-1,802	*-1,770*	*-1,814*
Net (Acquisitions), Asset Sales, and Disposals	—	—	—	*1,000*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-113	-108	-120	*-128*	*50*
Cash From Investing	**-1,809**	**-1,926**	**-1,922**	***-898***	***-1,764***
Common Stock Issuance (or Repurchase)	330	844	244	*300*	*300*
Common Stock (Dividends)	-229	-273	-299	*-328*	*-354*
Short-Term Debt Issuance (or Retirement)	-282	772	-204	*-287*	—
Long-Term Debt Issuance (or Retirement)	1,251	-742	681	*144*	*300*
Other Financing Cash Flows	—	868	-56	*-98*	*-99*
Cash From Financing	**1,069**	**1,469**	**366**	***-268***	***147***
Exchange Rates, Discontinued Ops, etc. (net)	0	0	0	*52*	*-5*
Net Change in Cash	**2**	**83**	**27**	***92***	***-70***

NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
25.60 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings 2019	2020(E)	2021(E)	EV/EBITDA 2019	2020(E)	2021(E)	Price/Free Cash Flow 2019	2020(E)	2021(E)	Price/Book 2019	2020(E)	2021(E)	Price/Sales 2019	2020(E)	2021(E)
WEC Energy Group Inc WEC USA	1.13	25.8	*24.3*	*22.4*	16.8	*14.9*	*13.3*	906.3	*NM*	*NM*	—	—	—	3.9	*3.6*	*3.5*
CMS Energy Corp CMS USA	1.27	25.2	*22.8*	*21.3*	13.7	*12.2*	*11.3*	NM	*NM*	*NM*	—	—	—	2.6	*2.4*	*2.3*
Alliant Energy Corp LNT USA	1.02	23.5	*20.9*	*18.5*	14.7	*12.9*	*12.0*	NM	*NM*	*40.5*	—	—	—	3.7	*3.2*	*3.0*
Average		24.8	*22.7*	*20.7*	15.1	*13.3*	*12.2*	906.3	—	*40.5*	—	—	—	3.4	*3.1*	*2.9*
NiSource Inc NI US	**0.90**	**21.1**	***20.6***	***18.3***	**10.4**	***11.5***	***10.8***	**NM**	***NM***	***NM***	**—**	**—**	**—**	**2.0**	***1.8***	***1.7***

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC % 2019	2020(E)	2021(E)	Adjusted ROIC % 2019	2020(E)	2021(E)	Return on Equity % 2019	2020(E)	2021(E)	Return on Assets % 2019	2020(E)	2021(E)	Dividend Yield % 2019	2020(E)	2021(E)
WEC Energy Group Inc WEC USA	34,952 USD	5.1	*6.7*	*7.0*	5.8	*7.6*	*7.8*	11.3	*11.1*	*11.7*	3.3	*3.2*	*3.3*	2.6	*2.8*	*3.0*
CMS Energy Corp CMS USA	26,837 USD	6.0	*6.1*	*5.9*	6.0	*6.1*	*5.9*	13.9	*13.9*	*13.8*	2.7	*2.7*	*2.8*	2.4	*2.8*	*3.0*
Alliant Energy Corp LNT USA	16,701 USD	6.2	*6.5*	*6.8*	6.2	*6.5*	*6.8*	11.4	*10.2*	*11.0*	3.5	*3.2*	*3.5*	2.6	*3.1*	*3.4*
Average		5.8	*6.4*	*6.6*	6.0	*6.7*	*6.8*	12.2	*11.7*	*12.2*	3.2	*3.0*	*3.2*	2.5	*2.9*	*3.1*
NiSource Inc NI US	**22,660** USD	**6.3**	***5.7***	***6.3***	**6.9**	***6.2***	***6.9***	**6.6**	***8.7***	***9.3***	**1.5**	***2.0***	***2.3***	**2.9**	***3.4***	***3.6***

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth % 2019	2020(E)	2021(E)	EBIT Growth % 2019	2020(E)	2021(E)	EPS Growth % 2019	2020(E)	2021(E)	Free Cash Flow Growth % 2019	2020(E)	2021(E)	Dividend/Share Growth % 2019	2020(E)	2021(E)
WEC Energy Group Inc WEC USA	7,523 USD	-2.0	*3.7*	*4.3*	4.3	*13.2*	*14.5*	7.1	*2.2*	*8.9*	-78.4	*-844.2*	*-53.4*	6.8	*7.2*	*6.3*
CMS Energy Corp CMS USA	6,845 USD	-0.4	*2.2*	*4.0*	6.6	*13.0*	*9.1*	6.9	*2.4*	*7.3*	20.2	*-71.1*	*126.5*	7.0	*6.5*	*6.1*
Alliant Energy Corp LNT USA	3,648 USD	3.2	*1.5*	*3.9*	12.0	*4.3*	*11.6*	7.4	*-2.3*	*13.5*	17.8	*-90.3*	*-850.3*	6.0	*5.6*	*6.7*
Average		0.3	*2.5*	*4.1*	7.6	*10.2*	*11.7*	7.1	*0.8*	*9.9*	-13.5	*-335.2*	*-259.1*	6.6	*6.4*	*6.4*
NiSource Inc NI US	**5,209** USD	**1.9**	***3.8***	***5.0***	**936.7**	***-19.4***	***9.4***	**1.2**	***-8.9***	***12.8***	**-94.4**	***-841.6***	***-94.2***	**2.6**	***5.0***	***5.0***

NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
25.60 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2019	2020(E)	2021(E)	EBITDA Margin % 2019	2020(E)	2021(E)	Operating Margin % 2019	2020(E)	2021(E)	Net Margin % 2019	2020(E)	2021(E)	Free Cash Flow Margin % 2019	2020(E)	2021(E)
WEC Energy Group Inc WEC USA	1,135 USD	64.4	64.8	65.4	32.7	35.0	37.6	20.4	22.2	24.4	15.1	14.9	15.6	0.4	-8.3	-6.3
CMS Energy Corp CMS USA	708 USD	58.6	59.4	60.3	32.6	34.7	36.0	18.1	20.0	21.0	10.3	10.5	11.0	-4.6	-3.5	-15.4
Alliant Energy Corp LNT USA	557 USD	59.4	59.3	60.0	36.9	38.2	39.5	21.3	21.9	23.5	15.3	14.9	16.4	-26.9	-3.3	7.5
Average		60.8	61.2	61.9	34.1	36.0	37.7	19.9	21.4	23.0	13.6	13.4	14.3	-10.4	-5.0	-4.7
NiSource Inc NI US	**495** USD	**70.5**	**68.7**	**68.7**	**38.8**	**31.8**	**32.5**	**25.1**	**19.5**	**20.3**	**9.5**	**8.7**	**9.6**	**-4.2**	**-10.4**	**-4.6**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2019	2020(E)	2021(E)	Debt/Total Cap % 2019	2020(E)	2021(E)	EBITDA/Interest Exp. 2019	2020(E)	2021(E)	Total Debt/EBITDA 2019	2020(E)	2021(E)	Assets/Equity 2019	2020(E)	2021(E)
WEC Energy Group Inc WEC USA	12,735 USD	124.2	134.0	140.5	55.4	57.3	58.4	4.9	5.0	4.9	5.2	5.2	5.1	3.4	3.5	3.5
CMS Energy Corp CMS USA	13,171 USD	262.5	259.7	254.6	72.4	72.2	71.8	4.3	4.5	4.6	5.9	5.9	5.8	5.3	5.1	4.9
Alliant Energy Corp LNT USA	6,528 USD	120.8	122.1	120.9	54.7	55.0	54.7	4.9	5.0	5.1	4.9	5.0	4.9	3.1	3.1	3.1
Average		169.2	171.9	172.0	60.8	61.5	61.6	4.7	4.8	4.9	5.3	5.4	5.3	3.9	3.9	3.8
NiSource Inc NI US	**9,643** USD	**161.1**	**146.6**	**140.8**	**61.7**	**59.5**	**58.5**	**5.3**	**4.5**	**4.8**	**4.8**	**5.5**	**5.3**	**3.8**	**3.6**	**3.5**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2019	2020(E)	2021(E)	Current Ratio 2019	2020(E)	2021(E)	Quick Ratio 2019	2020(E)	2021(E)	Cash/Short-Term Debt 2019	2020(E)	2021(E)	Payout Ratio % 2019	2020(E)	2021(E)
WEC Energy Group Inc WEC USA	28,096 USD	0.12	0.53	0.51	1.50	1.57	1.32	1.33	1.40	1.18	0.02	0.11	0.07	65.9	69.2	67.5
CMS Energy Corp CMS USA	16,549 USD	0.55	1.79	0.55	0.86	0.93	0.83	0.64	0.72	0.61	0.13	0.34	0.10	64.1	63.9	63.2
Alliant Energy Corp LNT USA	11,700 USD	0.07	0.28	1.70	0.43	0.46	0.73	0.32	0.36	0.61	0.02	0.06	0.52	60.9	65.9	61.9
Average		0.25	0.87	0.92	0.93	0.99	0.96	0.76	0.83	0.80	0.06	0.17	0.23	63.6	66.3	64.2
NiSource Inc NI US	**9,465** USD	**0.39**	**0.62**	**0.42**	**0.49**	**0.60**	**0.59**	**0.38**	**0.45**	**0.44**	**0.08**	**0.16**	**0.11**	**91.7**	**70.1**	**65.2**

Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group (“we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

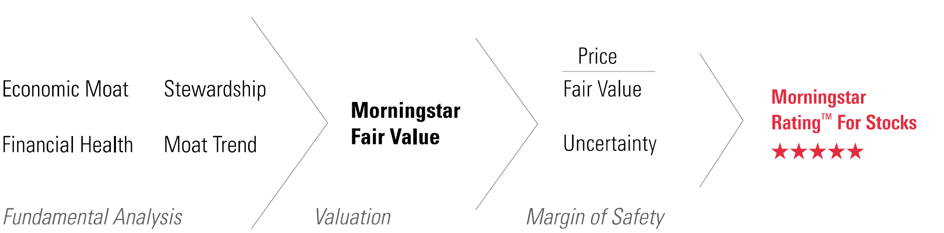
To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies



Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

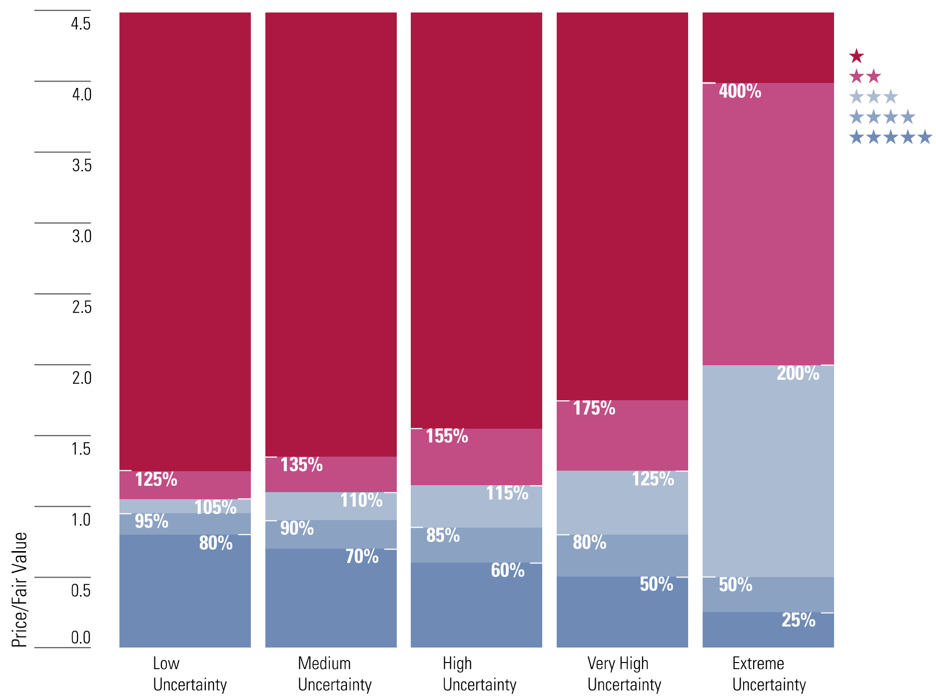
- Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

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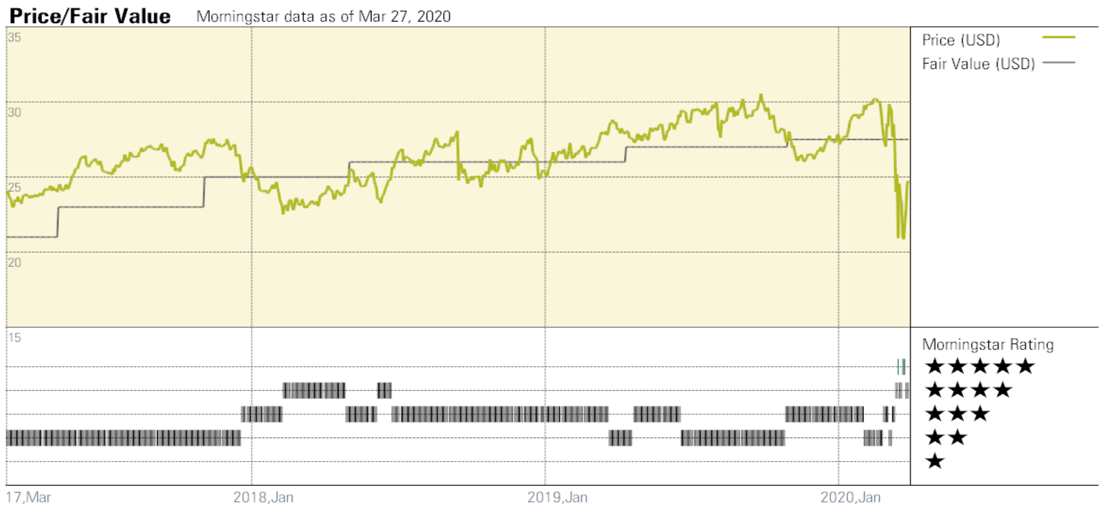
Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
25.60 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated



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USA | Utilities

Utilities

Seeing Value in 'Two Yutes'; Upgrade NI & SWX to Buy

March 18, 2020

Key Takeaway

Covered utilities came under considerable pressure as COVID-19 fears spread, economic repercussions expanded, and indiscriminate selling took hold. We believe many are now attractive as balance sheets are in great shape, liquidity is sufficient, secured, and long-dated, and rate-regulated models insulate earnings/cash flows from economic volatility. We tweak forecasts for all and upgrade NI ($28 PT) & SWX ($72 PT) to Buy, from Hold.

COVID-19 & oil price effects. We expect minimal impact to gas & electric distribution operations stemming from the spread of COVID-19 and various self-quarantine responses adopted in response to it. While winter weather has been mild, most rate designs feature decoupling mechanisms which insulate profits from volumetric impacts. Should the crisis deepen and/or extend longer than we project, utilities may experience elevated bad debt expense, less favorable regulatory outcomes, and higher pension costs resulting from poor asset performance & lower discount rates; however, across our coverage, balance sheets are strong, liquidity is robust, and maturity schedules are long-dated. Moreover, the dramatic decline in crude & product prices should aid fleet vehicle expenses, mild weather eases winter/spring working conditions, and dividend yields are even more attractive in light of the Fed's rate cuts.

NFG. We account for lower oil prices, improved natural gas prices given reduced 'associated' volumes, drilling program changes, and a mild F2Q in PA. Our F20-F21 EPS ests. are $2.94 & $2.74, from $2.88 & $2.94, and our SOP & DCF-derived PT is reduced to $48, from $51; we maintain our Buy rating. NFG has a BBB credit rating, ~$650mm in liquidity, its first debt maturity in Dec. 2021, and offers a 4.3% dividend yield.

NI. We update for 4Q results, the anticipated 3Q sale of Bay State Gas ($1.1B gross proceeds), recent Greater Lawrence related fines, insurance recoveries, regulatory proceedings, and updated funding projections. Our '20-21 EPS forecasts are $1.35 & $1.40, from $1.38 & $1.45, and our PT is maintained at $28; however, we upgrade shares to Buy, from Hold. NI has a BBB+ credit rating, $1.41B in liquidity, a 3.7% dividend yield, and 5-7% LT annual EPS & DPS growth.

OGS. We reflect 4Q results, regulatory updates, and financing plans; our '20-21 EPS ests. are $3.63 & $3.77, from $3.59 & $3.71, and we trim our PT to $80, from $83, due largely to reduced peer multiples. OGS is an A rated credit, has $750mm in liquidity, its earliest maturity is in 2024, and shares offer a 2.9% yield with 5-7% EPS & 6-8% DPS growth.

SWX. We account for 4Q results, '20 guidance, regulatory updates, and financing plans; our '20-21 EPS forecasts (ex-COLI) are $3.66 & $4.11, from $3.71 & $4.10. We trim our PT to $72, from $78, but upgrade to Buy, from Hold. SWX is an BBB+ rated credit, has $410mm in liquidity, and shares offer a 4.1% yield.

UGI. We reflect F1Q results, extremely warm F2Q conditions, and regulatory updates. Our F20-21 EPS ests. are $2.20 & $2.89, from $2.60 & $2.90, and our PT is trimmed to $48, from $54; we maintain our Buy rating. UGI has >$1B in liquidity, shares yield 4.9%, and mgmt guides 6-10% EPS & 4% DPS growth.

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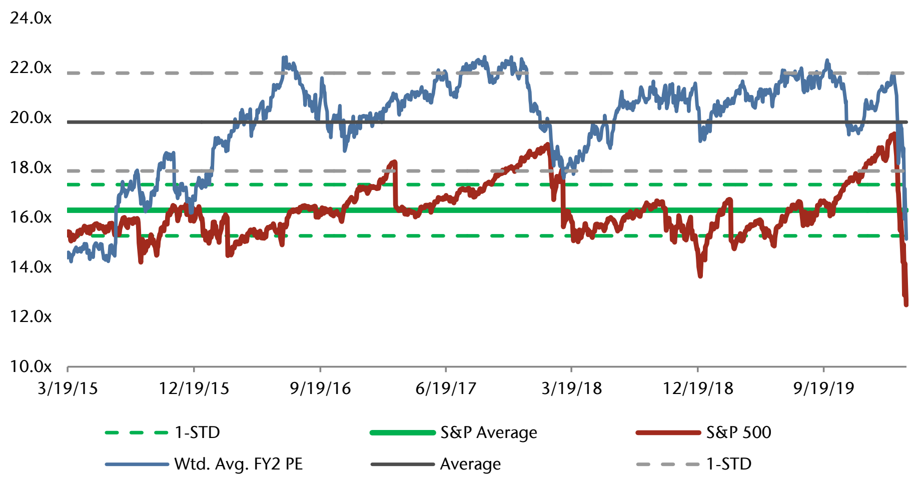
Summary of Changes										
Company	Ticker	Rating	Price	Price Target	EPS Estimates 2019	2020	2021	P/E 2019	2020	2021
National Fuel Gas Company	NFG	BUY	$41.44	↓ $48.00	$3.45	↑ $2.94	↓ $2.74	12.0x	14.1x	15.1x
Previous				*$51.00*	*$3.45*	*$2.88*	*$2.94*			
NiSource Inc.	NI	↑ BUY	$24.57	$28.00	↑ $1.32	↓ $1.35	↓ $1.40	18.7x	18.1x	17.5x
Previous		*HOLD*			*$1.27*	*$1.38*	*$1.45*			
ONE Gas Inc.	OGS	HOLD	$84.74	↓ $80.00	↓ $3.51	↑ $3.63	↑ $3.77	24.2x	23.4x	22.5x
Previous				*$83.00*	*$3.52*	*$3.59*	*$3.71*			
Southwest Gas	SWX	↑ BUY	$59.41	↓ $72.00	↑ $3.61	↓ $3.66	↑ $4.11	16.4x	16.2x	14.5x
Previous		*HOLD*		*$78.00*	*$3.53*	*$3.71*	*$4.10*			
UGI Corporation	UGI	BUY	$27.14	↓ $48.00	$2.21	↓ $2.20	↓ $2.89	12.3x	12.3x	9.4x
Previous				*$54.00*	*$2.21*	*$2.60*	*$2.93*			

Chart 1 - Weighted Avg. Gas LDC FY2 PE (Trailing 5-yrs) vs. S&P 500



Source: FactSet; Note: Group includes (ATO, NFG, NI, NJR, NWN, OGS, SWX, UGI)

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Exhibit 1 - NFG Consolidated Income Statement

Consolidated Income Statement ($MM)	2015	2016	2017	1Q	2Q	3Q	4Q	2018	1Q	2Q	3Q	4Q	2019	1Q	2QE	3QE	4QE	2020E	2021E	2022E	2023E	2024E
Revenues	$1,760.9	$1,452.4	$1,579.9	$419.7	$540.9	$342.9	$289.2	$1,592.7	$490.2	$552.5	$357.2	$293.3	$1,693.3	$444.2	$568.0	$359.8	$293.7	$1,665.7	$1,688.3	$1,762.7	$1,867.0	$1,972.9
OPERATING INCOME by DIVISION																						
Utility	$120.1	$100.1	$98.5	$40.8	$67.3	$17.0	($2.7)	$122.4	$44.3	$65.3	$19.6	($6.9)	$122.3	$45.8	$62.4	$20.1	($8.0)	$120.3	$120.9	$121.7	$123.1	$124.8
Pipeline & Storage	$151.8	$156.2	$139.1	$39.8	$38.9	$35.2	$26.9	$140.9	$36.7	$30.0	$26.2	$24.4	$117.2	$31.3	$30.4	$28.2	$26.2	$116.1	$128.2	$148.8	$149.0	$148.9
Gathering	$58.1	$63.4	$78.2	$16.7	$20.0	$18.6	$19.2	$74.5	$21.3	$19.9	$22.4	$24.7	$88.3	$24.3	$25.3	$24.9	$24.4	$98.9	$101.6	$104.1	$115.2	$122.0
Exploration & Production	$185.2	$223.9	$248.4	$52.4	$47.1	$45.9	$47.0	$192.4	$55.2	$47.7	$48.1	$45.4	$196.4	$48.0	$39.4	$28.7	$32.3	$148.3	$116.7	$140.7	$177.4	$237.5
Energy Marketing / Other	$12.0	$6.4	$1.8	$1.7	$1.0	($0.4)	($1.7)	$0.6	($0.8)	$0.5	($2.1)	($1.5)	($3.9)	$0.3	$1.2	($0.9)	($1.2)	($0.5)	$0.8	$0.8	$2.4	$3.3
Corporate	($12.0)	($10.2)	($13.2)	($2.0)	($2.7)	($2.4)	($4.2)	($11.3)	($1.5)	($3.4)	($2.3)	($3.4)	($10.6)	($1.7)	($2.8)	($2.3)	($3.7)	($10.6)	($10.1)	($9.6)	($10.1)	($9.9)
Total Operating Income	**$515.2**	**$539.7**	**$552.8**	**$149.5**	**$171.6**	**$114.0**	**$84.4**	**$519.5**	**$155.2**	**$160.1**	**$111.8**	**$82.6**	**$509.7**	**$148.0**	**$155.9**	**$98.7**	**$70.0**	**$472.6**	**$458.0**	**$506.6**	**$557.0**	**$626.7**
Depreciation	$336.2	$249.4	$224.2	$55.8	$61.2	$60.8	$63.2	$241.0	$64.3	$65.7	$71.1	$74.7	$275.7	$74.9	$76.8	$76.6	$77.1	$305.4	$315.1	$321.9	$339.9	$351.1
Non-Service Pension & Post-Retirement Costs				($7.5)	($14.9)	($6.2)	($4.0)	($32.6)	($7.4)	($12.4)	($5.7)	($1.8)	($27.3)	($8.2)	($14.8)	($7.1)	($4.1)	($34.2)	($33.3)	($33.6)	($33.4)	($33.5)
Other Income / (Expenses)	$7.9	$11.6	$7.0	$4.0	$1.8	$2.6	$5.2	$13.6	$4.2	$2.7	$2.8	$4.2	$13.8	$6.2	$3.0	$2.8	$2.8	$14.8	$14.3	$14.6	$14.4	$14.5
Interest Expense	($95.4)	($118.6)	($115.7)	($28.6)	($28.4)	($28.2)	($26.5)	($111.7)	($26.5)	($27.1)	($26.5)	($26.7)	($106.8)	($27.0)	($28.6)	($28.2)	($28.6)	($112.5)	($121.1)	($131.2)	($137.1)	($141.2)
Earnings before Taxes	**$427.7**	**$432.7**	**$444.2**	**$117.4**	**$130.1**	**$82.2**	**$59.1**	**$388.8**	**$125.4**	**$123.3**	**$82.4**	**$58.3**	**$389.5**	**$119.0**	**$115.5**	**$66.2**	**$40.0**	**$340.7**	**$317.9**	**$356.4**	**$400.9**	**$466.5**
Income Taxes	($175.2)	($168.7)	($160.7)	($29.7)	($34.3)	($19.2)	($13.1)	($96.2)	($27.9)	($30.4)	($20.6)	($11.3)	($90.2)	($31.6)	($28.9)	($15.9)	($8.8)	($85.2)	($79.5)	($89.1)	($100.2)	($116.6)
Effective Tax Rate	41.0%	39.0%	36.2%	25.3%	26.3%	23.3%	22.1%	24.8%	22.2%	24.7%	25.0%	19.4%	23.2%	26.6%	*25.0%*	*24.0%*	*22.0%*	25.0%	*25.0%*	*25.0%*	*25.0%*	*25.0%*
Net Income	$252.5	$263.9	$283.5	$87.7	$95.8	$63.0	$46.0	$292.5	$97.5	$92.9	$61.8	$47.0	$299.2	$87.4	$86.7	$50.3	$31.2	$255.6	$238.5	$267.3	$300.7	$349.9
Recurring Diluted Earnings Per Share	**$2.97**	**$3.10**	**$3.30**	$1.02	$1.11	$0.73	$0.53	**$3.38**	$1.12	$1.07	$0.71	$0.54	**$3.45**	$1.01	$1.00	$0.58	$0.36	**$2.94**	**$2.74**	**$3.06**	**$3.43**	**$3.99**
Average number of diluted shares outstanding	85,016	85,140	86,027	86,326	86,324	86,501	86,651	86,451	86,709	86,768	86,840	86,808	86,781	86,883	86,938	86,988	87,035	86,961	87,164	87,365	87,560	87,750
Average number of basic shares outstanding	84,388	84,848	85,365	85,630	85,809	85,930	85,953	85,831	86,033	86,290	86,306	86,315	86,236	86,378	86,433	86,484	86,530	86,456	86,659	86,861	87,056	87,246
Dividend	$1.56	$1.60	$1.64	$0.42	$0.42	$0.43	$0.43	$1.68	$0.43	$0.43	$0.44	$0.44	$1.72	$0.44	$0.44	$0.45	$0.45	$1.76	$1.80	$1.84	$1.88	$1.92
Payout Ratio	53%	52%	50%	41%	37%	58%	80%	50%	38%	40%	61%	80%	50%	43%	44%	77%	124%	60%	66%	60%	55%	48%
Payout Ratio of Regulated EPS	77%	88%	92%	64%	52%	102%	151%	79%	57%	56%	100%	154%	77%	62%	56%	96%	177%	80%	78%	75%	74%	74%
Payout ex. E&P	1.04%	1.04%	1.24%					1.05%					1.10%					1.25%	1.20%	1.12%	1.16%	1.18%
Dividend Growth (Y/Y)	2.6%	2.6%	2.5%					2.4%					2.4%					2.3%	2.3%	2.2%	2.2%	2.1%
Utillity EPS	$0.74	$0.60	$0.55	$0.24	$0.39	$0.05	($0.08)	$0.59	$0.30	$0.41	$0.08	($0.09)	$0.70	$0.31	$0.37	$0.09	($0.10)	$0.66	$0.68	$0.68	$0.70	$0.71
Pipeline & Storage EPS	$0.90	$0.86	$0.77	$0.28	$0.26	$0.24	$0.19	$0.98	$0.29	$0.20	$0.18	$0.18	$0.85	$0.21	$0.21	$0.18	$0.17	$0.77	$0.84	$0.98	$0.95	$0.94
Gathering EPS	$0.37	$0.36	$0.47	$0.12	$0.14	$0.13	$0.17	$0.57	$0.16	$0.15	$0.17	$0.19	$0.67	$0.18	$0.20	$0.19	$0.19	$0.76	$0.78	$0.79	$0.88	$0.93
Energy Marketing EPS	$0.09	$0.05	$0.02	$0.02	$0.01	($0.00)	($0.01)	$0.01	($0.00)	$0.01	($0.02)	($0.01)	($0.02)	$0.00	$0.01	($0.01)	($0.01)	$0.00	$0.01	$0.01	$0.03	$0.03
Exploration & Production EPS	$1.10	$1.20	$1.50	$0.34	$0.32	$0.32	$0.23	$1.21	$0.32	$0.31	$0.30	$0.28	$1.21	$0.28	$0.22	$0.13	$0.15	$0.76	$0.46	$0.62	$0.93	$1.43
Other	($0.23)	$0.03	($0.01)	$0.01	($0.01)	($0.01)	$0.03	$0.03	$0.06	($0.01)	($0.00)	($0.01)	$0.03	$0.03	($0.01)	($0.01)	($0.04)	($0.02)	($0.04)	($0.03)	($0.05)	($0.06)
Total	$3.20	$3.07	$3.30	$1.00	$1.12	$0.74	$0.50	$3.36	$1.07	$1.08	$0.71	$0.55	$3.42	$0.98	$1.01	$0.58	$0.40	$2.96	$2.78	$3.09	$3.49	$4.04
Corporate Depreciation	$1.5	$2.0	$1.4	$0.3	$0.7	$0.8	$0.6	$2.4	$0.5	$0.4	$0.8	$0.2	$1.8	$0.2	$0.4	$0.4	$0.3	$1.2	$1.3	$1.3	$1.3	$1.3
Corporate/ All Other Pension Cost				($0.2)	($0.2)	($0.2)	($0.2)	($0.7)	($0.7)	($0.6)	($0.6)	($0.6)	($2.7)	($0.8)	($0.8)	($0.8)	($0.8)	($3.1)	($3.1)	($3.1)	($3.1)	($3.1)

Source: NFG reports, Jefferies estimates

Exhibit 2 - NI Valuation Analysis

Jefferies

NiSource (NI)

Target P/E Analysis	
2021 EPS	$1.40
Average 2021 P/E	17.8x
Implied Price Target	**$25.00**

Target Yield Analysis	
1Q21 Dividend	$0.88
Average 3-Year Yield	2.87%
Target Yield	2.85%
Implied Price Target	**$30.90**

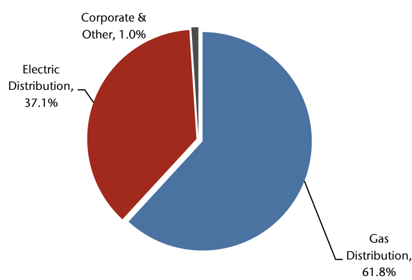
Assumptions	
EPS CAGR 2019-2024	4.3%
Dividend CAGR 2019-2024	5.4%
Terminal Growth Rate	2.25%
Stable Period Payout Ratio	63.1%
Stable Period ROE	9.0%
Implied 2021 EV/EBITDA	9.8x
Implied 2021 P/E	14.9x

WACC Calculations	
Risk Free Rate	2.5%
Beta	0.50
Equity Risk Premium	5.5%
Cost of Equity	5.3%
Cost of New Debt	3.75%
Tax Rate	19.7%
WACC	4.0%

Capital Structure	
Total Debt	$9,629
Market Cap	$8,005
Debt/Cap	54.6%
Equity/Cap	45.4%

Terminal Growth Capex	$525.0
5-Year ROE	8.2%
Implied Contribution	$43.1
2024E EBT + DD&A	$1,849.3
Implied Growth Rate	2.3%

2020E EBIT Composition



Average Price Target	$28.00

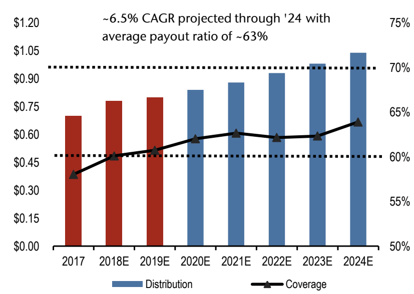
Total Return Expectations	
NI Current Price	$20.94
Appreciation to PT	33.7%
Yield over 12-months	4.1%
Total Return Potential	**37.8%**

Dividend Expectations		
2017	$0.70	58%
2018E	$0.78	60%
2019E	$0.80	61%
2020E	$0.84	62%
2021E	$0.88	63%
2022E	$0.93	62%
2023E	$0.98	62%
2024E	$1.04	64%

	Price	PT	3-Yr Avg
2020 P/E	15.5x	20.7x	21.1x
2021 P/E	14.9x	19.9x	
2022 P/E	14.0x	18.7x	

2020 EBIT Contribution		
Gas Distribution	$683.5	61.8%
Electric Distribution	$410.1	37.1%
Corporate & Other	$11.5	1.0%
Total	$1,105.0	100.0%

Terminal WACC Calculations	
Risk Free Rate	3.5%
Adjusted Beta	0.67
Equity Risk Premium	5.5%
Terminal Cost of Equity	7.2%
Terminal Cost of New Debt	5.0%
Terminal WACC	5.4%
Terminal Cash Flow Growth Rate	2.25%
Terminal Dividend Growth Rate	2.50%



DIVIDEND DISCOUNT MODEL	2020E	2021E	2022E	2023E	2024E
Dividend Per Share	$0.84	$0.88	$0.93	$0.98	$1.04
Payout Ratio	*62.0%*	*62.6%*	*62.2%*	*62.3%*	*63.9%*
Terminal Value					$22.84
PV of Dividends	$0.61	$0.82	$0.82	$0.82	$0.83
Sum of PV of Dividends per Share	$3.91				
PV of Terminal Value	$20.31				
Equity Value per Share	$24.23				
Implied Equity Value per Share*	**$24.50**				

Discounted Cash Flow	2020E	2021E	2022E	2023E	2024E
EBIT	$1,105	$1,176	$1,268	$1,369	$1,483
Other	$3	$6	$1	$3	$3
(Cash Taxes on EBIT)	($18)	($40)	($64)	($93)	($162)
NOPAT	**$1,090**	**$1,142**	**$1,205**	**$1,280**	**$1,324**
D&A	$744	$774	$803	$831	$857
(Capex)	($1,850)	($1,900)	($1,900)	($1,850)	($1,382)
Other & Changes in NWC	$64	($9)	($8)	$2	($5)
Free Cash Flow to the Firm	**$49**	**$7**	**$100**	**$263**	**$794**
Terminal Value					$25,410
PV of Cash Flows	$47.2	$6.6	$88.9	$224.3	$21,723
Implied Enterprise Value	22,090				
(Net Debt. Including Preferred Equity)	(10,360)				
(Pension & Operating Lease)	(245)				
Implied Equity Value	11,485				
Shares Outstanding	374.1				
Implied Equity Value per Share*	**$31.10**				

Source: NI reports, Jefferies estimates

Exhibit 3 - NI Consolidated Income Statement

Consolidated Income Statement	2015	2016	2017	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020E	1QE	2QE	3QE	4QE	2021E	2022E	2023E	2024E
Revenues	$4,593.6	$4,504.9	$4,902.6	$5,084.0	$1,858.9	$1,011.9	$927.9	$1,385.4	$5,184.1	$1,968.9	$1,056.3	$961.2	$1,407.4	$5,393.8	$1,991.7	$1,078.3	$1,000.3	$1,457.4	$5,527.7	$5,703.7	$5,904.3	$6,115.6
(Cost of Sales)	($1,569.9)	($1,390.2)	($1,518.7)	($1,759.4)	($680.3)	($253.5)	($196.7)	($404.3)	($1,534.8)	($751.0)	($269.9)	($208.3)	($388.6)	($1,617.8)	($750.6)	($267.0)	($210.7)	($395.3)	($1,623.7)	($1,645.6)	($1,682.0)	($1,714.3)
Net Revenue	$3,023.7	$3,114.7	$3,383.9	$3,324.6	$1,178.6	$758.4	$731.2	$981.1	$3,649.3	$1,217.9	$786.3	$752.9	$1,018.7	$3,776.0	$1,241.0	$811.3	$789.6	$1,062.1	$3,904.1	$4,058.1	$4,222.3	$4,401.3
(Operating & Maintenance Expenses)	($1,409.3)	($1,429.1)	($1,589.2)	($1,519.4)	($418.8)	($382.7)	($373.4)	($413.4)	($1,588.3)	($428.2)	($388.1)	($374.0)	($423.9)	($1,614.2)	($432.9)	($392.2)	($378.0)	($428.5)	($1,631.5)	($1,650.3)	($1,670.5)	($1,692.2)
(Depreciation & Amortization)	($524.4)	($547.1)	($570.3)	($599.6)	($175.1)	($177.9)	($182.2)	($182.2)	($717.4)	($184.1)	($184.2)	($186.4)	($189.5)	($744.3)	($191.4)	($191.6)	($193.8)	($196.9)	($773.7)	($802.8)	($830.5)	($857.0)
(Other Taxes)	($256.1)	($244.3)	($257.2)	($274.4)	($87.6)	($66.4)	($67.9)	($74.9)	($296.8)	($92.4)	($72.5)	($69.3)	($78.3)	($312.4)	($93.3)	($73.4)	($74.0)	($81.9)	($322.5)	($337.5)	($352.3)	($368.8)
(Gain on Sale of Assets)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
OPERATING INCOME BY DIVISION																						
Gas Distribution	$567.8	$597.6	$589.7	$561.4	$394.4	$43.5	($26.4)	$213.9	$625.4	$416.1	$54.2	($19.4)	$232.6	$683.5	$423.9	$62.7	($2.6)	$257.7	$741.7	$824.7	$917.5	$1,024.9
Electric Operations	$279.5	$302.3	$375.3	$369.1	$95.2	$85.6	$135.4	$84.9	$401.1	$96.2	$87.4	$139.6	$87.0	$410.1	$98.0	$90.4	$143.3	$90.7	$422.3	$431.6	$440.4	$447.7
Corporate & Eliminations	($13.4)	($5.7)	$2.2	$0.7	$7.5	$2.3	($1.3)	$11.8	$20.3	$0.9	($0.0)	$3.1	$7.5	$11.5	$1.6	$1.1	$3.0	$6.5	$12.3	$11.3	$11.2	$10.6
Total Recurring Operating Income	**$833.9**	**$894.2**	**$967.2**	**$931.2**	**$497.1**	**$131.4**	**$107.7**	**$310.6**	**$1,046.8**	**$513.2**	**$141.5**	**$123.2**	**$327.1**	**$1,105.0**	**$523.5**	**$154.2**	**$143.7**	**$354.9**	**$1,176.3**	**$1,267.5**	**$1,369.1**	**$1,483.2**
Other Income / (Loss)	$25.2	$1.5	($2.8)	$18.0	($0.7)	$0.0	$1.3	($5.5)	($4.9)	$3.5	$5.5	$4.9	($10.5)	$3.4	$4.3	$6.1	$4.9	($9.8)	$5.5	$1.3	$3.4	$3.4
Interest Expense - Net	($417.3)	($349.5)	($353.2)	($353.3)	($95.6)	($94.1)	($95.9)	($93.3)	($378.9)	($98.1)	($99.0)	($96.8)	($93.3)	($387.2)	($97.8)	($97.8)	($97.8)	($97.8)	($391.4)	($416.0)	($444.2)	($494.4)
Pretax Income	$684.2	$546.2	$611.2	$595.9	$400.8	$37.3	$13.1	$211.8	$663.0	$418.6	$48.1	$31.3	$223.3	$721.3	$430.0	$62.5	$50.8	$247.2	$790.5	$852.9	$928.3	$992.3
(Provision)/Benefit for Income Taxes	($250.3)	($195.0)	($212.3)	($117.6)	($79.3)	($4.4)	($1.0)	($28.5)	($113.2)	($87.5)	($8.0)	($4.6)	($44.4)	($144.4)	($97.4)	($11.3)	($8.0)	($52.3)	($169.0)	($173.1)	($194.2)	($211.3)
Effective Tax Rate	*36.6%*	*35.7%*	*34.7%*	*19.7%*	*19.8%*	*11.8%*	*7.6%*	*13.5%*	*17.1%*	*20.9%*	*16.5%*	*14.6%*	*19.9%*	*20.0%*	*22.6%*	*18.0%*	*15.8%*	*21.1%*	*21.4%*	*20.3%*	*20.9%*	*21.3%*
Net Income	$433.9	$351.2	$398.9	$478.3	$321.5	$32.9	$12.1	$183.3	$549.8	$331.1	$40.1	$26.8	$178.9	$576.9	$332.6	$51.2	$42.8	$195.0	$621.5	$679.8	$734.1	$781.0
Preferred Interest				($15.0)	($13.8)	($13.8)	($13.8)	($13.7)	($55.1)	($13.8)	($13.8)	($13.8)	($13.8)	($55.1)	($13.8)	($13.8)	($13.8)	($13.8)	($55.1)	($55.1)	($55.1)	($55.1)
Net Income (from Continuing Operations)	$298.9	$351.2	$398.9	$463.3	$307.7	$19.1	($1.7)	$169.6	$494.7	$317.3	$26.4	$13.0	$165.1	$521.8	$318.8	$37.4	$29.0	$181.2	$566.4	$624.7	$679.0	$725.9
Recurring Diluted EPS	**$0.94**	**$1.09**	**$1.21**	**$1.30**	$0.82	$0.05	($0.00)	$0.45	**$1.32**	$0.83	$0.07	$0.03	$0.42	**$1.35**	$0.80	$0.09	$0.07	$0.44	**$1.40**	**$1.50**	**$1.57**	**$1.63**
Average # of diluted shares outstanding	319.4	323.3	330.7	357.0	374.7	375.2	374.1	378.3	375.6	383.5	383.7	383.9	389.6	385.2	398.1	401.6	404.9	408.2	403.2	417.6	431.8	445.8
Average # of basic shares outstanding	317.8	321.8	329.4	356.5	373.4	373.9	374.1	377.2	374.7	382.4	382.6	382.8	388.5	384.1	397.0	400.5	403.8	407.1	402.1	416.5	430.7	444.7
Dividends per Share	**$0.83**	**$0.64**	**$0.70**	**$0.78**	$0.20	$0.20	$0.20	$0.20	**$0.80**	$0.21	$0.21	$0.21	$0.21	**$0.84**	$0.22	$0.22	$0.22	$0.22	**$0.88**	**$0.93**	**$0.98**	**$1.04**
Payout Ratio	**89%**	**59%**	**58%**	**60%**	24%	393%	-4401%	45%	**61%**	25%	306%	621%	50%	**62%**	27%	236%	307%	50%	**63%**	**62%**	**62%**	**64%**

Source: NI reports; Jefferies estimates

Exhibit 4 - NI Consolidated Balance Sheet

Consolidated Balance Sheet ($MM)	2014	2015	2016	2017	1Q	2Q	3Q	4Q	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020E	2021E	2022E	2023E	2024E
Cash & equivalents	25	16	26	29	35	68	42	113	113	151	24	28	139	139	28	25	21	24	24	17	17	17	18
Accounts receivable	1,070	660	847	899	974	585	500	1,059	1,059	1,132	870	539	857	857	1,190	871	522	841	841	909	938	971	1,003
Inventory	583	537	494	471	245	337	467	423	423	216	319	449	425	425	248	341	453	338	338	334	338	346	351
Other current assets	788	365	394	364	380	326	360	462	462	417	366	362	433	433	433	433	433	433	433	433	433	433	433
Total current assets	**2,467**	**1,577**	**1,762**	**1,763**	**1,634**	**1,316**	**1,369**	**2,055**	**2,055**	**1,916**	**1,578**	**1,378**	**1,854**	**1,854**	**1,899**	**1,669**	**1,429**	**1,636**	**1,636**	**1,692**	**1,726**	**1,767**	**1,805**
Tangible fixed assets	**16,017**	**12,112**	**13,068**	**14,360**	**14,457**	**14,848**	**15,174**	**15,543**	**15,543**	**15,741**	**16,134**	**16,481**	**16,912**	**16,912**	**17,098**	**17,400**	**16,809**	**17,138**	**17,138**	**18,264**	**19,361**	**20,381**	**21,374**
Goodwill	3,666	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486
Other intangible fixed assets	265	254	243	232	229	226	224	221	221	218	215	213	0	0	0	0	0	0	0	0	0	0	0
Investment in affiliates	453	195	200	210	206	204	217	206	206	211	218	220	230	230	230	230	230	230	230	230	230	230	230
Other investments	1,999	1,665	1,729	1,707	1,882	2,024	2,025	2,089	2,089	2,113	2,139	2,150	2,178	2,178	2,203	2,225	2,255	2,286	2,286	2,393	2,501	2,609	2,717
Non-Current Assets	**6,383**	**3,804**	**3,862**	**3,839**	**4,008**	**4,144**	**4,156**	**4,206**	**4,206**	**4,233**	**4,262**	**4,273**	**3,894**	**3,894**	**3,920**	**3,942**	**3,971**	**4,002**	**4,002**	**4,109**	**4,217**	**4,325**	**4,433**
Total assets	**24,866**	**17,493**	**18,692**	**19,962**	**20,099**	**20,308**	**20,699**	**21,804**	**21,804**	**21,890**	**21,974**	**22,132**	**22,660**	**22,660**	**22,916**	**23,011**	**22,209**	**22,776**	**22,776**	**24,065**	**25,305**	**26,473**	**27,612**
Trade payables and other ST liabilities	2,111	1,656	1,601	1,688	1,396	1,363	1,752	2,060	2,060	1,884	1,722	1,714	1,973	1,973	2,063	1,839	1,811	1,859	1,859	1,913	1,939	1,982	2,014
Short term debt	1,844	1,001	1,851	1,490	1,830	1,198	1,660	1,977	1,977	2,131	2,092	1,626	1,773	1,773	1,270	1,270	1,270	1,333	1,333	500	600	0	0
Total current liabilities	**3,955**	**2,658**	**3,452**	**3,178**	**3,226**	**2,560**	**3,411**	**4,037**	**4,037**	**4,015**	**3,814**	**3,340**	**3,746**	**3,746**	**3,333**	**3,109**	**3,081**	**3,192**	**3,192**	**2,413**	**2,539**	**1,982**	**2,014**
Long term debt	8,156	5,949	6,058	7,512	7,287	7,093	7,095	7,105	7,105	7,110	7,110	7,854	7,856	7,856	8,254	8,621	7,771	7,827	7,827	9,178	9,570	10,562	10,942
Debt deemed provisions (e.g. pensions)	676	760	713	337	323	398	383	474	474	462	455	451	455	455	455	455	455	455	455	455	455	455	455
Deferred taxes (Revenue)	3,662	2,365	2,528	1,293	1,397	1,409	1,303	1,342	1,342	1,402	1,483	1,477	1,495	1,495	1,572	1,579	1,583	1,621	1,621	1,751	1,860	1,961	2,049
Other long term liabilities	2,243	1,918	1,869	3,321	3,359	3,386	3,434	3,096	3,096	3,121	3,136	3,163	3,121	3,121	3,068	3,068	3,197	3,197	3,197	3,197	3,197	3,197	3,197
Total liabilities	**18,691**	**13,649**	**14,621**	**15,642**	**15,592**	**14,845**	**15,626**	**16,053**	**16,053**	**16,110**	**15,998**	**16,284**	**16,673**	**16,673**	**16,682**	**16,831**	**16,086**	**16,293**	**16,293**	**16,994**	**17,621**	**18,157**	**18,657**
Common equity	6,175	3,844	4,071	4,320	4,506	5,069	4,680	4,871	4,871	4,900	5,096	4,969	5,107	5,107	5,354	5,300	5,243	5,604	5,604	6,191	6,804	7,436	8,074
Preferred equity	0	0	0	0	0	394	394	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	**6,175**	**3,844**	**4,071**	**4,320**	**4,506**	**5,463**	**5,074**	**5,751**	**5,751**	**5,780**	**5,976**	**5,849**	**5,987**	**5,987**	**6,234**	**6,180**	**6,123**	**6,484**	**6,484**	**7,071**	**7,684**	**8,316**	**8,954**
Total liabilities and equity	**24,866**	**17,493**	**18,692**	**19,962**	**20,099**	**20,308**	**20,699**	**21,804**	**21,804**	**21,890**	**21,974**	**22,132**	**22,660**	**22,660**	**22,916**	**23,011**	**22,209**	**22,776**	**22,776**	**24,065**	**25,305**	**26,473**	**27,612**
Check	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Balance Sheet Assumptions	2014	2015	2016	2017	1Q	2Q	3Q	4Q	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020E	2021E	2022E	2023E	2024E
Accounts receivable (as % of EBIT)	85%	77%	95%	93%	236%	477%	375%	376%	112%	228%	662%	495%	281%	82%	230%	592%	408%	266%	76%	77%	74%	71%	67%
Inventory (as % of operating expenses)	28%	38%	35%	30%	61%	93%	142%	99%	28%	52%	83%	120%	103%	27%	58%	88%	121%	80%	21%	20%	20%	21%	21%
Trade payable & other S.T. liabilities (as % of opg. Exp.)	100%	118%	112%	106%	347%	377%	531%	484%	136%	450%	450%	459%	477%	124%	482%	474%	484%	438%	115%	117%	117%	119%	119%
Working Capital	330	(95)	135	46	202.6	(115.2)	(424.3)	(117.0)	(117)	(119.0)	(167.7)	(363.4)	(258.0)	(258)	(192.6)	(194.3)	(402.9)	(246.3)	(246)	(238)	(230)	(232)	(227)
Changes in Working Capital	**(139.5)**	**146.9**	**(292.1)**	**(416.4)**	(73.8)	203.3	364.1	(383.4)	**110.2**	(53.0)	(29.7)	117.7	(110.1)	**(75.1)**	(65.4)	1.7	208.6	(156.6)	**(11.7)**	**(8.8)**	**(7.6)**	**2.5**	**(5.1)**
Average Collection Period	**60**	**52**	**69**	**67**	50	53	52	67	**76**	55	78	53	57	**60**	55	75	50	55	**57**	**60**	**60**	**60**	**60**
Inventory Days	**96**	**125**	**130**	**113**	30	98	193	78	**88**	29	114	210	97	**101**	30	115	200	80	**76**	**75**	**75**	**75**	**75**
Average Payable Period	**346**	**385**	**422**	**406**	173	396	726	379	**427**	249	618	802	449	**469**	250	620	800	440	**420**	**430**	**430**	**430**	**430**

	2014	2015	2016	2017	1Q	2Q	3Q	4Q	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020E	2021E	2022E	2023E	2024E
Cash	25	16	26	29	35	68	42	113	113	151	24	28	139	139	28	25	21	24	24	17	17	17	18
Total Debt	9,999	6,950	7,909	9,002	9,117	8,290	8,754	9,083	9,083	9,242	9,201	9,480	9,629	9,629	9,523	9,890	9,040	9,161	9,161	9,678	10,170	10,562	10,942
Total Net Debt	**9,974**	**6,934**	**7,883**	**8,973**	9,082	8,222	8,712	8,970	**8,970**	9,091	9,178	9,452	9,490	**9,490**	9,495	9,866	9,019	9,136	**9,136**	**9,661**	**10,153**	**10,545**	**10,925**
Preferred Securities	0	0	0	0	0	394	394	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880
Shareholders' Equity	6,175	3,844	4,071	4,320	4,506	5,463	5,074	5,751	5,751	5,780	5,976	5,849	5,987	5,987	6,234	6,180	6,123	6,484	6,484	7,071	7,684	8,316	8,954
Net Debt/Capital	**61.8%**	**64.3%**	**65.9%**	**67.5%**	66.8%	58.4%	61.4%	57.5%	**57.5%**	57.7%	57.2%	58.4%	58.0%	**58.0%**	57.2%	58.3%	56.3%	55.4%	**55.4%**	**54.9%**	**54.2%**	**53.4%**	**52.6%**
Invested capital	16,149	10,778	11,954	13,293	13,588	13,685	13,786	14,721	14,721	14,870	15,154	15,300	15,477	15,477	15,730	16,046	15,142	15,620	15,620	16,732	17,837	18,861	19,879
ROIC	8.1%	8.3%	7.9%	7.6%	4.0%	6.8%	6.9%	6.8%	6.8%	3.8%	7.1%	6.8%	6.9%	6.9%	3.5%	6.9%	7.0%	7.1%	7.1%	7.3%	7.3%	7.5%	7.7%
ROE	8.6%	5.3%	9.0%	9.4%	9.9%	9.1%	12.0%	8.9%	8.9%	9.3%	8.9%	10.7%	8.4%	8.4%	8.4%	8.4%	8.6%	11.3%	8.3%	8.4%	8.5%	8.5%	8.4%
EBITDA	1,864	1,384	1,443	1,535	557	267	282	443	1,549	672	309	291	487	1,759	701	331	315	506	1,853	1,956	2,072	2,203	2,344
Net Debt/EBITDA (50% pref equity treatment)	**5.4x**	**4.1x**	**5.5x**	**5.8x**	6.0x	5.7x	5.9x	6.1x	**6.1x**	5.7x	5.6x	5.8x	5.6x	**5.6x**	5.6x	5.7x	5.2x	5.2x	**5.2x**	**5.2x**	**5.1x**	**5.0x**	**4.8x**

Source: NI reports, Jefferies estimates

Jefferies

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Exhibit 5 - NI Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows ($MM)	2014	2015	2016	2017	1Q	2Q	3Q	4Q	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020E	2021E	2022E	2023E	2024E
Operating activities																							
Net income	530	302	332	129	276	25	(340)	(12)	(51)	219	297	7	(139)	383	331	40	27	179	577	622	680	734	781
Depreciation, amortization & decommissioning	606	524	547	570	145	145	149	162	600	175	178	182	182	717	184	184	186	189	744	774	803	831	857
Deferred taxes	299	135	182	307	57	10	(93)	(162)	(188)	52	75	(6)	(2)	118	77	7	4	39	126	129	109	101	87
Net change in working capital	(140)	147	(292)	(416)	(74)	203	364	(383)	110	(53)	(30)	118	(110)	(75)	(65)	2	209	(157)	(12)	(9)	(8)	2	(5)
Other, including changes in provisions and other liabilities	25	348	35	153	(16)	39	37	8	69	7	7	5	421	440	(53)	0	129	0	76	0	0	0	0
Cash from operating activities	**1,320**	**1,457**	**803**	**742**	**388**	**421**	**118**	**(387)**	**540**	**399**	**527**	**306**	**352**	**1,583**	**474**	**233**	**555**	**251**	**1,512**	**1,516**	**1,584**	**1,668**	**1,720**
Investing activities																							
Capital expenditure - tangible fixed assets	(2,029)	(1,361)	(1,475)	(1,696)	(370)	(463)	(464)	(522)	(1,818)	(354)	(490)	(467)	(492)	(1,802)	(370)	(487)	(476)	(518)	(1,850)	(1,900)	(1,900)	(1,850)	(1,850)
Investment in affiliates	(69)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net disposals/(acquisitions)	13	3,803	0	0	0	1	(14)	5	(8)	0	0	0	(8)	(8)	0	0	880	0	880	0	0	0	0
Other investment	(32)	(497)	(108)	(113)	(29)	(10)	(28)	(33)	(100)	(22)	(33)	(29)	(28)	(112)	(26)	(22)	(29)	(31)	(108)	(107)	(109)	(108)	(108)
Cash from investing activities	**(2,117)**	**1,945**	**(1,583)**	**(1,809)**	**(399)**	**(472)**	**(505)**	**(550)**	**(1,926)**	**(375)**	**(523)**	**(496)**	**(529)**	**(1,922)**	**(396)**	**(509)**	**375**	**(549)**	**(1,078)**	**(2,007)**	**(2,009)**	**(1,958)**	**(1,958)**
Financing activities																							
Inc./(dec.) in short term debt	878	(936)	921	(282)	362	(967)	1,011	366	772	103	1	(466)	158	(204)	(503)	0	0	64	(440)	(833)	100	(600)	0
Inc./(dec.) in long term debt	227	(2,092)	65	1,395	(279)	138	(553)	(2)	(696)	(2)	(44)	748	(3)	698	397	367	(850)	57	(29)	1,351	392	992	380
Inc./(dec.) in equity	20	2	14	337	4	600	4	241	848	3	4	4	234	244	5	5	5	283	298	375	375	375	375
Common stock dividends paid	(321)	(263)	(206)	(229)	(66)	(66)	(71)	(71)	(273)	(75)	(75)	(75)	(75)	(299)	(80)	(80)	(80)	(82)	(323)	(354)	(387)	(422)	(462)
Other cash from financing	(9)	(122)	(4)	(152)	(4)	(12)	(31)	(16)	(62)	(4)	(0)	(8)	(6)	(18)	0	0	0	0	0	0	0	0	0
Inc./(dec.) in preffered equity	0	0	0	0	0	394	(0)	486	880	(9)	(19)	(8)	(19)	(56)	(8)	(19)	(8)	(19)	(55)	(55)	(55)	(55)	(55)
Cash from financing activities	**795.6**	**(3,412)**	**791**	**1,068.7**	**17**	**87**	**360**	**1,004**	**1,469**	**16**	**(133)**	**195**	**289**	**366**	**(189)**	**272**	**(934)**	**302**	**(549)**	**483**	**425**	**290**	**238**
Cash flow increase/(decrease) in cash	(1)	(10)	11	2.4	6	36	(27)	67	83	40	(128)	5	111	27.3	(111)	(3)	(4)	3	(115)	(7)	0	0	0
Non-cash movements in cash	0	0	0	0	(0.3)	(3.2)	0.9	4	1	(2)	1	(0)	(0)	(1)	0	0	0	0	0	0	0	0	0
Forex Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net change in cash	**(1)**	**(10)**	**11**	**2.6**	6	33	(26)	71	**84**	38	(127)	4	111	**27**	(111)	(3)	(4)	3	**(115)**	**(7)**	**0**	**0**	**0**
Cash at the beginning of the year	**27**	**25**	**16**	**26**	29	35	68	42	**29**	113	151	24	28	**113**	139	28	25	21	**139**	**24**	**17**	**17**	**17**
Cash at the end of the year	**25**	**16**	**26**	**29**	35	68	42	113	**113**	151	24	28	139	**139**	28	25	21	24	**24**	**17**	**17**	**17**	**18**
Cash paid for income taxes	**19**	**21**	**8**	**6**	4	0	0	(1)	**3**	5	0	0	6	**11**	10	1	1	6	**18**	**40**	**64**	**93**	**124**
Cash Interest paid, net of amount capitalized	**429**	**390**	**338**	**340**	146	42	42	124	**354**	162	47	42	99	**350**	148	43	43	87	**322**	**380**	**385**	**390**	**395**
Accounting Free Cash Flow (CFO-CAPEX-Dividend)	(1030)	(167)	(877)	(1183)	(48)	(107)	(417)	(980)	(1551)	(29)	(37)	(236)	(216)	(518)	16	(353)	(9)	(368)	(716)	(793)	(758)	(659)	(647)
Free Cash Flow (NI+D&A-WC-CAPEX-DIV)	(1075)	(945)	(510)	(810)	59	(563)	(1090)	(59)	(1653)	19	(60)	(470)	(414)	(925)	122	(364)	(559)	(94)	(895)	(905)	(852)	(765)	(724)

Source: NI reports, Jefferies estimates

Jefferies

Exhibit 6 - OGS Consolidated Income Statement

Income Statement ($MM)	2014	2015	2016	2017	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020E	1QE	2QE	3QE	4QE	2021E	2022E	2023E	2024E
Gas Sales	$1,680	$1,418	$1,300	$1,409	$1,492	$621.5	$258.6	$216.0	$412.1	$1,508	$588.9	$270.8	$233.4	$450.5	$1,544	$645.6	$286.5	$243.7	$462.3	$1,638	$1,744	$1,833	$1,919
Transportation Revenue	$102	$99	$98	$101	$110	$35.0	$24.0	$23.7	$31.4	$114	$35.8	$24.6	$24.3	$31.9	$117	$36.6	$25.2	$24.9	$32.6	$119	$122	$125	$128
Other revenue	$37	$31	$29	$30	$32	$4.5	$8.0	$8.9	$9.2	$31	$7.2	$8.1	$8.1	$7.6	$31	$6.1	$8.3	$8.7	$8.6	$32	$32	$33	$34
Total Revenue	**$1,819**	**$1,548**	**$1,427**	**$1,540**	**$1,634**	$661.0	$290.6	$248.6	$452.6	**$1,653**	$632.0	$303.5	$265.8	$489.9	**$1,691**	$688.3	$320.0	$277.3	$503.5	**$1,789**	**$1,898**	**$1,991**	**$2,080**
Cost of gas	($992)	($706)	($542)	($615)	($715)	($365.1)	($82.6)	($49.6)	($190.7)	($688)	($322.5)	($86.0)	($58.3)	($219.6)	($686)	($366.4)	($91.2)	($58.4)	($219.7)	($736)	($780)	($821)	($858)
Net Margin	**$827**	**$842**	**$885**	**$925**	**$919**	$295.9	$208.0	$199.0	$261.9	**$965**	$309.5	$217.5	$207.5	$270.3	**$1,005**	$322.0	$228.8	$218.9	$283.9	**$1,053**	**$1,119**	**$1,170**	**$1,223**
(O&M)	($414)	($414)	($417)	($417)	($412)	($108.3)	($101.5)	($100.5)	($118.9)	($429)	($109.9)	($103.0)	($102.0)	($120.7)	($436)	($111.3)	($104.3)	($103.3)	($122.2)	($441)	($448)	($454)	($461)
(D&A)	($133)	($133)	($144)	($152)	($160)	($43.8)	($44.9)	($45.5)	($46.1)	($180)	($46.9)	($47.8)	($48.8)	($49.8)	($193)	($50.7)	($51.6)	($52.7)	($53.7)	($209)	($225)	($241)	($257)
(General Taxes)	($55)	($55)	($55)	($57)	($59)	($16.2)	($14.7)	($14.2)	($14.9)	($60)	($17.0)	($16.5)	($15.1)	($14.5)	($63)	($17.9)	($18.1)	($17.1)	($16.1)	($69)	($76)	($81)	($87)
Operating Income (EBIT)	**$224**	**$239**	**$269**	**$299**	**$288**	$128	$47	$39	$82	**$295**	$136	$50	$42	$85	**$313**	$142	$55	$46	$92	**$335**	**$370**	**$394**	**$417**
Other	($3)	($3)	($0)	$3	($11)	$0.4	($0.9)	($1.4)	($1.1)	($3)	($1.0)	($2.3)	($3.8)	($1.0)	($8)	($1.2)	($2.9)	($4.7)	($1.2)	($10)	($9)	($8)	($7)
(Interest Expense)	($46)	($45)	($44)	($46)	($51)	($15.8)	($15.4)	($15.8)	($15.7)	($63)	($16.1)	($16.0)	($16.1)	($16.9)	($65)	($17.3)	($17.3)	($17.3)	($17.3)	($69)	($74)	($78)	($84)
(Income Taxes)	($68)	($73)	($85)	($93)	($54)	($18.6)	($6.2)	($4.1)	($14.0)	($43)	($20.1)	($6.5)	($4.2)	($14.7)	($46)	($22)	($7)	($5)	($17)	($51)	($59)	($66)	($72)
Net Income	$108	$119	$140	$163	$172	$93.7	$24.5	$17.5	$51.2	$187	$98.5	$25.4	$17.5	$52.8	$194	$101.8	$27.2	$19.0	$56.8	$205	$228	$242	$254
Earnings Per Share (EPS)	**$2.08**	**$2.24**	**$2.65**	**$3.08**	**$3.25**	$1.76	$0.46	$0.33	$0.96	**$3.51**	$1.84	$0.47	$0.33	$0.98	**$3.63**	$1.88	$0.50	$0.35	$1.04	**$3.77**	**$4.14**	**$4.33**	**$4.49**
Shares Outstanding (Diluted)	52.8	53.3	53.0	53.0	53.0	53.2	53.2	53.3	53.3	53.2	53.4	53.5	53.7	53.8	53.6	54.1	54.3	54.4	54.5	54.3	55.1	55.9	56.7
Shares Outstanding (Basic)	52.2	52.6	52.5	52.5	52.7	52.8	52.9	52.9	52.9	52.9	53.0	53.2	53.3	53.4	53.2	53.8	53.9	54.1	54.2	54.0	54.8	55.6	56.3
Dividend - Qtrly	**$1.12**	**$1.20**	**$1.40**	**$1.68**	**$1.84**	$0.50	$0.50	$0.50	$0.50	**$2.00**	$0.54	$0.54	$0.54	$0.54	**$2.16**	$0.58	$0.58	$0.58	$0.58	**$2.32**	**$2.48**	**$2.64**	**$2.80**
		7.1%	16.7%	20.0%	9.5%					8.7%	8.0%				8.0%	$0.04				7.4%	6.9%	6.5%	6.1%
Annual Dividend Run Rate	$1.12	$1.20	$1.40	$1.68	$1.84	$2.00	$2.00	$2.00	$2.00	$2.00	$2.16	$2.16	$2.16	$2.16	$2.16	$2.32	$2.32	$2.32	$2.32	$2.32	$2.48	$2.64	$2.80
EBIT	$224	$239	$269	$299	$288	$128	$47	$39	$82	$295	$136	$50	$42	$85	$313	$142	$55	$46	$92	$335	$370	$394	$417
General Tax Rate	19.7%	18.7%	17.1%	16.0%	17.0%	11.3%	23.8%	26.8%	15.4%	16.9%	11.2%	24.7%	26.7%	14.5%	16.8%	11.2%	24.9%	27.1%	14.9%	17.1%	17.0%	17.1%	17.2%
Income Tax Rate	38.8%	38.0%	37.8%	36.4%	23.7%	16.6%	20.1%	19.2%	21.4%	18.7%	16.9%	20.5%	19.5%	21.8%	19.0%	17.7%	21.2%	20.3%	22.5%	19.8%	20.5%	21.3%	22.1%
Dividend Payout Ratio	**53.8%**	**53.7%**	**52.9%**	**54.6%**	**56.6%**					**57.0%**					**59.6%**					**61.5%**	**59.9%**	**61.0%**	**62.4%**
EBITDA	**$357**	**$372**	**$413**	**$451**	**$449**	$171	$92	$84	$128	**$476**	$183	$98	$90	$135	**$506**	$193	$106	$99	$146	**$543**	**$595**	**$635**	**$675**
Natural Gas Margin	**41.0%**	**50.2%**	**58.3%**	**56.4%**	**52.1%**	41.3%	68.1%	77.0%	53.7%	**54.4%**	45.2%	68.2%	75.0%	51.3%	**55.5%**	43.3%	68.2%	76.0%	52.5%	**55.1%**	**55.3%**	**55.2%**	**55.3%**
Gas Sales Margin Growth	(6.3%)	22.6%	16.2%	(3.3%)	(7.6%)	0.4%	6.7%	2.1%	9.8%	4.3%	4.6%	4.6%	4.3%	3.2%	2.1%	4.0%	5.2%	5.5%	5.0%	(0.8%)	0.4%	(0.2%)	0.2%
Charged Natural Gas Price	**$1.81**	**$1.98**	**$2.17**	**$2.26**	**$1.98**	$1.69	$2.50	$2.78	$1.93	**$2.07**	$1.69	$2.50	$2.78	$1.93	**$2.13**	$1.75	$2.63	$2.92	$2.02	**$2.22**	**$2.34**	**$2.42**	**$2.50**
Rate increase											$0.04	$0.09	$0.11	$0.06	$0.07	$0.04	$0.08	$0.09	$0.05	$0.06	$0.10	$0.06	$0.06
New Rates						$1.69	$2.50	$2.78	$1.93		$1.73	$2.59	$2.88	$1.99		$1.79	$2.71	$3.01	$2.06				
Y/Y Change	-1.6%	9.5%	9.5%	4.2%	-12.5%	*0.1%*	*11.1%*	*1.5%*	*7.6%*	4.5%	*0.0%*	*0.0%*	*0.0%*	*0.0%*	3.1%	*1.3%*	*1.3%*	*1.3%*	*1.3%*	3.9%	5.4%	3.6%	3.5%
Rate Cases																							
Oklahoma	$3.7	$11.0	$30.0	$0.0	$10.0	$2.8	$2.8	$2.8	$2.8	$11.0	$3.0	$3.0	$3.0	$3.0	$12.0	$3.0	$3.0	$3.0	$3.0	$12.0	$27.5	$12.0	$12.0
Kansas	$1.5	$3.5	$2.1	$15.5	$2.9	$7.7	$3.7	$3.3	$6.2	$21.0	$1.0	$1.0	$1.0	$1.0	$4.0	$0.7	$0.7	$0.7	$0.7	$2.8	$2.8	$2.8	$2.8
Texas	$12.1	$11.1	$11.0	$17.6	$6.9	$2.0	$2.0	$2.0	$2.0	$8.0	$2.5	$2.5	$2.5	$2.5	$10.0	$2.0	$2.0	$2.0	$2.0	$8.0	$8.0	$8.0	$8.0
Total Rate Case Settlement	**$17.2**	**$25.6**	**$43.1**	**$33.1**	**$19.8**	$12.5	$8.5	$8.0	$11.0	**$40.0**	$6.5	$6.5	$6.5	$6.5	**$26.0**	$5.7	$5.7	$5.7	$5.7	**$22.8**	**$38.3**	**$22.8**	**$22.8**

Source: OGS reports; Jefferies estimates

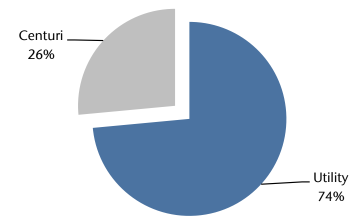
Exhibit 7 - SWX Valuation Analysis

Jefferies

Southwest Gas Corporation (SWX)

Discounted Cash Flow	2020	2021	2022	2023	2024
EBIT	$398	$453	$479	$526	$564
(Cash Taxes on EBIT)	($20)	($34)	($48)	($66)	($99)
NOPAT	$378	$419	$431	$460	$465
DD&A	$332	$349	$363	$376	$387
Capex	($800)	($815)	($780)	($747)	($612)
Changes in NWC	$9	($4)	$2	$4	($2)
Free Cash Flow to the Firm	($80)	($50)	$17	$92	$238
Terminal Cash Flow					$7,553
Total Cash Flows	($80)	($50)	$17	$92	$7,791
PV of Cash Flows	($77)	($46)	$15	$78	$6,289
Implied Asset Value	$6,258				
(Net Debt)	($2,625)				
(Pension & Operating Lease)	($151)				
Cash surrender value of COLI policies	$132				
Implied Equity Value	$3,614				
Shares Outstanding	55.1				
Implied 12-Month Target	**$66.60**				

2019E Net Income Compositon



Average Price Target	$72.00

Dividend Discount Model	2020	2021	2022	2023	2024
Dividend Per Share	$2.26	$2.34	$2.42	$2.50	$2.58
Payout Ratio (SWX Convention)	*71%*	*65%*	*66%*	*62%*	*61%*
Terminal Value					$86.92
Present Value of Dividends	$1.66	$2.17	$2.12	$2.07	$2.02
Sum of PV of Dividends per Share	$10.03				
PV of Terminal Value	$61.56				
Equity Value per Share	$71.58				
Implied 12-Month Target	**$72.60**				

WACC Calculation	
New Debt Cost	3.75%
Beta (3yr vs SPX)	0.60
Risk Free Rate	2.5%
Risk Premium	5.5%
Cost of Equity	5.8%
Equity / Cap	52%
Debt / Cap	48%
Tax Rate	24%
WACC	4.4%

SWX Capitalization	
Current Stock Price	**$52.27**
Market Cap (MM)	$2,878
Total Debt (MM)	$2,675
Total Net Debt (MM)	$2,625
F12M Dividend Yield	4.4%
5yr Dividend CAGR	3.7%
Terminal CF Growth Rate	2.50%
Terminal Dividend Growth	2.75%

Sum of the Parts Analysis

Business Segment	2021E Net Income	Multiple	Value
Gas Utility	$166	18.0x	$2,986
Infrastructure Services	$73	9.0x	$657
	Total Equity Value		$3,643
	Diluted Shares Outstanding		54.3
	Price Target		**$67.10**

Terminal WACC	
Cost of New Debt	5.0%
Adjusted Beta	0.73
Risk Free Rate	3.5%
Risk Premium	5.5%
Cost of Equity	7.5%
Terminal WACC	5.7%

Valuation Multiples	
2020E P/E	14.3x
2021E P/E	12.7x
2022E P/E	12.4x
2020E EV/EBITDA	8.0x
2021E EV/EBITDA	7.6x
2022E EV/EBITDA	7.5x

Target Yield Analysis	
2Q21 Dividend	$0.59
Historical 3-year Average Yield	2.62%
Target Yield	2.85%
Implied 12-Month Target	**$82.80**

Implied Upside	
Current Share Price	$52.27
Price Target	$72.00
Forecasted Yield	4.4%
Total Expected Return	**42.1%**

2019E NI Breakdown	
Utility	73.5%
Centuri	26.5%

Source: SWX reports, Jefferies estimates

Exhibit 8 - SWX Consolidated Income Statement

Consolidated Statement of Income ($MM)	2015	2016	2017	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE
Gas Utility Revenues	$1,454.6	$1,321.4	$1,302.3	$1,357.7	$520.7	$258.7	$210.0	$379.6	$1,368.9	$531.5	$266.1
Cost of Gas	$563.8	$397.1	$355.0	$419.4	$192.6	$65.2	$35.1	$92.3	$385.2	$196.6	$67.0
Net Utility Operating Margin	$890.8	$924.3	$947.3	$938.3	$328.1	$193.5	$174.9	$287.3	$983.8	$334.9	$199.0
Construction Revenues	$1,009.0	$1,139.1	$1,246.5	$1,522.3	$312.9	$454.3	$515.3	$468.6	$1,751.0	$309.1	$511.7
Construction Expenses	$898.8	$1,024.4	$1,149.0	$1,380.8	$300.5	$402.2	$451.6	$419.0	$1,573.2	$294.5	$449.2
Net Construction Operating Margin	$110.2	$114.7	$97.5	$141.5	$12.4	$52.1	$63.7	$49.6	$177.8	$14.6	$62.5
Operation and maintenance	$393.2	$401.7	$412.2	$406.4	$106.2	$105.3	$109.7	$103.0	$424.2	$109.7	$109.1
Depreciation and amortization	$270.1	$289.1	$251.0	$249.2	$77.5	$70.3	$75.4	$80.0	$303.2	$81.0	$82.5
Taxes other than income	$49.4	$52.4	$57.9	$59.9	$16.2	$15.1	$15.3	$15.7	$62.3	$16.3	$15.3
Total Operating Expenses	$712.7	$743.2	$721.1	$715.5	$200.0	$190.8	$200.3	$198.6	$789.7	$206.9	$206.9
Other Income (Expense)	$2.4	$2.1	$2.8	($14.5)	($0.8)	($2.3)	$0.5	($5.0)	($7.6)	($2.8)	($3.0)
Income before Interest and Taxes	$290.7	$297.8	$326.5	$349.8	$139.7	$52.6	$38.8	$133.2	$364.2	$139.7	$51.7
Interest Expense	$71.9	$73.7	$78.1	$96.7	$26.4	$26.8	$27.4	$28.6	$109.2	$30.7	$30.7
Income before Taxes	$218.8	$224.1	$248.4	$253.2	$113.3	$25.7	$11.3	$104.7	$255.0	$109.0	$21.0
Income Taxes	$79.9	$78.5	$85.1	$64.1	$25.5	$6.4	$3.1	$21.0	$56.0	$24.7	$4.0
Net Income	**$138.9**	**$145.7**	**$163.3**	**$189.1**	**$87.7**	**$19.4**	**$8.2**	**$83.7**	**$199.0**	**$84.3**	**$17.0**
Minority Interests	$1.1	$1.0	($0.1)	($0.8)	$0.6	$0.8	$1.2	$0.2	$2.7	$0.6	$0.8
Net Income to Common	$137.8	$144.6	$163.4	$189.8	$87.2	$18.6	$7.0	$83.5	$196.3	$83.7	$16.3
Avg. Diluted Common Shares	47.2	47.8	48.0	49.5	53.4	54.0	54.7	55.1	54.3	55.6	56.1
Avg. Basic Common Shares	46.9	47.5	47.7	49.4	53.4	53.9	54.7	55.0	54.2	57.1	57.6
Recurring Earnings per share	**$2.92**	**$3.03**	**$3.41**	**$3.84**	**$1.63**	**$0.34**	**$0.13**	**$1.52**	**$3.61**	**$1.50**	**$0.29**
Excluded Items (non-recurring or discontinued operations)	($0.5)	$7.4	$10.6	($2.9)	$7.6	$3.4	$0.7	$5.9	$17.7		
EPS impact of excluded items	(0.01)	0.15	0.22	(0.15)	0.14	0.06	0.01	0.11	0.33	0.00	0.00
Reported Earnings per share (diluted)	$2.91	$3.18	$3.63	$3.68	$1.77	$0.41	$0.14	$1.62	$3.94	$1.50	$0.29
Dividends paid per share	**$1.58**	**$1.76**	**$1.94**	**$2.06**	$0.52	$0.55	$0.55	$0.55	**$2.16**	$0.55	$0.57
Dividend Growth Rate	**10.9%**	**11.1%**	**10.3%**	**6.2%**		4.8%			**4.9%**		4.6%
Payout Ratio (on recurring earnings)	**54.1%**	**58.0%**	**56.8%**	**53.6%**					**59.6%**		
Payout Ratio (on SWX methodology)	**59.7%**	**61.8%**	**54.6%**	**62.1%**					**61.8%**		
COLI actual and/or assumption	**$0.5**	**$7.4**	**$18.2**	**($2.9)**	$7.6	$3.4	$0.7	$5.9	**$17.7**	$1.3	$1.3
Tax Rate	**36.5%**	**35.0%**	**34.2%**	**25.3%**	22.5%	24.7%	27.7%	20.1%	**22.0%**	22.7%	18.9%
Change in Net Income	**2%**	**5%**	**12%**	**16%**	11%	-1%	8%	1%	**5%**	-4%	-12%
Change in Common Equity	**7.1%**	**4.3%**	**9.1%**	**24.2%**	25.1%	25.2%	24.6%	11.3%	**11.3%**		

Consolidated Statement of Income ($MM)	3QE	4QE	2020E	1QE	2QE	3QE	4QE	2021E	2022E	2023E	2024E
Gas Utility Revenues	$233.0	$406.4	$1,437.0	$575.3	$300.2	$246.9	$424.0	$1,546.4	$1,603.7	$1,690.3	$1,765.9
Cost of Gas	$38.9	$98.8	$401.4	$212.8	$75.6	$41.2	$103.1	$432.8	$448.3	$470.3	$492.2
Net Utility Operating Margin	$194.1	$307.6	$1,035.6	$362.5	$224.6	$205.7	$320.9	$1,113.6	$1,155.3	$1,220.0	$1,273.7
Construction Revenues	$558.6	$525.1	$1,904.5	$378.7	$591.1	$634.6	$515.6	$2,120.1	$2,313.5	$2,366.7	$2,455.9
Construction Expenses	$485.4	$465.6	$1,694.7	$363.6	$526.1	$558.5	$453.7	$1,901.9	$2,086.5	$2,133.0	$2,215.1
Net Construction Operating Margin	$73.2	$59.5	$209.8	$15.1	$65.0	$76.2	$61.9	$218.2	$226.9	$233.7	$240.7
Operation and maintenance	$113.4	$106.7	$438.9	$111.9	$111.3	$115.6	$108.8	$447.6	$455.4	$463.4	$471.5
Depreciation and amortization	$83.8	$84.9	$332.2	$85.7	$87.0	$87.9	$88.7	$349.3	$363.2	$375.8	$386.9
Taxes other than income	$16.9	$16.8	$65.2	$17.8	$17.3	$18.1	$17.6	$70.8	$73.4	$77.7	$81.2
Total Operating Expenses	$214.1	$208.4	$836.3	$215.5	$215.6	$221.6	$215.1	$867.8	$892.1	$916.9	$939.6
Other Income (Expense)	($2.9)	($2.4)	($11.1)	($2.8)	($3.0)	($2.9)	($2.4)	($11.1)	($11.1)	($11.1)	($11.1)
Income before Interest and Taxes	$50.3	$156.3	$398.0	$159.4	$71.0	$57.3	$165.3	$452.9	$479.0	$525.7	$563.7
Interest Expense	$31.3	$32.3	$125.0	$34.0	$34.0	$34.0	$34.0	$135.8	$146.0	$155.0	$166.4
Income before Taxes	$19.0	$124.0	$273.0	$125.4	$37.1	$23.3	$131.3	$317.1	$333.0	$370.7	$397.3
Income Taxes	$5.4	$30.5	$64.5	$28.6	$10.5	$6.4	$32.4	$77.9	$82.3	$92.2	$99.1
Net Income	**$13.6**	**$93.5**	**$208.4**	**$96.9**	**$26.6**	**$16.9**	**$98.9**	**$239.2**	**$250.7**	**$278.5**	**$298.3**
Minority Interests	$1.2	$0.2	$2.7	$0.6	$0.8	$1.2	$0.2	$2.7	$2.7	$2.7	$2.7
Net Income to Common	$12.5	$93.3	$205.7	$96.3	$25.8	$15.7	$98.7	$236.5	$248.0	$275.8	$295.5
Avg. Diluted Common Shares	56.6	56.7	56.3	57.1	57.5	57.9	57.9	57.6	59.1	60.6	62.1
Avg. Basic Common Shares	58.1	58.6	57.8	59.1	59.5	59.9	60.3	59.7	61.5	63.6	65.6
Recurring Earnings per share	**$0.22**	**$1.65**	**$3.66**	**$1.69**	**$0.45**	**$0.27**	**$1.70**	**$4.11**	**$4.20**	**$4.55**	**$4.76**
Excluded Items (non-recurring or discontinued operations)			$0.0					$0.0	$0.0	$0.0	$0.0
EPS impact of excluded items	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reported Earnings per share (diluted)	$0.22	$1.65	$3.66	$1.69	$0.45	$0.27	$1.70	$4.11	$4.20	$4.55	$4.76
Dividends paid per share	$0.57	$0.57	**$2.26**	$0.57	$0.59	$0.59	$0.59	**$2.34**	**$2.42**	**$2.50**	**$2.58**
Dividend Growth Rate			**4.6%**		3.5%			**3.8%**	**3.4%**	**3.3%**	**3.2%**
Payout Ratio (on recurring earnings)			**61.7%**					**57.0%**	**57.6%**	**54.9%**	**54.2%**
Payout Ratio (on SWX methodology)			**70.9%**					**65.0%**	**66.0%**	**62.4%**	**61.5%**
COLI actual and/or assumption	$1.3	$1.3	**$5.0**	$1.3	$1.3	$1.3	$1.3	**$5.0**	**$5.0**	**$5.0**	**$5.0**
Tax Rate	28.3%	24.6%	**23.6%**	22.8%	28.2%	27.6%	24.7%	**24.6%**	**24.7%**	**24.9%**	**24.9%**
Change in Net Income	66%	12%	**5%**	15%	56%	24%	6%	**15%**	**5%**	**11%**	**7%**
Change in Common Equity			**8.1%**					**8.3%**	**7.7%**	**7.7%**	**7.5%**

Source: SWX reports, Jefferies estimates

Exhibit 9 - SWX Consolidated Balance Sheet

Consolidated Balance Sheet ($MM)	2015	2016	2017	1Q	2Q	3Q	4Q	2018	1Q	2Q	3Q	4Q	2019
Cash & Equivalents	36	28	44	65	35	69	85	85	97	38	28	50	50
Accounts Receivable	315	285	347	336	358	348	414	414	429	418	434	474	474
Inventory	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Current Assets	208	220	266	263	303	304	340	340	304	296	303	336	336
Total Current Assets	**558**	**533**	**657**	**664**	**696**	**721**	**840**	**840**	**830**	**752**	**765**	**860**	**860**
Tangible Fixed Assets - Net	**3,891**	**4,132**	**4,524**	**4,604**	**4,717**	**4,870**	**5,093**	**5,093**	**5,216**	**5,370**	**5,536**	**5,685**	**5,685**
Goodwill	126	140	179	176	174	176	359	359	364	346	340	343	343
Other intangible fixed assets (Deferred Income Taxes)	0	1	1	1	1	1	1	1	1	1	1	1	1
Investment in affiliates	469	432	447	443	426	420	441	441	441	436	430	497	497
Other investments	314	342	428	439	462	467	624	624	717	762	769	784	784
Non-Current Assets	**909**	**916**	**1,056**	**1,059**	**1,063**	**1,064**	**1,425**	**1,425**	**1,523**	**1,545**	**1,539**	**1,625**	**1,625**
Total assets	**5,359**	**5,581**	**6,237**	**6,328**	**6,476**	**6,655**	**7,358**	**7,358**	**7,569**	**7,667**	**7,840**	**8,170**	**8,170**
Trade payables and other ST liabilities	498	578	576	555	609	681	754	754	752	690	714	705	705
Short term debt	37	50	240	47	54	32	185	185	223	37	68	375	375
Total current liabilities	**535**	**628**	**816**	**603**	**664**	**713**	**939**	**939**	**974**	**727**	**782**	**1,080**	**1,080**
Long term debt	1,551	1,550	1,799	1,998	2,038	2,124	2,107	2,107	2,106	2,373	2,462	2,300	2,300
Debt deemed provisions (e.g. pensions)	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred taxes (Revenue)	769	841	477	500	511	519	529	529	556	563	578	600	600
Other long term liabilities	895	878	1,333	1,350	1,332	1,353	1,449	1,449	1,504	1,501	1,510	1,599	1,599
Total liabilities	**3,750**	**3,897**	**4,425**	**4,451**	**4,544**	**4,709**	**5,024**	**5,024**	**5,140**	**5,164**	**5,332**	**5,580**	**5,580**
Common equity	1,592	1,661	1,812	1,876	1,933	1,946	2,252	2,252	2,347	2,419	2,424	2,506	2,506
Preferred equity	0	0	0	0	0	0	0	0	0	0	0	0	0
Minority interests	16	23	0	0	0	0	82	82	82	83	84	85	85
Shareholders' Equity	**1,608**	**1,684**	**1,812**	**1,876**	**1,933**	**1,946**	**2,333**	**2,333**	**2,429**	**2,503**	**2,508**	**2,590**	**2,590**
Total liabilities and equity	**5,359**	**5,581**	**6,237**	**6,328**	**6,476**	**6,655**	**7,358**	**7,358**	**7,569**	**7,667**	**7,840**	**8,170**	**8,170**
Check	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance Sheet Assumptions		93	(125)	(1)	(12)	99	(72)	13	7	(6)	9	(47)	(37)
Accounts receivable (as % of EBIT)	108%	96%	106%	267%	737%	970%	297%	118%	307%	794%	1120%	356%	130%
Inventory (as % of operating expenses)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Trade payable & other S.T. liabilities (as % of op. Exp.)	70%	78%	80%	308%	336%	373%	440%	105%	376%	362%	357%	355%	89%
Working Capital	25	(73)	37	43	52	(29)	1	1	(18)	24	23	105	105
Average Collection Period	**47**	**42**	**50**	40	49	48	48	**52**	46	53	55	51	**55**
Inventory Days				-	-	-	-		-	-	-	-	
Average Payable Period	**124**	**149**	**140**	112	127	141	146	**153**	137	134	135	127	**131**
Cash	36	28	44	65	35	69	85	85	97	38	28	50	50
Total Debt	1,589	1,600	2,038	2,045	2,092	2,155	2,292	2,292	2,329	2,410	2,530	2,675	2,675
Total Net Debt	**1,553**	**1,572**	**1,995**	**1,980**	**2,057**	**2,086**	**2,207**	**2,207**	**2,232**	**2,371**	**2,502**	**2,625**	**2,625**
Preferred Securities	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	1,592	1,661	1,812	1,876	1,933	1,946	2,252	2,252	2,347	2,419	2,424	2,506	2,506
Net Debt/Capital	**49%**	**49%**	**52%**	51%	52%	52%	49%	**49%**	49%	49%	51%	51%	**51%**
EBIT(1-T)	184	189	212	82	32	26	92	230	107	41	26	97	272
Invested capital	3,145	3,233	3,807	3,857	3,990	4,032	4,459	4,459	4,579	4,791	4,926	5,131	5,131
ROIC	6.4%	5.8%	5.2%	5.2%	5.0%	5.7%	8.9%	5.7%	6.0%	6.0%	5.7%	8.2%	5.6%
ROE	8.7%	8.7%	9.3%	9.9%	9.8%	9.5%	13.6%	9.4%	9.1%	8.5%	8.0%	12.0%	7.8%
EBITDA	561	587	577	188	110	98	203	599	217	123	114	213	667
Net Debt/EBITDA	**2.8x**	**2.7x**	**3.5x**	3.5x	3.5x	3.5x	3.7x	**3.7x**	3.6x	3.7x	3.8x	3.9x	**3.9x**
EBIT Interest Coverage	*4.0x*	*4.0x*	*4.2x*	*4.0x*	*3.9x*	*3.7x*	*3.6x*	*3.6x*	*3.6x*	*3.5x*	*3.5x*	*3.3x*	*3.3x*
EBITDA Interest Coverage	*7.8x*	*8.0x*	*7.4x*	*7.0x*	*6.7x*	*6.4x*	*6.5x*	*6.2x*	*6.3x*	*6.2x*	*6.2x*	*5.8x*	*6.1x*

Consolidated Balance Sheet ($MM)	1QE	2QE	3QE	4QE	2020	2021	2022	2023	2024
Cash & Equivalents	38	40	38	45	45	45	47	47	48
Accounts Receivable	416	470	430	557	557	563	601	606	630
Inventory	0	0	0	0	0	0	0	0	0
Other Current Assets	336	336	336	336	336	336	336	336	336
Total Current Assets	**790**	**847**	**805**	**938**	**938**	**944**	**984**	**989**	**1,015**
Tangible Fixed Assets - Net	**5,777**	**5,905**	**6,040**	**6,153**	**6,153**	**6,619**	**7,035**	**7,407**	**7,735**
Goodwill	343	343	343	343	343	343	343	343	343
Other intangible fixed assets (Deferred Income Taxes)	1	1	1	1	1	1	1	1	1
Investment in affiliates	497	497	497	497	497	497	497	497	497
Other investments	784	784	784	784	784	784	784	784	784
Non-Current Assets	**1,625**	**1,625**	**1,625**	**1,625**	**1,625**	**1,625**	**1,625**	**1,625**	**1,625**
Total assets	**8,191**	**8,376**	**8,470**	**8,716**	**8,716**	**9,187**	**9,645**	**10,021**	**10,375**
Trade payables and other ST liabilities	621	766	741	798	798	800	840	849	872
Short term debt	0	0	0	0	0	50	0	0	0
Total current liabilities	**621**	**766**	**741**	**798**	**798**	**850**	**840**	**849**	**872**
Long term debt	2,678	2,708	2,819	2,880	2,880	3,027	3,223	3,304	3,353
Debt deemed provisions (e.g. pensions)	0	0	0	0	0	0	0	0	0
Deferred taxes (Revenue)	619	615	612	645	645	694	737	779	807
Other long term liabilities	1,599	1,599	1,599	1,599	1,599	1,599	1,599	1,599	1,599
Total liabilities	**5,517**	**5,688**	**5,771**	**5,922**	**5,922**	**6,169**	**6,400**	**6,531**	**6,631**
Common equity	2,589	2,603	2,614	2,709	2,709	2,933	3,160	3,405	3,659
Preferred equity	0	0	0	0	0	0	0	0	0
Minority interests	85	85	85	85	85	85	85	85	85
Shareholders' Equity	**2,674**	**2,688**	**2,698**	**2,793**	**2,793**	**3,018**	**3,245**	**3,489**	**3,744**
Total liabilities and equity	**8,191**	**8,376**	**8,470**	**8,716**	**8,716**	**9,187**	**9,645**	**10,021**	**10,375**
Check	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance Sheet Assumptions	(26)	91	15	(70)	9	(4)	2	4	(2)
Accounts receivable (as % of EBIT)	297%	910%	855%	356%	140%	124%	125%	115%	112%
Inventory (as % of operating expenses)	0%	0%	0%	0%	0%	0%	0%	0%	0%
Trade payable & other S.T. liabilities (as % of op. Exp.)	300%	370%	346%	383%	95%	92%	94%	93%	93%
Working Capital	131	40	26	96	96	99	97	93	95
Average Collection Period	45	55	50	55	**61**	**56**	**56**	**55**	**55**
Inventory Days									
Average Payable Period	115	135	130	130	**139**	**125**	**121**	**119**	**118**
Cash	38	40	38	45	45	45	47	47	48
Total Debt	2,678	2,708	2,819	2,880	2,880	3,077	3,223	3,304	3,353
Total Net Debt	**2,641**	**2,668**	**2,781**	**2,836**	**2,836**	**3,032**	**3,176**	**3,257**	**3,305**
Preferred Securities	0	0	0	0	0	0	0	0	0
Shareholders' Equity	2,589	2,603	2,614	2,709	2,709	2,933	3,160	3,405	3,659
Net Debt/Capital	50%	51%	52%	51%	**51%**	**51%**	**50%**	**49%**	**47%**
EBIT(1-T)	108	39	36	125	311	346	361	396	424
Invested capital	5,230	5,271	5,395	5,544	5,544	5,965	6,336	6,662	6,964
ROIC	10.2%	8.7%	5.3%	8.8%	5.8%	6.0%	5.9%	6.1%	6.2%
ROE	14.8%	11.6%	7.4%	11.8%	7.6%	8.1%	7.9%	8.2%	8.2%
EBITDA	221	134	134	241	730	802	842	902	951
Net Debt/EBITDA	3.9x	3.9x	4.0x	3.9x	**3.9x**	**3.8x**	**3.8x**	**3.6x**	**3.5x**
EBIT Interest Coverage	*3.5x*	*3.0x*	*3.1x*	*3.2x*	*3.2x*	*3.3x*	*3.3x*	*3.4x*	*3.4x*
EBITDA Interest Coverage	*6.3x*	*5.7x*	*5.8x*	*5.8x*	*5.8x*	*5.9x*	*5.8x*	*5.8x*	*5.7x*

Source: SWX results, Jefferies estimates

Exhibit 10 - SWX Consolidated Cash Flow Statement

Consolidated Statement of Cash Flows ($MM)	2015	2016	2017	1Q	2Q	3Q	4Q	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020	2021	2022	2023	2024
Operating activities																						
Net income	139	153	194	78	22	12	69	182	95	23	7	92	217	84	17	14	93	208	239	251	279	298
Depreciation, amortization	270	289	251	62	61	62	63	249	78	70	75	80	303	81	82	84	85	332	349	363	376	387
Deferred taxes	49	69	63	23	10	3	15	51	25	7	14	8	54	19	3	4	24	51	54	49	46	39
Net change in working capital	95	93	(125)	(1)	(12)	99	(72)	13	7	(6)	9	(47)	(37)	(26)	91	15	(70)	9	(4)	2	4	(2)
Other, including changes in provisions and other liabilities	(6)	(5)	(14)	18	(15)	(16)	46	33	(17)	(3)	(5)	(11)	(37)	0	(7)	(7)	9	(6)	(6)	(6)	(4)	(11)
Cash from operating activities	**547**	**598**	**370**	**181**	**66**	**160**	**121**	**529**	**188**	**90**	**100**	**122**	**500**	**158**	**186**	**109**	**142**	**595**	**633**	**660**	**700**	**711**
Investing activities																						
Capital expenditure - tangible fixed assets	(488)	(530)	(624)	(155)	(184)	(221)	(206)	(766)	(211)	(261)	(248)	(219)	(938)	(172)	(210)	(219)	(198)	(800)	(815)	(780)	(747)	(715)
Investment Expenditures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net disposals/(acquisitions)	(9)	(17)	(94)	(4)	0	0	(247)	(251)	0	(20)	0	(28)	(48)	0	0	0	0	0	0	0	0	0
Other investment	27	21	17	5	6	4	3	18	3	7	17	6	34	0	0	0	0	0	0	0	0	0
Cash from investing activities	**(470)**	**(526)**	**(701)**	**(154)**	**(178)**	**(217)**	**(450)**	**(999)**	**(207)**	**(273)**	**(231)**	**(241)**	**(952)**	**(172)**	**(210)**	**(219)**	**(198)**	**(800)**	**(815)**	**(780)**	**(747)**	**(715)**
Financing activities																						
Inc./(dec.) in short term debt	13	(163)	360	(303)	111	9	121	(63)	36	(188)	30	181	59	(375)	0	0	0	(375)	50	(50)	0	0
Inc./(dec.) in long term debt	(52)	169	68	314	(62)	85	(10)	327	(1)	265	91	(38)	318	378	30	111	61	580	147	196	81	49
Inc./(dec.) in equity	35	0	41	11	58	23	262	354	26	77	27	29	158	30	30	30	35	125	125	125	125	125
Common stock dividends paid	(74)	(83)	(92)	(24)	(25)	(26)	(26)	(100)	(28)	(29)	(30)	(30)	(116)	(31)	(33)	(33)	(33)	(130)	(140)	(149)	(159)	(169)
Other cash from financing	(1)	(3)	(30)	(3)	(1)	(0)	(2)	(7)	(2)	(1)	2	(2)	(3)	0	0	0	0	0	0	0	0	0
Inc./(dec.) in preferred equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash from financing activities	**(79)**	**(81)**	**346**	**(5)**	**82**	**91**	**345**	**513**	**31**	**124**	**121**	**140**	**415**	**2**	**27**	**108**	**63**	**200**	**182**	**122**	**47**	**5**
Cash flow increase/(decrease) in cash	(2)	(8)	15	22	(30)	34	17	42	12	(59)	(10)	21	(36)	(12)	3	(2)	6	(5)	0	2	0	1
Non-cash movements in cash	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Forex Adjustments	(1)	(0)	0	(0)	(0)	0	(0)	(0)	0	0	(0)	0	0	0	0	0	0	0	0	0	0	0
Net change in cash	**(4)**	**(8)**	**16**	21	(30)	34	16	**42**	12	(59)	(10)	21	**(36)**	(12)	3	(2)	6	**(5)**	**0**	**2**	**0**	**1**
Cash at the beginning of the year	**40**	**36**	**28**	44	65	35	69	**44**	85	97	38	28	**85**	50	38	40	38	**50**	**45**	**45**	**47**	**47**
Cash at the end of the year	**36**	**28**	**44**	65	35	69	85	**85**	97	38	28	50	**50**	38	40	38	45	**45**	**45**	**47**	**47**	**48**
Cash Interest Paid	67	67	72	13	27	9	37	87	16	34	12	40	102	42	23	43	24	133	132	142	151	162
Cash Taxes Paid	43	(19)	6	4	12	2	(17)	1	0	1	(1)	2	3	5	1	1	6	14	24	33	46	60
Free Cash Flow (NI+D&A-WC-CapEx)	(174)	(180)	(54)	(13)	(90)	(245)	(1)	(349)	(45)	(161)	(175)	1	(381)	19	(202)	(137)	50	(269)	(223)	(168)	(96)	(28)
Free Cash Flow Post Dividends	(248)	(264)	(146)	(36)	(115)	(271)	(27)	(449)	(73)	(190)	(205)	(29)	(497)	(12)	(235)	(170)	17	(399)	(362)	(317)	(255)	(197)
Accounting Free Cash Flow (CFO-CapEx)	59	69	(254)	26	(118)	(61)	(84)	(237)	(23)	(171)	(148)	(97)	(438)	(14)	(25)	(110)	(56)	(205)	(182)	(120)	(47)	(4)
Accounting Free Cash Flow Post Dividends	(15)	(14)	(346)	2	(143)	(86)	(110)	(337)	(50)	(200)	(177)	(127)	(554)	(45)	(57)	(143)	(90)	(335)	(321)	(269)	(206)	(173)
Cash Interest Rate	4.3%	4.4%	4.0%	0.7%	1.3%	0.4%	1.7%	4.0%	0.7%	1.4%	0.5%	1.5%	4.1%	1.6%	0.9%	1.6%	0.9%	4.8%	4.4%	4.5%	4.6%	4.9%
Cash Tax Rate	19.8%	-8.5%	2.3%	4.3%	48.5%	15.6%	-15.0%	0.5%	0.4%	5.4%	-12.9%	2.3%	1.1%	5.0%	5.0%	5.0%	5.0%	5.0%	7.5%	10.0%	12.5%	15.0%
Deferred Taxes as % of Book Taxes	61%	88%	74%	96%	186%	78%	48%	80%	98%	109%	454%	38%	97%	78%	74%	82%	80%	79%	69%	60%	50%	40%

Source: SWX reports, Jefferies estimates

Jefferies

EQUITY RESEARCH
USA | Utilities

Exhibit 11 - UGI Consolidated Income Statement

Consolidated Income Statement	2015	2016	2017	2018	1Q	2Q	3Q	4Q	2019	1Q	2QE	3QE	4QE	2020E	1QE	2QE	3QE	4QE	2021E	2022E	2023E	2024E
Revenues	$6,691.1	$5,685.7	$6,120.7	$7,651.2	$2,200.2	$2,606.1	$1,363.7	$1,150.4	$7,320.4	$2,006.6	$2,334.4	$1,486.1	$1,187.4	$7,014.4	$2,132.9	$2,773.9	$1,555.4	$1,269.9	$7,732.1	$8,143.9	$8,518.5	$8,792.9
(Cost of Sales)	($3,647.6)	($2,529.1)	($2,896.6)	($4,169.7)	($1,308.3)	($1,414.5)	($745.3)	($648.1)	($4,116.2)	($996.4)	($1,170.4)	($812.7)	($598.4)	($3,577.9)	($1,074.6)	($1,424.6)	($853.6)	($669.6)	($4,022.4)	($4,371.0)	($4,603.9)	($4,766.5)
Gross Margin	$3,043.5	$3,156.6	$3,224.1	$3,481.5	$891.9	$1,191.6	$618.4	$502.3	$3,204.2	$1,010.2	$1,164.0	$673.4	$589.0	$3,436.6	$1,058.3	$1,349.3	$701.8	$600.3	$3,709.7	$3,772.8	$3,914.6	$4,026.4
(Operating & Administrative)	($1,751.3)	($1,808.0)	($1,804.9)	($1,982.9)	($503.2)	($535.8)	($460.2)	($431.7)	($1,930.9)	($510.5)	($542.9)	($500.9)	($454.5)	($2,008.9)	($536.5)	($589.5)	($512.1)	($473.7)	($2,111.8)	($2,119.4)	($2,145.8)	($2,192.2)
(Depreciation & Amortization)	($374.1)	($400.9)	($416.3)	($455.1)	($111.2)	($108.9)	($109.9)	($118.1)	($448.1)	($119.4)	($121.6)	($122.5)	($125.0)	($488.5)	($124.4)	($125.9)	($127.2)	($129.1)	($506.6)	($525.8)	($546.1)	($567.8)
Other Income (Loss)	$28.3	$6.6	($2.0)	$31.3	($1.2)	$0.6	$14.8	($15.3)	($1.1)	$24.9	$1.7	$3.0	($19.6)	$10.0	$5.0	$2.4	$3.7	$1.8	$12.9	$12.7	$12.9	$9.7
Operating Income	$946.4	$954.4	$1,000.9	$1,074.8	$276.3	$547.5	$63.1	($62.8)	$824.1	$405.2	$501.2	$52.9	($10.1)	$949.2	$402.3	$636.3	$66.2	($0.7)	$1,104.1	$1,140.3	$1,235.5	$1,276.2
(Income from Equity Investees)	($1.2)	($0.2)	$4.3	$4.3	$1.5	$1.6	$1.5	$4.5	$9.1	$6.5	$2.3	$2.3	$2.2	$13.3	$2.8	$2.8	$2.8	$2.8	$11.1	$22.1	$26.7	$25.9
(Other Items)	$0.0	$0.0	($46.0)	($12.7)	$9.0	$7.3	$0.7	$21.0	$38.0	($11.5)				($11.5)					$0.0	$0.0	$0.0	$0.0
(Interest Expense)	($231.6)	($228.9)	($223.5)	($230.1)	($60.2)	($61.0)	($60.5)	($76.1)	($257.8)	($84.1)	($81.8)	($78.7)	($79.5)	($324.0)	($79.8)	($79.8)	($79.8)	($79.8)	($319.2)	($313.3)	($307.2)	($303.4)
Income before Taxes	$713.6	$725.3	$735.8	$836.3	$226.6	$495.4	$4.8	($113.4)	$613.4	$316.1	$421.6	($23.5)	($87.3)	$626.9	$325.3	$559.3	($10.8)	($77.7)	$796.1	$849.1	$955.1	$998.6
(Income Tax Expense)	($226.7)	($178.6)	($204.5)	($186.3)	($58.5)	($90.2)	($10.1)	($0.1)	($158.9)	($82.1)	($99.1)	$5.5	$20.5	($155.1)	($76.4)	($131.4)	$2.5	$18.3	($187.1)	($199.5)	($224.5)	($234.7)
(Preferred Dividends)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Income before Other Items	$486.9	$546.7	$531.2	$650.0	$168.1	$405.2	($5.3)	($113.6)	$454.5	$234.0	$322.6	($18.0)	($66.8)	$471.8	$248.9	$427.9	($8.3)	($59.5)	$609.0	$649.6	$730.7	$764.0
(Minority Interest, prnc. in AmeriGas)	($133.0)	($181.7)	($126.9)	($164.4)	($24.3)	($151.3)	$31.8	$79.3	($64.5)	$0.0	$0.3	$0.2	($9.6)	($9.2)	($0.1)	$0.5	$0.2	($4.0)	($3.4)	($3.5)	($2.2)	($2.0)
Net Income - Recurring	$353.9	$365.0	$404.3	$485.6	$143.8	$253.9	$26.5	($34.3)	$390.0	$234.0	$322.8	($17.8)	($76.4)	$462.6	$248.7	$428.4	($8.1)	($63.4)	$605.6	$646.1	$728.4	$762.0
EPS (Adjusted Diluted)	**$2.01**	**$2.09**	**$2.29**	**$2.74**	$0.81	$1.43	$0.15	($0.18)	**$2.21**	$1.11	$1.53	($0.09)	($0.37)	**$2.20**	$1.18	$2.04	($0.04)	($0.31)	**$2.89**	**$3.11**	**$3.54**	**$3.74**
Shares Outstanding - Basic	173.1	173.2	173.7	173.9	174.4	174.5	174.8	189.9	178.4	209.4	209.2	209.0	209.0	209.1	208.7	208.5	208.2	208.0	208.3	206.3	204.4	202.6
Shares Outstanding - Diluted	175.7	174.9	176.3	176.9	177.6	177.3	177.3	189.9	180.6	211.3	211.0	209.0	209.0	210.1	210.5	210.3	208.2	208.0	209.3	207.6	205.8	203.9
EBIT	$946.4	$954.4	$1,000.9	$1,074.8	$276.3	$547.5	$63.1	($62.8)	$824.1	$405.2	$501.2	$52.9	($10.1)	$949.2	$402.3	$636.3	$66.2	($0.7)	$1,104.1	$1,140.3	$1,235.5	$1,276.2
EBITDA	$1,320.5	$1,355.2	$1,417.2	$1,529.9	$387.5	$656.4	$173.0	$55.3	$1,272.2	$524.6	$622.7	$175.4	$114.9	$1,437.7	$526.7	$762.2	$193.4	$128.4	$1,610.8	$1,666.1	$1,781.6	$1,844.0

Source: UGI reports, Jefferies estimates

NATIONAL FUEL GAS COMPANY (NFG)

RATING	PRICE	MARKET CAP
BUY	$41.44^	$3.6B
PRICE TARGET (PT)	UPSIDE SCENARIO PT	DOWNSIDE SCENARIO PT
$48.00 (FROM $51.00)	$60.00	$30.00

^Prior trading day's closing price unless otherwise noted.

Estimates			
USD	2019A	2020E	2021E
EPS	3.45	↑ 2.94	↓ 2.74
Previous		2.88	2.94
Consensus EPS	3.45	↓ 2.90	↓ 2.72
Previous		3.06	3.11
DPS	1.72	1.76	1.80
Previous			
EBITDA (MM)			
Q1	223.6	↑ 229.2	-
Previous		*225.6*	
Q2	228.4	↑ 235.7	-
Previous		*225.5*	
Q3	185.7	↑ 178.1	-
Previous		*175.0*	
Q4	161.5	↓ 149.9	-
Previous		*151.7*	
FY Sep	799.2	↑ 792.8	↓ 787.4
Previous		*777.8*	*820.8*

Valuation			
	2019A	2020E	2021E
FY P/E	12.0x	14.1x	15.1x
EV/EBITDA	7.4x	7.5x	7.6x

The Long View

Scenarios

Base Case

- Appalachian drilling to grow production & reserves over next several years, California to provide free cash flow
- Midstream growth projects to add incremental Utica/ Marcellus takeaway capacity, aiding in-basin firm sale contracts in enabling Seneca production growth
- SOP, which utilizes EV/EBITDA multiples for business segments and reserve valuation for E&P & DCF analysis. F21 EPS: $2.74; F21 EBITDA: $787mm; PT $48

Upside Scenario

- Additional midstream opportunities are secured and progress successfully through regulatory approvals, driving meaningful takeaway options for Seneca and cementing a sustainably profitable net-back
- Stronger than anticipated proved reserve growth and continued improvements in drilling & completion activities, which aid Seneca's profit profile
- Sharp & sustained increase in natural gas and crude oil prices, limited basis issues. Utility experiences sustained cold weather in its PA service territory.
- SOP, which utilizes EV/EBITDA multiples for business segments and reserve valuation for E&P & DCF analysis. F21 EPS: $3.30; F21 EBITDA: $950; PT: $60

Downside Scenario

- Expansion projects in execution encounter cost overruns & time delays; NYSDEC's appeals of recent Northern Access victories are supported, permanently impairing Northern Access
- Production & reserve growth trails our expectations; drilling & completion efficiency gains do not materialize and Seneca's margins are minimized
- Sharp & sustained reduction in oil and natural gas prices, adverse basis differentials hinder realizations
- Mild weather, adverse rate case decisions
- SOP, which utilizes EV/EBITDA multiples for business segments and reserve valuation for E&P & DCF analysis. F21 EPS: $2.40; F21 EBITDA: $700; PT: $30

Investment Thesis / Where We Differ

- Appalachian drilling to grow production & reserves over next several years, California to provide free cash flow
- Midstream growth projects to add incremental Utica/ Marcellus takeaway capacity, aiding in-basin firm sale contracts in enabling Seneca production growth
- SOP, which utilizes EV/EBITDA multiples for business segments and reserve valuation for E&P & DCF analysis. F21 EPS: $2.74; F21 EBITDA: $787mm; PT $48

Catalysts

- Continued action by NFG in the wake of the FERC's decision to rule in favor of NFG as it relates to the NYSDEC waiving its certification authority under section 401 of the Clean Water Act; NYSDEC can appeal against the decision
- Execution of midstream projects & any additional expansions; Transco Zone 6 expected in 2021
- Narrowing of NE basis differentials and the disclosure of additional favorably priced firm sales agreements

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EQUITY RESEARCH
USA | Utilities

NISOURCE INC. (NI)

RATING	PRICE	MARKET CAP
BUY	$24.57^	$9.4B
PRICE TARGET (PT)	UPSIDE SCENARIO PT	DOWNSIDE SCENARIO PT
$28.00	$30.00	$15.00

^Prior trading day's closing price unless otherwise noted.

Estimates			
USD	2019A	2020E	2021E
EBITDA (MM)	↓ 1,759.3	↓ 1,852.7	↓ 1,955.5
Previous	1,762.9	1,893.2	2,011.3
DPS	0.80	↓ 0.84	↓ 0.88
Previous		0.85	0.91
Consensus EPS	↑ 1.32	↓ 1.36	↓ 1.42
Previous	1.29	1.38	1.46
EPS			
Q1	0.82	0.83	-
Previous			
Q2	0.05	0.07	-
Previous			
Q3	(0.00)	0.03	-
Previous			
Q4	↑ 0.45	0.42	-
Previous	*0.41*		
FY Dec	↑ 1.32	↓ 1.35	↓ 1.40
Previous	*1.27*	*1.38*	*1.45*

Valuation			
	2019A	2020E	2021E
EV/EBITDA	10.7x	10.2x	9.7x
FY P/E	18.7x	18.1x	17.5x

The Long View

Scenarios

Base Case

- Infrastructure modernization programs to generate steady growth & returns across all segments for several decades
- Premium asset footprints and favorable regulatory climates, continuation on tracked infrastructure investments punctuated by rate case activity.
- ~5.4% dividend CAGR from 2019-24; ~4.3% EPS CAGR from 2019-24
- Combination of Target P/E, Target Yield, DDM, and DCF Analysis. 2021 Adj. EPS: $1.40; 2021 dividend: $0.88/ share; PT $28

Upside Scenario

- Customer growth grows faster than projected ~0.5% per year assumption and alternative source of regulated revenues are secured
- NI spends above the high-end of its guidance range, growing rate base faster than anticipated
- Cash flow outperformance yields reduced debt load, generating interest cost savings
- Combination of Target P/E, Target Yield, DDM, and DCF Analysis. 2021 Adj. EPS: $1.70; 2021 dividend: $0.91/ share; PT $30

Downside Scenario

- Customer growth is slower than projected ~0.5% per year assumption, or negative
- NI spends below the low-end of its guidance range, and rate base growth is slower than anticipated
- Cost overruns and rising debt loads weigh on EPS
- Adverse regulatory and rate case outcomes
- Combination of Target P/E, Target Yield, DDM, and DCF Analysis. 2021 Adj. EPS: $0.85; 2021 dividend: $0.45/ share; PT $15

Investment Thesis / Where We Differ

- Infrastructure modernization programs to generate steady growth & returns across all segments for several decades
- Premium asset footprints and favorable regulatory climates, continuation on tracked infrastructure investments punctuated by rate case activity.
- ~5.4% dividend CAGR from 2019-24; ~4.3% EPS CAGR from 2019-24
- Combination of Target P/E, Target Yield, DDM, and DCF Analysis. 2021 Adj. EPS: $1.40; 2021 dividend: $0.88/ share; PT $28

Catalysts

- Continued regulatory progress and reduction in regulatory lag could improve earnings growth
- Extension or expansion of modernization programs across any/all service territories
- Increased revenue-normalization efforts and reduction in volumetric sensitivities
- Sale of Columbia Gas of Mass. & removal of the overhang that comes with the Greater Lawrence Incident; NI remains liable for additional costs incurred

Please see important disclosure information on pages 20 - 27 of this report.

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EQUITY RESEARCH
USA | Utilities

ONE GAS INC. (OGS)

RATING	PRICE	MARKET CAP
HOLD	$84.74^	$4.5B
PRICE TARGET (PT)	UPSIDE SCENARIO PT	DOWNSIDE SCENARIO PT
$80.00 (FROM $83.00)	$95.00	$60.00

^Prior trading day's closing price unless otherwise noted.

Estimates			
USD	2019A	2020E	2021E
EBITDA (MM)	↓ 475.6	↓ 506.2	↓ 543.3
Previous	478.1	520.8	558.4
DPS	2.00	2.16	2.32
Previous			
Consensus EPS	↑ 3.51	↓ 3.61	↓ 3.84
Previous	3.47	3.65	3.85
EPS			
Q1	1.76	1.84	-
Previous			
Q2	0.46	0.47	-
Previous			
Q3	0.33	0.33	-
Previous			
Q4	↓ 0.96	↑ 0.98	-
Previous	*0.97*	*0.94*	
FY Dec	↓ 3.51	↑ 3.63	↑ 3.77
Previous	*3.52*	*3.59*	*3.71*

Valuation			
	2019A	2020E	2021E
EV/EBITDA	13.2x	12.4x	11.5x
FY P/E	24.2x	23.4x	22.5x

The Long View

Scenarios

Base Case

- Customer growth continues at ~1.0% CAGR for several years
- Annual capex spend remains ~$500mm, delivering rate base growth broadly consistent with mgmt's expectations
- OGS continues to earn historical rate increases in KS & annual GRIP filings in TX
- Weather conditions revert to normal for consecutive years.
- Equal-weight valuation using DCF, DDM, Target P/E, and Target Yield methodologies; 2021 EPS: $3.77, 1Q21 DPS: $0.58; Target Yield: 2.8%; PT $80

Upside Scenario

- Customer growth grows faster than projected ~1.0% per year assumption and alternative sources of regulated revenue are secured
- OGS spends at or above the high-end of its guidance range growing its rate base faster than projected
- Mgmt employs cost cutting mechanisms which realizing an ROE closer to the top end of its authorized amount
- Equal-weight valuation using DCF, DDM, Target P/E, and Target Yield methodologies; 2021 EPS: $4.75, 1Q21 DPS: $0.60; Target Yield: ~2.5%; PT $95

Downside Scenario

- Customer growth is slower than projected ~1.0% per year assumption
- OGS spends at or below the low-end of its guidance range, thus its rate base ramp is slower than forecast
- Cost overruns occur and crimp allowed ROE in out-years
- Mild weather occurs in service areas where weather normalization provisions do not exist
- Equal-weight valuation using DCF, DDM, Target P/E, and Target Yield methodologies, 2021 EPS: $3.15, 1Q21 DPS: $0.48; Target Yield: ~3.2%; PT $60

Investment Thesis / Where We Differ

- Customer growth continues at ~1.0% CAGR for several years
- Annual capex spend remains ~$500mm, delivering rate base growth broadly consistent with mgmt's expectations
- OGS continues to earn historical rate increases in KS & annual GRIP filings in TX
- Weather conditions revert to normal for consecutive years.
- Equal-weight valuation using DCF, DDM, Target P/E, and Target Yield methodologies; 2021 EPS: $3.77, 1Q21 DPS: $0.58; Target Yield: 2.8%; PT $80

Catalysts

- Annual true-up regulatory filings across all three states
- With a low interest debt maturity in 2019, increased interest rates could act as a negative catalyst

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USA | Utilities

SOUTHWEST GAS CORPORATION (SWX)

RATING	PRICE	MARKET CAP
BUY	$59.41^	$3.3B
PRICE TARGET (PT)	**UPSIDE SCENARIO PT**	**DOWNSIDE SCENARIO PT**
$72.00 (FROM $78.00)	$95.00	$40.00

^Prior trading day's closing price unless otherwise noted.

Estimates			
USD	2019A	2020E	2021E
EBITDA (MM)	667.5	730.2	802.2
Previous	668.0	719.1	787.9
DPS	2.16	2.26	2.34
Previous		2.24	2.32
Consensus EPS	3.61	3.80	4.26
Previous	3.55	4.04	4.44
EPS			
Q1	1.63	1.50	-
Previous			
Q2	0.34	0.29	-
Previous			
Q3	0.13	0.22	-
Previous			
Q4	1.52	1.65	-
Previous	*1.44*		
FY Dec	3.61	3.66	4.11
Previous	*3.53*	*3.71*	*4.10*

Valuation			
	2019A	2020E	2021E
EV/EBITDA	8.8x	8.1x	7.4x
FY P/E	16.4x	16.2x	14.5x

The Long View

Scenarios

Base Case

- Customer growth continues at a ~1.7%+ annual rate through 2024 and dynamics of natural gas supply and demand trends remain supportive
- Centuri grows as utilities seek to replace & modernize aging infrastructure.
- SWX's regulatory outcomes are generally favorable and its LNG facility begins to contribute to earnings over the course of 2020.
- Equal-weighted DCF, DDM, SOP, and Target Yield approaches. 2Q21E Dividend: 59¢, Target Yield 2.85%, Projected 5-year Dividend CAGR 3.7%, PT $72

Upside Scenario

- Customer accounts grow faster than our baseline forecast and the economies of the AZ, NV, and CA service territories grow faster than anticipated.
- Rate activity is favorable and the LNG facility ramps up quicker than anticipated reaching above forecast utilization
- Centuri growth & profitability is better and Nueco acquisition is more accretive than anticipated, while Centuri's project backlog deepens
- Equal-weighted DCF, DDM, SOP, and Target Yield approaches. 2Q21E Dividend: 60¢, Target Yield 2.5%, Projected 5-year Dividend CAGR 6.5%, PT $95

Downside Scenario

- Weak economic conditions prompt slower than anticipated growth in customer accounts and an uptick in inactive meters
- Adverse future rate case outcomes & LNG facility contribution lower than anticipated
- Centuri backlog wanes & contract bidding becomes more competitive, crimping its growth & profitability
- Treasury yields widen, hindering capital costs
- Equal-weighted DCF, DDM, SOP, and Target Yield approaches. 2Q21E Dividend: 50¢, Target Yield 4.5%, Projected 5-year Dividend CAGR 0%, PT $40

Investment Thesis / Where We Differ

- Customer growth continues at a ~1.7%+ annual rate through 2024 and dynamics of natural gas supply and demand trends remain supportive
- Centuri grows as utilities seek to replace & modernize aging infrastructure.
- SWX's regulatory outcomes are generally favorable and its LNG facility begins to contribute to earnings over the course of 2020.
- Equal-weighted DCF, DDM, SOP, and Target Yield approaches. 2Q21E Dividend: 59¢, Target Yield 2.85%, Projected 5-year Dividend CAGR 3.7%, PT $72

Catalysts

- Dividend raises each Feb; expect a 3.7% 5-yr CAGR
- Additional sector consolidation (value read-through) and/or an accretive acquisition of its own
- Faster than expected increases in interest rates or a reduction of allowed ROEs act as negative catalysts
- Material change in the Arizona PUC with respect to favorable rate case outcomes; decision by the Nevada PUC on the rate case presented to them

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EQUITY RESEARCH
USA | Utilities

UGI CORPORATION (UGI)

RATING	PRICE	MARKET CAP
BUY	$27.14^	$5.7B
PRICE TARGET (PT)	UPSIDE SCENARIO PT	DOWNSIDE SCENARIO PT
$48.00 (FROM $54.00)	$60.00	$20.00

^Prior trading day's closing price unless otherwise noted.

Estimates			
USD	2019A	2020E	2021E
EBITDA (MM)	1,272.2	1,437.7	1,610.8
Previous		1,540.5	1,629.5
Consensus EPS	2.21	2.69	2.90
Previous		2.74	2.96
DPS	1.15	1.33	1.38
Previous			
EPS			
Q1	0.81	1.11A	-
Previous		*1.02*	
Q2	1.43	1.53	-
Previous		*1.94*	
Q3	0.15	(0.09)	-
Previous		*(0.10)*	
Q4	(0.18)	(0.37)	-
Previous		*(0.27)*	
FY Sep	2.21	2.20	2.89
Previous		*2.60*	*2.93*

Valuation			
	2019A	2020E	2021E
EV/EBITDA	9.5x	8.4x	7.5x
FY P/E	12.3x	12.3x	9.4x

The Long View

Scenarios

Base Case

- PennEast pipeline experiences no further delays & is put into service in F1Q22.
- Continued conversion of fuel oil customers
- Normal weather conditions across all regions
- Additional midstream projects are secured and successfully executed upon at a 5-6x multiple
- Equal-weighted DCF, SOP, and Target Yield approaches. F2Q21E Dividend: 33.75¢, Target Yield 3%, Projected 5-year Dividend CAGR 6.2%, PT $48

Upside Scenario

- Projects completed early and under-budget, with utilization ramp faster than anticipated
- Fuel oil customer conversions accelerate in the US and Europe; significantly colder-than-normal winter weather conditions pervade all operating regions
- Additional high-quality midstream projects come into service earlier than expected, at accretive multiples, and backed by long-term fee-based agreements
- Equal-weighted DCF, SOP, and Target Yield approaches. F2Q21E Dividend: 35¢, Target Yield 2.35%, Projected 5-year Dividend CAGR 9.0%, PT $60

Downside Scenario

- Recent NE gathering acquisition doesn't lend itself to the 5-6x bolt-on projects, making the transaction more expensive than originally anticipated
- Projects delayed further and experience cost overruns due to operational issues and drag on total UGI results
- Customer conversions across all delivery platforms slow and European acquisitions dry up
- Significantly warmer than normal temps afflict all operating regions during the winter heating season
- Equal-weighted DCF, SOP, and Target Yield approaches. F2Q21E Dividend: 32.5¢, Target Yield 4.75%, Projected 5-year Dividend CAGR 0%, PT $20

Investment Thesis / Where We Differ

- PennEast pipeline experiences no further delays & is put into service in F1Q22.
- Continued conversion of fuel oil customers
- Normal weather conditions across all regions
- Additional midstream projects are secured and successfully executed upon at a 5-6x multiple
- Equal-weighted DCF, SOP, and Target Yield approaches. F2Q21E Dividend: 33.75¢, Target Yield 3%, Projected 5-year Dividend CAGR 6.2%, PT $48

Catalysts

- Additional M&A in its NE Midstream business as well as announcements regarding expansion projects
- Unusually warm/cold winter weather in PA, due to the lack of weather normalization provisions
- Announcements regarding Penn East progress have the potential to act as a positive catalyst if the regulatory and construction processes are successfully navigated, but also have the potential to act as a negative catalyst if there are further delays in the regulatory and/or construction processes
- International M&A as UGI looks to expand the international propane business

Please see important disclosure information on pages 20 - 27 of this report.

Company Description

National Fuel Gas Company

National Fuel Gas Company (NYSE: NFG) is a diversified energy holding company which operates in five business segments: Utility, Pipeline & Storage, Gathering, Exploration & Production, and Energy Marketing. The Utility operations are conducted by NFG Distribution Corp., which sells natural gas and provides natural gas and transportation services to ~750,200 customers in western New York and northwestern Pennsylvania. The Pipeline & Storage operations are carried out by NFG Supply Corp. and Empire Pipeline, Inc., which provide interstate natural gas transportation & storage services for affiliated and nonaffiliated companies. The Exploration & Production operates via Seneca Resources Corp., which is engaged in the exploration, development and purchase of natural gas and oil reserves primarily in California and in the Appalachian region. National Fuel Gas was founded on December 8, 1902, is incorporated under the laws of the state of New Jersey, and is headquartered in Williamsville, NY.

NiSource Inc.

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4mm US customers. The Company operates two business segments: Gas Distribution and Electric. The Gas Distribution operations provide natural gas service and transportation to ~3.5mm residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. The Electric Operations segment provides electric service to ~472,000 customers across 20 counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

ONE Gas Inc.

ONE Gas Inc. (NYSE: OGS) is a Local Distribution Company (LDC), that provides natural gas distribution services to 2.2mm customers and, despite the LDC market being categorized as an extremely fragmented industry, is the largest natural gas distributor in Oklahoma and Kansas and is the third largest in Texas, in terms of customers. OGS is the successor of a company founded in 1906 as Oklahoma Natural Gas Company and is 100% regulated. OGS's customer base includes residential, commercial & industrial, wholesale & public authority, and transportation. OGS has three divisions, Oklahoma Natural Gas, Kansas Gas Service, and Texas Gas Service, that distribute natural gas to ~88%, ~72%, and ~13% of the natural gas distribution customers in Oklahoma, Kansas and Texas, respectively.

Southwest Gas

Southwest Gas Holdings, Inc. (NYSE:SWX) is a holding company with business interests in two major business segments -- Natural Gas Operations and Utility Infrastructure Services. Southwest Gas Corporation purchases, distributes, and transports natural gas in the states of Arizona, Nevada, and California to residential, commercial, and industrial users. It is the largest natural gas distributor in Arizona and Nevada, providing service to the Phoenix, Tucson, and Las Vegas metropolitan regions among others. Southwest Gas also owns Paiute Pipeline Company, which owns and operates an interstate pipeline system that extends from the Idaho-Nevada border to the California-Nevada state line near the north and south ends of Lake Tahoe. Paiute also operates a peak shaving LNG storage facility near Lovelock, Nevada. Centuri Construction Group, Inc. is a comprehensive utility infrastructure services enterprise dedicated to meeting the growing demands of North American utilities, energy, and industrial markets. The Company was founded in March 1931, is incorporated under the laws of the State of California, and is headquartered in Las Vegas, NV.

UGI Corporation

UGI Corporation (NYSE: UGI) is a holding company that, through subsidiaries, distributes, stores, transports and markets energy products and services. UGI distributes natural gas and electricity to approximately 642,000 customers in eastern PA, operates merchant power and midstream assets in the Mid-Atlantic, and has LPG distribution operations in France and Eastern Europe. The company was founded in 1882, is organized under the laws of the state of Pennsylvania, and is headquartered in King of Prussia, PA. In F4Q19, UGI closed the acquisition of all publicly-held APU common units, rendering APU a wholly-owned UGI subsidiary.

Company Valuation/Risks

National Fuel Gas Company

Our $48 PT and Buy recommendation are derived via DCF and SOP, which includes an E&P reserve valuation & EBITDA multiples for all other segments. Risks: Deviations in reserve growth, commodity prices, interest rates, and midstream expansions.

NiSource Inc.
Our $28 PT and Buy recommendation are derived via Target P/E, Target Yield, DCF, and DDM approaches. Unexpected regulatory outcomes, deviations in customer growth, and project execution present risks to our estimates & PT.

ONE Gas Inc.
Our $80 PT and Hold rating are derived via Target P/E, Target Yield, DCF, and DDM approaches. Risks to our PT include: slower than expected annual customer growth, capex spend below the low-end of the guided range, slowing rate base growth, cost overruns crimping allowed ROE in future years and non-normal weather in service areas impacting top line results.

Southwest Gas
Our $72 PT and Buy recommendation are derived via DCF, DDM, SOP, and Target Yield approaches. Unexpected regulatory outcomes, contracting & execution risk, SW economic conditions, and interest rates all pose risks to our EPS & dividend projections and to our price target.

UGI Corporation
Our $48 PT and Buy recommendation are derived via a combination of DCF, SOP, and Target Yield approaches. Risks include non-normal weather, severe & rapid LPG price fluctuations, project execution, and interest rates.

Analyst Certification:

I, Christopher Sighinolfi, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.
I, Vikram Bagri, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.
I, Ryan Conlin, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.
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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published	March 17, 2020 , 19:43 ET.
Recommendation Distributed	March 18, 2020 , 00:00 ET.

Company Specific Disclosures

Jefferies Group LLC makes a market in the securities or ADRs of ONE Gas Inc.

Explanation of Jefferies Ratings

Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.
Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.
Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.
CS - Coverage Suspended. Jefferies has suspended coverage of this company.
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Restricted - Describes issuers where, in conjunction with Jefferies engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.
Monitor - Describes securities whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Valuation Methodology

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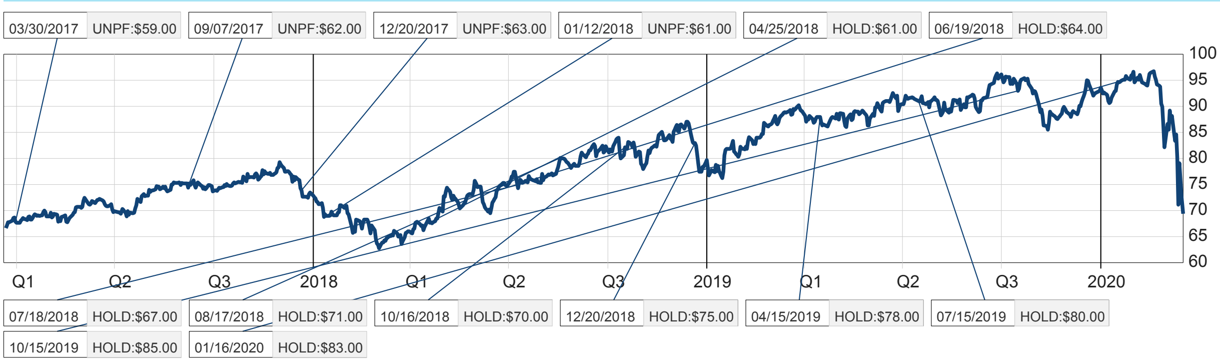
Rating and Price Target History for: National Fuel Gas Company (NFG) as of 03-16-2020

Rating and Price Target History for: NiSource Inc. (NI) as of 03-16-2020

Rating and Price Target History for: ONE Gas Inc. (OGS) as of 03-16-2020



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Rating and Price Target History for: Southwest Gas Corporation (SWX) as of 03-16-2020

Rating and Price Target History for: UGI Corporation (UGI) as of 03-16-2020

Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1263	53.29%	113	8.95%	10	0.79%
HOLD	946	39.92%	34	3.59%	5	0.53%
UNDERPERFORM	161	6.79%	1	0.62%	0	0.00%

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12 March 2020

North America Power & Utilities

Repositioning the Portfolio

EARNING FORECAST CHANGE

North America Power & Utilities
NEUTRAL
Unchanged

For a full list of our ratings, price target and earnings changes in this report, please see table on page 2.

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We are Upgrading PEG and SRE to OW from EW, Upgrading OGE to EW from UW, downgrading DUK, NI and PNW to EW from OW and downgrading WEC to UW from EW: As a result of recent price performance, shifting our valuation framework to 2022 from 2021 estimates and an adjustment to our valuation framework, we believe our ratings changes were merited. We reiterate our overweight ratings on AEP, D, EXC, LNT and FE. We reiterate our underweight ratings on ED, NWE and POR

The macro valuation for the group is attractive to the US 10-year treasury and relative to the S&P500 based on the last 10 years: Based on expectations for slowing growth from the Covid-19 virus along with the anticipation of cuts to the Fed funds rate, the macro setup for the next 3-6 months supports current utility valuations. We reiterate our Neutral Industry View on the North America Power & Utilities sector. For additional context on the sector amidst the volatility, see our note *Taking a Step Back to Gain Perspective*, published March 9, 2020.

We have updated our models to include 2022 estimates and adjusted our valuation framework modestly: Our valuations are still based on our 3 legs of the stool + disruptors. The regulatory (updated ranking included) and geography (updated ranking included) aspects remain unchanged in application. As long-term growth continues to be one of the largest value differentiators, we now apply a discount/premium of up to -/+ 10%. We also apply specific premiums for ESG and significant renewable opportunity (offshore wind or state law changes that are visible but will not hit the forecast period).

2020 Backdrop: Other than the obvious potential impact of the Coronavirus (Covid-19) and the 2020 election process, we see 2020 as a significant year for idiosyncratic issues getting to or near resolution as compared to past years. We believe that many of the names trading at a discount to the group average (or to what we see as their intrinsic value) do so based on idiosyncratic risks, many of which that have persisted over the years. Examples of these risks are: nuclear construction risk (SO), bankruptcy company or subsidiary (PCG, FE), permitting issues for pipelines (D, DUK, NEE), FERC transmission policy, state's rights for compensation for generation attributes (EXC, PEG), market reform proposals (D, PNW) among other issues.

PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 40.

Summary of our Ratings, Price Targets and Earnings Changes in this Report (all changes are shown in bold)

Company	Rating		Price	Price Target			EPS FY1 (E)			EPS FY2 (E)		
	Old	New	11-Mar-20	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg
North America Power & Utilities	Neu	Neu										
Alliant Energy Corporation (LNT)	OW	OW	51.59	58.00	**60.00**	3	2.41	**2.46**	2	N/A	**2.61**	-
Ameren Corp. (AEE)	EW	EW	80.87	81.00	**85.00**	5	3.40	**3.41**	0	N/A	**3.71**	-
American Electric Power Company, Inc. (AEP)	OW	OW	89.72	101.00	**107.00**	6	4.44	**4.42**	0	N/A	**4.70**	-
CenterPoint Energy, Inc. (CNP)	EW	EW	17.66	27.00	**20.00**	-26	1.60	**1.36**	-15	N/A	**1.45**	-
CMS Energy Corporation (CMS)	EW	EW	63.25	64.00	**67.00**	5	2.66	**2.67**	0	N/A	**2.86**	-
Consolidated Edison, Inc. (ED)	UW	UW	86.50	88.00	**83.00**	-6	4.49	4.49	-	N/A	**4.69**	-
Dominion Energy (D)	OW	OW	78.95	91.00	**93.00**	2	4.43	**4.47**	1	N/A	**4.63**	-
Duke Energy Corporation (DUK)	OW	**EW**	90.94	98.00	**104.00**	6	5.15	**5.27**	2	N/A	**5.52**	-
Edison International (EIX)	EW	EW	59.74	73.00	**68.00**	-7	4.45	4.45	-	N/A	**4.78**	-
Eversource Energy (ES)	EW	EW	87.79	83.00	**96.00**	16	3.59	**3.68**	3	N/A	**3.99**	-
Exelon Corporation (EXC)	OW	OW	39.81	54.00	**50.00**	-7	3.13	**3.22**	3	3.07	**3.17**	3
FirstEnergy Corp. (FE)	OW	OW	43.13	54.00	54.00	-	2.48	**2.50**	1	N/A	**2.63**	-
NextEra Energy, Inc. (NEE)	EW	EW	241.26	242.00	**269.00**	11	9.04	9.04	-	N/A	**9.87**	-
NiSource, Inc. (NI)	OW	**EW**	27.10	31.00	31.00	-	1.37	**1.39**	1	N/A	**1.41**	-
NorthWestern Corporation (NWE)	UW	UW	70.96	71.00	**73.00**	3	3.55	3.55	-	N/A	**3.70**	-
OGE Energy Corp. (OGE)	UW	**EW**	34.03	39.00	**38.00**	-3	2.30	**2.24**	-3	N/A	**2.44**	-
PG&E Corporation (PCG)	EW	EW	12.04	16.00	**15.00**	-6	4.26	**3.70**	-13	N/A	**4.09**	-
Pinnacle West Capital Corporation (PNW)	OW	**EW**	89.55	98.00	**103.00**	5	4.87	**4.84**	-1	N/A	**5.16**	-
PNM Resources, Inc. (PNM)	EW	EW	45.65	51.00	**52.00**	2	2.18	**2.25**	3	N/A	**2.34**	-
Portland General Electric Company (POR)	UW	UW	54.09	53.00	**55.00**	4	2.56	2.56	-	2.74	2.74	-
Public Service Enterprise Group (PEG)	EW	**OW**	48.75	65.00	**60.00**	-8	3.27	**3.40**	4	N/A	**3.43**	-
Sempra Energy (SRE)	EW	**OW**	122.95	152.00	152.00	-	7.08	**7.28**	3	N/A	**7.81**	-
The Southern Company (SO)	EW	EW	58.18	64.00	**68.00**	6	3.25	**3.18**	-2	N/A	**3.34**	-
WEC Energy Group, Inc. (WEC)	EW	**UW**	97.45	92.00	**97.00**	5	3.69	**3.75**	2	N/A	**3.97**	-
Xcel Energy Inc. (XEL)	EW	EW	66.82	66.00	**70.00**	6	2.78	**2.73**	-2	N/A	**2.97**	-

Source: Barclays Research. Share prices and target prices are shown in the primary listing currency and EPS estimates are shown in the reporting currency.
FY1(E): Current fiscal year estimates by Barclays Research. FY2(E): Next fiscal year estimates by Barclays Research.
Stock Rating: OW: Overweight; EW: Equal Weight; UW: Underweight; RS: Rating Suspended
Industry View: Pos: Positive; Neu: Neutral; Neg: Negative

Group Valuation

The utility group valuation to the relative to the 10 Year Treasury (Figure 1) is at one of the largest discounts observed over the past 20 years. With Coronavirus fears, global rates and likely impacts to GDP, we see the likelihood of a sustained period of low 10 Year rates supporting the current level of utility valuations.

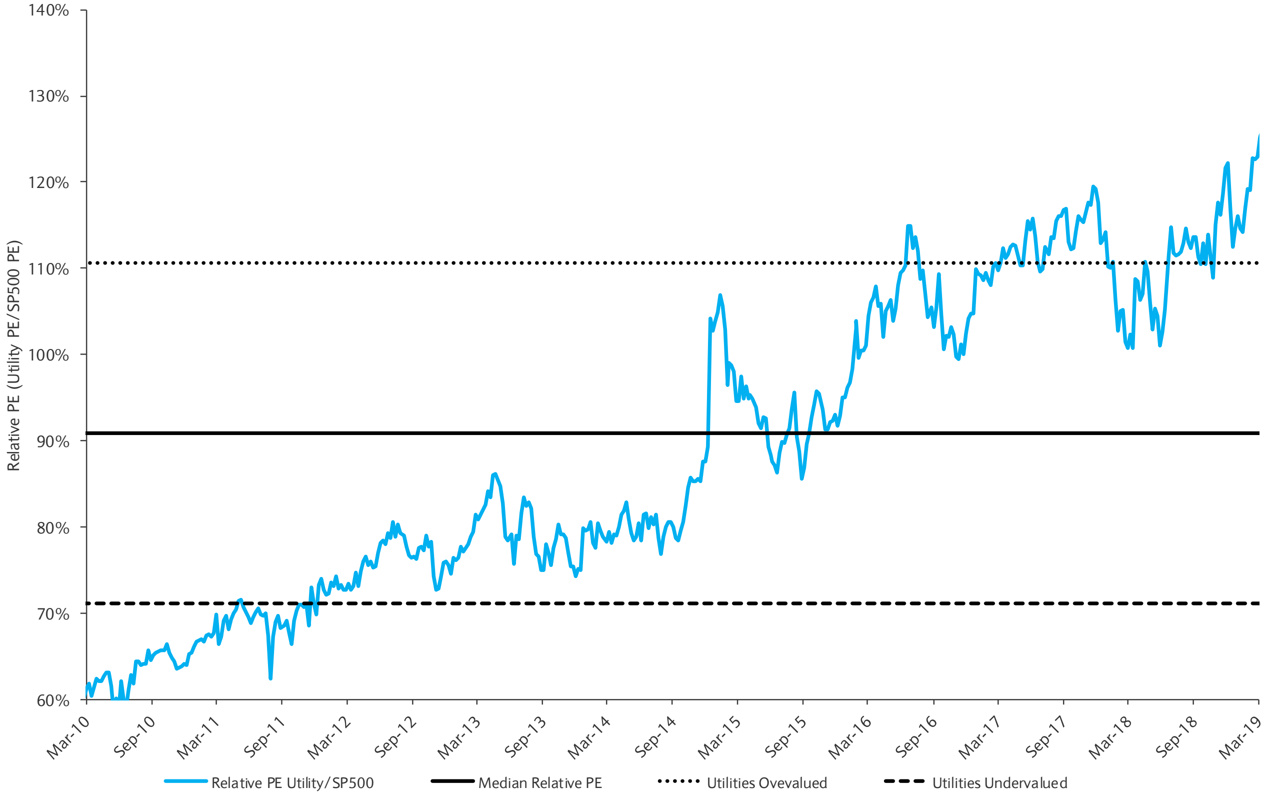
The utility group continues to appreciate and trade to what appears to be a near all-time high relative valuation to the S&P500 (Figure 2). The trend shows this revaluation began approximately a decade ago and has been a steady march to higher relative valuations for the utility group. Additionally, most company estimates for the S&P500 have not been revised to reflect the impact of the Coronavirus. Expectations continue to be for some level of economic disruption which would likely result in lower earnings, meaning that at current levels the p/e ratio of the S&P500 is likely understated making the utility relative valuation seem higher than it actually is.

While the utility group has had an extended period of positive relative performance as compared to the broader market, we expect utilities to maintain their current premium during the predicted Fed easing along with the broad uncertainty of Coronavirus and the pending 2020 elections. The dividend yield, low beta, and comparatively stable and predictable earnings growth for utilities, provides a favourable risk return relative to bonds or the broad market.

FIGURE 1
Relative Utility Yield to 10yr

Source: Bloomberg, Barclays Research

FIGURE 2
Relative P/E to S&P 500



Source: Bloomberg, Barclays Research

Ratings Changes

We have updated price targets to reflect 2022 eps and our calculated premiums and discounts for each name under coverage. Based on expected 12-month total returns we are upgrading PEG and SRE to Overweight from Equal Weight, and upgrading OGE to Equal Weight from Underweight. Also we are downgrading DUK, NI and PNW from Overweight to Equal Weight and downgrading WEC to Underweight from Equal Weight. A brief overview of each rating change follows.

We reiterate our Overweight ratings on AEP, D, EXC, FE and LNT and reiterate our Underweight ratings on ED, NWE, and POR.

We note that names like WEC, ES and NEE which trade at premiums above the 20%, typically seen as the high end of sustainable, can see continued premiums based on momentum and flows.

We also note that our ratings reflect a value bias that has provided middling results at best given the momentum the market observed for the better part of 2019 through the recent correction. Most value names are trading at a discount based on some idiosyncratic issue. 2020 could be the inflection point for many of these names as either issue resolution or enhanced visibility/clarity of the issue is likely prior to year-end. Figure 3 notes the issues we see as driving discounted valuations and likely events in 2020 that may help resolve these issues.

Upgrades

Public Service Enterprise Group (PEG) – We are upgrading our rating on PEG from Equal Weight to Overweight on valuation. We see value even with the uncertainty surrounding a potential lower ROE on transmission at some point in the future as well as the potential for lower capital investment for the Clean Energy Future program. We use a 5% premium for the utility earnings in our valuation methodology rather than the 10% we previously used to account for the probability of lower regulated earnings. We have also lowered our Power valuation from a 7x EV/EBITDA to a 6x EV/EBITDA to address uncertainty on capacity prices and if the NJ nuclear plants clear, that said the BGS auction has reduced the volatility of Power's earnings as compared to other merchant power companies. We view the quality of the company and the adjustments to our valuation as providing a risk/reward that is more attractive than many of the current utilities.

Sempra Energy (SRE) – We are upgrading SRE to Overweight from Equal Weight as we see the regulated utility opportunity in California and Texas as being even more attractive than previously appreciated following strong outcomes at SDG&E and SoCalGas and capex / rate base guidance revisions higher (details to come at Investor Day). We acknowledge risk around potential equity needs to fund the robust capital program, but still see the regulated growth opportunity as outweighing risks given current valuation. We also see heightened concerns around gas markets and SRE's LNG opportunity as overstated given the relatively small contribution to our SOTP framework. We now conservatively assume an 8.5% WACC for LNG (from 7.5%) and lower the probability of future FIDs to arrive at a $25 price target contribution. We continue to assume a group average multiple for SDG&E (would be higher but for wildfire risk), a 10% premium at SoCalGas, and a 10% premium for Oncor and other TX utility operations. We also conservatively apply a 10% premium to the group average multiple to parent expenses and still see upside to the present valuation.

Downgrades

Duke Energy (DUK) – We are lowering our rating on DUK from Overweight to Equal Weight. While we view the characteristics of DUK as attractive in the current low interest rate environment, we believe the valuation has increased on a relative basis to a fair level. The concerns surrounding the potential outcomes in the DEC and DEP rate cases along with the uncertainty on timing and cost of the Atlantic Coast Pipeline move us to the sidelines. If the DEC and DEP cases are resolved favourably and ACP is completed, we would see upside to our current valuation. If these issues have negative outcomes, we would expect the shares to come under pressure.

WEC Energy, Inc. (WEC) – We are downgrading WEC to Underweight from Equal Weight on valuation. We have updated our estimates and price target to reflect information disclosed on the Q4 call. WEC trades at a premium to names with similar avenues for growth and consistent earnings quality. WEC has expanded beyond what we believe is reasonable, even given strong growth prospects, best in class balance sheet and relatively constructive regulatory environment. While we do not characterize inherent business risks going forward as probable, and we still believe WEC is a premium name, our call is premised on a relocation of WEC valuation closer to that of the other "comfort" names, such as XEL, CMS, AEE.

Risks to WEC share price include earnings changes driven by potential revisions to the Qualified Infrastructure Plant rider in Illinois and a final outcome of the FERC MISO order undermining ATC earnings, which assume a 10.3% ROE going forward. We see continued flight to safety and momentum driving flows to the "comfort" names as a potential risk to our call that could inhibit downside valuation correction. Other risks to our call include continued investments in nonregulated renewable assets that could provide higher than regulated returns, potential upside to the current capital forecast, and additional cost savings opportunities coming to fruition.

NiSource, Inc. (NI) – We are downgrading NI to Equal Weight from Overweight on valuation. We have updated our estimates to reflect information disclosed on the Q4 call, including slightly lower earnings expectations. We had previously seen NI as undervalued given the overhang from Greater Lawrence Event penalties and costs, which we anticipated would have a minimal impact. Since then, Greater Lawrence Event-related fallout has been put in the rearview as criminal investigations conclude and the sale of Columbia Gas of MA to Eversource is expected to close in Q3. NI is now trading more in line with expectations relative to peers, thus we downgrade to Equal Weight. Risks to the call include the successful recovery of the pending $300m property insurance claim, the ability to maintain fair ratemaking treatment and cost recovery, as well as the ability to execute on cost controls and recover organizational synergies lost with the Columbia Gas of MA divestiture.

Pinnacle West Corp. (PNW) – We are downgrading PNW to Equal Weight from Overweight on valuation. We have updated our estimates and price target to reflect information disclosed on the Q4 call. We had previously seen PNW as undervalued given the attractive risk reward presented by near-term regulatory uncertainty and strong long-term growth opportunities. PNW is now trading more in line with our expectations, reducing the potential upside to valuation, thus the downgrade to Equal Weight.

Uncertainty left on the table comes from regulatory treatment of investments made to further APS' clean energy plan, the possibility of retail competition in AZ and the outcome of the rate case filed on October 31, 2019 (Docket D-E-01345A-19-0236). We see low odds of Arizona implementing retail competition given the arduous process of valuing incumbent assets and implementing the policy. We look to ACC workshops on resource planning, renewables standards, and EE and EV plans as an indication of the commission's willingness to support APS' clean energy plan, which includes 300-500 MW of renewables additions per year. We believe that population growth and the proposed capital budget provide a solid growth profile once regulatory issues are settled.

Valuation

Current price targets are premised upon each company's premium/discount to the 2022 group average PE multiple of 19x applied to each company's 2022 Barclays EPS estimate.

Previous price targets were premised upon each company's premium/discount to the then prevailing 2021 group average PE multiple of 19.5x applied to each company's 2021 Barclays EPS estimate. Companies where we changed valuation methodology are broken out in more detail below.

Upside/downside to current price targets on a price and total return basis are shown in Figure 3.

American Electric Power (AEP)

Our current $107 price target is premised upon a 12.5% premium applied to the 2022 utility group average PE multiple applied to the Barclays 2022 eps estimate. Our 2020-2022 eps estimates include earnings from the North Central Wind acquisition and associated financing.

Our previous $101 price target was premised upon a 10% premium applied to the 2021utility group average PE multiple applied to the Barclays 2021 eps estimate. Our previous estimates did not include the estimated impact of the North Central Wind acquisition.

CenterPoint Energy (CNP)

Our current $20 price target is premised upon a group average multiple applied to the 2022 utility group average PE multiple against a pro forma Barclays 2022 EPS estimate. Our pro forma 2022 adjustment assumes a downside scenario for ENBL enterprise value where we assume incremental equity needs to finance a $2.4bn write-down for CNP's stake in ENBL and its $1.2bn internal note. We acknowledge that the assumption could be viewed as overly-conservative but do not expect the ENBL overhang to clear in the near term, thus resulting in a more conservative approach to the valuation framework.

Our previous $27 price target was derived using a SOTP framework. We assumed a group average P/E applied to the 2021 utility group average multiple applied to the Barclays 2021 utility EPS estimate of $1.13. We assumed a $1 contribution from Infrastructure and Energy Services businesses (now sold most). We applied a $10/unit value for ENBL, contributing $3.84 to our price target.

Dominion Energy (D)

We moderately alter our framework for D to reflect the enhanced disclosure by business segment. We assign a 10% premium P/E to VEPCO and the Gas LDC business and a 5% premium to the South Carolina segment. We assign a 9.3x EV/EBITDA for D's GT&S segment, which we acknowledge may screen as far too aggressive given recent midstream turmoil, but we note D's 'demand pull' profile where a majority of its pipeline assets are contracted with affiliated end-use utilities and see little incentive to change those contracts given a longer-than-average remaining life on contracts. We assign a 6.9x EV/EBITDA for the contracted generation business, which represents a ~1 turn premium to merchant generation given D's contract with Connecticut EDCs for 50% of Millstone capacity at $49.99 / MWh and the highly-valued PPA contracts for solar. We conservatively apply a 10% premium P/E to parent level drag (highest multiple of all SOTP contributors though debt is allocated across all segments.

Our previous $91 price target was premised on a 10% P/E premium at VEPCO and parent interest, a 5% P/E premium for South Carolina, a 10.5x EV/EBITDA for DEGH, and an 8.8x EV/EBITDA for the contracted generation business.

Consolidated Edison (ED)

Our new price target of $83 is premised upon our updated 2022 EPS estimate of $4.77 applied to a 10% discount to the 2022 group average PE estimate of 19x. We add $1.31 of NPV for recovery of tax equity treatment post-Sempra deal.

Our previous price target of $88 was premised upon our previous 2021 EPS estimate of $4.69 applied to a 5% discount to the 2021 group average PE estimate of 19.5x. We add $1.31 of NPV for recovery of tax equity treatment post-Sempra deal.

Edison International (EIX)

Our $68 price target is premised on a 15% discount to the 2022 group average PE multiple applied to our 2022 pro forma earnings estimate after reducing EIX's updated accounting charge for 2017/2018 wildfire liabilities.

Our previous price target was also premised on a 15% discount, but against the prior 2017/2018 wildfire liability and against our 2021 net income estimate and group average PE multiple.

Eversource (ES)

Our new price target of $96 is premised upon our updated 2022 EPS estimate of $4.23 applied to a 20% premium to the 2022 group average PE estimate of 19x.

Our previous price target of $83 was premised upon our previous 2021 EPS estimate of $3.86 applied to a 10% premium to the 2021 group average PE estimate of 19.5x.

Exelon (EXC)

Our current $50 price target is premised upon a 10% premium applied to the 2022 utility group average PE multiple applied to the Barclays 2022 utility net parent eps estimate, resulting in a $46 valuation for the utility. It should be noted that we assume a 30Year Treasury yield of 130bps which is why our 2022 utility net parent EPS of $2.21 is below the guidance provided by EXC. We then use a 5x EV/EBITDA multiple on 2022 generation EBITDA applied to 75% of the Barclays 2022 generation EBITDA estimate as capacity prices and or fixed resource requirement options in IL are unknown at this time. The generation valuation is $4 combining this with the $46 for the utility results in a $50 sum of the parts valuation.

Our previous $54 price target was premised upon a 10% premium applied to the 2021utility group average PE multiple applied to the Barclays 2021 utility net parent eps estimate, resulting in a $43.50 valuation for the utility. We then used a 6x EV/EBITDA multiple on 2021 generation EBITDA applied to the Barclays 2021 generation EBITDA resulting in a generation valuation is $10.50 combining this with the $43.50 for the utility resulted in a $54 sum of the parts valuation.

NextEra Energy (NEE)

Our new price target of $269 is premised upon a SOTP with our updated 2022 FL utility EPS estimate and a 15% premium to the 2022 group average PE estimate of 19x and a 12x 22E EV/EBITDA for the NEER business – similar to multiples seen by ESG-focused companies like Orsted. We then add $13 for NEP as we take Barclays' $64 NEP price target and flow it through to represent NEE's ownership.

Our previous price target of $242 was premised upon our previous 2021 EPS estimate applied to a 20% premium to the 2021 group average PE estimate of 19.5x.

NiSource (NI)

Our new price target of $31 is premised upon our updated 2022 EPS estimate of $1.51 applied to a 10% premium to the 2022 group average PE estimate of 19x.

Our previous price target of $31 was premised upon our previous 2021 EPS estimate of $1.46 applied to a 10% premium to the 2021 group average PE estimate of 19.5x.

Public Service Enterprise Group (PEG)

Our current $60 price target is premised upon a 5% premium applied to the 2022 utility group average PE multiple applied to the Barclays 2022 utility net parent eps estimate, resulting in a $57 valuation for the utility. We then use a 6x EV/EBITDA multiple on 2022 generation EBITDA applied to the Barclays 2022 generation EBITDA estimate as capacity prices and or fixed resource requirement options in IL are unknown at this time. The generation valuation is $3 combining this with the $57 for the utility results in a $60 sum of the parts valuation.

Our previous $65 price target was premised upon a 10% premium applied to the 2021utility group average PE multiple applied to the Barclays 2021 utility net parent eps estimate, resulting in a $59.50 valuation for the utility. We then used a 7x EV/EBITDA multiple on 2021 generation EBITDA applied to the Barclays 2021 generation EBITDA resulting in a generation valuation is $5.50 combining this with the $59.50 for the utility resulted in a $65 sum of the parts valuation.

Sempra Energy (SRE)

We continue to assign a $152 price target for SRE, but with changes to the contributors. We update our LNG assumptions to reflect an 8.5% WACC versus 7.5% to reflect a challenging LNG contracting environment as global gas prices remain under pressure. We also change the probability of ECA Phase 1 to 75% (from 50%) given management commentary for a Q1 FID. We *lower* the probability of ECA phase 2 and Cameron Phase 2 to 25% from 33% to reflect the contracting environment, while maintaining Port Arthur FID at 50% (conservative relative to management commentary for a 3Q20 FID). We maintain a group average P/E multiple for SDG&E, a 10% premium for SoCalGas and Texas, and a group average multiple for the parent drag (high multiple given lower valuations outside of regulated utilities). We update our Ienova contribution to reflect Barclays' $103 price target and spot USDMXN to reflect forex translation.

Southern Company (SO)

Our $68 price target is premised on a 5% discount to the 2022 group average PE multiple applied to our 2022 earnings estimate and then add the NPV of the Vogtle earnings uplift of $0.20 and apply the same 5% discount to the group average 2022. We believe including the future Vogtle earnings discounted to 2022 is appropriate given the 5% discount is used to account for Vogtle risk.

Our previous $64 price target was premised on a 10% discount to the 2021 group average PE multiple applied to our 2021 earnings estimate and then add the NPV of the Vogtle earnings uplift of $0.20 and apply the same 10% discount to the group average 2021. We believed including the future Vogtle earnings discounted to 2021 was appropriate given the 10% discount is used to account for Vogtle risk.

WEC Energy (WEC)

Our new price target of $97 is premised upon our updated 2022 EPS estimate of $4.24 applied to a 20% premium to the 2022 group average PE estimate of 19x.

Our previous price target of $92 was premised upon our previous 2021 EPS estimate of $3.95 applied to a 20% premium to the 2021 group average PE estimate of 19.5x.

FIGURE 3
Upside/Downside to Price Target

Ticker	Last Price	Old PT	New PT	Implied Return	Div Yld	Current Rating	New Rating
EXC	39.81	54	**50**	25.6%	3.6%	OW	
FE	43.13	54	**54**	25.2%	3.5%	OW	
PCG	12.04	16	**15**	24.6%	0.0%	EW	
SRE	122.95	152	**152**	23.6%	3.4%	EW	**OW**
PEG	48.75	65	**60**	23.1%	3.9%	EW	**OW**
AEP	89.72	101	**107**	19.3%	3.0%	OW	
D	78.95	91	**93**	17.8%	4.6%	OW	
SO	58.18	64	**68**	16.9%	4.2%	EW	
LNT	51.59	58	**60**	16.3%	2.8%	OW	
PNW	89.55	98	**103**	15.0%	3.3%	OW	**EW**
NI	27.10	31	**31**	14.4%	3.7%	OW	**EW**
DUK	90.94	98	**104**	14.4%	4.1%	OW	**EW**
PNM	45.65	51	**52**	13.9%	2.5%	EW	
EIX	59.74	73	**68**	13.8%	4.1%	EW	
CNP	17.66	27	**20**	13.3%	6.5%	EW	
OGE	34.03	39	**38**	11.7%	4.4%	UW	**EW**
NEE	241.26	242	**269**	11.5%	2.1%	EW	
ES	87.79	83	**96**	9.4%	2.4%	EW	
CMS	63.25	64	**67**	5.9%	2.4%	EW	
AEE	80.87	81	**85**	5.1%	2.4%	EW	
XEL	66.82	66	**70**	4.8%	2.4%	EW	
NWE	70.96	71	**73**	2.9%	3.2%	UW	
POR	54.09	53	**55**	1.7%	2.8%	UW	
WEC	97.45	92	**97**	-0.5%	2.4%	EW	**UW**
ED	86.50	88	**83**	-4.0%	3.4%	UW	

Prices as of 3/11/20 close
Source: Barclays Research, Bloomberg

North America Power & Utilities — **Industry View: NEUTRAL**

Alliant Energy Corporation (LNT)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	3,648	3,709	3,800	3,876	2.0%
EBITDA (adj)	1,345	1,376	1,460	1,530	4.4%
EBIT (adj)	777	758	808	833	2.3%
Pre-tax income (adj)	635	558	588	615	-1.1%
Net income (adj)	556	609	652	682	7.0%
EPS (adj) ($)	2.33	2.46	2.61	2.73	5.4%
Diluted shares (mn)	239.0	247.5	250.0	250.0	1.5%
DPS ($)	1.41	1.52	1.63	1.74	7.2%

Margin and return data					Average
EBITDA (adj) margin (%)	36.9	37.1	38.4	39.5	38.0
EBIT (adj) margin (%)	21.3	20.4	21.3	21.5	21.1
Pre-tax (adj) margin (%)	17.4	15.0	15.5	15.9	15.9
Net (adj) margin (%)	15.3	16.4	17.2	17.6	16.6
ROIC (%)	6.6	6.0	6.2	6.1	6.2
ROA (%)	3.7	3.7	3.8	3.8	3.7
ROE (%)	12.1	11.7	11.4	11.5	11.7

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	13,527	14,309	14,678	15,292	4.2%
Cash and equivalents	16	121	92	86	74.3%
Total assets	16,701	17,613	17,976	18,608	3.7%
Short and long-term debt	6,528	6,944	7,062	7,448	4.5%
Other long-term liabilities	0	0	0	0	N/A
Total liabilities	11,296	11,712	11,830	12,216	2.6%
Shareholders' equity	5,205	5,701	5,946	6,192	6.0%
Net debt/(funds)	6,511	6,823	6,970	7,361	4.2%
Change in working capital	762	-354	-81	851	3.7%
Cash flow from operations	660	1,237	1,314	1,389	28.1%
Capital expenditure	-1,640	-1,425	-1,045	-1,335	N/A
Free cash flow	-1,328	-575	-147	-391	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	22.2	21.0	19.8	18.9	20.5
EV/EBITDA (adj) (x)	14.2	14.1	13.4	13.1	13.7
EV/EBIT (adj) (x)	24.6	25.7	24.3	24.0	24.7
FCF yield (%)	-6.9	-3.0	-0.8	-2.0	-3.1
P/BV (x)	2.4	2.2	2.2	2.1	2.2
Dividend yield (%)	2.7	2.9	3.2	3.4	3.1
Net debt/EBITDA (adj) (x)	4.8	5.0	4.8	4.8	4.8

Selected operating metrics					Average
Payout ratio (%)	60.7	61.8	62.4	63.8	62.2
Interest cover (x)	2.8	2.7	2.8	2.8	2.8
Regulated (%)	92.5	92.5	92.6	100.0	94.4

Price (11-Mar-2020)	**USD 51.59**
Price Target	**USD 60.00**

Why Overweight? We assign an Overweight to LNT given our view that 15% premium to the 22E group average multiple provides significant upside for a name with less than expected equity needs and an improving regulatory profile.

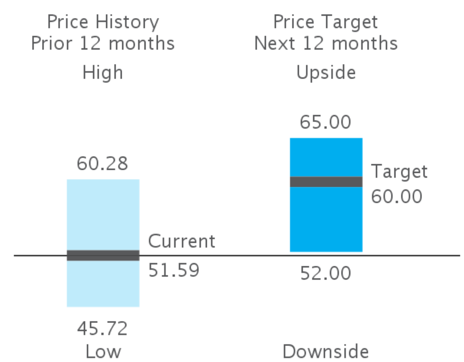
Upside case — **USD 65.00**

Our upside case assumes a 25% premium to the group average 2022 utility P/E multiple, which we believe can be realized if LNT realizes additional renewable capex approval, translate rate base growth to EPS growth more efficiently, or consistently beat guidance for 4-6 quarters.

Downside case — **USD 52.00**

Our downside case assumes a group average multiple, which we believe will occur if LNT runs into renwable project approval delays or future capex and rate base growth does not meet expectations.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities — **Industry View: NEUTRAL**

Ameren Corp. (AEE)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	5,910	5,985	6,196	6,309	2.2%
EBITDA (adj)	2,262	2,369	2,553	2,663	5.6%
EBIT (adj)	1,267	1,345	1,498	1,578	7.6%
Pre-tax income (adj)	1,016	1,109	1,224	1,321	9.1%
Net income (adj)	828	851	940	1,014	7.0%
EPS (adj) ($)	3.35	3.41	3.71	3.90	5.2%
Diluted shares (mn)	247.1	249.4	253.4	260.2	1.7%
DPS ($)	1.92	1.98	2.04	2.10	3.0%

Margin and return data					Average
EBITDA (adj) margin (%)	38.3	39.6	41.2	42.2	40.3
EBIT (adj) margin (%)	21.4	22.5	24.2	25.0	23.3
Pre-tax (adj) margin (%)	17.2	18.5	19.8	20.9	19.1
Net (adj) margin (%)	14.0	14.2	15.2	16.1	14.9
ROIC (%)	7.1	7.4	7.7	8.1	7.6
ROA (%)	3.0	2.9	3.0	3.1	3.0
ROE (%)	10.9	10.6	11.2	11.5	11.0

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	24,376	27,381	29,314	31,217	8.6%
Cash and equivalents	16	-527	-655	-769	N/A
Total assets	28,933	31,396	33,200	34,989	6.5%
Short and long-term debt	9,797	9,764	10,628	10,171	1.3%
Other long-term liabilities	9,312	11,444	11,955	13,725	13.8%
Total liabilities	20,732	22,831	24,206	25,519	7.2%
Shareholders' equity	8,059	8,423	8,852	9,327	5.0%
Net debt/(funds)	9,781	10,290	11,283	10,941	3.8%
Change in working capital	80	-101	-133	-566	N/A
Cash flow from operations	2,170	2,388	2,451	2,460	4.3%
Capital expenditure	-2,411	-4,030	-2,988	-2,988	N/A
Free cash flow	-713	-2,136	-1,053	-1,073	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	24.1	23.7	21.8	20.8	22.6
EV/EBITDA (adj) (x)	13.0	12.7	12.2	11.5	12.3
EV/EBIT (adj) (x)	23.3	22.3	20.7	19.4	21.4
FCF yield (%)	-2.4	-7.1	-3.4	-3.5	-4.1
P/BV (x)	2.5	2.4	2.3	2.3	2.4
Dividend yield (%)	2.4	2.4	2.5	2.6	2.5
Net debt/EBITDA (adj) (x)	4.3	4.3	4.4	4.1	4.3

Selected operating metrics					Average
Payout ratio (%)	57.3	58.0	54.9	53.8	56.0
Interest cover (x)	3.3	3.6	3.7	4.0	3.7
Regulated (%)	100.0	100.0	100.0	100.0	100.0

Price (11-Mar-2020)	USD 80.87
Price Target	USD 85.00

Why Equal Weight? AEE is a quality name with 5-7% growth that is visible for an extended period of time and see the name deserving of a 15% premium to the group. As the name is trading near our expected premium we see the shares as fairly valued.

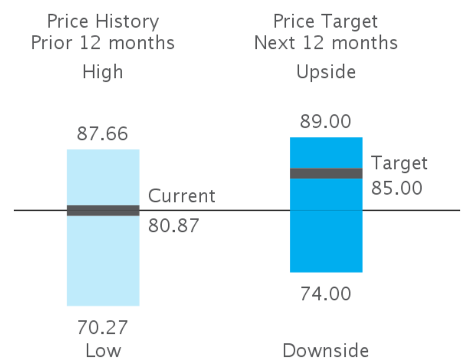
Upside case — **USD 89.00**

Our upside case reflects a 25% premium to the 2021 group average P/E multiple applied to our 2022 EPS estimate.

Downside case — **USD 74.00**

Our downside case reflects the 2022 group average P/E multiple applied to our 2022 EPS estimate.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities | **Industry View: NEUTRAL**

American Electric Power Company, Inc. (AEP)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	15,602	17,198	17,641	18,173	5.2%
EBITDA (adj)	8,504	5,783	6,179	6,663	-7.8%
EBIT (adj)	5,990	3,165	3,399	3,710	-14.8%
Pre-tax income (adj)	2,009	2,373	2,543	2,812	11.9%
Net income (adj)	2,095	2,190	2,346	2,593	7.4%
EPS (adj) ($)	4.23	4.42	4.70	5.02	5.9%
Diluted shares (mn)	494.9	496.0	499.0	516.4	1.4%
DPS ($)	2.68	2.84	3.01	3.19	6.0%

Margin and return data					Average
EBITDA (adj) margin (%)	54.5	33.6	35.0	36.7	40.0
EBIT (adj) margin (%)	38.4	18.4	19.3	20.4	24.1
Pre-tax (adj) margin (%)	12.9	13.8	14.4	15.5	14.1
Net (adj) margin (%)	13.4	12.7	13.3	14.3	13.4
ROIC (%)	12.9	6.3	6.3	6.3	8.0
ROA (%)	3.0	3.0	3.1	3.2	3.1
ROE (%)	11.0	10.6	11.2	12.0	11.2

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	79,585	85,685	92,215	100,262	8.0%
Cash and equivalents	311	679	771	708	31.6%
Total assets	72,748	76,598	80,440	85,471	5.5%
Short and long-term debt	25,648	29,166	32,478	37,120	13.1%
Other long-term liabilities	19,338	19,338	19,338	19,338	0.0%
Total liabilities	52,076	55,594	58,906	63,548	6.9%
Shareholders' equity	20,672	21,004	21,534	21,923	2.0%
Net debt/(funds)	25,337	28,487	31,708	36,413	12.8%
Change in working capital	776	-238	972	541	-11.3%
Cash flow from operations	5,485	4,937	5,125	5,546	0.4%
Capital expenditure	-6,500	-6,100	-6,530	-8,047	N/A
Free cash flow	-2,341	-2,572	-2,908	-4,149	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	21.2	20.3	19.1	17.9	19.6
EV/EBITDA (adj) (x)	8.2	12.6	12.3	12.1	11.3
EV/EBIT (adj) (x)	11.6	23.0	22.3	21.7	19.7
FCF yield (%)	-3.4	-3.5	-3.8	-5.1	-4.0
P/BV (x)	2.1	2.1	2.1	2.1	2.1
Dividend yield (%)	3.0	3.2	3.4	3.6	3.3
Net debt/EBITDA (adj) (x)	3.0	4.9	5.1	5.5	4.6

Selected operating metrics					Average
Payout ratio (%)	63.3	64.3	64.1	63.6	63.8
Interest cover (x)	5.6	2.6	2.6	2.8	3.4
Regulated (%)	92.9	93.3	92.5	92.3	92.8

Price (11-Mar-2020)	**USD 89.72**
Price Target	**USD 107.00**

Why Overweight? We assign an Overweight rating as we believe AEP should trade at a 12.5% premium to the average regulated utility multiple. This is supported by top-tier EPS growth target of 5-7% with a bias towards the high end.

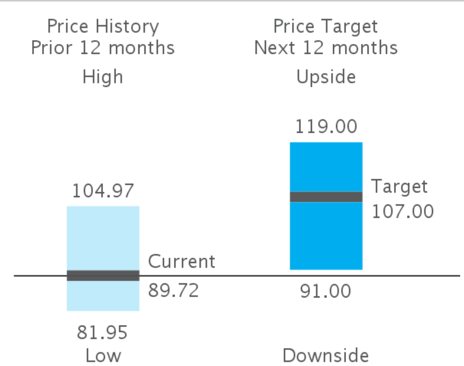
Upside case **USD 119.00**

Our upside case reflects a 20% premium to the utility group average P/E multiple , applied to higher earnings driven by additional rate base growth and a favorable rate case outcomes.

Downside case **USD 91.00**

Our downside case reflects a 5% discount to the utility group average P/E multiple, applied to lower earnings driven by slower rate base growth and unfavorable rate outcomes

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities **Industry View: NEUTRAL**

CenterPoint Energy, Inc. (CNP)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	12,301	7,291	7,372	7,522	-15.1%
EBITDA (adj)	2,513	2,264	2,282	2,380	-1.8%
EBIT (adj)	1,226	1,252	1,209	1,245	0.5%
Pre-tax income (adj)	929	841	928	1,000	2.5%
Net income (adj)	674	716	791	852	8.1%
EPS (adj) ($)	1.33	1.36	1.45	1.56	5.4%
Diluted shares (mn)	505.0	525.0	545.0	545.0	2.6%
DPS ($)	1.15	1.19	1.24	1.29	3.9%

Margin and return data					Average
EBITDA (adj) margin (%)	20.4	31.1	31.0	31.6	28.5
EBIT (adj) margin (%)	10.0	17.2	16.4	16.5	15.0
Pre-tax (adj) margin (%)	7.6	11.5	12.6	13.3	11.2
Net (adj) margin (%)	5.5	9.8	10.7	11.3	9.3
ROIC (%)	5.2	5.1	4.7	4.6	4.9
ROA (%)	1.9	1.8	1.9	1.9	1.9
ROE (%)	8.1	8.1	9.0	9.8	8.8

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	20,945	21,237	21,679	22,002	1.7%
Cash and equivalents	241	1,859	2,868	4,026	155.6%
Total assets	35,439	38,895	41,892	44,919	8.2%
Short and long-term debt	15,112	15,770	17,139	18,508	7.0%
Other long-term liabilities	8,948	10,661	12,375	14,088	16.3%
Total liabilities	27,080	30,039	33,711	37,382	11.3%
Shareholders' equity	8,359	8,792	8,742	8,722	1.4%
Net debt/(funds)	14,871	13,911	14,271	14,482	-0.9%
Change in working capital	-3,764	2,160	683	833	N/A
Cash flow from operations	1,638	1,573	1,700	1,820	3.6%
Capital expenditure	-2,506	-1,304	-1,515	-1,458	N/A
Free cash flow	-1,445	-357	-491	-341	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	13.2	12.9	12.2	11.3	12.4
EV/EBITDA (adj) (x)	9.4	10.1	10.1	9.8	9.9
EV/EBIT (adj) (x)	19.4	18.2	19.1	18.7	18.9
FCF yield (%)	-6.1	-1.6	-2.1	-1.5	-2.8
P/BV (x)	1.1	1.1	1.1	1.1	1.1
Dividend yield (%)	6.5	6.8	7.0	7.3	6.9
Net debt/EBITDA (adj) (x)	5.9	6.1	6.3	6.1	6.1

Selected operating metrics					Average
Payout ratio (%)	86.3	87.5	85.5	82.6	85.5
Interest cover (x)	2.2	1.7	2.0	2.1	2.0
Regulated (%)	N/A	N/A	N/A	N/A	N/A

Price (11-Mar-2020)	USD 17.66
Price Target	USD 20.00

Why Equal Weight? We see concerns surrounding a writedown and equity need from ENBL , updates on the VVC merger integration and costs to achieve, a distribution cut from Enable and a likely need for equity beyond 2020, resulting in a fair valuation.

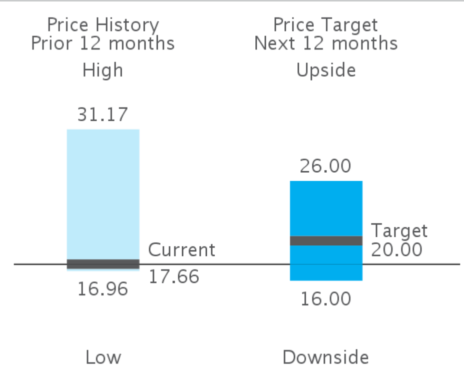
Upside case **USD 26.00**

Our upside case for CNP values the company's Utility business on a 15% premium to the group average multiple for 2022 and utilitzes the Barclays MLP upside case for ENBL.

Downside case **USD 16.00**

Our downside case for CNP values the Utility business on a 20% discount to the group average multiple for 2022. We use the Barclays MLP team's downside case for ENBL.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities — **Industry View: NEUTRAL**

CMS Energy Corporation (CMS)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	6,845	6,961	7,123	7,284	2.1%
EBITDA (adj)	2,231	2,372	2,558	2,742	7.1%
EBIT (adj)	1,239	1,331	1,457	1,590	8.7%
Pre-tax income (adj)	829	932	1,014	1,100	9.9%
Net income (adj)	708	764	825	893	8.0%
EPS (adj) ($)	2.49	2.67	2.86	3.07	7.2%
Diluted shares (mn)	284.3	286.3	288.6	290.9	0.8%
DPS ($)	1.53	1.64	1.75	1.87	7.0%

Margin and return data					Average
EBITDA (adj) margin (%)	32.6	34.1	35.9	37.6	35.1
EBIT (adj) margin (%)	18.1	19.1	20.5	21.8	19.9
Pre-tax (adj) margin (%)	12.1	13.4	14.2	15.1	13.7
Net (adj) margin (%)	10.3	11.0	11.6	12.3	11.3
ROIC (%)	7.3	7.2	7.7	7.6	7.4
ROA (%)	2.5	2.7	2.8	2.9	2.7
ROE (%)	13.5	13.9	13.8	13.8	13.7

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	18,926	20,085	21,685	22,832	6.5%
Cash and equivalents	157	269	86	185	5.6%
Total assets	26,837	28,108	29,525	30,771	4.7%
Short and long-term debt	11,951	13,005	13,026	14,372	6.3%
Other long-term liabilities	383	383	383	383	0.0%
Total liabilities	21,782	22,606	23,552	24,298	3.7%
Shareholders' equity	5,055	5,502	5,973	6,473	8.6%
Net debt/(funds)	11,794	12,736	12,939	14,187	6.4%
Change in working capital	-217	342	-1,108	699	N/A
Cash flow from operations	1,790	1,807	1,928	2,047	4.6%
Capital expenditure	-2,104	-2,200	-2,700	-2,300	N/A
Free cash flow	-750	-862	-1,278	-798	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	25.4	23.7	22.1	20.6	22.9
EV/EBITDA (adj) (x)	13.3	12.9	12.1	11.7	12.5
EV/EBIT (adj) (x)	24.0	23.0	21.2	20.2	22.1
FCF yield (%)	-2.5	-2.8	-4.1	-2.5	-3.0
P/BV (x)	3.6	3.3	3.1	2.8	3.2
Dividend yield (%)	2.4	2.6	2.8	3.0	2.7
Net debt/EBITDA (adj) (x)	5.3	5.4	5.1	5.2	5.2

Selected operating metrics					Average
Payout ratio (%)	61.4	61.4	61.3	61.1	61.3
Interest cover (x)	2.8	3.1	3.1	3.1	3.0
Regulated (%)	93.1	93.3	93.4	93.6	93.3

Price (11-Mar-2020)	USD 63.25
Price Target	USD 67.00

Why Equal Weight? CMS deserves a 15% premium valuation to peers given a constructive regulatory jurisdiction, a 10-year capex backlog, and above-average earnings/dividend growth. However, we believe these qualities are fairly reflected in shares at present.

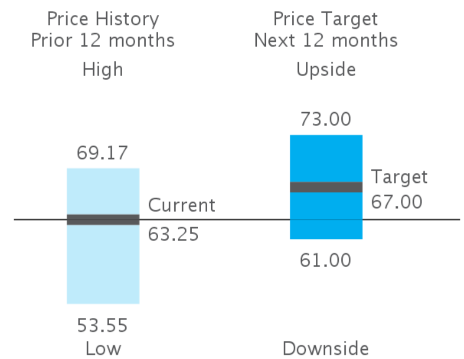
Upside case — **USD 73.00**

Our upside case values CMS at a 25% premium to the regulated utility average multiple applied to our 2022 EPS estimate.

Downside case — **USD 61.00**

Our downside case values CMS at a 5% premium to the regulated utility average multiple applied to our 2022 EPS estimate.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities — **Industry View: NEUTRAL**

Consolidated Edison, Inc. (ED)

Stock Rating: UNDERWEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	12,574	13,072	13,511	13,930	3.5%
EBITDA (adj)	4,360	4,828	5,118	5,387	7.3%
EBIT (adj)	6,044	6,748	7,169	7,592	7.9%
Pre-tax income (adj)	1,736	2,045	2,178	2,253	9.1%
Net income (adj)	1,438	1,519	1,623	1,683	5.4%
EPS (adj) ($)	4.36	4.49	4.69	4.77	3.0%
Diluted shares (mn)	329.5	338.7	346.0	352.8	2.3%
DPS ($)	2.96	3.06	3.17	3.28	3.5%

Margin and return data					Average
EBITDA (adj) margin (%)	34.7	36.9	37.9	38.7	37.0
EBIT (adj) margin (%)	21.3	22.2	22.7	22.8	22.3
Pre-tax (adj) margin (%)	13.8	15.6	16.1	16.2	15.4
Net (adj) margin (%)	11.5	12.4	12.7	12.8	12.3
ROIC (%)	7.3	7.3	7.0	6.9	7.1
ROA (%)	2.7	2.8	2.9	2.8	2.8
ROE (%)	8.6	9.0	8.9	8.7	8.8

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	43,889	46,160	48,294	50,129	4.5%
Cash and equivalents	1,217	1,226	1,309	1,586	9.2%
Total assets	58,079	60,359	62,576	64,688	3.7%
Short and long-term debt	18,527	20,290	23,210	24,226	9.4%
Other long-term liabilities	4,993	4,993	4,993	4,993	0.0%
Total liabilities	15,052	15,052	15,052	15,052	0.0%
Shareholders' equity	18,022	19,300	20,574	21,846	6.6%
Net debt/(funds)	17,310	19,064	21,901	22,640	9.4%
Change in working capital	139	160	0	0	-100.0%
Cash flow from operations	3,134	3,536	3,772	3,985	8.3%
Capital expenditure	-3,996	-4,192	-4,185	-4,040	N/A
Free cash flow	-1,028	-1,034	-838	-489	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	19.8	19.3	18.4	18.1	18.9
EV/EBITDA (adj) (x)	10.3	9.7	9.7	9.4	9.8
EV/EBIT (adj) (x)	7.5	6.9	6.9	6.6	7.0
FCF yield (%)	-2.3	-2.2	-1.7	-1.0	-1.8
P/BV (x)	1.6	1.5	1.5	1.4	1.5
Dividend yield (%)	3.4	3.5	3.7	3.8	3.6
Net debt/EBITDA (adj) (x)	4.0	3.9	4.3	4.2	4.1

Selected operating metrics					Average
Payout ratio (%)	67.8	68.3	67.6	68.8	68.1
Interest cover (x)	3.0	3.2	3.0	3.0	3.1
Regulated (%)	0.0	0.0	0.0	0.0	0.0

Price (11-Mar-2020)	USD 86.50
Price Target	USD 83.00

Why Underweight? We rate ED Underweight as we believe the current valuation is stretched based on a lack luster rate outcome for CECONY which drives a lower growth profile. We see the lower than group average growth as driving a 10% discount to the 2022 group average multiple.

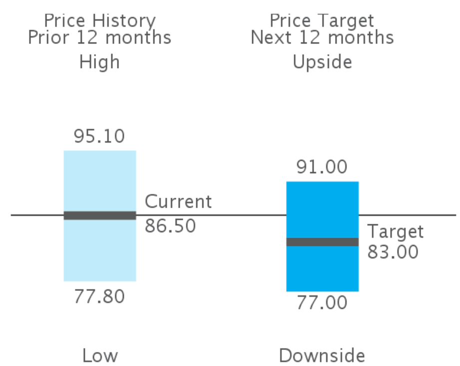
Upside case USD 91.00

Our upside case reflects the utility group average P/E multiple to portray potentially higher earnings from additional rate base growth and a favorable O&R rate case outcome.

Downside case USD 77.00

Our downside case reflects a 15% discount to the regulated group to reflect potentially lower earnings driven by lower sales growth and investment because of REV.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities — **Industry View: NEUTRAL**

Dominion Energy (D)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	18,042	18,373	18,992	19,689	3.0%
EBITDA (adj)	5,170	7,805	8,257	8,802	19.4%
EBIT (adj)	2,515	4,966	5,237	5,594	30.5%
Pre-tax income (adj)	1,727	4,754	4,956	5,266	45.0%
Net income (adj)	3,447	3,754	3,913	4,159	6.5%
EPS (adj) ($)	4.26	4.47	4.63	4.84	4.4%
Diluted shares (mn)	655	809	841	845	8.9%
DPS ($)	3.67	3.74	3.82	3.89	2.0%
Margin and return data					**Average**
EBITDA (adj) margin (%)	28.7	42.5	43.5	44.7	39.8
EBIT (adj) margin (%)	28.7	42.5	43.5	44.7	39.8
Pre-tax (adj) margin (%)	9.6	25.9	26.1	26.7	22.1
Net (adj) margin (%)	19.1	20.4	20.6	21.1	20.3
ROIC (%)	3.6	6.7	6.7	6.8	6.0
ROA (%)	2.0	3.8	3.8	3.9	3.4
ROE (%)	11.1	11.7	11.8	12.2	11.7
Balance sheet and cash flow ($mn)					**CAGR**
Tangible fixed assets	69,082	73,176	77,378	81,696	5.7%
Cash and equivalents	166	2,163	148	320	24.5%
Total assets	103,840	109,931	112,118	116,608	3.9%
Short and long-term debt	37,897	42,972	44,175	47,542	7.9%
Other long-term liabilities	0	0	0	0	N/A
Total liabilities	N/A	N/A	N/A	N/A	N/A
Shareholders' equity	32,084	33,117	34,101	35,224	3.2%
Net debt/(funds)	37,731	40,809	44,027	47,222	7.8%
Change in working capital	148	320	-5,922	0	-100.0%
Cash flow from operations	5,204	6,594	6,933	7,367	12.3%
Capital expenditure	4,980	6,934	7,222	7,526	14.8%
Free cash flow	-2,745	-3,486	-3,514	-3,504	N/A
Valuation and leverage metrics					**Average**
P/E (adj) (x)	18.5	17.7	17.0	16.3	17.4
EV/EBITDA (adj) (x)	20.1	13.7	13.3	12.9	15.0
EV/EBIT (adj) (x)	41.3	21.5	21.0	20.3	26.0
FCF yield (%)	-2.6	-3.3	-3.2	-3.1	-3.0
P/BV (x)	1.6	1.9	1.9	1.9	1.8
Dividend yield (%)	4.6	4.7	4.8	4.9	4.8
Net debt/EBITDA (adj) (x)	7.3	5.2	5.3	5.4	5.8
Selected operating metrics					**Average**
Payout ratio (%)	86.1	83.8	82.4	80.4	83.2
Interest cover (x)	1.2	3.1	3.0	3.1	2.6
Regulated (%)	N/A	N/A	N/A	N/A	N/A

Price (11-Mar-2020)	USD 78.95
Price Target	USD 93.00

Why Overweight? We believe D's highly-regulated earnings base and strong long-term growth outlook driven by renewable development (namely highly-valuable offshore wind in rate base) is being obscured by overly-punitive near-term overhangs. We view this as an attractive entry point given strong dividend support and potential for valuation spread tightening.

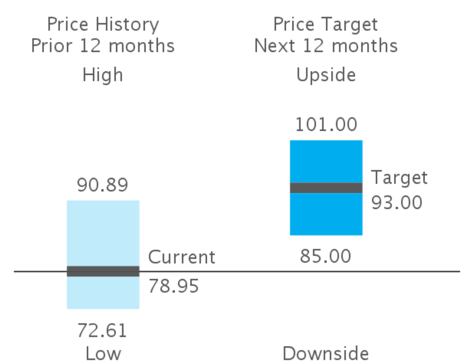
Upside case — **USD 101.00**

Our upside case assigns a 15% premium to VEPCO, LDC operations, and South Carolina. We apply a premium EBITDA multiple to the GT&S and LNG segment as well. We also apply a 20% premium to Dominion's contracted generation business.

Downside case — **USD 85.00**

Our downside case gives no premium to VEPCO (unlikely) and the gas LDC businesses. We also apply a 10% discount to the GT&S and LNG EBITDA multiple to account for increased ACP risk. It also applies a 10% discount to the contracted generation business.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities — **Industry View: NEUTRAL**

Duke Energy Corporation (DUK)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	25,079	26,018	26,724	27,792	3.5%
EBITDA (adj)	10,257	10,731	11,391	12,353	6.4%
EBIT (adj)	5,709	6,034	6,502	7,191	8.0%
Pre-tax income (adj)	4,097	4,342	4,753	5,001	6.9%
Net income (adj)	3,707	3,887	4,224	4,429	6.1%
EPS (adj) ($)	5.08	5.27	5.52	5.75	4.2%
Diluted shares (mn)	729.5	737.0	765.1	770.3	1.8%
DPS ($)	3.79	3.97	4.17	4.38	5.0%

Margin and return data					Average
EBITDA (adj) margin (%)	40.9	41.2	42.6	44.4	42.3
EBIT (adj) margin (%)	22.8	23.2	24.3	25.9	24.0
Pre-tax (adj) margin (%)	16.3	16.7	17.8	18.0	17.2
Net (adj) margin (%)	14.8	14.9	15.8	15.9	15.4
ROIC (%)	5.3	5.4	5.7	6.0	5.6
ROA (%)	2.5	2.5	2.6	2.6	2.6
ROE (%)	8.5	8.4	8.7	8.7	8.6

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	146,916	156,091	164,766	173,316	5.7%
Cash and equivalents	276	863	3,422	6,157	181.6%
Total assets	156,797	161,815	167,771	173,990	3.5%
Short and long-term debt	61,947	63,177	63,714	66,277	2.3%
Other long-term liabilities	40,092	41,413	44,746	46,394	5.0%
Total liabilities	110,553	113,104	116,976	121,189	3.1%
Shareholders' equity	46,292	48,781	50,889	52,918	4.6%
Net debt/(funds)	61,671	62,314	60,293	60,120	-0.8%
Change in working capital	95	1,035	3,990	3,101	219.2%
Cash flow from operations	9,086	9,415	9,945	10,422	4.7%
Capital expenditure	-11,100	-10,550	-9,675	-9,050	N/A
Free cash flow	-4,775	-4,064	-2,923	-2,003	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	17.9	17.2	16.5	15.8	16.8
EV/EBITDA (adj) (x)	12.3	11.8	10.9	10.1	11.3
EV/EBIT (adj) (x)	22.1	21.0	19.2	17.3	19.9
FCF yield (%)	-3.8	-3.2	-2.3	-1.6	-2.7
P/BV (x)	1.4	1.4	1.4	1.3	1.4
Dividend yield (%)	4.2	4.4	4.6	4.8	4.5
Net debt/EBITDA (adj) (x)	6.0	5.8	5.3	4.9	5.5

Selected operating metrics					Average
Payout ratio (%)	74.5	75.4	75.6	76.2	75.4
Interest cover (x)	2.6	2.6	2.7	2.7	2.6
Regulated (%)	N/A	N/A	N/A	N/A	N/A

Price (11-Mar-2020)	USD 90.94
Price Target	USD 104.00

Why Equal Weight? We view DUK as a solid regulated company with a credible long-term investment plan. We see earnings growth rebounding back to the 4-6% range by 2020 and improving thereafter. However, we see risk around ACP and other regulatory determinations balancing the risk/reward and see shares as appropriately valued on a relative basis.

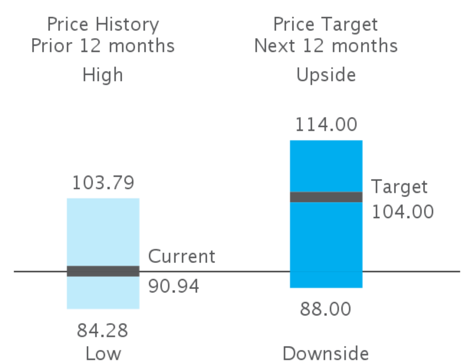
Upside case — **USD 114.00**

Our upside case uses a 10% premium to the 2022 group average P/E multiple applied to our 2022 EPS estimate.

Downside case — **USD 88.00**

Our downside case uses a 15% discount to the 2022 group average P/E multiple applied to our 2022 estimate.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities — **Industry View: NEUTRAL**

Edison International (EIX)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	12,347	12,967	13,284	13,626	3.3%
EBITDA (adj)	3,505	4,401	4,755	5,133	13.6%
EBIT (adj)	1,775	2,410	2,609	2,812	16.6%
Pre-tax income (adj)	1,127	1,725	1,869	1,974	20.5%
Net income (adj)	1,284	1,644	1,786	1,895	13.9%
EPS (adj) ($)	4.70	4.45	4.78	5.07	2.6%
Diluted shares (mn)	339.7	369.5	373.4	373.4	3.2%
DPS ($)	2.45	2.55	2.58	2.61	2.2%

Margin and return data					Average
EBITDA (adj) margin (%)	28.4	33.9	35.8	37.7	33.9
EBIT (adj) margin (%)	14.4	18.6	19.6	20.6	18.3
Pre-tax (adj) margin (%)	9.1	13.3	14.1	14.5	12.7
Net (adj) margin (%)	10.4	12.7	13.4	13.9	12.6
ROIC (%)	5.2	6.5	6.6	6.7	6.2
ROA (%)	3.6	3.6	3.7	3.9	3.7
ROE (%)	10.1	10.6	10.5	10.7	10.5

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	54,329	59,229	64,629	70,029	8.8%
Cash and equivalents	68	475	-159	-255	N/A
Total assets	64,382	67,340	69,609	72,247	3.9%
Short and long-term debt	18,893	20,395	21,879	23,620	7.7%
Other long-term liabilities	0	0	0	0	N/A
Total liabilities	48,886	50,388	51,872	53,613	3.1%
Shareholders' equity	15,496	16,951	17,738	18,633	6.3%
Net debt/(funds)	18,825	19,921	22,037	23,875	8.2%
Change in working capital	73	-143	-1,116	36	-21.3%
Cash flow from operations	-307	4,114	4,403	4,682	N/A
Capital expenditure	-4,877	-4,900	-5,400	-5,400	N/A
Free cash flow	-6,115	-1,896	-2,117	-1,838	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	12.7	13.4	12.5	11.8	12.6
EV/EBITDA (adj) (x)	10.9	8.9	8.7	8.4	9.3
EV/EBIT (adj) (x)	21.6	16.3	15.9	15.4	17.3
FCF yield (%)	-16.0	-4.8	-5.1	-4.2	-7.5
P/BV (x)	1.3	1.3	1.3	1.2	1.3
Dividend yield (%)	4.1	4.3	4.3	4.4	4.3
Net debt/EBITDA (adj) (x)	5.4	4.5	4.6	4.7	4.8

Selected operating metrics					Average
Payout ratio (%)	52.1	57.3	54.0	51.5	53.7
Interest cover (x)	2.1	2.7	2.8	2.7	2.6
Regulated (%)	100.0	100.0	100.0	100.0	100.0

Price (11-Mar-2020)	USD 59.74
Price Target	USD 68.00

Why Equal Weight? We assign an Equal Weight rating as we believe questions around Wildfire capex securitization, final net 17/18 liability risk, implementation of improved cost recovery parameters, and equity issuance mean EIX likely continues to trade at 10% discount for next 12 months.

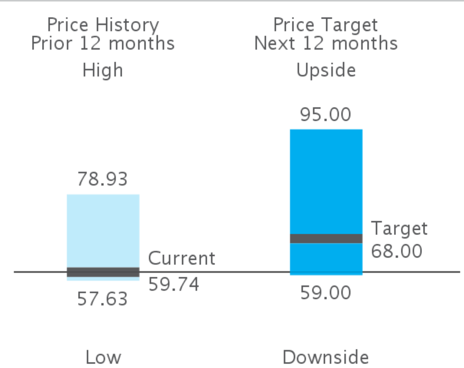
Upside case USD 95.00

The upside case applies a group average 2022 P/E multiple and assumes zero wildfire liability for 2017 / 2018 fires.

Downside case USD 59.00

Our downside case assumes $3.7bn net 2017 / 2018 wildfire liability and a 20% discount to the group average P/E multiple.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities — **Industry View: NEUTRAL**

Eversource Energy (ES)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	8,526	8,935	9,220	9,498	3.7%
EBITDA (adj)	2,671	3,210	3,518	3,746	11.9%
EBIT (adj)	1,590	2,058	2,293	2,448	15.5%
Pre-tax income (adj)	1,190	1,609	1,793	1,914	17.2%
Net income (adj)	917	1,223	1,362	1,455	16.7%
EPS (adj) ($)	3.46	3.68	3.99	4.23	6.9%
Diluted shares (mn)	322.9	330.5	339.7	342.3	2.0%
DPS ($)	2.12	2.27	2.42	2.57	6.7%

Margin and return data					Average
EBITDA (adj) margin (%)	31.3	35.9	38.2	39.4	36.2
EBIT (adj) margin (%)	18.7	23.0	24.9	25.8	23.1
Pre-tax (adj) margin (%)	14.0	18.0	19.4	20.2	17.9
Net (adj) margin (%)	10.7	13.7	14.8	15.3	13.6
ROIC (%)	6.0	7.0	7.5	7.6	7.0
ROA (%)	2.2	2.8	3.0	3.0	2.8
ROE (%)	7.3	9.2	10.1	10.5	9.3

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	30,000	32,512	34,746	36,860	7.1%
Cash and equivalents	15	417	848	1,246	332.2%
Total assets	41,124	43,635	45,870	47,983	5.3%
Short and long-term debt	14,098	15,989	17,186	18,181	8.8%
Other long-term liabilities	9,052	9,202	9,352	9,502	1.6%
Total liabilities	14,027	14,648	15,633	16,937	6.5%
Shareholders' equity	12,630	13,325	13,525	13,825	3.1%
Net debt/(funds)	14,083	15,572	16,338	16,935	6.3%
Change in working capital	96	-1	112	110	4.7%
Cash flow from operations	2,010	2,293	2,505	2,667	9.9%
Capital expenditure	-2,911	-3,071	-2,834	-2,817	N/A
Free cash flow	-1,565	-1,529	-1,150	-1,031	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	25.4	23.9	22.0	20.8	23.0
EV/EBITDA (adj) (x)	15.7	13.5	12.6	11.9	13.4
EV/EBIT (adj) (x)	26.3	21.1	19.3	18.3	21.2
FCF yield (%)	-3.7	-3.5	-2.6	-2.3	-3.0
P/BV (x)	2.2	2.2	2.2	2.2	2.2
Dividend yield (%)	2.4	2.6	2.8	2.9	2.7
Net debt/EBITDA (adj) (x)	5.3	4.9	4.6	4.5	4.8

Selected operating metrics					Average
Payout ratio (%)	61.4	61.7	60.6	60.9	61.1
Interest cover (x)	5.0	5.4	5.4	5.4	5.3
Regulated (%)	100.0	100.0	200.0	200.0	150.0

Price (11-Mar-2020)	USD 87.79
Price Target	USD 96.00

Why Equal Weight? We believe ES's diverse, high quality regulated business will grow base earnings at the midpoint of its 5-7% target through the forecast period. We apply a 20% valuation premium to reflect the above average growth, reasonable regulatory mechanisms that are in place, allowing the company to earn a prompt return on its regulatory investing.

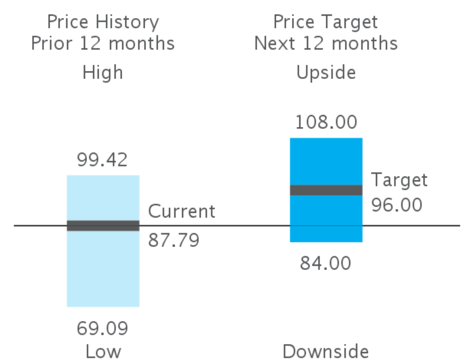
Upside case — **USD 108.00**

We believe there are a number of large projects that could boost ES's earnings power and growth rate in the medium to long term. Offshore wind projects and grid modernization programs would provide lift to earnings, and comined with elevated ESG fund flows, justify a 35% premium.

Downside case — **USD 84.00**

An adverse change in regulation or legislation, while not expected, could result in a discount valuation for ES. We impute a 5% group premium to arrive at our downside case valuation.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities **Industry View: NEUTRAL**

Exelon Corporation (EXC)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2018A	2019E	2020E	2021E	CAGR
Revenue	36,022	34,337	33,974	33,899	-2.0%
EBITDA (adj)	9,149	8,777	8,774	8,742	-1.5%
EBIT (adj)	4,795	4,528	4,473	4,251	-3.9%
Pre-tax income (adj)	3,159	4,026	3,914	3,661	5.0%
Net income (adj)	3,015	3,134	3,097	2,894	-1.4%
EPS (adj) ($)	3.11	3.22	3.17	2.95	-1.7%
Diluted shares (mn)	969.0	974.0	977.0	980.0	0.4%
DPS ($)	1.38	1.45	1.53	1.61	5.2%

Margin and return data					Average
EBITDA (adj) margin (%)	25.4	25.6	25.8	25.8	25.6
EBIT (adj) margin (%)	13.3	13.2	13.2	12.5	13.1
Pre-tax (adj) margin (%)	8.8	11.7	11.5	10.8	10.7
Net (adj) margin (%)	8.4	9.1	9.1	8.5	8.8
ROIC (%)	7.1	6.7	6.4	6.1	6.6
ROA (%)	2.6	2.6	2.5	2.3	2.5
ROE (%)	10.1	10.5	10.4	9.7	10.2

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	N/A	N/A	N/A	N/A	N/A
Cash and equivalents	1,781	1,122	2,321	3,000	19.0%
Total assets	121,208	124,684	127,249	130,006	2.4%
Short and long-term debt	37,521	38,097	39,867	39,942	2.1%
Other long-term liabilities	43,776	46,676	47,471	50,153	4.6%
Total liabilities	89,076	92,552	95,117	97,874	3.2%
Shareholders' equity	29,857	29,857	29,857	29,857	0.0%
Net debt/(funds)	35,741	36,975	37,546	36,942	1.1%
Change in working capital	2,705	-897	-581	2,555	-1.9%
Cash flow from operations	8,644	6,659	8,760	8,747	0.4%
Capital expenditure	-7,527	-7,344	-7,175	-8,075	N/A
Free cash flow	-215	-2,093	90	-902	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	12.8	12.4	12.6	13.5	12.8
EV/EBITDA (adj) (x)	8.1	8.6	8.7	8.6	8.5
EV/EBIT (adj) (x)	15.5	16.7	17.0	17.7	16.7
FCF yield (%)	-0.3	-2.8	0.1	-1.2	-1.0
P/BV (x)	1.3	1.3	1.3	1.3	1.3
Dividend yield (%)	3.5	3.6	3.8	4.0	3.7
Net debt/EBITDA (adj) (x)	3.9	4.2	4.3	4.2	4.2

Selected operating metrics					Average
Payout ratio (%)	44.3	45.1	48.3	54.4	48.0
Interest cover (x)	3.1	2.9	2.8	2.6	2.8
Regulated (%)	65.0	65.0	65.0	65.0	65.0

Price (11-Mar-2020)	USD 39.81
Price Target	USD 50.00

Why Overweight? We believe that utility growth of 6-8% is achievable and will be funded by cash flow from the generation company even with the current forward curves. We also believe that the nuclear plants not achieving cash flow neutrality will be closed.

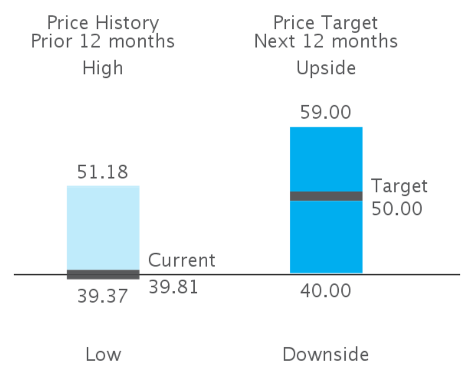
Upside case USD 59.00

Our upside case assumes a 20% premium to the 2022 group average P/E multiple applied to our 2022 utility net parent EPS estimate with the addition of Exgen EBITDA valued at 7x.

Downside case USD 40.00

Our downside case assumes a 10% discount to the 2022 group average P/E multiple applied to our 2022 utility net parent EPS estimate with the addition of 3/4 Exgen EBITDA valued at 4x.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities | **Industry View: NEUTRAL**

FirstEnergy Corp. (FE)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	11,035	11,733	12,076	12,365	3.9%
EBITDA (adj)	3,730	4,025	4,261	4,442	6.0%
EBIT (adj)	2,510	2,730	2,883	2,981	5.9%
Pre-tax income (adj)	1,117	1,750	1,838	1,923	19.9%
Net income (adj)	912	1,338	1,408	1,475	17.4%
EPS (adj) ($)	2.58	2.50	2.63	2.73	1.8%
Diluted shares (mn)	535.0	535.0	535.0	540.7	0.4%
DPS ($)	1.46	1.48	1.52	1.52	1.4%

Margin and return data					Average
EBITDA (adj) margin (%)	33.8	34.3	35.3	35.9	34.8
EBIT (adj) margin (%)	22.7	23.3	23.9	24.1	23.5
Pre-tax (adj) margin (%)	10.1	14.9	15.2	15.6	14.0
Net (adj) margin (%)	8.3	11.4	11.7	11.9	10.8
ROIC (%)	9.2	9.4	9.3	9.3	9.3
ROA (%)	5.1	5.0	5.1	5.0	5.1
ROE (%)	13.4	19.4	17.1	16.4	16.6

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	42,421	45,321	48,371	51,441	6.6%
Cash and equivalents	95	313	901	629	87.8%
Total assets	41,454	43,269	45,522	46,852	4.2%
Short and long-term debt	20,400	20,745	21,993	22,249	2.9%
Other long-term liabilities	11,260	11,429	11,647	11,888	1.8%
Total liabilities	34,541	35,055	36,520	37,018	2.3%
Shareholders' equity	6,913	8,214	9,002	9,835	12.5%
Net debt/(funds)	20,305	20,432	21,091	21,620	2.1%
Change in working capital	-148	223	598	-272	N/A
Cash flow from operations	2,139	2,641	2,793	2,943	11.2%
Capital expenditure	-2,952	-2,900	-3,050	-3,070	N/A
Free cash flow	-1,627	-1,094	-1,133	-1,057	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	16.7	17.2	16.4	15.8	16.5
EV/EBITDA (adj) (x)	11.6	10.8	10.3	10.0	10.7
EV/EBIT (adj) (x)	17.2	15.9	15.2	14.9	15.8
FCF yield (%)	-3.8	-2.5	-2.6	-2.4	-2.8
P/BV (x)	3.3	2.8	2.6	2.4	2.8
Dividend yield (%)	3.4	3.4	3.5	3.5	3.5
Net debt/EBITDA (adj) (x)	5.4	5.1	4.9	4.9	5.1

Selected operating metrics					Average
Payout ratio (%)	56.5	59.2	57.8	55.7	57.3
Interest cover (x)	2.4	2.3	2.3	2.4	2.3
Regulated (%)	100.0	100.0	100.0	100.0	100.0

Price (11-Mar-2020)	**USD 43.13**
Price Target	**USD 54.00**

Why Overweight? We assign a 5% premium to the 22E average P/E to reflect a complete separation from FirstEnergy Solutions merchant generation portfolio and diversified and improving fully-regulated operations. We see FE's fully-regulated profile and long-term rate base growth trajectory as deserving of a premium, despite tired concerns on potential equity needs.

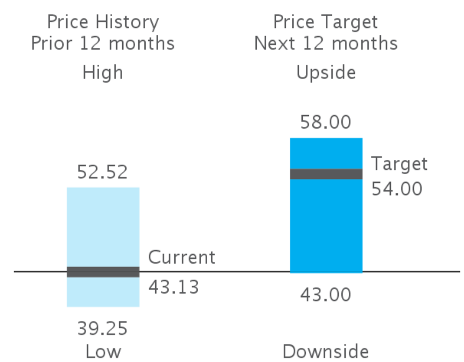
Upside case **USD 58.00**

We apply a 15% premium to the group average 22E PE multiple to arrive at $56 in an upside scenario.

Downside case **USD 43.00**

We assume $2.50 22E EPS and a 10% discount to the group average multiple in our downside price scenario.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities | **Industry View: NEUTRAL**

NextEra Energy, Inc. (NEE)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	19,204	19,980	20,501	20,956	3.0%
EBITDA (adj)	10,301	10,495	10,822	11,035	2.3%
EBIT (adj)	6,085	6,346	6,837	7,215	5.8%
Pre-tax income (adj)	4,568	4,629	4,992	5,371	5.5%
Net income (adj)	4,062	4,446	4,855	5,281	9.1%
EPS (adj) ($)	8.38	9.04	9.87	10.73	8.6%
Diluted shares (mn)	485	492	492	492	0.5%
DPS ($)	5.00	5.65	6.38	7.21	13.0%

Margin and return data					Average
EBITDA (adj) margin (%)	53.6	52.5	52.8	52.7	52.9
EBIT (adj) margin (%)	31.7	31.8	33.3	34.4	32.8
Pre-tax (adj) margin (%)	23.8	23.2	24.3	25.6	24.2
Net (adj) margin (%)	21.2	22.3	23.7	25.2	23.1
ROIC (%)	7.1	7.0	6.8	6.6	6.9
ROA (%)	3.9	4.0	4.0	4.1	4.0
ROE (%)	11.9	12.6	12.5	12.4	12.3

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	92,220	104,275	116,420	128,550	11.7%
Cash and equivalents	1,054	1,385	1,950	1,929	22.3%
Total assets	111,836	120,322	129,303	137,854	7.2%
Short and long-term debt	40,506	45,357	50,780	55,855	11.3%
Other long-term liabilities	22,941	22,941	22,941	22,941	0.0%
Total liabilities	71,705	76,556	81,979	87,054	6.7%
Shareholders' equity	35,289	38,924	42,482	45,958	9.2%
Net debt/(funds)	39,452	43,972	48,830	53,926	11.0%
Change in working capital	5,402	449	-834	-21	N/A
Cash flow from operations	7,747	7,158	7,274	7,405	-1.5%
Capital expenditure	-11,945	-11,680	-11,780	-11,780	N/A
Free cash flow	-5,895	-7,677	-8,012	-8,274	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	28.8	26.7	24.4	22.5	25.6
EV/EBITDA (adj) (x)	15.2	15.3	15.3	15.5	15.3
EV/EBIT (adj) (x)	25.7	25.4	24.3	23.7	24.8
FCF yield (%)	-3.8	-4.8	-4.8	-4.8	-4.6
P/BV (x)	3.3	3.0	2.8	2.6	2.9
Dividend yield (%)	2.1	2.3	2.6	3.0	2.5
Net debt/EBITDA (adj) (x)	3.8	4.2	4.5	4.9	4.4

Selected operating metrics					Average
Payout ratio (%)	59.7	62.5	64.7	67.2	63.5
Interest cover (x)	2.4	2.7	2.7	2.9	2.7
Regulated (%)	61.9	63.4	61.9	58.9	61.5

Price (11-Mar-2020)	USD 241.26
Price Target	USD 269.00

Why Equal Weight? Top industry growth combined with an above-average regulatory environment drive the 15% premium utility valuation. Above-average growth provides for a larger increase to our expected price target, providing a compelling opportunity, however we see shares as fairly priced given outperformance.

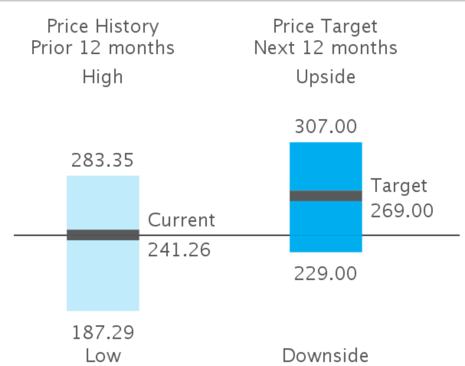
Upside case	USD 307.00

Our upside case applies a 20% premium multiple to the 2022 EPS estimates for the regulated utilities and a 15x EV/EBITDA for NEER.

Downside case	USD 229.00

Our downside case applies an industry average multiple to 2022E earnings and a 10x EV/EBITDA for NEER.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities | **Industry View: NEUTRAL**

NiSource, Inc. (NI)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	5,209	5,349	5,324	5,516	1.9%
EBITDA (adj)	2,028	1,917	2,028	2,190	2.6%
EBIT (adj)	1,316	1,167	1,234	1,349	0.9%
Pre-tax income (adj)	507	772	804	871	19.8%
Net income (adj)	495	539	564	616	7.5%
EPS (adj) ($)	1.32	1.39	1.41	1.51	4.6%
Diluted shares (mn)	376.0	388.7	398.8	408.5	2.8%
DPS ($)	0.80	0.85	0.90	0.95	6.0%

Margin and return data					Average
EBITDA (adj) margin (%)	38.9	35.8	38.1	39.7	38.1
EBIT (adj) margin (%)	17.1	21.6	23.0	24.3	21.5
Pre-tax (adj) margin (%)	9.7	14.4	15.1	15.8	13.8
Net (adj) margin (%)	9.5	10.1	10.6	11.2	10.3
ROIC (%)	5.7	7.3	7.3	7.3	6.9
ROA (%)	2.3	2.4	2.5	2.5	2.4
ROE (%)	8.6	9.0	8.7	8.8	8.8

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	16,912	18,120	19,284	20,402	6.5%
Cash and equivalents	139	-749	-319	262	23.4%
Total assets	22,660	22,979	24,573	26,272	5.1%
Short and long-term debt	9,629	9,246	9,756	10,686	3.5%
Other long-term liabilities	5,071	5,189	5,307	5,425	2.3%
Total liabilities	16,673	16,466	17,539	18,695	3.9%
Shareholders' equity	5,987	6,514	7,035	7,577	8.2%
Net debt/(funds)	9,490	9,995	10,075	10,424	3.2%
Change in working capital	89	-24	-14	473	74.2%
Cash flow from operations	1,583	1,493	1,562	1,660	1.6%
Capital expenditure	-1,802	-1,850	-1,850	-1,850	N/A
Free cash flow	-219	-357	-288	-190	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	20.6	19.5	19.2	18.0	19.3
EV/EBITDA (adj) (x)	9.7	10.5	9.9	9.4	9.9
EV/EBIT (adj) (x)	14.9	17.2	16.3	15.2	15.9
FCF yield (%)	-1.1	-1.8	-1.4	-0.9	-1.3
P/BV (x)	1.7	1.6	1.5	1.5	1.6
Dividend yield (%)	3.0	3.1	3.3	3.5	3.2
Net debt/EBITDA (adj) (x)	4.7	5.2	5.0	4.8	4.9

Selected operating metrics					Average
Payout ratio (%)	60.8	61.1	63.6	63.2	62.2
Interest cover (x)	2.4	3.0	3.0	2.9	2.8
Regulated (%)	100.0	100.0	100.0	100.0	100.0

Price (11-Mar-2020)	**USD 27.10**
Price Target	**USD 31.00**

Why Equal Weight? We view NI as a quality utility with a well-defined rate base growth strategy from gas and electric infrastructure modernization, which we see as relatively low risk. However, because of premium valuation we do not see material upside to our price target.

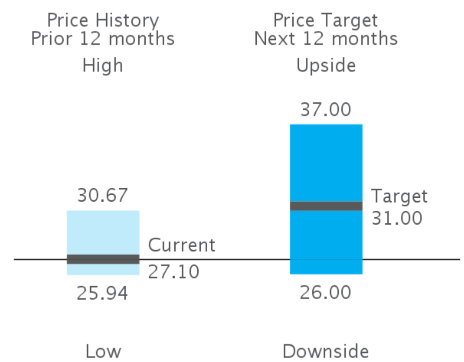
Upside case | **USD 37.00**

Our upside case reflects a 25% premium to the 2022 utility group average P/E multiple applied to higher earnings driven by additional rate base growth and favorable rate case outcomes.

Downside case | **USD 26.00**

Our downside case reflects a 5% premium to the 2022 utility group average P/E multiple applied to lower earnings driven by slower rate base growth and unfavorable Maryland and Pennsylvania rate case outcomes.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities — **Industry View: NEUTRAL**

Northwestern Corporation (NWE)

Stock Rating: UNDERWEIGHT

Income statement ($k)	2019A	2020E	2021E	2022E	CAGR
Revenue	1,250,610	1,275,593	1,289,363	1,303,302	1.4%
EBITDA (adj)	442,886	463,413	486,002	507,202	4.6%
EBIT (adj)	246,650	279,160	288,932	299,724	6.7%
Pre-tax income (adj)	174,895	182,367	193,379	205,111	5.5%
Net income (adj)	173,820	180,543	189,511	198,957	4.6%
EPS (adj) ($)	3.42	3.55	3.70	3.87	4.1%
Diluted shares (mn)	50.8	50.9	51.2	51.5	0.5%
DPS ($)	2.30	2.40	2.51	2.63	4.5%

Margin and return data					Average
EBITDA (adj) margin (%)	35.4	36.3	37.7	38.9	37.1
EBIT (adj) margin (%)	19.7	21.9	22.4	23.0	21.8
Pre-tax (adj) margin (%)	14.0	14.3	15.0	15.7	14.8
Net (adj) margin (%)	13.9	14.2	14.7	15.3	14.5
ROIC (%)	4.2	4.1	4.1	4.2	4.2
ROA (%)	3.1	3.1	3.1	3.1	3.1
ROE (%)	8.9	8.9	9.0	9.1	9.0

Balance sheet and cash flow ($k)					CAGR
Tangible fixed assets	N/A	N/A	N/A	N/A	N/A
Cash and equivalents	5,145	5,002	7,560	13,273	37.1%
Total assets	5,910,702	6,126,466	6,339,934	6,499,268	3.2%
Short and long-term debt	2,233,281	2,353,281	2,473,281	2,533,281	4.3%
Other long-term liabilities	N/A	N/A	N/A	N/A	N/A
Total liabilities	3,871,608	4,009,263	4,141,918	4,217,573	2.9%
Shareholders' equity	2,039,094	2,117,203	2,198,016	2,281,694	3.8%
Net debt/(funds)	2,228,136	2,348,279	2,465,721	2,520,008	4.2%
Change in working capital	36,784	-17,798	-10,096	-9,943	N/A
Cash flow from operations	296,720	376,091	395,157	413,490	11.7%
Capital expenditure	-316,016	-398,800	-403,900	-355,500	N/A
Free cash flow	-134,423	-145,143	-137,441	-77,288	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	20.7	20.0	19.2	18.4	19.6
EV/EBITDA (adj) (x)	13.2	12.8	12.5	12.1	12.6
EV/EBIT (adj) (x)	23.6	21.3	21.0	20.4	21.6
FCF yield (%)	-2.3	-2.4	-2.3	-1.3	-2.1
P/BV (x)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	3.2	3.4	3.5	3.7	3.5
Net debt/EBITDA (adj) (x)	5.0	5.1	5.1	5.0	5.0

Selected operating metrics					Average
Payout ratio (%)	67.2	67.8	67.9	68.0	67.7
Interest cover (x)	2.6	2.8	2.9	3.0	2.8
Regulated (%)	100.0	100.0	100.0	200.0	125.0

Price (11-Mar-2020)	**USD 70.96**
Price Target	**USD 73.00**

Why Underweight? We believe a group average multiple is appropriate given below average growth and regulatory (although regulatory is improving). This results in the shares appearing overvalued on a relative basis resulting in our Underweight rating.

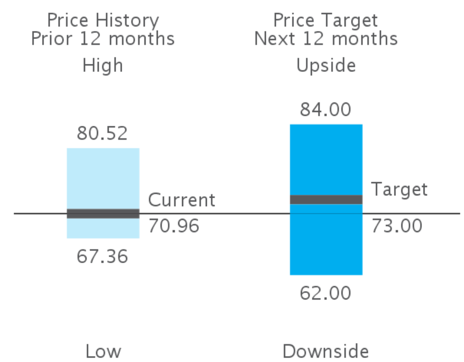
Upside case — **USD 84.00**

Our upside case assumes a 15% premium to the group average regulated utility multiple assuming a positive shift in regulatory framework and significant improvement to ratebase growth and visibility driven by self build of generation in support of capacity needs.

Downside case — **USD 62.00**

Our downside case assumes a 15% discount to the group average regulated utility multiple if regulatory issues persist and capacity needs are filled via purchased power contracts and not self build.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities — Industry View: NEUTRAL

OGE Energy Corp. (OGE)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	2,232	2,282	2,342	2,419	2.7%
EBITDA (adj)	859	909	954	1,015	5.7%
EBIT (adj)	504	534	563	605	6.3%
Pre-tax income (adj)	463	502	558	593	8.6%
Net income (adj)	434	450	489	508	5.4%
EPS (adj) ($)	2.16	2.24	2.44	2.53	5.4%
Diluted shares (mn)	201	201	201	201	0.0%
DPS ($)	1.51	1.59	1.67	1.75	5.1%

Margin and return data					Average
EBITDA (adj) margin (%)	38.5	39.8	40.7	41.9	40.3
EBIT (adj) margin (%)	22.6	23.4	24.0	25.0	23.8
Pre-tax (adj) margin (%)	20.8	22.0	23.8	24.5	22.8
Net (adj) margin (%)	19.4	19.7	20.9	21.0	20.3
ROIC (%)	7.0	7.3	7.6	13.4	8.8
ROA (%)	3.9	4.0	4.3	4.3	4.1
ROE (%)	10.5	10.5	11.1	11.2	10.8

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	9,045	9,244	9,578	9,898	3.1%
Cash and equivalents	0	-73	-235	-433	N/A
Total assets	11,024	11,220	11,398	11,727	2.1%
Short and long-term debt	3,307	3,370	3,420	3,620	3.1%
Other long-term liabilities	3,032	3,032	3,032	0	-100.0%
Total liabilities	6,885	6,948	6,998	7,198	1.5%
Shareholders' equity	4,140	4,273	4,400	4,530	3.0%
Net debt/(funds)	3,307	3,443	3,656	4,053	7.0%
Change in working capital	N/A	N/A	N/A	N/A	N/A
Cash flow from operations	682	821	847	884	9.1%
Capital expenditure	-636	-575	-725	-730	N/A
Free cash flow	46	246	122	154	49.7%

Valuation and leverage metrics					Average
P/E (adj) (x)	15.8	15.2	14.0	13.4	14.6
EV/EBITDA (adj) (x)	11.8	11.3	11.0	10.7	11.2
EV/EBIT (adj) (x)	20.1	19.2	18.6	18.0	19.0
FCF yield (%)	0.5	2.4	1.2	1.4	1.4
P/BV (x)	1.6	1.6	1.6	1.5	1.6
Dividend yield (%)	4.4	4.7	4.9	5.1	4.8
Net debt/EBITDA (adj) (x)	3.8	3.8	3.8	4.0	3.9

Selected operating metrics					Average
Payout ratio (%)	69.9	70.9	68.4	69.2	69.6
Interest cover (x)	5.7	6.0	6.3	6.3	6.1
Regulated (%)	80.8	78.4	74.9	75.8	77.5

Price (11-Mar-2020)	USD 34.03
Price Target	USD 38.00

Why Equal Weight? The combination of Enable Midstream and Oklahoma Gas and Electric, while synergistic from a utility financing standpoint, is ultimately dilutive to the corporate growth rate. Fair and timely regulatory recovery remains a risk as OG&E's earned returns show a meaningful regulatory lag.

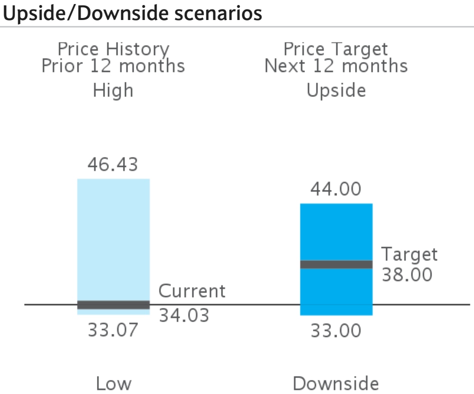
Upside case USD 44.00

Our upside case factors in a 10% utility P/E premium based on 2019 utility EPS combined with ENBL valued at $17/share ($9 equity value to OGE).

Downside case USD 33.00

Our downside case factors in a 20% discount to the group average at the utility, for higher regulatory risk and uncertainty. We value ENBL at $13 ($7 equity value to OGE).

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities — **Industry View: NEUTRAL**

PG&E Corporation (PCG)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	17,129	18,648	19,521	19,754	4.9%
EBITDA (adj)	-6,860	6,450	6,969	7,379	N/A
EBIT (adj)	-10,094	2,927	3,172	3,326	N/A
Pre-tax income (adj)	-11,042	1,977	2,180	2,302	N/A
Net income (adj)	-7,656	1,956	2,159	2,281	N/A
EPS (adj) ($)	3.92	3.70	4.09	4.32	3.3%
Diluted shares (mn)	528	528	528	528	0.0%
DPS ($)	0.00	0.00	0.00	0.00	N/A

Margin and return data					Average
EBITDA (adj) margin (%)	-40.0	34.6	35.7	37.4	16.9
EBIT (adj) margin (%)	-58.9	15.7	16.3	16.8	-2.5
Pre-tax (adj) margin (%)	-64.5	10.6	11.2	11.7	-7.8
Net (adj) margin (%)	-44.7	10.5	11.1	11.5	-2.9
ROIC (%)	-18.1	29.9	23.9	20.6	14.1
ROA (%)	-9.1	3.4	3.5	3.5	0.3
ROE (%)	-59.3	36.3	27.8	23.0	6.9

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	61,635	66,812	71,216	74,863	6.7%
Cash and equivalents	1,570	-170	1	-549	N/A
Total assets	85,196	88,663	93,238	96,335	4.2%
Short and long-term debt	52,046	1,850	3,350	3,350	-59.9%
Other long-term liabilities	21,631	19,901	19,901	19,901	-2.7%
Total liabilities	79,808	27,882	29,382	29,382	-28.3%
Shareholders' equity	5,388	7,760	9,936	12,233	31.4%
Net debt/(funds)	50,476	2,020	3,349	3,899	-57.4%
Change in working capital	-2,060	-1,328	-550	-230	N/A
Cash flow from operations	4,816	5,493	5,969	6,348	9.6%
Capital expenditure	-6,313	-8,700	-8,200	-7,700	N/A
Free cash flow	-1,497	-3,207	-2,231	-1,352	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	3.1	3.2	2.9	2.8	3.0
EV/EBITDA (adj) (x)	-8.3	1.3	1.4	1.4	-1.0
EV/EBIT (adj) (x)	-5.6	2.9	3.1	3.1	0.8
FCF yield (%)	-2.6	-38.2	-22.9	-13.2	-19.2
P/BV (x)	1.2	0.8	0.6	0.5	0.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	-7.4	0.3	0.5	0.5	-1.5

Selected operating metrics					Average
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Interest cover (x)	-7.3	6.9	7.1	7.3	3.5
Regulated (%)	100.0	100.0	100.0	100.0	100.0

Price (11-Mar-2020)	USD 12.04
Price Target	USD 15.00

Why Equal Weight? We continue to believe that any investment at this point is likely to involve significant risk. There are numerous potential paths to finalize Chapter 11 that result in significant equity value or very little equity value depending on final dilution.

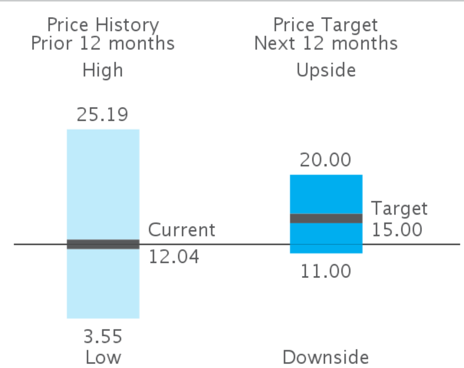
Upside case — **USD 20.00**

Our upside case uses the same valuation framework but assumes a 14.5x issuance multiple and a $7.5bn individual claimant settlement (PG&E's accounting charge taken to date).

Downside case — **USD 11.00**

Our downside case assumes a $14.5bn tort settlement (settlement reached between tort and bondholder group) and a 12.0x equity issuance multiple.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities **Industry View: NEUTRAL**

Pinnacle West Capital Corporation (PNW)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	3,471	3,612	3,755	3,863	3.6%
EBITDA (adj)	1,263	1,427	1,529	1,642	9.2%
EBIT (adj)	672	818	878	949	12.2%
Pre-tax income (adj)	542	657	747	788	13.3%
Net income (adj)	558	567	605	638	4.6%
EPS (adj) ($)	4.77	4.84	5.16	5.44	4.5%
Diluted shares (mn)	113	113	113	114	0.3%
DPS ($)	2.99	3.17	3.36	3.56	6.0%

Margin and return data					Average
EBITDA (adj) margin (%)	36.4	39.5	40.7	42.5	39.8
EBIT (adj) margin (%)	19.4	22.7	23.4	24.6	22.5
Pre-tax (adj) margin (%)	15.6	18.2	19.9	20.4	18.5
Net (adj) margin (%)	16.1	15.7	16.1	16.5	16.1
ROIC (%)	6.3	6.7	6.8	6.7	6.6
ROA (%)	2.9	2.9	2.9	2.9	2.9
ROE (%)	9.5	9.3	9.5	9.6	9.5

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	16,752	17,245	17,967	18,967	4.2%
Cash and equivalents	10	218	380	592	286.1%
Total assets	18,997	19,850	21,039	22,308	5.5%
Short and long-term debt	5,833	7,103	7,593	8,453	13.2%
Other long-term liabilities	N/A	N/A	N/A	N/A	N/A
Total liabilities	12,998	13,618	14,556	15,566	6.2%
Shareholders' equity	5,876	6,109	6,360	6,619	4.0%
Net debt/(funds)	5,822	6,885	7,213	7,861	10.5%
Change in working capital	1,790	-190	915	420	-38.3%
Cash flow from operations	957	1,177	1,255	1,332	11.7%
Capital expenditure	-1,191	-1,331	-1,650	-1,725	N/A
Free cash flow	-504	-513	-776	-798	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	18.8	18.5	17.4	16.5	17.8
EV/EBITDA (adj) (x)	12.6	11.9	11.3	10.9	11.6
EV/EBIT (adj) (x)	23.6	20.7	19.6	18.9	20.7
FCF yield (%)	-3.2	-3.0	-4.5	-4.5	-3.8
P/BV (x)	1.7	1.7	1.6	1.5	1.6
Dividend yield (%)	3.3	3.5	3.8	4.0	3.7
Net debt/EBITDA (adj) (x)	4.6	4.8	4.7	4.8	4.7

Selected operating metrics					Average
Payout ratio (%)	62.7	65.5	65.2	65.5	64.7
Interest cover (x)	5.4	5.5	5.6	5.3	5.4
Regulated (%)	100.0	100.0	100.0	100.0	100.0

Price (11-Mar-2020)	USD 89.55
Price Target	USD 103.00

Why Equal Weight? We rate PNW as Equal Weight based on current relative value within our regulated utility group. The price target is based on the group average multiple 2022 EPS.

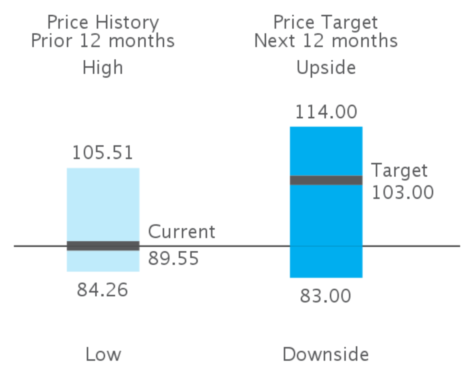
Upside case **USD 114.00**

A 10% premium to the group P/E multiple attributed to potential for above-average earnings and dividend growth, pending regulatory outcomes and economic conditions.

Downside case **USD 83.00**

A 20% discount to the group P/E premised on lower-than-expected load growth combined with sub-optimal rate case, rooftop solar, and retail competition outcomes.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities — **Industry View: NEUTRAL**

PNM Resources, Inc. (PNM)

Stock Rating: EQUAL WEIGHT

Income statement ($k)	2019A	2020E	2021E	2022E	CAGR
Revenue	1,458,600	1,518,283	1,602,426	1,671,907	4.7%
EBITDA (adj)	592,681	645,070	718,276	778,072	9.5%
EBIT (adj)	324,873	354,487	400,418	440,389	10.7%
Pre-tax income (adj)	203,857	223,370	258,446	286,689	12.0%
Net income (adj)	172,540	181,536	207,964	229,003	9.9%
EPS (adj) ($)	2.16	2.25	2.34	2.49	5.0%
Diluted shares (k)	79,990	80,588	88,882	91,794	4.7%
DPS ($)	1.18	1.25	1.33	1.41	6.0%

Margin and return data					Average
EBITDA (adj) margin (%)	40.6	42.5	44.8	46.5	43.6
EBIT (adj) margin (%)	22.3	23.3	25.0	26.3	24.2
Pre-tax (adj) margin (%)	14.0	14.7	16.1	17.1	15.5
Net (adj) margin (%)	11.8	12.0	13.0	13.7	12.6
ROIC (%)	6.6	6.4	6.4	6.8	6.5
ROA (%)	2.5	2.5	2.6	2.7	2.6
ROE (%)	10.2	10.8	10.1	9.5	10.2

Balance sheet and cash flow ($k)					CAGR
Tangible fixed assets	N/A	N/A	N/A	N/A	N/A
Cash and equivalents	3,833	18,153	58,867	2,256	-16.2%
Total assets	7,298,774	7,860,511	8,575,367	8,875,073	6.7%
Short and long-term debt	3,192,817	3,384,043	3,734,043	3,934,043	7.2%
Other long-term liabilities	2,060,565	2,060,565	2,060,565	2,060,565	0.0%
Total liabilities	5,557,024	5,748,250	6,098,250	6,298,250	4.3%
Shareholders' equity	1,678,698	2,049,209	2,414,065	2,513,771	14.4%
Net debt/(funds)	3,188,984	3,365,890	3,675,176	3,931,787	7.2%
Change in working capital	-463,542	39,688	690,714	-111,610	N/A
Cash flow from operations	503,163	486,888	540,591	581,455	4.9%
Capital expenditure	-616,273	-838,000	-992,000	-694,000	N/A
Free cash flow	-206,036	-452,665	-570,045	-242,369	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	21.2	20.3	19.5	18.3	19.8
EV/EBITDA (adj) (x)	11.5	10.9	10.2	9.7	10.6
EV/EBIT (adj) (x)	21.0	19.8	18.3	17.2	19.1
FCF yield (%)	-3.0	-6.5	-7.8	-3.2	-5.1
P/BV (x)	2.2	1.8	1.7	1.7	1.8
Dividend yield (%)	2.6	2.7	2.9	3.1	2.8
Net debt/EBITDA (adj) (x)	5.4	5.2	5.1	5.1	5.2

Selected operating metrics					Average
Payout ratio (%)	54.8	55.7	56.8	56.5	55.9
Interest cover (x)	4.9	4.9	5.1	5.1	5.0
Regulated (%)	100.0	100.0	100.0	100.0	100.0

Price (11-Mar-2020)	**USD 45.65**
Price Target	**USD 52.00**

Why Equal Weight? We expect average to above-average earnings/dividend growth through 2022, but believe the stock is fairly valued at its current premium (on 2022E EPS) based on our valuation framework.

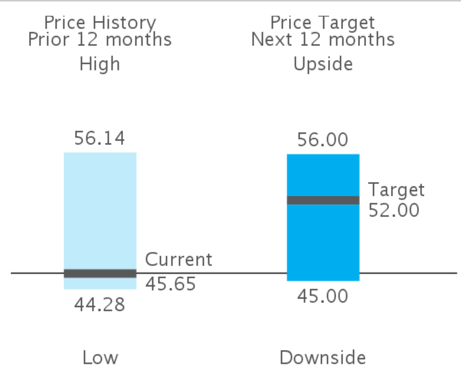
Upside case — **USD 56.00**

Our upside case assumes that growth proceeds at a faster pace and the regulatory and/or economic landscape in NM improves. PNM could trade at a 15% premium in this environment.

Downside case — **USD 45.00**

Our downside case assumes that growth proceeds at a slower pace and the regulatory and/or economic landscape in NM does not improve. PNM could trade down to a 5% discount in this environment.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities **Industry View: NEUTRAL**

Portland General Electric Company (POR)

Stock Rating: UNDERWEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	2,123	2,151	2,180	2,221	1.5%
EBITDA (adj)	762	820	835	865	4.3%
EBIT (adj)	353	393	395	410	5.1%
Pre-tax income (adj)	241	277	275	287	6.0%
Net income (adj)	214	229	245	258	6.4%
EPS (adj) ($)	2.39	2.56	2.74	2.89	6.4%
Diluted shares (mn)	89.4	89.4	89.4	89.4	0.0%
DPS ($)	1.52	1.61	1.71	1.81	6.0%

Margin and return data					Average
EBITDA (adj) margin (%)	35.9	38.1	38.3	39.0	37.8
EBIT (adj) margin (%)	16.6	18.3	18.1	18.5	17.9
Pre-tax (adj) margin (%)	11.4	12.9	12.6	12.9	12.4
Net (adj) margin (%)	10.1	10.6	11.2	11.6	10.9
ROIC (%)	6.8	6.9	7.1	7.5	7.1
ROA (%)	2.5	2.6	2.7	2.8	2.6
ROE (%)	8.3	8.6	8.8	9.0	8.7

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	7,661	8,146	8,379	8,625	4.0%
Cash and equivalents	30	52	30	31	1.2%
Total assets	8,394	8,879	9,112	9,358	3.7%
Short and long-term debt	2,597	3,157	2,817	2,587	-0.1%
Other long-term liabilities	1,310	1,310	1,310	1,310	0.0%
Total liabilities	5,803	6,363	6,023	5,793	-0.1%
Shareholders' equity	2,591	2,676	2,769	2,865	3.4%
Net debt/(funds)	2,567	3,105	2,787	2,556	-0.1%
Change in working capital	129	-138	138	1	-79.9%
Cash flow from operations	546	656	686	713	9.3%
Capital expenditure	-606	-890	-695	-700	N/A
Free cash flow	-60	-234	-10	13	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	22.6	21.1	19.7	18.7	20.5
EV/EBITDA (adj) (x)	9.7	9.7	9.1	8.5	9.3
EV/EBIT (adj) (x)	21.0	20.2	19.3	18.0	19.6
FCF yield (%)	-0.8	-3.0	-0.1	0.2	-0.9
P/BV (x)	1.9	1.8	1.7	1.7	1.8
Dividend yield (%)	2.8	3.0	3.2	3.3	3.1
Net debt/EBITDA (adj) (x)	3.4	3.8	3.3	3.0	3.4

Selected operating metrics					Average
Payout ratio (%)	63.4	62.8	62.2	62.6	62.8
Interest cover (x)	2.8	3.0	2.9	3.0	2.9
Regulated (%)	100.0	100.0	100.0	100.0	100.0

Price (11-Mar-2020) **USD 54.09**
Price Target **USD 55.00**

Why Underweight? Although we see potential for increased capital deployment, the current valuation based on a 2021 group average multiple provides for a price below the current stock valuation.

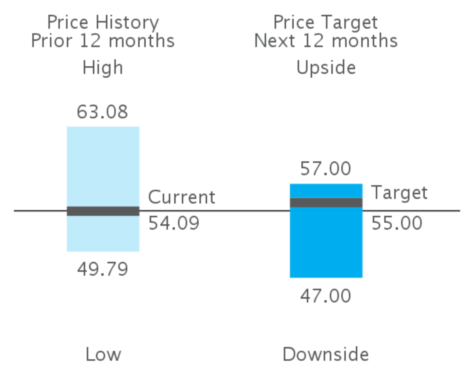
Upside case **USD 57.00**

Our upside case reflects a 10% premium to the 2021 utility group average P/E multiple, applied to higher 2021 estimates driven by generation capital deployment opportunities.

Downside case **USD 47.00**

Our downside case reflects a 10% discount to the 2021 group average multiple applied to lower 2021 EPS based on no capital investment beyond the current company forecasts.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities — **Industry View: NEUTRAL**

Public Service Enterprise Group (PEG)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	10,076	9,893	10,008	10,011	-0.2%
EBITDA (adj)	3,191	3,566	3,709	3,839	6.4%
EBIT (adj)	1,943	2,256	2,327	2,386	7.1%
Pre-tax income (adj)	2,008	1,906	1,971	2,006	0.0%
Net income (adj)	1,666	1,729	1,742	1,736	1.4%
EPS (adj) ($)	3.28	3.40	3.43	3.41	1.3%
Diluted shares	508.0	508.0	508.0	509.0	0.1%
DPS ($)	1.88	1.96	2.04	2.12	4.1%

Margin and return data					Average
EBITDA (adj) margin (%)	31.7	36.0	37.1	38.4	35.8
EBIT (adj) margin (%)	19.3	22.8	23.2	23.8	22.3
Pre-tax (adj) margin (%)	19.9	19.3	19.7	20.0	19.7
Net (adj) margin (%)	16.5	17.5	17.4	17.3	17.2
ROIC (%)	12.7	14.1	13.9	13.7	13.6
ROA (%)	3.5	3.4	3.4	3.2	3.4
ROE (%)	10.9	10.8	10.4	10.0	10.5

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	35,868	37,706	39,728	41,604	5.1%
Cash and equivalents	489	1,105	316	1,309	38.8%
Total assets	48,048	50,503	51,735	54,604	4.4%
Short and long-term debt	16,248	16,729	17,409	15,441	-1.7%
Other long-term liabilities	N/A	N/A	N/A	N/A	N/A
Total liabilities	32,779	34,500	35,026	37,238	4.3%
Shareholders' equity	15,269	16,003	16,709	17,365	4.4%
Net debt/(funds)	15,759	15,624	17,093	14,132	-3.6%
Change in working capital	390	773	-503	2,206	78.2%
Cash flow from operations	3,496	3,622	3,707	3,771	2.6%
Capital expenditure	-3,149	-3,115	-3,370	-3,295	N/A
Free cash flow	-608	-489	-700	-603	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	14.9	14.3	14.2	14.3	14.4
EV/EBITDA (adj) (x)	12.7	11.3	11.3	10.1	11.4
EV/EBIT (adj) (x)	20.9	17.9	18.0	16.3	18.3
FCF yield (%)	-1.5	-1.2	-1.7	-1.6	-1.5
P/BV (x)	1.6	1.5	1.5	1.4	1.5
Dividend yield (%)	3.9	4.0	4.2	4.3	4.1
Net debt/EBITDA (adj) (x)	4.9	4.4	4.6	3.7	4.4

Selected operating metrics					Average
Payout ratio (%)	57.3	57.6	59.5	62.2	59.1
Interest cover (x)	5.6	5.7	5.9	5.9	5.8
Regulated (%)	N/A	N/A	N/A	N/A	N/A

Price (11-Mar-2020)	USD 48.75
Price Target	USD 60.00

Why Overweight? PEG is a quality company that should be able to support 6%+ utility growth based on current capital expenditure projections. The merchant arm while facing low energy prices and uncertain capacity prices for their NJ nuclear plants stands to benefit from offshore wind development going forward.

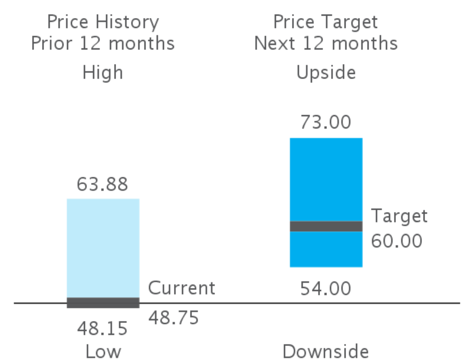
Upside case USD 73.00

This a 20% premium to the 22 group average PE applied to our 22 eps estimate and a 7.5x EBITDA multiple applied to our 22 Power EBITDA

Downside case USD 54.00

This a 10% disount to the 22 group average PE applied to our 22 eps estimatediscounted to reflect lower transmission ROE and lower capital spending approved by the BPUestimate and a 6.0x EBITDA multiple applied to our 22 Power EBITDA

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities **Industry View: NEUTRAL**

Sempra Energy (SRE)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	10,829	11,350	11,676	11,988	3.4%
EBITDA (adj)	4,380	4,599	4,946	5,239	6.2%
EBIT (adj)	2,811	2,928	3,131	3,303	5.5%
Pre-tax income (adj)	1,734	1,880	2,062	2,201	8.3%
Net income (adj)	2,055	2,147	2,560	2,716	9.7%
EPS (adj) ($)	7.29	7.28	7.81	8.24	4.2%
Diluted shares (mn)	282	295	328	330	5.4%
DPS ($)	3.87	4.20	4.56	4.94	8.5%

Margin and return data					Average
EBITDA (adj) margin (%)	40.4	40.5	42.4	43.7	41.8
EBIT (adj) margin (%)	26.0	25.8	26.8	27.5	26.5
Pre-tax (adj) margin (%)	16.0	16.6	17.7	18.4	17.1
Net (adj) margin (%)	19.0	18.9	21.9	22.7	20.6
ROIC (%)	6.1	6.6	6.6	6.6	6.5
ROA (%)	5.3	5.1	5.1	5.1	5.2
ROE (%)	12.0	10.8	13.6	13.1	12.4

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	36,452	40,348	42,456	44,643	7.0%
Cash and equivalents	108	2	934	1,039	112.7%
Total assets	65,665	68,468	71,932	74,683	4.4%
Short and long-term debt	25,816	25,655	26,605	27,405	2.0%
Other long-term liabilities	0	0	0	0	N/A
Total liabilities	43,860	47,795	48,745	49,545	4.1%
Shareholders' equity	19,929	18,829	20,667	22,619	4.3%
Net debt/(funds)	N/A	N/A	N/A	N/A	N/A
Change in working capital	-1,933	3,338	2,680	303	N/A
Cash flow from operations	3,088	4,301	4,789	5,065	17.9%
Capital expenditure	-3,708	-5,900	-4,005	-4,205	N/A
Free cash flow	-1,755	-2,983	-729	-782	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	16.9	16.9	15.7	14.9	16.1
EV/EBITDA (adj) (x)	23.4	23.2	22.2	21.2	22.5
EV/EBIT (adj) (x)	36.5	36.4	35.1	33.6	35.4
FCF yield (%)	-1.7	-2.8	-0.7	-0.7	-1.5
P/BV (x)	N/A	N/A	N/A	N/A	N/A
Dividend yield (%)	3.1	3.4	3.7	4.0	3.6
Net debt/EBITDA (adj) (x)	5.9	5.6	5.2	5.0	5.4

Selected operating metrics					Average
Payout ratio (%)	53.1	57.7	58.3	60.0	57.3
Interest cover (x)	2.6	2.8	2.9	3.0	2.8
Regulated (%)	N/A	N/A	N/A	N/A	N/A

Price (11-Mar-2020)	USD 122.95
Price Target	USD 152.00

Why Overweight? We think SRE represents an attractive thematic investment opportunity to invest with a top-tier management team with exposure to the best parts of the North American energy story. We also see the CA utilities' rate case outcomes as constructive to support utility growth and stability. We believe recent sensitivity to weak global LNG prices is overdone.

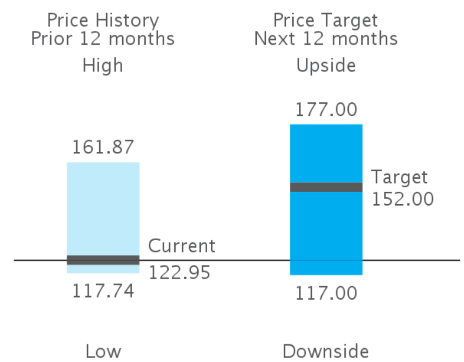
Upside case USD 177.00

Our upside case assumes all LNG projects are FID'd and applies a 10% premium to SDG&E, and increases the SoCalGas premium to 15%.

Downside case USD 117.00

Our downside case assumes no future LNG projects are FID'd, and lowers SDG&E to a 20% discount, SoCalGas and Texas to a 10% and 15% discount, respectively.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities — Industry View: NEUTRAL

The Southern Company (SO)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	21,419	21,943	22,410	22,955	2.3%
EBITDA (adj)	10,774	8,469	8,892	9,380	-4.5%
EBIT (adj)	7,736	5,408	5,704	6,053	-7.9%
Pre-tax income (adj)	6,542	3,951	4,147	4,530	-11.5%
Net income (adj)	4,739	3,353	3,520	3,845	-6.7%
EPS (adj) ($)	4.53	3.18	3.34	3.60	-7.4%
Diluted shares (mn)	1,046.0	1,054.0	1,054.0	1,068.4	0.7%
DPS ($)	2.30	2.38	2.46	2.54	3.4%

Margin and return data					Average
EBITDA (adj) margin (%)	50.3	38.6	39.7	40.9	42.4
EBIT (adj) margin (%)	36.1	24.6	25.5	26.4	28.1
Pre-tax (adj) margin (%)	30.5	18.0	18.5	19.7	21.7
Net (adj) margin (%)	N/A	N/A	N/A	N/A	N/A
ROIC (%)	10.8	8.0	7.8	8.0	8.7
ROA (%)	4.7	3.1	3.3	3.5	3.7
ROE (%)	12.2	9.0	9.2	9.5	10.0

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	N/A	N/A	N/A	N/A	N/A
Cash and equivalents	1,978	2,661	1,222	6,714	50.3%
Total assets	109,000	106,002	109,062	113,843	1.5%
Short and long-term debt	29,834	25,295	27,728	27,529	-2.6%
Other long-term liabilities	N/A	N/A	N/A	N/A	N/A
Total liabilities	67,393	63,447	64,038	65,922	-0.7%
Shareholders' equity	37,291	38,301	40,470	43,067	4.9%
Net debt/(funds)	27,856	22,634	26,506	20,815	-9.3%
Change in working capital	-1,567	-3,232	2,779	814	N/A
Cash flow from operations	5,781	6,418	6,711	7,175	7.5%
Capital expenditure	-7,555	-7,200	-6,900	0	N/A
Free cash flow	-181	-3,291	-2,782	0	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	12.8	18.3	17.4	16.2	16.2
EV/EBITDA (adj) (x)	8.0	9.6	9.6	8.5	8.9
EV/EBIT (adj) (x)	11.2	15.1	15.0	13.2	13.6
FCF yield (%)	-0.2	-4.0	-3.3	0.0	-1.9
P/BV (x)	1.6	1.6	1.5	1.4	1.5
Dividend yield (%)	4.0	4.1	4.2	4.4	4.2
Net debt/EBITDA (adj) (x)	2.6	2.7	3.0	2.2	2.6

Selected operating metrics					Average
Payout ratio (%)	50.8	74.8	73.7	70.6	67.5
Interest cover (x)	-6.2	-4.3	-4.4	-4.6	-4.9
Regulated (%)	94.0	94.0	194.0	294.0	169.0

Price (11-Mar-2020)	USD 58.18
Price Target	USD 68.00

Why Equal Weight? Southern is a high quality company with an above-average dividend, which based on execution of large projects (Kemper and Vogtle) has traded to a discount. With schedule and cost risks still lessening but not gone, we see SO as an Equal Weight investment .

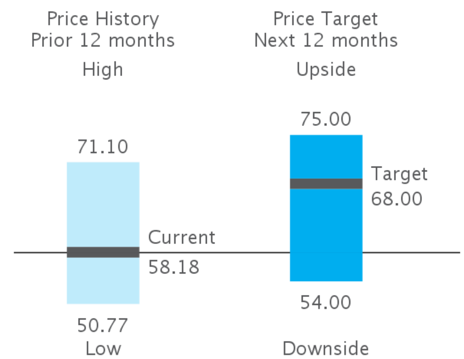
Upside case USD 75.00

We apply a 10% premium to group average 2022 P/E multiple on our 2022 EPS estimate while including the 2022 Vogtle earnings upon completion discounted back to 2022

Downside case USD 54.00

We apply a 15% discount to the 2022 group average multiple applied to our 2022 EPS estimate.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities — **Industry View: NEUTRAL**

WEC Energy Group, Inc. (WEC)

Stock Rating: UNDERWEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	7,523	7,864	8,008	8,144	2.7%
EBITDA (adj)	2,458	2,731	2,874	3,007	7.0%
EBIT (adj)	1,531	1,759	1,842	1,918	7.8%
Pre-tax income (adj)	1,260	1,485	1,571	1,680	10.1%
Net income (adj)	1,134	1,187	1,256	1,343	5.8%
EPS (adj) ($)	3.58	3.75	3.97	4.24	5.8%
Diluted shares (mn)	316.7	316.7	316.7	316.7	0.0%
DPS ($)	2.36	2.53	2.68	2.84	6.3%

Margin and return data					Average
EBITDA (adj) margin (%)	32.7	34.7	35.9	36.9	35.1
EBIT (adj) margin (%)	20.4	22.4	23.0	23.5	22.3
Pre-tax (adj) margin (%)	16.7	18.9	19.6	20.6	19.0
Net (adj) margin (%)	15.1	15.1	15.7	16.5	15.6
ROIC (%)	5.0	4.9	4.8	4.9	4.9
ROA (%)	3.4	3.4	3.3	3.3	3.3
ROE (%)	11.6	11.7	12.0	12.3	11.9

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	32,751	35,887	38,801	41,501	8.2%
Cash and equivalents	38	171	324	462	130.9%
Total assets	34,952	38,387	40,507	42,315	6.6%
Short and long-term debt	12,692	13,958	15,169	16,017	8.1%
Other long-term liabilities	10,304	12,197	12,697	13,212	8.6%
Total liabilities	24,838	27,886	29,597	30,961	7.6%
Shareholders' equity	10,113	10,501	10,909	11,354	3.9%
Net debt/(funds)	12,654	13,787	14,845	15,555	7.1%
Change in working capital	-5	-486	203	488	N/A
Cash flow from operations	2,346	2,759	2,889	3,034	9.0%
Capital expenditure	-2,261	-3,136	-2,915	-2,700	N/A
Free cash flow	-660	-1,177	-873	-565	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	27.2	26.0	24.6	23.0	25.2
EV/EBITDA (adj) (x)	17.7	16.3	15.9	15.4	16.3
EV/EBIT (adj) (x)	28.3	25.3	24.7	24.1	25.6
FCF yield (%)	-1.5	-2.6	-1.9	-1.2	-1.8
P/BV (x)	3.1	2.9	2.8	2.7	2.9
Dividend yield (%)	2.4	2.6	2.7	2.9	2.7
Net debt/EBITDA (adj) (x)	5.1	5.0	5.2	5.2	5.1

Selected operating metrics					Average
Payout ratio (%)	65.9	67.4	67.5	66.9	66.9
Interest cover (x)	3.1	3.2	3.1	3.2	3.2
Regulated (%)	100.0	100.0	100.0	100.0	100.0

Price (11-Mar-2020)	**USD 97.45**
Price Target	**USD 97.00**

Why Underweight? We rate WEC as Underweight on its group high valuation, though meaningful dividend growth, significant free cash flow, and steady ratebase growth in a constructive regulatory jurisdiction provide a lower risk profile.

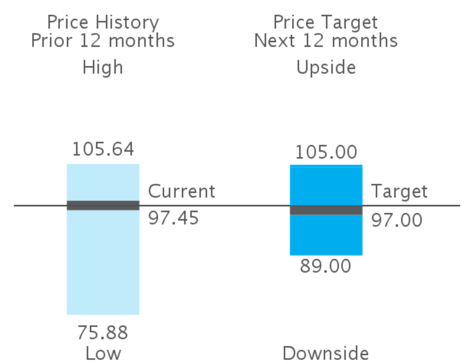
Upside case **USD 105.00**

Our upside case assumes a 30% premium to the 2021 group average P/E multiple applied to our 2022 EPS estimate.

Downside case **USD 89.00**

Our downside case assumes a 10% premium the group average multiple on our 2022 EPS estimate.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

North America Power & Utilities **Industry View: NEUTRAL**

Xcel Energy Inc. (XEL)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	11,529	11,659	12,003	12,449	2.6%
EBITDA (adj)	4,038	4,161	4,437	4,817	6.1%
EBIT (adj)	2,273	2,251	2,407	2,650	5.2%
Pre-tax income (adj)	1,500	1,434	1,494	1,671	3.7%
Net income (adj)	1,372	1,437	1,584	1,708	7.6%
EPS (adj) ($)	2.64	2.73	2.97	3.15	6.1%
Diluted shares (mn)	533.0	540.7	542.7	0.0	-100.0%
DPS ($)	1.62	1.72	1.82	1.93	6.0%

Margin and return data					Average
EBITDA (adj) margin (%)	35.0	35.7	37.0	38.7	36.6
EBIT (adj) margin (%)	19.7	19.3	20.1	21.3	20.1
Pre-tax (adj) margin (%)	13.0	12.3	12.4	13.4	12.8
Net (adj) margin (%)	11.9	12.3	13.2	13.7	12.8
ROIC (%)	4.1	4.0	4.1	4.0	4.0
ROA (%)	3.0	2.8	2.9	3.0	2.9
ROE (%)	9.5	8.6	9.3	9.0	9.1

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	N/A	N/A	N/A	N/A	N/A
Cash and equivalents	248	1,278	2,287	3,262	136.0%
Total assets	50,448	54,283	57,843	61,844	7.0%
Short and long-term debt	18,704	20,034	21,985	22,845	6.9%
Other long-term liabilities	15,056	16,010	15,417	0	-100.0%
Total liabilities	33,765	37,209	38,767	40,312	6.1%
Shareholders' equity	16,683	17,074	19,075	21,531	8.9%
Net debt/(funds)	18,456	18,756	19,699	19,584	2.0%
Change in working capital	N/A	N/A	N/A	N/A	N/A
Cash flow from operations	3,263	3,358	3,479	3,485	2.2%
Capital expenditure	-4,225	-4,800	-3,940	-4,425	N/A
Free cash flow	-1,753	-2,345	-1,432	-1,984	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	25.3	24.5	22.5	21.2	23.4
EV/EBITDA (adj) (x)	8.6	8.4	7.9	7.2	8.0
EV/EBIT (adj) (x)	15.3	15.5	14.5	13.2	14.6
FCF yield (%)	-5.0	-6.7	-4.1	-5.7	-5.4
P/BV (x)	2.1	2.1	1.9	1.7	1.9
Dividend yield (%)	2.4	2.6	2.7	2.9	2.6
Net debt/EBITDA (adj) (x)	4.6	4.5	4.4	4.1	4.4

Selected operating metrics					Average
Payout ratio (%)	61.3	62.8	61.3	61.1	61.6
Interest cover (x)	2.9	2.8	2.6	2.7	2.8
Regulated (%)	100.0	100.0	100.0	100.0	100.0

Price (11-Mar-2020)	USD 66.82
Price Target	USD 70.00

Why Equal Weight? We rate XEL as Equal Weight as XEL is a well-run core large-cap utility whose mix of businesses and locations, coupled with solid operating results and visible growth, supports a 17.5% premium to the group average 2022 P/E multiple. XEL has rerated close to our expected premium.

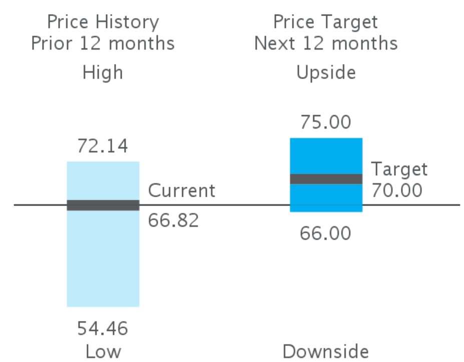
Upside case USD 75.00

We use a 25% premium to the 2022 group average multiple applied to our 2022 EPS estimate.

Downside case USD 66.00

We use a 10% premium to the 2022 group average multiple applied to our 2022 EPS estimate.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

Valuation Methodology and Risks

North America Power & Utilities

Alliant Energy Corporation (LNT)

Valuation Methodology: We utilize a relative target P/E multiple to value LNT shares. We apply a 15% premium to the 19x group average 2022 P/E multiple to reflect LNT's strong track record for execution, visible earnings growth above the group average, attractive rate base growth driven by renewable generation that limit customer bill inflation, and constructive regulatory oversight.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Upside risks to our estimates and price target include better-than-expected regulatory outcomes, defensive equity flows, and increased M&A activity. Downside risks include inflation (commodity and PCE- leading to higher interest rates), adverse regulatory outcomes, project execution issues, or broad economic slowdown in LNT's service territories.

Ameren Corp. (AEE)

Valuation Methodology: Our $85 price target is derived by applying a 15% premium to the group average multiple of 19x to our 2022 EPS estimate of $3.90/share. We believe a premium multiple is appropriate at this time given that favorable regulatory structures AEE operates under in its primary jurisdictions of Missouri and Illinois.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Major company risks are: broad economic impact slowing sales growth, inability to gain fair and timely regulatory recovery, Gubernatorial and commission changes impacting regulation and legislation, FERC ROEs, legislation altering the Qualified Infrastructure Plant rider and ability to control costs in order to manage customer bill impacts.

American Electric Power Company, Inc. (AEP)

Valuation Methodology: We use a 12.5% premium to the 2022 group average multiple of 19x applied to our 2022 estimate of $5.02 to reflect above average regulatory and long term growth.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Major risks to the company are: fair and timely rate recovery, regional economic impacts resulting in lower-than-expected usage, execution on cost controls to manage customer bill impacts.

CenterPoint Energy, Inc. (CNP)

Valuation Methodology: Our current $20 price target is premised upon a group average multiple applied to the 2022 utility group average PE multiple against a pro forma Barclays 2022 EPS estimate. Our pro forma 2022 adjustment assumes a downside scenario for ENBL enterprise value where we assume incremental equity needs to finance a $2.4bn write-down for CNP's stake in ENBL and its $1.2bn internal note. We acknowledge that the assumption could be viewed as overly-conservative but do not expect the ENBL overhang to clear in the near term, thus resulting in a more conservative approach to the valuation framework.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Equity needs and earnings visibility from ENBL, realizing capex opportunities in IN remain as material upside/downside risks. Broader items that could also impact the shares: 1) economic growth impacting sales growth, 2) constructive gubernatorial and commission changes benefiting regulation and legislation, and 3) cost control to manage customer bill impacts.

CMS Energy Corporation (CMS)

Valuation Methodology: Our $67 price target is derived by applying a 15% premium to the group average multiple of 19x to our 2022 EPS estimate of $3.07. CMS has a constructive regulatory relationship in Michigan and above-average earnings/dividend growth forecast.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Major company risks are: broad economic impact slowing sales growth, inability to gain fair and timely regulatory recovery, gubernatorial and commission changes impacting regulation and legislation, Ability to control costs in order to manage customer bill impacts.

Consolidated Edison, Inc. (ED)

Valuation Methodology: We use a -10% discount to the 2022 group average P/E multiple of 19x applied to our 2022 EPS estimate of $4.77 to reflect an average regulatory environment, a more challenged earnings outlook, and low-risk profile. We add $1.31 of NPV for recovery of tax equity treatment post-Sempra deal.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Major risks to the upside are: ED being able to achieve the full allowed ROE at CECONY, competition for growing NY transmission opportunities, and competition for behind-the-meter infrastructure based on REV.

Dominion Energy (D)

Valuation Methodology: We arrive at our $93 price target using a sum of the parts valuation framework that assigns a 10% premium to D's VEPCO operating subsidiary and parent ops, a 15% premium to the contracted generation business, a 10% premium EV/EBITDA to the gas transmission and storage segment, and a 5% premium to the Southeast Carolina Group.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Material downside risks include further delays or a cancellation announcement of ACP or adverse regulatory outcomes in Virginia. D will also underperform the broader market if interest rates rise faster than expected (dividend yield and cost of capital impact), credit ratings agencies do not view D's credit strengthening measures as sufficient (unlikely in our view) and downgrade D parent debt, or natural gas market dynamics reduce production in the Marcellus/Utica region.

Duke Energy Corporation (DUK)

Valuation Methodology: We derive our $104 price target for DUK by applying a 5% discount to the group average multiple of 19x to 2022E regulated utility earnings for DUK of $5.75 per share. We believe a discount to the group average multiple is appropriate given the lack of

Valuation Methodology and Risks

earnings growth historically.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Major risks to the company are: the ability to obtain fair and timely rate recovery,and recovery of coal ash costs. Completion of ACP is a key issue as well as the ability to maintain credit metrics in order to avoid equity needs, regional economic impacts driving lower-than-expected usage, and legal and regulatory challenges resulting in delays to pipeline projects.

Edison International (EIX)

Valuation Methodology: Our $68 price target is based on a 15% discount to the 2022 group average multiple of 19x applied to an adjusted, post wildfire liability and additional funding for 22E EPS estimate of $4.18. The 15% discount is based upon implementation risk of AB 1054 cost recovery standards and a general perception of wildfire risk in the state.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Major upside/downside risks to the company are: final wildfire liability for 17/18 fires, ultimate legislation on inverse condemnation, and regulatory outcomes in pending and future rate cases.

Eversource Energy (ES)

Valuation Methodology: We derive our $96 price target by applying a 20% premium to the group average P/E multiple of 19x, to our 2022 earnings estimate of $4.23 per share. We believe a premium multiple is appropriate at this time given the nature of ES's growth profile, regulatory relationships, accretion from the Columbia Gas of MA acquisition and recovery mechanisms.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The primary risk to our investment thesis is a change in regulation. We don't expect significant regulatory change in any of ES's jurisdictions at this time.

Exelon Corporation (EXC)

Valuation Methodology: Our $50 price target is derived using a sum-of-the-parts methodology. We value the regulated utilities on a P/E multiple basis and the competitive generation business on an EV/EBITDA basis. Our estimate for utility earnings, net of parent, in 2022 is $2.21 per share. Applying a 10% premium to group average 19x P/E multiple yields $46 of value. Generation is valued $4 per share using 5x 75% of 2022E f EBITDA less debt. Combining both values yields our $50 price target.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Major company risks are: power price and capacity price volatility, sales growth, ability to get fair and timely regulatory recovery, and ability to manage O&M costs to keep customer bill impacts acceptable. Currently the 30 year Treasury yield (assumed to be 1.3% longer term is weighing on ComEd earnings. IL legislation on clean energy is a key risk driver.

FirstEnergy Corp. (FE)

Valuation Methodology: Our $54 price target for FE is based on a 5% premium to the group average 2022 multiple of 19x applied to our FY22 EPS estimate. The 5% premium is based on above-average regulatory attributes, below-average geographic attributes, improving long-term growth visibility, and an improving subjective rating based on a complete transition of the business model (fully regulated).

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Major company risks are: regulatory recovery in pending and future cases as well as prudency of spending associated with rate riders and formulaic rates; the ability to finance and execute on capital investment plans; broad economic impacts driving customer usage trends; and cost control execution to manage customer bill increases.

NextEra Energy, Inc. (NEE)

Valuation Methodology: We use a 15% premium to the 2021 group average multiple of 19x with an additional $13 per share added to reflect ownership of NEP units (valued @ $64/unit). The 15% premium is used to reflect above-average regulatory exposure and long-term growth.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The major company risks are: ability to achieve fair and timely rate recovery, competition for renewable energy projects at NEER, federal legislation impacting profitability or competition of renewable generation, and regional economic impacts resulting in lower-than-expected usage.

NiSource, Inc. (NI)

Valuation Methodology: Our $31 price target is derived using a 10% premium to the 2022 regulated utility group average P/E of 19x applied to our 2022 EPS estimate of $1.51. The premium reflects our view that NiSource is a quality utility with a well-defined rate base growth strategy from low-risk gas and electric infrastructure modernization.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Major risks to the company are: the ability to obtain fair and timely rate recovery, regional economic impacts driving lower-than-expected usage, cost controls to manage customer rates, and material penalties related to ongoing regulatory investigations

NorthWestern Corporation (NWE)

Valuation Methodology: Our $73 price target is derived using the 2022 regulated utility group average P/E of 19x applied to our 2022 EPS estimate of $3.87. We believe favorable geographic attributes of the state are outweighed by regulatory challenges and uncertainties in Montana.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Major risks to the company are: fair and timely rate recovery; regional economic impacts; potential ability to manage customer bill impacts. Upside risks include positive regulatory outcomes and potential for new build of capacity resources in Montana

OGE Energy Corp. (OGE)

Valuation Methodology: We derive our $38 price target by applying a 5% discount to the group average multiple of 19.5x applied to our 2022 utility earnings estimate combined with the current ENBL price unit price of $5 applied to the 111 units that OGE owns. We expect the company to deliver average EPS growth with higher-than-average dividend growth through 2022.

Valuation Methodology and Risks

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: OGE's capital plans impute less than 5% rate base growth. This is lower than the group average and is indicative of a below average regulatory jurisdiction. The upside is that as most companies grow earnings at or below the rate base growth level, OGE has the opportunity to grow regulated earnings in the 4-6% level on solid customer growth combined with potential to close the earned to allowed ROE gap that exists. The key (upside and downside risk) to enhancing growth lies in gaining rider approvals in Oklahoma. As significant generation and environmental spending is winding down, grid modernization, reliability, resiliency and technology are the next set of major spending programs.

PG&E Corporation (PCG)

Valuation Methodology: Our $15 price target is derived from PG&E's equity backstop financing agreement. We assume equity issuance of $12bn at 12x effective P/E multiple to arrive at pro forma EPS. We then apply a 20% discount to the 21E group average P/E multiple and subtract the NPV of ongoing wildfire fund contributions to arrive at our price target.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: There are significant downside risks related to regulatory proceedings that could leave equity value significantly lower than current market value. There is significant upside risk if new equity transacts above a 12x issuance multiple. There is additional downside risk if capital structure changes lead to additional equity, future wildfires occur, or earnings are negatively impacted by regulatory outcomes.

Pinnacle West Capital Corporation (PNW)

Valuation Methodology: Our $103 price target is derived by applying the group average multiple of 19x to our 2022 EPS estimate of $5.44. We expect the company to deliver average EPS and above-average dividend growth through 2022. In our view, the regulatory, geography and long-term growth attributes justify a group average P/E multiple on a 2022 utility earnings.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Major company risks to the downside include: 1) poor regulatory outcome of current APS rate case, 2) economic impact of lower sales growth, 3) ability to control costs in order to manage customer bill impacts and potential to allow retail choice.

PNM Resources, Inc. (PNM)

Valuation Methodology: Our $52 price target is derived using a 10% premium to the 2022 regulated utility group average P/E of 19x applied to our PNM 2022 EPS estimate of $2.49. We see average to slightly above average earnings growth, a pickup in the New Mexico economy and signs of real improvement in New Mexico regulation via approved and pending legislation.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Events and outcomes that could result in under performance are: lower than anticipated load growth, a negative outcome in the San Juan abandonment securitization, or negative regulatory reaction to PNM's plan for SJGS replacement power.

Portland General Electric Company (POR)

Valuation Methodology: Our price target is based on a group average 2022 P/E multiple of 19x applied to our 2022 EPS estimate, which assumes additional capital opportunities beyond the base plan provided. The average multiple is based on average regulatory ranking, above-average geographic attribute ranking, average long-term growth visibility, average subjective ranking, and average investor attribute ranking.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Outcomes and events that could drive out-performance in the shares are: POR wins significant capacity or renewable contracts via upcoming RFP process, legislation is introduced that provides capital opportunities, O&M savings exceed expectations and guidance, or there is an acceleration of load growth above current guidance.

Public Service Enterprise Group (PEG)

Valuation Methodology: We use a sum of the parts methodology, where we use a 5% premium to the 2022 group average PE multiple of 19x applied to our 2022 EPS estimate for the utility and parent earnings of $3.01 and apply a 6X EBITDA multiple to the 2022 genco earnings.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Volatility in power prices, changes to the structure of the PJM, NYISO of NEPOOL capacity or energy markets. FERC ROE changes, or NJ BPU approval or changes to the Clean Energy Future capital spending plans.

Sempra Energy (SRE)

Valuation Methodology: We utilize a sum of the parts valuation framework for SRE. We apply a relative P/E multiple to the North American utility businesses using a base of 19x for the group average (15% premium for Texas, 10% for SoCalGas, group average for SDG&E). We utilize the Barclays Ienova Price Target and adjust for SRE ownership and Barclays spot USDMXN for Peso translation. We utilize a probability-weighted DCF approach for the LNG business depending on where each facility is on securing contracting for export capacity.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks include incremental equity needs, FIDs at LNG projects, construction problems, and negative regulatory outcomes.

The Southern Company (SO)

Valuation Methodology: We derive our $68 price target by applying a 5% discount to the group average P/E multiple of 19x to our 2022 EPS estimate of $3.60 for SO and then add back the discounted value of Vogtle uplift of $0.20 in 2023 to 2022. The 5% discount is driven by the uncertainty associated with plant Vogtle (the earnings uplift from Vogtle is added back to avoid a using a 5% discount on a 2022 number that does not include the Vogtle uplift)

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Major risks to the company are: Adverse regulatory outcomes for Vogtle or the upcoming Georgia rate case; additional, unexpected delays to the plant Vogtle schedule; economic impacts that would drive lower electric usage; competition for renewable and contract generation impacting Southern Power's growth; and

Valuation Methodology and Risks

ability to drive O&M lower in order to earn the allowed ROE in each jurisdiction.

WEC Energy Group, Inc. (WEC)

Valuation Methodology: Our price target of $97 represents a 20% premium valuation relative to the utility peer group P/E multiple of 19x on our 2022 EPS estimate of $4.24. We believe this premium valuation is justified by the strong performance record the company has achieved and our belief that its forward growth goals are both realistic and achievable.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks to the upside are: Continued load growth; higher than regulated returns from nonregulated renewable investments; ability to get fair and timely rate recovery; execution on cost controls; continued flight to safety and flows into the "comfort" group of utilities.

Xcel Energy Inc. (XEL)

Valuation Methodology: Our $70 price target is based on a 17.5% premium to the group average multiple of 19x applied to our 2022 EPS estimate of $3.15. We believe this premium valuation fairly reflects the quality, strength, and potential endurance of the company's growth.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Major risks to the company are: ability to obtain fair and timely rate recovery, execution on coal to renewable generation transformation, ability to maintain credit metrics while financing its long-term capital plan, and execution on cost control to manage customer bill impact.

Source: Barclays Research.

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I, Eric Beaumont, CFA, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

Alliant Energy Corporation (LNT, 11-Mar-2020, USD 51.59), Overweight/Neutral, A/CE/D/FA/J/K/L/M

Ameren Corp. (AEE, 11-Mar-2020, USD 80.87), Equal Weight/Neutral, CD/CE/D/J/K/L/M

American Electric Power Company, Inc. (AEP, 11-Mar-2020, USD 89.72), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M/N

CenterPoint Energy, Inc. (CNP, 11-Mar-2020, USD 17.66), Equal Weight/Neutral, A/CD/CE/D/J/K/L/M

CMS Energy Corporation (CMS, 11-Mar-2020, USD 63.25), Equal Weight/Neutral, A/CD/CE/D/J/K/L/M

Consolidated Edison, Inc. (ED, 11-Mar-2020, USD 86.50), Underweight/Neutral, A/CD/CE/D/J/K/L/M

Dominion Energy (D, 11-Mar-2020, USD 78.95), Overweight/Neutral, A/CD/CE/D/J/K/L/M

Duke Energy Corporation (DUK, 11-Mar-2020, USD 90.94), Equal Weight/Neutral, A/CD/CE/D/E/J/K/L/M

Edison International (EIX, 11-Mar-2020, USD 59.74), Equal Weight/Neutral, A/CD/CE/D/E/J/K/L/M

Eversource Energy (ES, 11-Mar-2020, USD 87.79), Equal Weight/Neutral, A/CD/CE/D/J/K/L/M

Exelon Corporation (EXC, 11-Mar-2020, USD 39.81), Overweight/Neutral, CD/CE/D/J/K/L/M

FirstEnergy Corp. (FE, 11-Mar-2020, USD 43.13), Overweight/Neutral, A/CD/CE/D/J/K/L/M

NextEra Energy, Inc. (NEE, 11-Mar-2020, USD 241.26), Equal Weight/Neutral, A/CD/CE/D/E/J/K/L/M

NiSource, Inc. (NI, 11-Mar-2020, USD 27.10), Equal Weight/Neutral, CD/CE/FA/J/K/M

NorthWestern Corporation (NWE, 11-Mar-2020, USD 70.96), Underweight/Neutral, CD/CE/J

OGE Energy Corp. (OGE, 11-Mar-2020, USD 34.03), Equal Weight/Neutral, CE/J

PG&E Corporation (PCG, 11-Mar-2020, USD 12.04), Equal Weight/Neutral, CE/D/E/J/K/L/M

Pinnacle West Capital Corporation (PNW, 11-Mar-2020, USD 89.55), Equal Weight/Neutral, CD/CE/D/J/K/L/M

PNM Resources, Inc. (PNM, 11-Mar-2020, USD 45.65), Equal Weight/Neutral, CD/CE/FA/J

Portland General Electric Company (POR, 11-Mar-2020, USD 54.09), Underweight/Neutral, A/CD/CE/D/J/K/L/M

Public Service Enterprise Group (PEG, 11-Mar-2020, USD 48.75), Overweight/Neutral, A/CD/CE/D/J/K/L/M

Sempra Energy (SRE, 11-Mar-2020, USD 122.95), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M

The Southern Company (SO, 11-Mar-2020, USD 58.18), Equal Weight/Neutral, A/CD/CE/D/E/J/K/L/M

WEC Energy Group, Inc. (WEC, 11-Mar-2020, USD 97.45), Underweight/Neutral, A/CD/CE/D/J/K/L/M

Xcel Energy Inc. (XEL, 11-Mar-2020, USD 66.82), Equal Weight/Neutral, A/CD/CE/D/E/J/K/L/M

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CMS Energy Corporation (CMS)	Consolidated Edison, Inc. (ED)	Dominion Energy (D)
DTE Energy (DTE)	Duke Energy Corporation (DUK)	Edison International (EIX)
Eversource Energy (ES)	Exelon Corporation (EXC)	FirstEnergy Corp. (FE)
NextEra Energy, Inc. (NEE)	NiSource, Inc. (NI)	NorthWestern Corporation (NWE)
OGE Energy Corp. (OGE)	PG&E Corporation (PCG)	Pinnacle West Capital Corporation (PNW)
PNM Resources, Inc. (PNM)	Portland General Electric Company (POR)	Public Service Enterprise Group (PEG)
Sempra Energy (SRE)	The Southern Company (SO)	WEC Energy Group, Inc. (WEC)
Xcel Energy Inc. (XEL)		

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NiSource Inc

Beantown update: Tweaking ests to better reflect dis-synergies & LT uptick

Reiterate Rating: BUY | PO: 31.00 USD | Price: 29.63 USD

Reflecting the latest guide: Offsetting some dissynergies

We revisit our estimates following our Boston Conference, as mgmt. provided more guidance around estimates after it pulled its guidance and announced Columbia Gas of Mass (CMA) sale (to close this 3Q20). More specifically, mgmt. articulated dissynergies from losing overheard and other shared costs between gas subsidiaries could be up to -8c in '21. As such, we tweak down our '20-'22 estimates -1c to -2c. Note that our EPS revisit still assumes NI can trigger a cost savings initiative and work to mitigate some of this -8c penalty; for example, if '21 was the midpoint of the earning floor ($1.38/sh) with -8c of dissynergies baked in – it would take +3c of cost savings to get to our new estimate of $1.41/sh. Recall that '20 guidance still has not been provided and '21 guidance continues to be an earnings floor of the previous '20 guide of $1.36-1.40/sh. We continue to anticipate an EPS guidance refresh to come late this summer or into fall - perhaps through an Analyst Day, wrapped into EEI, or wrapped into the 3Q call. Note NI will base its 5-7% EPS CAGR off of the new '21 EPS (we model growth off of $1.40/sh - the top of the '21 floor), and we think it is likely that NI extends the CAGR through at least '24 (potentially '25) to capture the 1x step up in '24 estimates coming from NIPSCO's renewable ownership opportunities (as projects will commission year-end '23). Finally, we acknowledge that NI may be higher than its 5-7% range for '24 as it benefits from the rate base increase – and we bake this into our numbers (a $1.74/sh '24 estimate – over the $1.72/sh 7% CAGR off $1.40/sh in '21). We MTM the peer multiple and remove the -1x discount on gas utes, finding a $31/sh PO. Reiterate Buy.

Indiana RFP and credit discussions forthcoming

We expect NI's updated guide to bake in NIPSCO electric's request for proposals (RFPs). As such, we factor in NI and a tax equity partner securing half of the awarded capacity (6-7c of earnings for NI in '24). We also note that NI will likely meet with rating agencies this April to discuss its plans around financing the renewable investments, closing up the coal plants, and meeting both earnings and credit commitments. Our equity assumes NI executes its ATM and stock options, and adds $488mn of equity in '23 to fund the RFP project purchases (indicating $707mn debt); this increases shares by 17.6mn.

Estimates (Dec)

(US$)	2017A	2018A	2019E	2020E	2021E
EPS	1.21	1.30	1.32	1.34	1.41
GAAP EPS	0.39	1.30	1.32	1.34	1.41
EPS Change (YoY)	14.2%	7.4%	1.5%	1.5%	5.2%
Consensus EPS (Bloomberg)			1.30	1.36	1.44
DPS	0.73	0.79	0.83	0.88	0.94

Valuation (Dec)

	2017A	2018A	2019E	2020E	2021E
P/E	24.5x	22.8x	22.4x	22.1x	21.0x
GAAP P/E	76.0x	22.8x	22.4x	22.1x	21.0x
Dividend Yield	2.4%	2.7%	2.8%	3.0%	3.2%
EV / EBITDA*	17.8x	17.2x	15.0x	14.4x	13.5x
Free Cash Flow Yield*	-8.4%	-11.3%	-1.9%	-5.9%	-5.0%

* For full definitions of *iQmethod* SM measures, see page 8.

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Timestamp: 06 March 2020 07:49AM EST

06 March 2020

Equity

Key Changes

(US$)	Previous	Current
Price Obj.	30.00	31.00
2020E EPS	1.35	1.34
2021E EPS	1.43	1.41
2020E EBITDA (m)	1,842.4	1,835.6
2021E EBITDA (m)	1,971.5	1,961.0

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Stock Data

Price	29.63 USD
Price Objective	31.00 USD
Date Established	6-Mar-2020
Investment Opinion	B-1-7
52-Week Range	25.94 USD - 30.67 USD
Mrkt Val (mn) / Shares Out (mn)	11,326 USD / 382.3
Average Daily Value (mn)	114.99 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2019E)	9.9%
Net Dbt to Eqty (Dec-2018A)	156.7%

iQprofile℠ NiSource Inc

iQmethod ℠ – Bus Performance*					
(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Return on Capital Employed	2.6%	3.9%	4.3%	4.1%	4.3%
Return on Equity	9.5%	10.1%	9.9%	9.6%	9.5%
Operating Margin	18.7%	18.3%	20.2%	20.3%	21.1%
Free Cash Flow	(954)	(1,278)	(219)	(663)	(570)

iQmethod ℠ – Quality of Earnings*					
(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash Realization Ratio	1.9x	1.2x	3.2x	2.3x	2.3x
Asset Replacement Ratio	3.0x	3.0x	2.5x	2.5x	2.4x
Tax Rate	71.0%	19.7%	17.1%	21.0%	21.0%
Net Debt-to-Equity Ratio	207.7%	156.7%	158.6%	142.4%	141.7%
Interest Cover	2.6x	2.6x	2.8x	2.9x	2.9x

Income Statement Data (Dec)					
(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Sales	4,875	5,084	5,184	5,391	5,572
% Change	8.5%	4.3%	2.0%	4.0%	3.3%
Gross Profit	3,356	3,325	3,649	3,803	3,959
% Change	8.2%	-0.9%	9.8%	4.2%	4.1%
EBITDA	1,481	1,531	1,764	1,836	1,961
% Change	5.4%	3.4%	15.2%	4.0%	6.8%
Net Interest & Other Income	(468)	(335)	(384)	(379)	(409)
Net Income (Adjusted)	398	463	495	511	554
% Change	15.6%	16.6%	6.8%	3.3%	8.3%

Free Cash Flow Data (Dec)					
(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Net Income from Cont Operations (GAAP)	129	463	495	511	554
Depreciation & Amortization	570	600	717	742	783
Change in Working Capital	(415)	110	(75)	(186)	(186)
Deferred Taxation Charge	307	(188)	118	120	129
Other Adjustments, Net	152	(445)	328	0	0
Capital Expenditure	(1,696)	(1,818)	(1,802)	(1,850)	(1,850)
Free Cash Flow	-954	-1,278	-219	-663	-570
% Change	-41.9%	-34.0%	82.9%	-202.7%	14.1%

Balance Sheet Data (Dec)					
(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash & Equivalents	29	121	148	165	181
Trade Receivables	945	1,147	905	1,092	1,278
Other Current Assets	790	787	800	800	800
Property, Plant & Equipment	14,360	15,543	16,912	17,020	18,087
Other Non-Current Assets	3,839	4,206	3,894	3,894	3,894
Total Assets	19,962	21,804	22,660	22,970	24,239
Short-Term Debt	1,490	2,027	1,787	2,198	2,352
Other Current Liabilities	1,688	2,010	1,959	1,959	1,959
Long-Term Debt	7,512	7,105	7,856	7,163	7,665
Other Non-Current Liabilities	4,951	4,911	5,071	5,191	5,320
Total Liabilities	15,642	16,053	16,673	16,512	17,297
Total Equity	4,320	5,751	5,987	6,458	6,942
Total Equity & Liabilities	19,962	21,804	22,660	22,970	24,239

* For full definitions of iQmethod℠ measures, see page 8.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

NI's positives including 5-7% earnings/dividend growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries with earned ROEs consistently near the allowed. We are starting to see resolution of overhang from the MA incident as the recent DPU Order provides a bookend of potential costs of the state's investigation. Bottom line, given the discount of shares, resolving MA issues, and ratebase upside in NI, we rate NI Buy.

Stock Data

Average Daily Volume	3,880,727

Quarterly Earnings Estimates

	2018	2019
Q1	0.77A	0.82E
Q2	0.08A	0.05E
Q3	0.10A	0E
Q4	0.38A	0.45E

Estimates

We update our estimates to fully bake the RFP in NIPSCO into the electric subsidiary, and we reflect our assumed equity needs in the consolidated shares outstanding as well. Our 41% equity assumption (based off of our FFO assumptions from the NI and D&A gained) indicates a need of $488mn of equity in '23. We also highlight that we include a new EPS growth CAGR below, with guidance of 5-7% off of a $1.40/sh '21 base. We track the 7% CAGR for most years, but are above the range in '24 once the RFP projects would be fully reflected in rate base (as they commission year-end '23 indicating NI would purchase them at that time). We believe that mgmt. update by 3Q/EEI could very well reflect further capex beyond what is in our outlook today including further TDISC-related capex under its Indiana electric rider, extended last year.

Table 1: NI EPS estimates – slightly lower in '21, but see '24 EPS target as increasingly the key to above 5-7%

NI EPS Estimates		2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Gas		0.96	0.94	1.02	1.02	1.06	1.13	1.15	1.18	1.21
Electric		0.56	0.60	0.63	0.65	0.67	0.68	0.74	0.84	0.84
Parent/Other		-0.32	-0.23	-0.32	-0.32	-0.32	-0.30	-0.29	-0.28	-0.27
BofA EPS		1.21	1.30	1.32	1.34	1.41	1.50	1.60	1.74	1.78
Previous EPS		1.21	1.30	1.32	1.35	1.43	1.52			
-										
Guidance		1.17-1.20	1.26-1.32	1.27-1.33		Floor: 1.36-1.40				
Consensus		1.19	1.28	1.30	1.36	1.44	1.52	1.62	1.70	
Consensus '19-'23 CAGR	5.7%									
BofA CAGR '19-'23 CAGR	5.0%									
Consensus '20-'24 CAGR	5.8%									
BofA CAGR '20-'24 CAGR	6.7%									
(Prev) 5%-7% CAGR EPS off '19 guidance range	High End			1.33	1.42	1.52	1.63	1.74	1.87	2.00
	Mid-Point			1.30	1.38	1.46	1.55	1.64	1.74	1.85
	Low End			1.27	1.33	1.40	1.47	1.54	1.62	1.70
5%-7% CAGR EPS off '21 guidance range	High End					1.40	1.50	1.60	1.72	1.84
Plus '24 step-up to be described by 3Q/EEI	Mid-Point					1.40	1.48	1.57	1.67	1.77
	Low End					1.40	1.47	1.54	1.62	1.70
BofA DPS		0.73	0.79	0.83	0.88	0.94	0.99	1.05	1.12	1.18
BofA CAGR 2017-2021	6.6%									
Guidance		$0.70								
5%-7% CAGR DPS guidance	High End	0.70	0.75	0.80	0.86	0.92	0.98	1.05		
	Mid-Point	0.70	0.74	0.79	0.83	0.88	0.94	0.99		
	Low End	0.70	0.74	0.77	0.81	0.85	0.89	0.94		
Share Count		329	357	376	381	392	428	428	445	455

Source: BofA Global Research estimates, company report, Bloomberg

Other key take aways from the conference

Existing Massachusetts

Two key milestones were reached recently around Merrimack: The criminal case resolution and the announcement of the sale of Columbia Gas of Massachusetts (CMA) to Eversource (ES). As for remaining items pertaining to Merrimack, NI still is in discussions with the Mass Department of Public Utilities (DPU) and the Attorney General on the process to close the ES deal. It expects the final order on the class action lawsuit from impacted citizens in the next ~week. The DPU has yet to come to the conclusion of its internal investigation, for which we expect roughly a $100mn fine. Finally, NI is awaiting the outcome around its property insurance; NI filed for $255mn, which is not baked into the plan (i.e. if any proceeds were received, they would come back to NI). Settlement timing on insurance is unclear, and could take beyond year-end if litigated. As for moving forward, NI continues to expect its six utilities to operate well and continue to have a ~10-11% rate base growth.

Legislative framework: Could it lead to incremental opportunity beyond '22?

NI has identified it is evaluating grid mod opportunities that we interpret might be incremental to current estimates. Whether or not incremental capex is possible is still yet to be determined - but we see this as a key opportunity that also would help limit lag given that the mechanism of recovery would be through an enhanced TDSIC tracker. The company also looks to explore technological advancements on the natural gas side (e.g. methane detectors, automatic shut-off safety enhancement devices) - and has noted it looks to explore how customers with both gas and electric in the NIPSCO territory could benefit from the same investments (e.g. fiber to benefit electric and gas). While the investment opportunity is not yet known, we would expect any upside to spans 5-10 years and with a potential up-front acceleration of capital.

Gas biz in an ESG world: Working on the combined angle

While some states like New York have implemented gas moratoriums, NI does not expect its jurisdictions to see the same level of gas push back. Even so, we expect NI (along with many other institutions) to at least start exploring the cost-benefit of renewable natural gas (RNG) in an increasingly ESG-conscious investor environment. We also expect it to at least weight the strategic benefits of the NIPSCO subsidiary around electric and gas convergence work (i.e. exploring the benefits of serving the two together). For example, consumers in the future may wish to switch to electric heating yet have a reliable gas back up for extremely cold days; or perhaps consumers will opt to pay a premium for more methane-responsible gas. We stay tuned on this topic, but note discussions seem to be only in early phases.

Valuation

We update the peer multiple to 18.3x (previously 19.9x) for gas and 19.7x (previously 19.1x) for electric. We remove our -1x discount on gas names given the resolved risk around Columbia Gas of MA and expectation that the peer multiple reflects the discount relative to electric already. We find a $31/sh PO. Reiterate Buy.

Table 2: NI SOTP Valuation

NI SOP Valuation	Metric	P/E Multiple					Equity Value		
	2022E EPS	Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Gas	-	-	18.3x	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Gas	-	-	5.10%	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Gas Utilities	-	-	19.2x	-	-	-	-	-	-
Columbia Gas of OH	$0.51	18.2x	19.2x	0.0x	19.2x	20.2x	$9.32	$9.83	$10.35
Columbia Gas of PA	$0.26	18.2x	19.2x	0.0x	19.2x	20.2x	$4.66	$4.92	$5.17
NIPSCO Gas	$0.22	18.2x	19.2x	0.0x	19.2x	20.2x	$3.95	$4.16	$4.38
Columbia Gas of VA	$0.08	18.2x	19.2x	0.0x	19.2x	20.2x	$1.45	$1.53	$1.61
Columbia Gas of KY	$0.04	18.2x	19.2x	0.0x	19.2x	20.2x	$0.82	$0.86	$0.91
Columbia Gas of MD	$0.02	18.2x	19.2x	0.0x	19.2x	20.2x	$0.32	$0.34	$0.36
Group Peer Multiple - Electric			19.7x						
Group EPS '18-'22 CAGR - Electric			5.00%						
Electric Utilities			20.7x						
NIPSCO Electric	$0.68	21.7x	20.7x	2.0x	22.7x	23.7x	$14.68	$15.36	$16.04
Total Utility	$1.80	*19.5x*			*20.5x*	*21.5x*	$35.20	$37.00	$38.81
-Parent EPS Drag (ex-Interest Expense)	-$0.09	19.5x	0.0x		19.8x	20.8x	-$1.76	-$1.78	-$1.87
Total EPS *(incl. debt drag)*	$1.50								
Midpoint of 5-7% EPS	*$1.48*								
Holdco Debt @ Parent, *not* allocated to Utilities									
(50% Netting out Debt)				-$2,000	50%		-$1,000	-$1,000	-$1,000
(50% P/E multiple on Interest Exp)				5.5%	50%		-$849	-$892	-$935
Grand Total Equity Value							$28.90	$30.57	$32.17
Shares Outstanding 2022E								406	
Total Equity Value							$29.00	$31.00	$32.00
Implied Consolidated P/E									
Current Price								$29.63	
Dividend Yield (2020E)								3.0%	
Total Return								7.6%	

Source: BofA Global Research estimates, company report, Bloomberg

Price objective basis & risk

NiSource Inc (NI)

Our $31 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2022 forward P/E multiples of 18.3x for gas utilities and 19.7x for electric utilities with an inline mult for gas utilities and a 2.0x premium for the electric utility's strong growth rates and earned ROEs. We note that electric / gas peer P/E multiples are grossed up by 5% / 5.1% to reflect capital appreciation across the sector. We strip value from Columbia Gas of MA given the pending sale to close in 3Q20. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
RSTR				
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith
	Pattern Energy Group	PEGI	PEGI US	Julien Dumoulin-Smith

***iQ**method*[SM] **Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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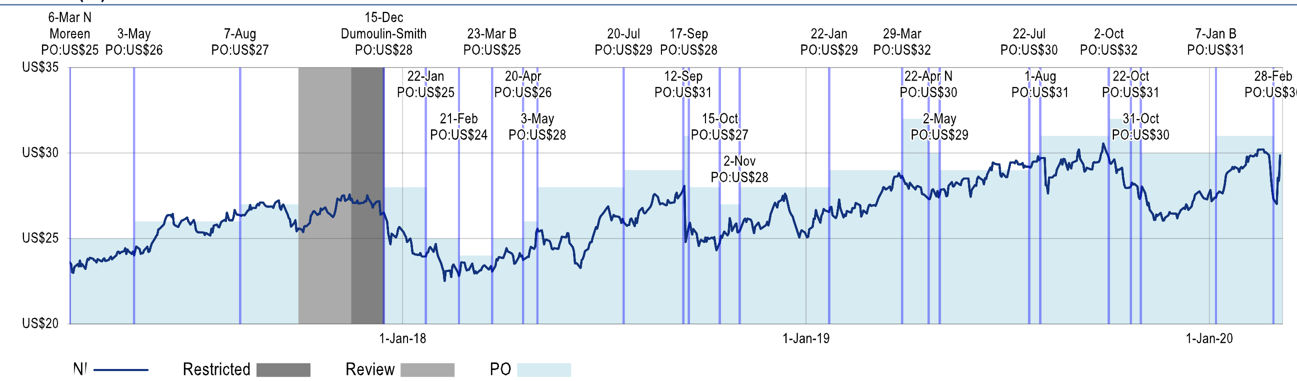
NiSource Inc (NI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	88	54.32%	Buy	72	81.82%
Hold	36	22.22%	Hold	21	58.33%
Sell	38	23.46%	Sell	21	55.26%

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	63	44.06%	Buy	44	69.84%
Hold	43	30.07%	Hold	31	72.09%
Sell	37	25.87%	Sell	27	72.97%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1560	50.49%	Buy	991	63.53%
Hold	717	23.20%	Hold	461	64.30%
Sell	813	26.31%	Sell	415	51.05%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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Goldman Sachs | Equity Research

2 March 2020 | 6:50AM EST

NiSource Inc. (NI): Remain Buy on attractive valuation

We remain Buy-rated on NiSource (NI) as we continue to view the current ~2x P/2021E discount versus smid-cap peers as unwarranted and see multiple expansion potential. NI currently trades at 19.1x on 2021E compared to smid-cap peers at 20.7x, despite a robust regulated investment pipeline that supports 7% operating income CAGR through 2022 and 5-7% EPS CAGR on a normalized basis. Beyond 2022, we see higher growth potential at NIPSCO Electric from potential ownership of incremental renewable generation similar to the current wind JV on Rosewater/Indiana Crossroad (400 MW - expected in rate base in 2023). Management expects the results from the recent Request for Proposal (RFP) later this year.

Columbus Gas of Massachusetts (CMA) announced sale could change financing needs. Management announced that the $1.1bn proposed CMA sale to Eversource (ES, Neutral) would eliminate the need for the previously-announced $500-$700mn of bulk equity in 2020, although they look to continue issuing $200-$300mn in annual ATM/DRIP equity. Our model continues to embed CMA's utility operations coupled with $1bn of equity in 2020 (including $300mn of ATM), resulting in 14.3%/14.6% FFO/debt in 2021/2022, respectively, above the Moody's threshold of 14%. We do not take a view on the likelihood of a successful completion of the sale.

We adjust our 2020-2021 EPS estimates to $1.36/$1.43 from $1.41/$1.48 and initiate 2022 estimate of $1.51. This reflects several changes to our model, including 1) 4Q2019/2019 actuals, 2) updates to trackers/base rate increases, 3) updated capital spending plans and 4) increase in O&M expense assumption to reflect some shared costs associated with the MA gas utility; our estimates reflect 1.5% O&M CAGR from 2020-2022. Finally, we now incorporate the announced $53mn federal penalty (assumed in 3Q2020) associated with the Merrimack incident, in addition to the $50mn penalty (we currently assume in 4Q2020 but pending investigation conclusion) by the Massachusetts utility commission.

Our $31 12-month target price (from $32 prior) is derived from an electric/gas blended 21.9x P/E multiple on 2021E EPS, which reflects a 16% total return versus 7% for Regulated Utilities. Key risks include (1) legal and regulatory risks, (2) system damages related to the recent MA natural gas incident, (3) higher than expected

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O&M, (4) electricity demand and customer growth, and (5) financing.

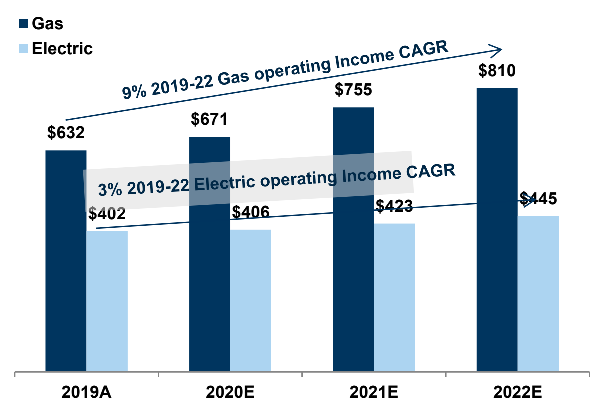
NI in Charts

Exhibit 1: We lower our 2020-2021 estimates modestly and initiate 2022 estimate, reflecting 4.7% CAGR from 2019A-2022E...
EPS New vs Old vs Consensus

	EPS Estimates			% Difference	
	GS-New	GS-Old	Cons.	vs. Old	vs. Cons.
2019A	$1.32	$1.29	$1.31	2%	0%
2020E	$1.36	$1.41	$1.38	(3%)	(1%)
2021E	$1.43	$1.48	$1.45	(3%)	(1%)
2022E	$1.51	N/A	$1.53	NA	(1%)
CAGR	4.7%	N/A	5.3%	N/A	(1%)

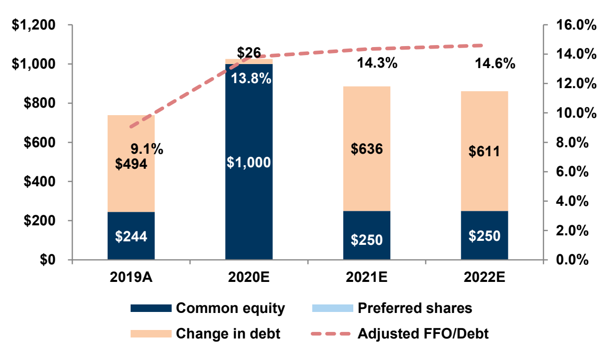
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 2: ...with strong growth driven by the regulated gas businesses
Operating income by segment ($mn)



Source: Goldman Sachs Global Investment Research

Exhibit 3: Our financing assumptions still embed bulk equity in 2020, given our model incorporates the MA utility in estimates
Financing by type ($mn) and adjusted FFO/debt



2020 FFO/debt assumes certain one-time adjustments related to the Merrimack incident

Source: Goldman Sachs Global Investment Research

Exhibit 4: We see 16% total return upside and see the current ~2x relative P/2021E discount as unwarranted
NI blended P/E valuation

NI valuation			
Deriving Blended Multiple			
	Gas	Electric	Total
2021 EBIT	754.8	423.4	1,178.3
% 2021 EBIT	64.1%	35.9%	
Target Multiple	23.00x	20.00x	21.9x
Price Target			
2021 EPS			$1.43
Target Multiple			21.9x
Price Target			**$31**
Total Return			**16%**
Regulated Utilities Total Return			**7%**

Source: Goldman Sachs Global Investment Research

NI	12m Price Target: **$31.00**	Price: **$27.02**	Upside: **14.7%**

Buy

Market cap: $8.8bn
Enterprise value: $19.3bn
3m ADTV: $96.9mn
United States
America-Regulated Utilities
M&A Rank: 3

GS Forecast

	12/19	12/20E	12/21E	12/22E
Revenue ($ mn) New	**5,208.9**	**5,385.6**	**5,658.8**	**5,878.7**
Revenue ($ mn) Old	5,319.3	5,485.6	5,657.6	–
EBITDA ($ mn)	1,608.1	1,878.2	2,038.9	2,182.5
EBIT ($ mn)	890.7	1,114.0	1,212.6	1,294.0
EPS ($) New	**1.32**	**1.36**	**1.43**	**1.51**
EPS ($) Old	1.29	1.41	1.48	–
P/E (X)	21.3	19.8	18.9	17.9
Dividend yield (%)	2.9	3.1	3.3	3.5
Net debt/EBITDA (X)	5.9	5.1	5.0	5.0

	12/19	3/20E	6/20E	9/20E
EPS ($)	0.45	0.88	0.06	0.01

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 28 Feb 2020 close.

Disclosure Appendix

Reg AC

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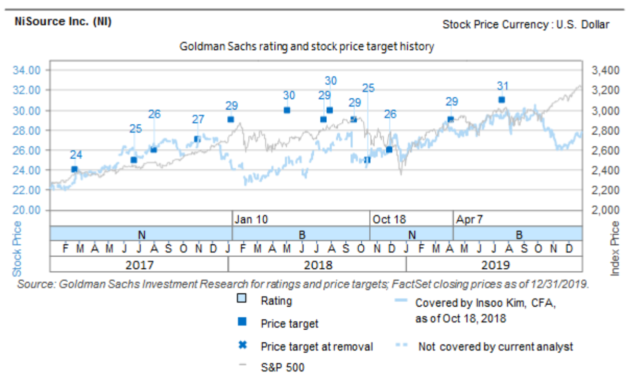

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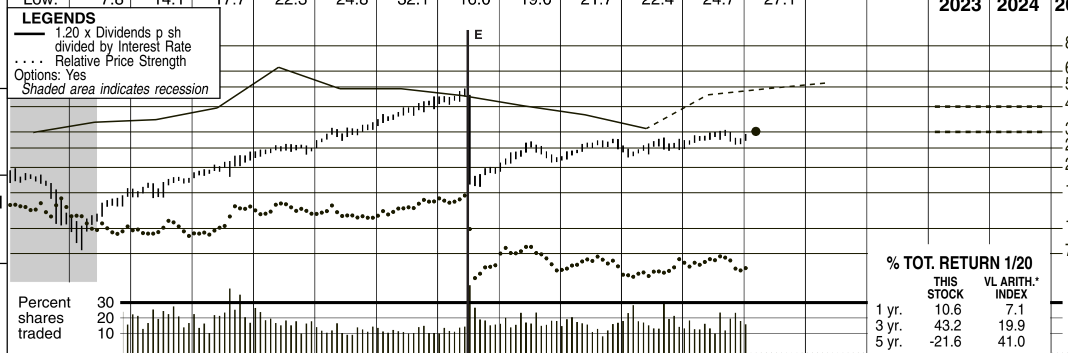
NISOURCE INC. NYSE-NI

RECENT PRICE 30.21 | P/E RATIO 21.1 (Trailing: 24.2 / Median: 20.0) | RELATIVE P/E RATIO 1.17 | DIV'D YLD 2.8% | VALUE LINE

TIMELINESS 3 Lowered 4/5/19
SAFETY 2 Raised 11/29/19
TECHNICAL 4 Lowered 1/31/20
BETA .55 (1.00 = Market)

High:	15.8	18.0	24.0	26.2	33.5	44.9	49.2	26.9	27.8	28.1	30.7	30.5	
Low:	7.8	14.1	17.7	22.3	24.8	32.1	16.0	19.0	21.7	22.4	24.7	27.1	

Target Price Range
2023 | 2024 | 2025



18-Month Target Price Range
Low-High Midpoint (% to Mid)
$24-$34 $29 (-5%)

2023-25 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+30%)	10%
Low	30	(Nil)	3%

Institutional Decisions

	1Q2019	2Q2019	3Q2019
to Buy	236	227	228
to Sell	184	187	192
Hld's(000)	350564	346571	343395

% TOT. RETURN 1/20

	THIS STOCK	VL ARITH.* INDEX
1 yr.	10.6	7.1
3 yr.	43.2	19.9
5 yr.	-21.6	41.0

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	© VALUE LINE PUB. LLC	23-25
24.63	28.97	27.37	28.96	32.36	24.02	22.99	21.33	16.31	18.04	20.47	14.58	13.90	14.46	13.74	*14.15*	*14.85*	*15.40*	Revenues per sh	*19.95*
3.47	3.14	3.18	3.20	3.32	2.96	3.19	2.98	3.13	3.41	3.60	2.27	2.71	2.07	2.82	*2.80*	*3.00*	*3.20*	"Cash Flow" per sh	*4.15*
1.62	1.08	1.14	1.14	1.34	.84	1.06	1.05	1.37	1.57	1.67	.63	1.00	.39	1.30	*1.25*	*1.40*	*1.55*	Earnings per sh A	*2.25*
.92	.92	.92	.92	.92	.92	.92	.92	.94	.98	1.02	.83	.64	.70	.78	.80	*.86*	*.92*	Div'd Decl'd per sh B ■	*1.16*
1.91	2.17	2.33	2.88	3.54	2.81	2.88	3.99	4.83	5.99	6.42	4.26	4.57	5.03	4.88	*4.60*	*4.60*	*4.60*	Cap'l Spending per sh	*4.85*
17.69	18.09	18.32	18.52	17.24	17.54	17.63	17.71	17.90	18.77	19.54	12.04	12.60	12.82	13.08	*13.65*	*13.90*	*14.50*	Book Value per sh C	*15.35*
270.63	272.62	273.65	274.18	274.26	276.79	279.30	282.18	310.28	313.68	316.04	319.11	323.16	337.02	372.36	*374.00*	*370.00*	*370.00*	Common Shs Outst'g D	*350.00*
13.0	21.4	19.2	18.8	12.1	14.3	15.3	19.4	17.9	18.9	22.7	37.3	23.2	NMF	19.3	*22.3*	*Bold figures are*		Avg Ann'l P/E Ratio	*16.0*
.69	1.14	1.04	1.00	.73	.95	.97	1.22	1.14	1.06	1.19	1.88	1.22	NMF	1.04	*1.25*	*Value Line*		Relative P/E Ratio	*.90*
4.4%	4.0%	4.2%	4.3%	5.7%	7.6%	5.7%	4.5%	3.8%	3.3%	2.7%	3.5%	2.8%	2.8%	3.1%	2.9%	*estimates*		Avg Ann'l Div'd Yield	*4.2%*
						6422.0	6019.1	5061.2	5657.3	6470.6	4651.8	4492.5	4874.6	5114.5	*5300*	*5500*	*5700*	Revenues ($mill)	*6985*
						294.6	303.8	410.6	490.9	530.7	198.6	328.1	128.6	463.3	*465*	*520*	*575*	Net Profit ($mill)	*785*
						32.4%	35.0%	34.4%	34.8%	36.9%	41.6%	35.7%	71.0%	19.7%	*21.0%*	*21.0%*	*21.0%*	Income Tax Rate	*21.0%*
						--	--	--	--	--	--	--	--	2.9%	*2.0%*	*2.0%*	*2.0%*	AFUDC % to Net Profit	*2.0%*
						54.7%	55.6%	55.1%	56.3%	56.9%	60.7%	59.8%	63.5%	55.3%	*55.0%*	*54.0%*	*55.0%*	Long-Term Debt Ratio	*55.0%*
						45.3%	44.4%	44.9%	43.7%	43.1%	39.3%	40.2%	36.5%	37.9%	*45.0%*	*46.0%*	*45.0%*	Common Equity Ratio	*45.0%*
						10859	11264	12373	13480	14331	9792.0	10129	11832	12856	*14180*	*14460*	*14715*	Total Capital ($mill)	*15040*
						11097	11800	12916	14365	16017	12112	13068	14360	15543	*16000*	*16500*	*16750*	Net Plant ($mill)	*17250*
						4.5%	4.4%	5.0%	5.2%	5.3%	4.0%	5.0%	2.6%	5.0%	*3.5%*	*3.5%*	*4.0%*	Return on Total Cap'l	*5.0%*
						6.0%	6.1%	7.4%	8.3%	8.6%	5.2%	8.1%	3.0%	8.1%	*8.0%*	*8.5%*	*9.0%*	Return on Shr. Equity	*12.5%*
						6.0%	6.1%	7.4%	8.3%	8.6%	5.2%	8.1%	3.0%	9.3%	*8.0%*	*8.5%*	*9.0%*	Return on Com Equity	*12.5%*
						.8%	.9%	2.5%	3.1%	3.4%	NMF	3.0%	NMF	3.7%	*2.5%*	*3.5%*	*3.5%*	Retained to Com Eq	*5.5%*
						87%	85%	67%	62%	61%	NMF	63%	NMF	61%	*70%*	*64%*	*64%*	All Div'ds to Net Prof	*55%*

CAPITAL STRUCTURE as of 9/30/19
Total Debt $9479.8 mill. **Due in 5 Yrs** $2100 mill.
LT Debt $7853.8 mill. **LT Interest** $370 mill.
(Interest cov. earned: 2.2x) (57% of Cap'l)

Leases, Uncapitalized Annual rentals $11.1 mill.
Pension Assets-12/18 $2.1 bill. **Oblig.** $2.0 bill.

Pfd Stock $880 mill. **Pfd Div'd** $28.5 mill.

Common Stock 373,542,659 shs.
as of 10/22/19
MARKET CAP: $11.3 billion (Large Cap)

CURRENT POSITION ($MILL.)	2017	2018	9/30/19
Cash Assets	29.0	112.8	28.0
Other	1734.3	1942.6	1350.3
Current Assets	1763.3	2055.4	1378.3
Accts Payable	625.6	883.8	494.9
Debt Due	1490.0	2027.2	1626.0
Other	1062.8	1125.8	1218.8
Current Liab.	3178.4	4036.8	3339.7
Fix. Chg. Cov.	259%	246%	255%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '16-'18 to '23-'25
Revenues	-7.0%	-5.5%	6.0%
"Cash Flow"	-2.5%	-4.5%	8.5%
Earnings	-3.0%	-7.5%	2.5%
Dividends	-2.5%	-5.5%	7.5%
Book Value	-3.5%	-6.5%	4.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2017	1598.6	990.7	917.0	1368.3	4874.6
2018	1750.8	1007.0	895.0	1461.7	5114.5
2019	1869.8	1010.4	931.5	*1488.3*	*5300*
2020	*1900*	*1100*	*1000*	*1500*	*5500*
2021	*1950*	*1150*	*1050*	*1550*	*5700*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2017	.65	d.14	.04	d.16	.39
2018	.77	.07	.10	.38	1.30
2019	.82	.05	--	*.38*	*1.25*
2020	*.85*	*.10*	*.10*	*.35*	*1.40*
2021	*.89*	*.13*	*.14*	*.39*	*1.55*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2016	.155	.155	.165	.165	.64
2017	.175	.175	.175	.175	.70
2018	.195	.195	.195	.195	.78
2019	.200	.200	.200	.200	.80
2020	.21				

BUSINESS: NiSource Inc. is a holding company for Northern Indiana Public Service Company (NIPSCO), which supplies electricity and gas to the northern third of Indiana. Customers: 472,000 electric in Indiana, 3.5 million gas in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland, Massachusetts through its Columbia subsidiaries. Revenue breakdown, 2018: electrical, 33%; gas, 67%; other, less than 1%. Generating sources, 2018: coal, 69.4%; purchased & other, 30.6%. 2018 reported depreciation rates: 2.9% electric, 2.2% gas. Has 8,087 employees. Chairman: Richard L. Thompson. President & Chief Executive Officer: Joseph Hamrock. Incorporated: Indiana. Address: 801 East 86th Ave., Merrillville, Indiana 46410. Tel.: 877-647-5990. Internet: www.nisource.com.

Since our November review, shares of NiSource have risen nicely. Over that time frame, the equity's price advanced more than 16%. We think this recovery reflected investors taking advantage of the near-term weakness in the stock's price.

That said, the public utilities holding company will probably register mixed financial results for 2019. *Note: NiSource was expected to release its fourth-quarter and year-end financials shortly after this report went to press.* On the plus side, solid contributions from the Gas Distribution, Corporate, and Electric operations likely equated to a mid-single-digit revenue gain last year. However, cost overruns, margin compression, and stock issuances probably resulted in a roughly 4% downturn in share net, to $1.25.

We continue to look for earnings to rebound this year. NiSource appears poised to post a roughly 4% rise in revenues in 2020, to $5.5 billion. The primary driver here should be a large chunk of capital expenditures slated to come on line. The company has multiple wind projects and joint ventures in the works in Indiana. Those growth initiatives represent about $1.75 billion in investments. At the same time, once approved, the Maryland base-rate case should add $3.7 million to the top line. Another base-rate case has been filed for NIPSCO electricity, and should help that unit generate about 10% on recent capital improvement projects. These factors may well drive earnings 12% higher, to $1.40 a share. Finally, we have introduced our 2021 top- and bottom-line estimates at $5.7 billion and $1.55 a share, respectively.

The balance sheet is in decent shape. At the end of the third quarter, the last period for which financial information was available, NI's cash reserves sat at $28 million and the long-term debt load represented 57% of total capital.

On balance, these shares do not stand out at this juncture. The recent uptick in NI's quotation places it just inside our Target Price Range, leaving the stock with below-average capital appreciation potential for the pull to 2023-2025. Meanwhile, our Timeliness Ranking System suggests this equity will just mirror the broader market averages in the coming year.

Bryan J. Fong *February 28, 2020*

(A) Dil. EPS. Excl. nonrec. gains (losses): '05, (4¢); gains (losses) on disc. ops.: '05, 10¢; '06, (11¢); '07, 3¢; '08, ($1.14); '15, (30¢); '18, ($1.48). Next egs. report due late May. Qtl'y egs. may not sum to total due to rounding.
(B) Div'ds historically paid in mid-Feb., May, Aug., Nov. ■ Div'd reinv. avail.
(C) Incl. intang in '18: $1911.4 million, $5.13/sh.
(D) In mill.
(E) Spun off Columbia Pipeline Group (7/15)

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	25
Earnings Predictability	35

February 19, 2020 | 15:15 ET | 16:20 ET~

NiSource

NI-NYSE	Rating	Price: Feb-14	Target	Total Rtn
	Outperform	$30.21	$32.00	9%

Initiating Coverage at Outperform and $32 Target; Gearing Up for March Madness

Bottom Line: We are initiating coverage of NiSource Inc. (ticker: NI) with an Outperform rating and a target price of $32 per share. Our five-year forecast (2019-23) supports consolidated EPS growth in line with the midpoint of the company's current 5-7% EPS CAGR, but we think this could be biased to the upside. Our estimates are 2020 — $1.40; 2021 — $1.48; 2022 — $1.56; and 2023 — $1.65.

Key Points

NiSource's mid-2015 spin-off of its midstream unit returned NiSource to a pure-play utility story that is two-thirds natural gas distribution and one-third integrated electric utility (by rate base). For the next three years, NI outperformed its utility peers by more than 25% given its premium asset mix and lower-risk growth prospects. Unfortunately, in September 2018 the over-pressurization of distribution lines at its Massachusetts subsidiary and the resulting explosion and fire damage created what has now been a 15-month overhang on the stock.

Concerns over the company's liability to the incident and the associated regulatory uncertainty were compounded by further operational issues in 2019 as well as balance sheet concerns. This has left NI shares trading at a discount not only to the electric group (~2%) but also to the traditionally higher-multiple gas LDC group (~4%). We believe this discount is now unwarranted, and our $32 target price suggests a 9% total return potential in the name. Given clarifying regulatory orders in Massachusetts and Indiana in December, we see a light at the end of this tunnel over the next several months that should enable the stock to move higher.

Our current forecast (2019-23) has consolidated EPS growing at just under 6.0% and only partially reflects the upside in renewables spending given this contribution is late in 2023. With only a 61% payout, our DPS estimate is growing in line with EPS and supporting the slightly higher-than-average 2.8% current yield. We believe that with very visible above-average EPS and DPS growth, as investors gain clarity across the regulatory, financing, and growth sides of the story, the company can easily re-rate back to the 5-10% premium it previously carried.

For further details, please see our industry report.

Please refer to pages 8 to 11 for Important Disclosures, including Analyst's Certification.

BMO Capital Markets — IN Depth

Utilities, Power & Renewables

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Legal Entity: BMO Capital Markets Corp.

Company Data			in $
Dividend	$0.84	Shares O/S (mm)	373.5
Yield	2.8%	Market Cap (mm)	$11,285
P/BV	1.8x	Net Debt (mm)	$9,498

BMO Estimates			in $
(FY- Dec .)	2018A	2019E	2020E
EPS	$1.30	$1.31	$1.40
DPS	$0.78	$0.80	$0.85
EBIT	$949	$1,025	$1,134
EBITDA	1,549	1,656	1,793

Consensus Estimates	2018A	2019E	2020E
EPS		$1.30	$1.38

Valuation	2018A	2019E	2020E
P/E	23.3x	23.1x	21.5x
Div. Yield (%)	2.6%	2.6%	2.8%

QTR. EPS	Q1	Q2	Q3	Q4
2018A	$0.77	$0.07	$0.10	$0.38
2019E	$0.82a	$0.05a	$0.00a	$0.44
2020E	$0.85	$0.06	$0.05	$0.43

Our Thesis

NI shares are trading at a discount not only to the electric group but also to the traditionally higher-multiple gas LDC group. We believe this discount is now unwarranted, and our $32 target suggests a 9% total return. Given clarifying regulatory orders in MA and IN in December, we see a light at the end of this tunnel over the next several months that should enable the stock to move higher.

NiSource - Block Summary Model

Income Statement	2018A	2019E	2020E
Electric Operations	369	398	434
Gas Distribution	565	610	683
Parent & Other	(3)	(1)	(1)
Consolidated EBIT	949	1,025	1,134
Depreciation & Amortization	600	631	658
EBITDA	1,549	1,656	1,793
Interest Expense	362	403	430
Income Tax	118	122	140
Income from continuing operations	463	495	558
Weighted Average Shares Outstanding	357	378	398
Diluted Operating EPS	$1.30	$1.31	$1.40
Dividends per Share	$0.78	$0.80	$0.85
Cash Flow Statement	**2018A**	**2019E**	**2020E**
Operating Cash Flow	540	1,230	1,328
Investing Cash Flow	(1,926)	(1,709)	(1,739)
Financing Cash Flow	1,469	477	463
Net Change in Cash Flow	83	(2)	52
EOP Cash on Balance Sheet	121	119	171
Common stock (net)	844	310	1,040
Net debt issued/(repaid)	75	484	375
Dividends paid	(273)	(302)	(337)
Balance Sheet	**2018A**	**2019E**	**2020E**
Common Equity	4,871	5,489	6,880
Preferred Equity	880	880	880
Total Debt	9,133	9,617	9,992
Enterprise Value	$18,451	$20,172	$22,075
Common equity %	32.7%	34.3%	38.8%
Preferred equity %	5.9%	5.5%	5.0%
Total Debt %	61.4%	60.2%	56.3%
Book Value per Share	$16.13	$16.85	$19.50

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

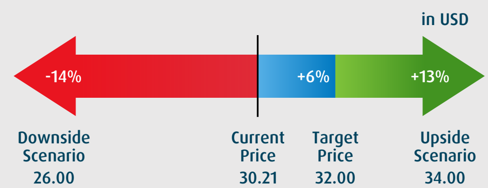
Our $32 target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2022E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook. For NI, we have removed EPS for its MA gas business from our P/E valuation and instead include only the asset value (1x equity rate base) in our SOTP framework.

Upside Scenario 34.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile.

Downside Scenario 26.00

Our downside scenario reflects the macro risk of a change in the interest rate environment. The retrenchment of the US 10-year Treasury back to the 2.5% level could compress utility multiples to the 17.0x area.



Key Catalysts

Initial indicative pricing in its second renewable RFP in IN in the February/March time frame. Completing the company's stated equity issuance of $500-700mm in 2020. Potentially, capital spending and growth-rate update in 2H20 given clarity in the aforementioned RFP and recent rate orders in MA and IN.

Company Description

NiSource, Inc. is a regulated utility holding company, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states. Through its Columbia Gas and NIPSCO brands, it provides natural gas, electricity, and other products and services. The company was founded in 1987 and is headquartered in Merrillville, Indiana.

NI-NYSE Research

Glossary

Company Models

BMO Capital Markets

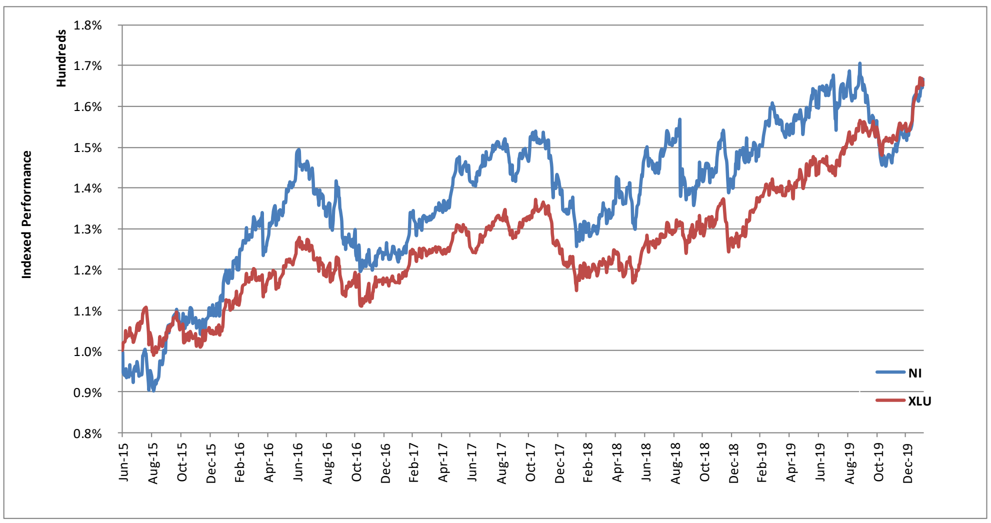
Initiating Coverage of NI at Outperform and $32 Target; Gearing Up for March Madness

We are initiating coverage of NiSource Inc. (ticker: NI) with an Outperform rating and a target price of $32 per share. Our five-year forecast (2019-23) supports consolidated EPS growth in line with the midpoint of the company's current 5-7% EPS CAGR, but we think this could be biased to the upside. Our estimates are 2020 — $1.40; 2021 — $1.48; 2022 — $1.56; and 2023 — $1.65.

Investment Thesis: Above-Average Growth at a Discount Plus Catalysts

NiSource's mid-2015 spin-off of its midstream unit, Columbia Pipeline Group, returned NiSource to a pure-play utility story that is two-thirds natural gas distribution and one-third integrated electric utility (by rate base). For the next three years, post-split, NI outperformed its utility peers by more than 25% given its premium asset mix and lower-risk growth prospects (Exhibit 1).

Exhibit 1: NiSource Relative Price Performance



Source: BMO Capital Markets Research, FactSet

Unfortunately, in September 2018 the over-pressurization of distribution lines at its Massachussets subsidary and the resulting explosion and fire damage created what has now been a 15-month overhang on the stock. Concerns over the company's liablity to the incident and the associated regulatory uncertainty were compounded by further operational issues in 2019 as well as balance sheet concerns. This has left NI shares trading at a discount not only to the electric group (2-3%) but also to the traditionally higher-multiple gas LDC group (~4%). We believe this discount is now unwarranted, and our $32 target price suggests a 9% total return in the name. Given clarifying regulatory orders in Massachusetts and Indiana in December, we see a light at the end of this tunnel over the next several months that should enable the stock to move higher.

The IURC adoption of two settlements in December removes rate case risk in the name (ROE declined only 25 bps) and adds necessary clarity to system capacity needs (via the adoption of Rate 831), which will be important to the company's coal replacement strategy. Likewise, we believe that in initially defining only three to four discrete incidents, the December Massachusetts Department of Public Utilities (DPU) order helped remove some of the downside tail risk to the assessment of penalties in the over-pressurization investigation. This clarity, along with the refreshed financials that come with 4Q19

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reporting, could allow the company to come to market with its widely anticipated $500-700mm of equity financing (4-6% of S/O) sooner rather than later, removing one of the remaining overhangs in the name.

At the same time, we could also get initial indicative pricing in NIPSCO's second renewable RFP that is being conducted to help replace the forecast shutdowns of its remaining coal plants by the end of 2028. We believe there is a high probability that the competitive renewables pricing environment will favor the execution of another build-own-transfer agreement for NIPSCO, which would add clarity around the company's growth into 2024. This should put management in a good position to potentially address its growth guidance beyond its current 2020-22 timeframe later in the year. With an already healthy inventory of gas infrastructure projects, the potential addition of another $1,100-1,200mm of renewables spending should extend, if not be additive to, the company's current 5-7% growth rate.

Our current forecast (2019-23) has consolidated EPS growing at just under 6.0% and only partially reflects the upside in renewables spending given that its contribution is late in 2023. With only a 61% payout, our DPS is growing in line with EPS and supporting the slightly higher-than-average 2.8% current yield. We believe that with very visible above-average EPS and DPS growth, as investors gain clarity across the regulatory, financing, and growth sides of the story, the company can easily re-rate back to the 5-10% premium it previously carried.

We understand there are a lot of questions regarding the multiple compression witnessed in the gas LDC space and this could clearly pose a risk to our re-rating thesis. That said, with NI trading at discount to the gas LDC average on 2021E and at worst closer to a flat multiple on 2022E, we think it could be more of a headwind versus a downside risk. Moreover, we think the catalysts for the name make it more of an idiosyncratic call, and the addition of the renewables growth and shrinking carbon footprint make it differentiated from its gas LDC peers.

Decarbonizing Indiana — Gearing Up for March Madness

NIPSCO's October 2018 integrated resource plan (IRP) includes plans to retire nearly 80% of its coal-fired generation by 2023 and the other 20% by the end of 2028. The 1,625MW Schahfer plant is scheduled to be decommissioned later in 2023 and its 469MW Michigan City plant in 2028. Its replacement options have focused on cleaner and lower-cost resources beginning with wind. The company's initial RFP resulted in two build-own-transfer JV agreements with EDP Renewables, including the 100MW Rosewater Wind project and the 302MW Crossroads Wind project. NIPSCO received approval for Rosewater in August 2019 and requested approval for Crossroads in February 2020.

The company launched its second RFP in October 2019, adding solar and storage to mix with the company seeking bids for 1,300MW of solar and another 300MW of wind resource. The bids are expected to be available in the February/March timeframe. Given the scale of this RFP and the recent precedent for aggressive IRRs, we expect the pricing to be a compelling replacement for retiring coal resources. Although the EPS impact of these assets will not be a large contributor to our current forecast given a back-half 2023 assumption, we do believe there is high probability that NiSource ultimately will own 50% of the capacity under a build-own-transfer model. In total we see a $1,100-1,200mm capital opportunity for NIPSCO.

We believe the IURC's December order approving the settlement with industrial customers on the application of Rate 831 is important to the company's system capacity planning, including its coal replacement strategy. With an already deep inventory of gas infrastructure projects, this incremental line of sight on the electric side enhances the story and could put management in a position to extend its long-term growth rate beyond its 2022. This would put it more on par with the higher-quality/higher-multiple utilities in the sector. **The upcoming RFP pricing is therefore an important catalyst for the company** as it could both extend clarity for investors and "clean up" the overall profile of the company,

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which will become be a completely "non-coal" gas and electric utility. At its current 2-3% discount to the utility group, a 12-13% discount to high-quality electric comps, and even a 2-4% discount to the gas LDC average, we think the risk/return in the name is very favorable, especially with its known catalysts.

Gaining Clarity on Greater Lawrence

In September 2018, excessive pressure in the natural gas lines owned by NiSource's subsidiary, Columbia Gas of Massachusetts, caused a series of explosions in 40 individual homes, 80 individual fires, and one fatality. Residents were asked to evacuate as service to more than 8,000 homes, as well as some electric service to mitigate further ignition risk, was shut off. Governor Baker declared a state of emergency and appointed local utility Eversource to oversee management and restoration efforts as the National Transpiration Safety Board (NTSB) began its root-cause investigation and later the Massachusetts DPU launched its own investigation into the accident.

The ultimate costs to NI of the incident rose steadily throughout the first six to eight months after the accident as liabilities related to property damage, personal injury, infrastructure damage, and mutual aid payments (other utilities) were tallied. As of 9/30/19, NiSource estimates the event costs to be in the $1,680-1,720mm range (see Exhibit 2) before any fines or penalties. To this latter point, the Massachusetts DPU investigation is still ongoing, although in December 2019 the DPU did add some procedural clarity to the proceeding by breaking the incident into distinct events that could help frame potential penalties:

- Event 1. 9/13/18 incident and Bay State's response
- Event 2: Phase 1 restoration (9/21/18–12/16/18)
- Event 3: Improperly abandon services (Grade 1 gas leak on 9/27/19)

The DPU also left the door open to a fourth event related to post-12/16/18 restoration and repair work, as well as additional events pending further investigation. While this proceeding is still ongoing, the narrowing of the "events" is incrementally positive as it allows a more educated estimate of what the penalties liability could total. Management's current view is that precedent suggests a maximum $22mm cost cap with the incident being treated as one event or one series of events. While the final outcome may not be known until 4Q20, we believe we have captured the magnitude of any final assessment in our forecast and valuation given the following: 1) we assume the high end of the company's $500-700mm equity issuance in 2020, which is partially done in support of the gap between claims and insurance coverage; and 2) we assume a rate-base-only valuation for the Massachusetts assets based on our view that the company will have a hard time selling the property or investing any meaningful amount of growth capital given the political current environment. In sum we ascribe ~$1/share of value to these assets.

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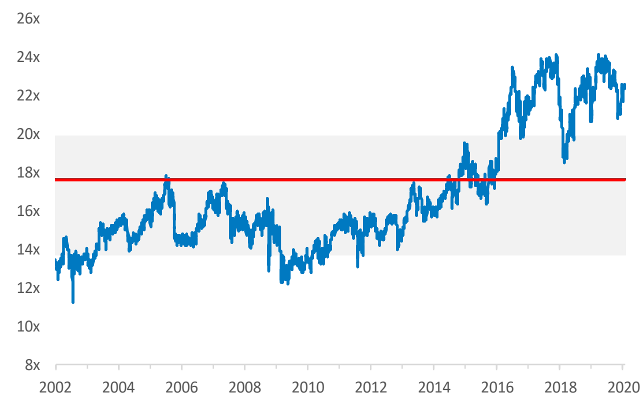
Exhibit 2: Latest Cost Estimates for Greater Lawrence

Greater Lawrence Event Costs	Range	
Pipeline Replacement and Restoration	255	260
Third-Party Claims	995	1,020
Other Related Expenses	430	440
Total Cost	**1,680**	**1,720**
Insurance Policy Coverage	**Policy**	**Claims***
Casualty	800	670
Property	300	TBD**
Total	**1,100**	**670**
Estimated Fines & Penalties*		
* As of 9/30/19		
** Proof of loss has been filed for the full cost of the pipeline replacement		
*** Subject to MA DPU final assessment		

Source: BMO Capital Markets, Company Data

Exhibit 3: Gas LDC Forward P/E



Source: BMO Capital Markets, Company Data

Gas Pains

With coal all but dead, the fight against climate change has turned its sights squarely on natural gas. In June 2019, Berkeley, California, became the first city in the U.S. to ban natural gas in new construction projects starting in 2020. Similar movements have occurred in Massachusetts (due in part to NiSource's Greater Lawrence event) and recently in New Jersey where the issue was discussed in the state's Energy Master Plan. As the drum beats louder, investors are wondering if this has contributed to multiple compression in the pure-play gas LDC stocks (see Exhibit 3). While there could be many factors, as discussed in our sector initiation report, we see natural gas LDC capital expenditures geared primarily toward safety and reliability, including the replacement of miles and miles of sometimes century-old cast iron and, yes, even wooden distribution lines. Most utilities have project inventories that could take one to two decades to complete with labor generally the largest governor. So, while we do not worry about much of this capital being deployed, but we do worry about investor aversion to these business lines (thematically). Regarding our Outperform rating, we believe the company's current discount to both electric and gas utilities, solid catalysts, and decarbonization profile improvement give investors a sufficient margin of safety.

Valuation

Our $32 target price is derived from our sum-of-the-parts valuation consistent with our valuation of the companies in our coverage universe in the diversified utility segment. Our valuation work is highlighted in Exhibit 4. Our base case valuation is derived by our sum-of-the-parts valuation. Our valuation utilizes a 19.9x base P/E multiple to our 2022 earnings estimate from NiSource's electric utility operations. We apply a modestly lower 19.7x base multiple to our 2022 earnings per share estimate from NiSource's gas distribution utilities, which does not include ~$0.10/share for its Massachusetts gas distribution operations. To reflect this in the valuation we use a rate base of $990mm, apply a 47% equity layer, and use a 1x multiple to generate the equity value associated with this subsidiary, which is then divided by 2022E shares to yield a $1/share value to NiSource.

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Exhibit 4: NiSource SOTP Valuation

							BMO Low Case		BMO Base Case		BMO High Case	
Regulated, Corporate & Other	**Valuation Metric**	**2022E EPS**	**Sector Comp**	**Sector Multiple**	**Prem/ (Discount)**	**Base Multiple**	**P/E Multiple**	**Implied Value ($ MM)**	**P/E Multiple**	**Implied Value ($ MM)**	**P/E Multiple**	**Implied Value ($ MM)**
Electric Operations	EPS	$0.84	Electric	19.9x	+5%	20.9x	19.6x	$17	20.9x	$18	22.1x	$19
Gas Distribution (Less: MA EPS)	EPS	$1.09	Natural Gas	19.7x	+10%	21.7x	20.4x	$22	21.7x	$24	22.9x	$25
Coporate & Other	EPS	($0.47)	Blend	19.8x	+8%	21.3x	20.1x	($9)	21.3x	($10)	22.6x	($11)
Utility & Parent Value		**$1.46**					20.1x	**$29**	21.3x	**$31**	22.6x	**$33**
		'19 Rate Base	Equity %	Equity								
Columbia Gas of Massachusetts		$990	47%	$465		1.0x	1.0x	$1	1.0x	$1	1.0x	$1
Total NiSource Inc.								**$30**		**$32**		**$34**
Upside/(Downside)								0.7%		6.7%		12.8%
Current Yield								2.9%		2.9%		2.9%
Total Return								**3.6%**		**9.6%**		**15.7%**

Source: BMO Capital Markets Research

Model Summary and Key Assumptions

Exhibit 5: Forecast Segment EPS and ROEs

NI Model Summary	2018	2019	2020	2021	2022	2023	5-Year
EPS By Segment							
Electric Operations	$0.72	$0.74	$0.77	$0.81	$0.84	$0.87	*3.9%*
Gas Distribution	$0.99	$1.00	$1.07	$1.12	$1.19	$1.27	*5.2%*
Corporate & Other	($0.41)	($0.43)	($0.44)	($0.45)	($0.47)	($0.50)	*3.9%*
Consolidated E.P.S.	**$1.30**	**$1.31**	**$1.40**	**$1.48**	**$1.56**	**$1.65**	***4.9%***
Dividend per share	**$0.78**	**$0.80**	**$0.85**	**$0.90**	**$0.95**	**$1.01**	
Payout Ratio total	60.0%	61.1%	60.4%	60.8%	61.1%	61.3%	
Dividend Yield	3.1%	2.9%	2.9%	3.1%	3.3%	3.4%	
Valuation Metrics							
Price to Earnings	19.5x	21.3x	20.9x	19.8x	18.8x	17.8x	
Price to Book Value	1.6x	1.7x	1.5x	1.5x	1.4x	1.4x	
Funding Sources							
Cash Flow from Operations	$540	$1,230	$1,328	$1,288	$1,380	$1,453	*21.9%*
Total Debt Financings	$350	$525	$375	$500	$1,070	$1,020	
Total Equity Financings	$1,724	$310	$1,040	$335	$335	$335	
Credit Metrics							
Total Debt/Capitlization	61%	60%	56%	56%	55%	54%	
FFO/Total Debt	12%	13%	13%	12%	13%	13%	
Regulated Operations Performance - Realized ROE							
NIPSCO Electric ROE	12.8%	12.1%	12.1%	12.6%	12.8%	13.2%	
Columbia Gas of Ohio ROE	8.8%	8.4%	8.6%	8.7%	8.8%	8.9%	
Columbia Gas of Pennsylvania ROE	8.9%	8.4%	8.6%	8.7%	8.8%	8.9%	
NIPSCO Gas ROE	9.2%	8.4%	8.6%	8.7%	8.8%	8.9%	
Columbia Gas of Massachusetts ROE	9.3%	8.4%	8.6%	8.7%	8.8%	8.9%	
Columbia Gas of Virginia ROE	8.6%	8.4%	8.6%	8.7%	8.8%	8.9%	
Columbia Gas of Kentucky ROE	8.8%	8.3%	8.5%	8.6%	8.6%	8.8%	
Columbia Gas of Maryland ROE	9.3%	8.7%	8.7%	8.8%	8.8%	8.9%	

Source: BMO Capital Markets Research

Exhibit 6: Forecast Capital Expenditures and Rate Base

Key Model Assumptions	2018	2019	2020	2021	2022	2023	5-Year
Total Capital Expenditures by Segment							
Electric Operations	$499	$450	$460	$470	$480	$490	**$2,350**
Gas Distribution	$1,315	$1,250	$1,270	$1,300	$1,300	$1,310	**$6,430**
Consolidated Capital Expenditures	**$1,815**	**$1,700**	**$1,730**	**$1,770**	**$1,780**	**$1,800**	**$8,780**
YE Rate Base Estimates							
NIPSCO Electric	$4,401	$4,856	$5,315	$5,689	$5,886	$6,088	*6.7%*
Columbia Gas of Ohio	$2,800	$3,122	$3,443	$3,769	$4,085	$4,399	*9.5%*
Columbia Gas of Pennsylvania	$1,698	$1,893	$2,088	$2,286	$2,477	$2,668	*9.5%*
NIPSCO Gas	$1,497	$1,669	$1,841	$2,016	$2,185	$2,353	*9.5%*
Columbia Gas of Massachusetts	$990	$1,104	$1,218	$1,333	$1,445	$1,556	*9.5%*
Columbia Gas of Virginia	$712	$793	$875	$958	$1,038	$1,117	*9.4%*
Columbia Gas of Kentucky	$305	$339	$374	$409	$443	$477	*9.4%*
Columbia Gas of Maryland	$122	$137	$152	$166	$181	$195	*9.7%*
Total Rate Base	**$12,525**	**$13,912**	**$15,306**	**$16,626**	**$17,739**	**$18,853**	***8.5%***

Source: BMO Capital Markets Research

Risks to Our Target Price and Rating

Downside Risks

We believe that downside risks to our $32 target price and rating for NI include greater-than-expected fines from the Massachusetts DPU than we have incorporated in our model. NiSource has utility operations in seven states. This subjects it to numerous ongoing regulatory and rate matters, and an adverse outcome for the company's utility operations would cause us to reevaluate our target price and estimates.

Upside Risks

Greater-than-expected capital expenditure forecast beyond 2020. The ability for the company to sell its Massachusetts gas LDC for a price that is greater than 1x the rate base.

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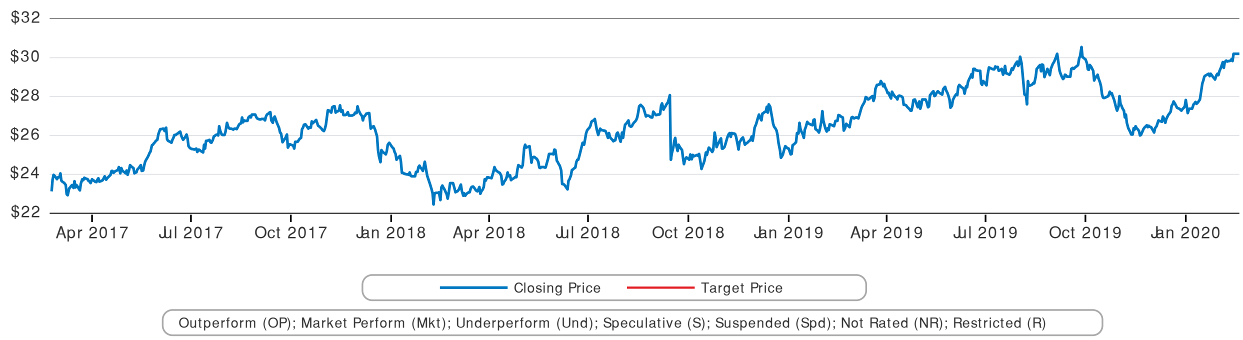
NiSource Inc Rating History as of 02/18/2020



Source: FactSet, BMO Capital Markets

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Methodology and Risks to Target Price/Valuation for NiSource Inc (NI-NYSE)

Methodology: Our $32 target price is the product of a P/E-based sum-of-the-parts (SOTP) analysis of the company's primary regulated operating companies. We utilize a regulated group-average multiple based on 2022E EPS as our initial basis for valuation and then make adjustments specific to each jurisdiction to reflect our current view of the fundamental outlook. For NI specifically, we have removed the earnings contribution of its Massachusetts gas distribution business from our P/E valuation and instead include only the asset value (1x equity rate base) in our SOTP framework.

Risks: NI's regulated profile exposes the company to business risk including but not limited to federal and state regulatory risk, federal and state political risk, environmental policy, interest rate risk, access to capital markets, construction risk, changes in customer demand trends, changes in customer affordability, extreme weather, natural disaster, and equipment failure.

Distribution of Ratings (February 18, 2020)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	44.1 %	25.8 %	53.1 %	46.7 %	54.4 %	57.7%
Hold	Market Perform	51.8 %	18.2 %	44.1 %	50.1 %	44.5 %	37.5%
Sell	Underperform	4.0 %	14.3 %	2.7 %	3.1 %	1.1 %	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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~ As of April 1, 2019.

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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;
Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;
(S) = Speculative investment;
Spd = Suspended - Coverage and rating suspended until coverage is reinstated;
NR = No Rated - No rating at this time; and
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(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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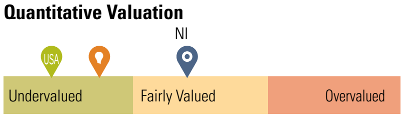
NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 03 Feb 2020 22:39, UTC	29.79 USD 03 Feb 2020	27.50 USD 30 Oct 2019 19:51, UTC	1.08	2.73 03 Feb 2020	2.82 03 Feb 2020	11.13 03 Feb 2020	Utilities - Regulated Gas	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Fairly Valued
Uncertainty	Low	Low
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.05	1.05	0.89	0.83
Price/Earnings	23.8	34.0	14.8	20.1
Forward P/E	21.2	—	13.7	13.9
Price/Cash Flow	13.0	9.8	6.5	13.1
Price/Free Cash Flow	—	75.8	13.1	19.5
Trailing Dividend Yield%	2.73	3.16	3.68	2.35

Source: Morningstar

Bulls Say

- We expect annual dividend growth to average 6% from 2020 to 2023.
- We believe the separation of the Columbia Pipeline Group from NiSource was good shareholder stewardship, as the market valued the individual businesses more highly at the time of the separation.
- New legislation has improved the regulatory framework in Indiana for NiSource's electric and natural gas distribution utilities.

Bears Say

- Industrial customers account for over half of NiSource's electric sales, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- Liabilities and fines from the September natural gas explosion in Massachusetts are likely to exceed the amounts covered by insurance and also strain regulatory relationships.
- NiSource's common shares increased 15% and it issued about $900 million of preferred shares in 2017 and 2018. The additional shares will be a headwind to EPS growth.

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Boston Gas Explosion Costs Finally Firm; Increasing NiSource's Fair Value Estimate

Business Strategy and Outlook

Charles Fishman, CFA, Eq. Analyst, 30 October 2019

NiSource completed its separation from Columbia Pipeline Group in 2015 and now derives all of its operating revenue from its regulated electric and natural gas distribution utilities. About two thirds of operating income comes from its seven natural gas distribution utilities. The remaining third comes from its electric utility business in Indiana.

NiSource's utilities have regulatory frameworks that include automatic rate tracker mechanisms for over 75% of planned capital expenditures, providing recovery of investments in less than 12 months. As a result of the favorable regulation, NiSource has stepped up its capital expenditures to almost $2 billion per year over the next five years. This is an investment level almost double the previous five years.

Over the next 20 years, NiSource plans to invest about $30 billion in infrastructure improvements. Over 50% of these investments are modernization programs for replacing steel and cast-iron pipe with plastic at its natural gas distribution utilities. Almost all of these investments receive rate tracker treatment. This allows NiSource to earn returns on these investments near allowed returns and consistently above its cost of capital.

In September 2018, a natural gas explosion killed one person north of Boston on NiSource's Columbia Gas of Massachusetts system. Although the incident was caused by a contractor, the National Transportation Safety Board concluded at a September 2019 hearing that the ultimate responsibility for the incident rests with NiSource. Insurance should cover a significant portion of the costs, but the event was a public-relations nightmare and did have a negative effect on 2018 and 2019 earnings. Still, we expect annual earnings growth to be back to 6% by 2020.

NiSource cut its dividend in 2015 to $0.62 per share annualized after the separation from CPG. The company increased its dividend by 9.4% in 2017 and 11.4% in 2018. However, in part due to the Boston tragedy, dividend growth was only 2.6% in 2019. As earnings recover, we expect 6% annual dividend increases through 2023, at the midpoint of management's target of 5%-7%.

Analyst Note

Charles Fishman, CFA, Eq. Analyst, 30 October 2019

We are increasing our fair value estimate to $27.50 per share from $27 after narrow-moat NiSource reported break even 2019 third-quarter operating EPS, initiated 2020 earnings guidance in line with our estimate, and modestly increased the lower end of its 2020-22 capital expenditure guidance.

The financial impact from the tragic natural gas explosion north of Boston in September 2018 appears to be quantified and was one of the drivers for the $0.50 per share increase in our fair value estimate. For the first time since the tragedy, the estimate of total costs related to the event were unchanged versus last quarter. We reduced our estimate of the costs, net of insurance recovery, to $850 million from our previous estimate of $1 billion.

The increase in our capital expenditure estimate also had a positive impact on our fair value estimate. The $100 million bump in the lower end of the three-year annual capital expenditure guidance range, to $1.7 billion-$2.0 billion, increases our confidence in our estimates that were already above the midpoint of management's previous guidance. We increased our average annual capital expenditures over the next three years by approximately $30 million, to an average of $1.93 billion per year.

We have a high level of confidence that these investments will achieve returns above our 6% estimate of NiSource's weighted average cost of capital since approximately 78% are covered by rate trackers and reflected in rates in 12 months or less after the investment. This favorable regulatory framework reduces regulatory lag, improving returns on invested capital.

The third quarter is normally weak since about two thirds of NiSource's earnings are from natural gas distribution. NiSource's break even third-quarter results compare with

NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	29.79 USD	27.50 USD	1.08	2.73	2.82	11.13	Utilities - Regulated Gas	Standard
03 Feb 2020 22:39, UTC	03 Feb 2020	30 Oct 2019 19:51, UTC		03 Feb 2020	03 Feb 2020	03 Feb 2020		

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
WEC Energy Group Inc WEC	USD	31,824	7,652	19.05	28.17
CMS Energy Corp CMS	USD	19,438	6,879	17.12	28.65
Alliant Energy Corp LNT	USD	14,306	3,641	19.93	26.67

$0.10 per share in the same period last year. NiSource reaffirmed its 2019 EPS guidance range of $1.27-$1.33, and our estimate of $1.30 is unchanged.

Economic Moat

Charles Fishman, Eq. Analyst, 30 October 2019

Service territory monopolies and efficient scale advantages are the primary moat sources for NiSource's regulated utilities. State and federal regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their infrastructure. In exchange for regulated utilities' service territory monopolies, state and federal regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow NiSource's regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing.

NiSource derives roughly two thirds of its operating earnings from the regulated distribution of natural gas. For natural gas distribution service, regulators set distribution rates and the commodity price for customers purchasing natural gas from NiSource. NiSource recovers its costs for natural gas that it sells with a pass-through charge to customers. Thus, NiSource has no commodity price risk that could weaken its moat. Customers may elect to purchase natural gas from independent retail energy suppliers and use and pay for distribution services only. NiSource exited the no-moat retail energy supply business in 2010.

Electricity generation, which contributes about one third of operating earnings, is from operations in Indiana and is also regulated. The rates for this service are combined with regulated customer rates for transmission and distribution service. In exchange for its monopoly position, state and federal regulators set NiSource's electric rates.

Fair Value & Profit Drivers

Charles Fishman, Eq. Analyst, 30 October 2019

We increased our fair value estimate to $27.50 per share from $27 after NiSource reported third-quarter earnings, initiated 2020 earnings guidance in line with our estimate, and modestly increased the lower end of 2020-22 capital expenditure guidance.

The financial impact from the tragic natural gas explosion north of Boston in September 2018 appear now to be quantified and was one of the drivers for the $0.50 per share increase in our fair value estimate. For the first time since the tragedy, the estimate of total costs related to the event were unchanged versus last quarter. We reduced our estimate of the costs, net of insurance recovery, to $850 million from our previous estimate of $1 billion.

The increase in our capital expenditure estimate also had a positive impact on our fair value estimate. The $100 million bump in the lower end of management's three-year annual capital expenditure guidance range, to $1.7 billion-$2 billion, increases our confidence in our estimates that were already above the midpoint of previous guidance. We increased our average annual capital expenditures over the next three years by approximately $30 million, to an average of $1.93 billion per year.

We have a high level of confidence that these investments will achieve returns above our 6% estimate of NiSource's weighted average cost of capital since approximately 78% are covered by rate trackers and reflected in rates in 12 months or less after the investment. This favorable regulatory framework reduces regulatory lag, improving returns on investment.

We use a 6% cost of capital in our discounted cash flow valuation, which incorporates a 7.5% cost of equity. Our cost of equity is lower than the 9% rate of return we expect investors will demand of a diversified equity portfolio. We believe our cost of equity reflects the risk associated with regulated electric and natural gas distribution utilities operating in states that have average to above-average regulatory frameworks.

Our pretax cost of debt assumption is 5.8%, as we incorporate a normalized long-term real rate environment

NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	29.79 USD	27.50 USD	1.08	2.73	2.82	11.13	Utilities - Regulated Gas	Standard
03 Feb 2020 22:39, UTC	03 Feb 2020	30 Oct 2019 19:51, UTC		03 Feb 2020	03 Feb 2020	03 Feb 2020		

and normalized credit spreads. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Our fair value estimate implies a 20 times multiple on 2020 earnings. This is a discount to market valuations for peer combination electric and gas distribution utilities that we think are overvalued as of late October.

Risk & Uncertainty

Charles Fishman, Eq. Analyst, 30 October 2019

Regulatory risk remains the key uncertainty; however, NiSource's regulatory exposure is diversified, owing to operations in seven states and its federal-regulated electric transmission system. NiSource has reduced some of the regulatory uncertainty related to its planned natural gas distribution and electric utilities investments by securing preapprovals and favorable rate mechanisms that provide for automatic rate increases as infrastructure investments are made.

In 2018, NiSource announced it would eliminate all coal-fired generation from its power plant fleet within 10 years. This transition will require signing power purchase agreements for renewable energy; building new gas-fired power plants and solar and wind farms; and making modifications to its electric grid. There is a modest amount of execution risk to this dramatic transition from coal.

Stewardship

Charles Fishman, Eq. Analyst, 30 October 2019

We assign NiSource a Standard stewardship rating. We think management's decision to form Columbia Pipeline Partners and execute CPG's tax-free separation exhibited exemplary stewardship of shareholder capital. However, the CEO who probably drove those decisions left NiSource to go with CPG before he retired.

The National Transportation Safety Board found NiSource responsible for the tragic gas explosion north of Boston. The incident had a negative effect on shareholder value and has been a public relations nightmare. The good news is that Massachusetts represents less than 10% of operating earnings.

Joe Hamrock became CEO following the separation. He has been with NiSource since 2012 and previously ran the natural gas distribution business. Before joining NiSource, he was with American Electric Power. CFO Donald Brown joined NiSource in April 2015. Previously, he was with UGI Utilities and Constellation Energy. These individuals have significant utility experience, and we believe they will not stray from the strategy that has benefited shareholders.

Most of the members of NiSource's board of directors were involved in the separation of CPG and oversight of investment decisions. Given this, we are confident that the solid stewardship of shareholder capital is likely to continue.

NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	29.79 USD	27.50 USD	1.08	2.73	2.82	11.13	Utilities - Regulated Gas	Standard
03 Feb 2020 22:39, UTC	03 Feb 2020	30 Oct 2019 19:51, UTC		03 Feb 2020	03 Feb 2020	03 Feb 2020		

Analyst Notes Archive

The Next Battle Royale: Natural Gas Generation vs. Renewable Energy

Travis Miller, Strategist, 07 October 2019

We are reaffirming our fair value estimates and moat ratings for all U.S. utilities after updating our 2020-30 U.S. power generation forecast.

Our forecast shows natural gas generation expanding its leading market share in the U.S. power generation market through 2030. But our forecast also shows renewable energy moving into second place, overtaking coal, nuclear, and hydropower generation.

We think this sets up a "bloody" fight for market share by the end of the next decade: natural gas vs. renewable energy. Renewable energy has policy momentum and its costs are now competitive with natural gas generation even at today's low gas prices and without tax subsidies. But gas generators offer grid reliability, a key competitive advantage.

We forecast U.S. renewable energy will top 1,000 terawatt-hours by 2030, or 22% of U.S. electricity generation, excluding hydropower. The ramp down in solar and wind tax credits during the next five years won't slow growth as much as others assume. Our 8% CAGR in 2018-30 is higher than global growth rate forecasts and higher than the most recent U.S. Energy Information Administration reference case.

State renewable energy portfolio standards and corporate purchases will fill in any growth gaps related to tax roll-offs. We estimate 32 of the 38 states with renewable energy targets have not met their marks. New York (70% by 2030) and California (60% by 2030) represent one-third of our renewable energy growth forecast.

We forecast natural gas generation will grow 2% annually between 2019 and 2030, reaching 41% of U.S. generation. Coal and nuclear will each fall to 15% market share.

Utilities with large renewable energy investment plans like NextEra Energy and Xcel Energy will continue to benefit from our higher renewable energy growth forecast. We think the market overlooks renewable energy growth potential from wide- and narrow- moat utilities like CMS Energy, NiSource, Edison International, Alliant Energy, and Dominion Energy.

Boston Gas Explosion Costs Finally Firm; Increasing NiSource's Fair Value Estimate

Charles Fishman, Eq. Analyst, 30 October 2019

We are increasing our fair value estimate to $27.50 per share from $27 after narrow-moat NiSource reported break even 2019 third-quarter operating EPS, initiated 2020 earnings guidance in line with our estimate, and modestly increased the lower end of its 2020-22 capital expenditure guidance.

The financial impact from the tragic natural gas explosion north of Boston in September 2018 appears to be quantified and was one of the drivers for the $0.50 per share increase in our fair value estimate. For the first time since the tragedy, the estimate of total costs related to the event were unchanged versus last quarter. We reduced our estimate of the costs, net of insurance recovery, to $850 million from our previous estimate of $1 billion.

The increase in our capital expenditure estimate also had a positive impact on our fair value estimate. The $100 million bump in the lower end of the three-year annual capital expenditure guidance range, to $1.7 billion-$2.0 billion, increases our confidence in our estimates that were already above the midpoint of management's previous guidance. We increased our average annual capital expenditures over the next three years by approximately $30 million, to an average of $1.93 billion per year.

We have a high level of confidence that these investments will achieve returns above our 6% estimate of NiSource's weighted average cost of capital since approximately 78% are covered by rate trackers and reflected in rates in 12 months or less after the investment. This favorable regulatory framework reduces regulatory lag, improving returns on invested capital.

The third quarter is normally weak since about two thirds of NiSource's earnings are from natural gas distribution. NiSource's break even third-quarter results compare with $0.10 per share in the same period last year. NiSource reaffirmed its 2019 EPS guidance range of $1.27-$1.33, and our estimate of $1.30 is unchanged.

Quantitative Equity Report | Release: 03 Feb 2020, 17:57, GMT-06:00 | Reporting Currency: USD | Trading Currency: USD | Exchange:XNYS

NiSource Inc NI ★★★Q 03 Feb 2020 02:00 UTC

Last Close	Fair Value Q	Market Cap	Sector	Industry	Country of Domicile
03 Feb 2020	03 Feb 2020 02:00 UTC	03 Feb 2020			
29.79	28.48	10,948.6 Mil	Utilities	Utilities - Regulated Gas	USA United States

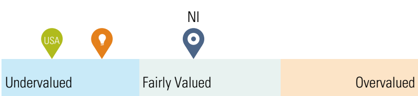
There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewables.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	98	97	95
Valuation	Fairly Valued	10	24	14
Quantitative Uncertainty	Low	100	99	100
Financial Health	Moderate	77	61	77



Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.05	1.05	0.89	0.83
Price/Earnings	23.8	34.0	14.8	20.1
Forward P/E	21.2	—	13.7	13.9
Price/Cash Flow	13.0	9.8	6.5	13.1
Price/Free Cash Flow	—	75.8	13.1	19.5
Trailing Dividend Yield %	2.73	3.16	3.68	2.35
Price/Book	2.2	1.9	1.4	2.4
Price/Sales	2.1	1.7	1.4	2.4

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	9.6	4.9	9.8	12.9
Return on Assets %	2.2	1.2	3.3	5.2
Revenue/Employee (K)	652.1	597.8	1,274.9	325.9

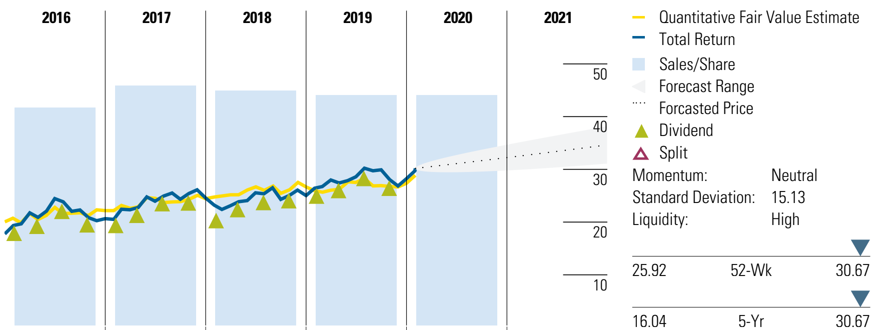
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	750.1	—	584.9	552.4
Assets/Equity	3.8	4.4	2.6	1.7
Long-Term Debt/Equity	1.2	1.5	0.7	0.4

Growth Per Share

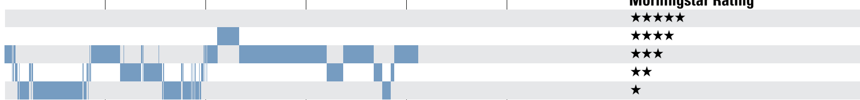
	1-Year	3-Year	5-Year	10-Year
Revenue %	4.9	3.2	2.0	-5.4
Operating Income %	-86.4	-46.0	-29.0	-18.0
Earnings %	—	—	—	—
Dividends %	11.4	-2.1	-4.5	-1.6
Book Value %	2.1	2.8	-7.0	-2.7
Stock Total Return %	14.2	12.9	6.6	16.0

Price vs. Quantitative Fair Value



2016	2017	2018	2019	2020	2021	
16.8	19.1	1.8	13.0	7.0		Total Return %
4.3	-2.4	6.8	-18.2	7.0		+/– Market (Morningstar US Index)
2.89	2.73	3.08	2.87	2.73		Trailing Dividend Yield %
2.87	2.73	3.08	2.87	2.73		Forward Dividend Yield %
23.3	31.3	-87.7	22.6	23.8		Price/Earnings
1.7	1.7	1.8	2.0	2.1		Price/Revenue

Morningstar Rating Q

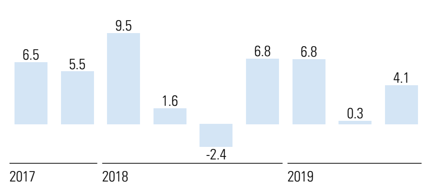


2014	2015	2016	2017	2018	TTM	**Financials** (Fiscal Year in Mil)
6,471	4,652	4,492	4,875	5,114	5,273	Revenue
14.4	-28.1	-3.4	8.5	4.9	3.1	% Change
1,184	802	857	916	126	851	Operating Income
8.7	-32.3	6.9	6.9	-86.3	575.9	% Change
530	287	332	129	-51	511	Net Income
1,320	1,457	803	742	540	845	Operating Cash Flow
-2,029	-1,361	-1,475	-1,696	-1,818	-1,832	Capital Spending
-709	96	-672	-954	-1,278	-987	Free Cash Flow
-11.0	2.1	-15.0	-19.6	-25.0	-18.7	% Sales
1.67	0.90	1.02	0.39	-0.18	1.23	EPS
-1.8	-46.1	13.3	-61.8	-146.2	—	% Change
-2.47	-1.28	-2.26	-2.47	-1.82	-2.64	Free Cash Flow/Share
1.02	0.83	0.64	0.70	0.78	0.80	Dividends/Share
19.01	11.91	11.79	12.95	12.57	13.30	Book Value/Share
319,110	323,160	337,016	372,364	373,544	373,544	Shares Outstanding (K)
						Profitability
8.8	5.7	8.4	3.1	-1.4	9.6	Return on Equity %
2.2	1.4	1.8	0.7	-0.3	2.2	Return on Assets %
8.2	6.2	7.4	2.6	-1.3	8.8	Net Margin %
0.27	0.22	0.25	0.25	0.24	0.25	Asset Turnover
4.0	4.6	4.6	4.6	4.5	4.5	Financial Leverage
32.6	34.0	36.7	35.8	19.6	34.9	Gross Margin %
18.3	17.2	19.1	18.8	2.5	16.1	Operating Margin %
8,004	5,903	6,058	7,512	7,105	7,854	Long-Term Debt
6,175	3,844	4,071	4,320	5,751	5,848	Total Equity
0.4	0.3	0.4	0.4	0.3	0.3	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2019	1,869.8	1,010.4	931.5	—	—
2018	1,750.8	1,007.0	895.0	1,461.7	5,114.5
2017	1,598.6	990.7	917.0	1,368.3	4,874.6
2016	1,436.6	897.6	861.3	1,297.0	4,492.5
Earnings Per Share ()					
2019	0.55	0.75	-0.02	—	—
2018	0.81	0.07	-0.95	-0.05	-0.18
2017	0.65	-0.14	0.04	-0.16	0.39
2016	0.56	0.09	0.08	0.27	1.02

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group (“we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

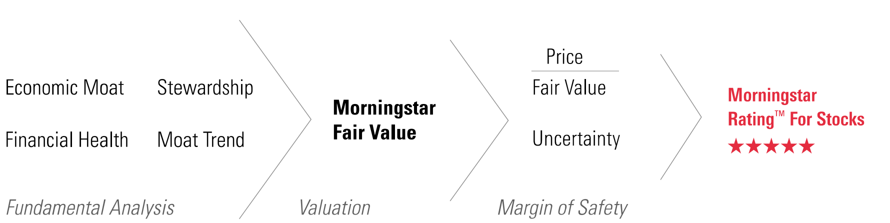
To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies



Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

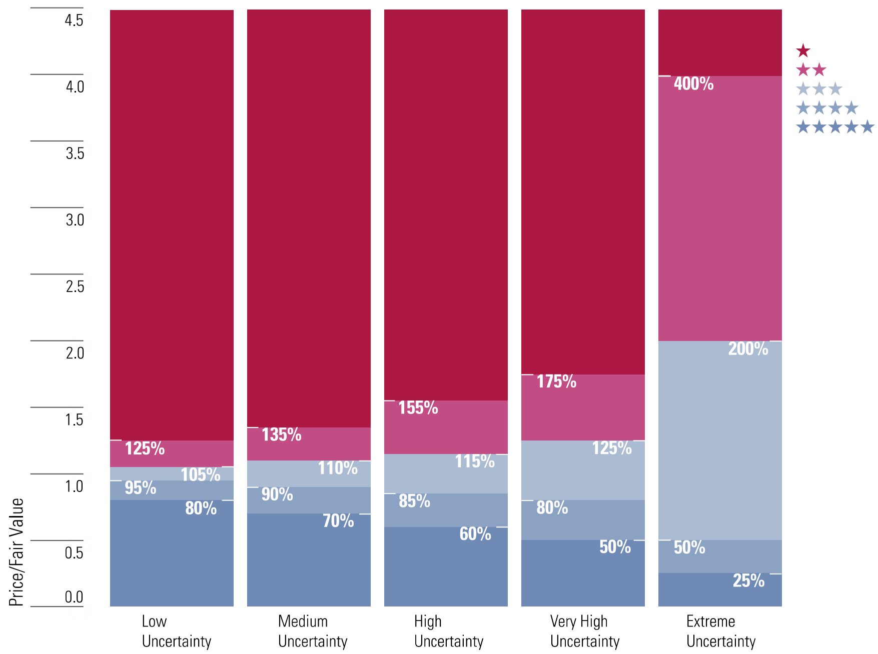
- Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ► Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- ► Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- ► Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview

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Quantitative Equity Ratings

Morningstar's quantitative equity ratings consist of:
(i) Quantitative Fair Value Estimate
(ii) Quantitative Star Rating
(iii) Quantitative Uncertainty
(iv) Quantitative Economic Moat
(v) Quantitative Financial Health
(collectively the "Quantitative Ratings").

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. (""Morningstar," "we," "our") calculates Quantitative Ratings for companies whether it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the quantitative fair value estimate using a statistical model derived from the fair value estimate Morningstar's equity analysts assign to companies. Please go to https://shareholders.morningstar.com for information about fair value estimates Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- ► Narrow: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- ► Wide: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- ► None: assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as 1-Star, 2-Star, 3-Star, 4-Star, and 5-Star.

★: the stock is overvalued with a reasonable margin of safety.
Log (Quant FVE/Price)<–1*Quantitative Uncertainty

★★: the stock is somewhat overvalued.
Log (Quant FVE/Price) between (–1*Quantitative Uncertainty, –0.5*Quantitative Uncertainty)

★★★: the stock is approximately fairly valued.
Log (Quant FVE/Price) between (–0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)

★★★★: the stock is somewhat undervalued.
Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)

★★★★★: the stock is undervalued with a reasonable margin of safety. Log (Quant FVE/Price) >1*Quantitative Uncertainty

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the quantitative fair value estimate. Generally, the lower the quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

- ► Low: the interquartile range for possible fair values is less than 10%.
- ► Medium: the interquartile range for possible fair values is less than 15% but greater than 10%.
- ► High: the interquartile range for possible fair values is less than 35% but greater than 15%.
- ► Very High: the interquartile range for possible fair values is less than 80% but greater than 35%.
- ► Extreme: the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- ► Weak: assigned when Quantitative Financial Health <0.2
- ► Moderate: assigned when Quantitative Financial Health is between 0.2 and 0.7
- ► Strong: assigned when Quantitative Financial Health >0.7

Research Methodology for Valuing Companies

Other Definitions

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ► Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- ► Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- ► Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

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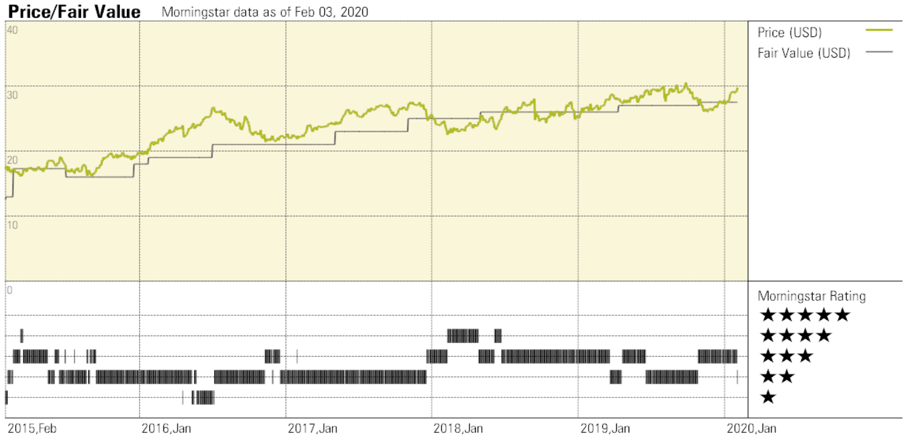
NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	29.79 USD	27.50 USD	1.08	2.73	2.82	11.13	Utilities - Regulated Gas	Standard
03 Feb 2020 22:39, UTC	03 Feb 2020	30 Oct 2019 19:51, UTC		03 Feb 2020	03 Feb 2020	03 Feb 2020		

Price/Fair Value Morningstar data as of Feb 03, 2020



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Energy | Power & Utilities

January 27, 2020

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Rebalancing Our Stock Recommendations & Waving The Yellow Flag On Valuation

We are rolling out '22 EPS forecasts, updating 12-month targets.

Upgrading CNP, DTE and NI From In Line To Outperform. SRE, FE, EXC, AES, VST, and NRG remain Outperform-rated.

Upgrading PNW from Underperform To In Line.

Downgrading CMS, NEE from Outperform To In Line.

Downgrading ES, WEC From In Line To Underperform. HE remains Underperform-rated.

Waving the "yellow flag" on electric utility group valuations: Regulated utility stocks now look fully priced to expensive in all of our valuation models. The "best-in-class" earnings and dividend growth compounders in particular are trading at big premiums on top of the already robust average group valuation. We are consciously tilting to value over quality on the margin in our stock selection.

Absolute valuations on FactSet NTM consensus are at an all-time high; relative valuations vs. the S&P 500 remain elevated. For our regulated universe, P/Es are 22.3x NTM FactSet consensus, an all-time high, and vs. 21.2x at YE '19. The FactSet relative P/E remains elevated at 1.20x and higher than the 1.17x posted at YE '19, though below the max risk-off level of 1.3x+ we saw in December '18, when the market was pricing in recession risk. So for utilities to go higher on a relative basis, the market would have to go incrementally "risk-off."

Our dividend discount model explains assumptions that support the group's robust absolute valuation. If we assume current rate base growth trends are sustainable and authorized ROEs decline, but at a modest rate of change with interest rates continuing to be subdued, one can justify a group valuation of 19.5-20x '22 EPS and even understand the 22-25x '22 EPS valuation accorded to the "best-in-class" companies. But that is increasingly pricing in perfection. We discuss our DDM methodology in detail in this report. We concede that they could stay at these elevated valuations until perspectives on the future levels of interest rates and inflation change (higher) or the perspective on ROE trends changes (lower). However, it is hard to see a lot of upside on either an absolute or a relative valuation basis vs. the market, unless we go to pre-recession "risk-off" levels.

Our bond regression model shows the group is fully priced to the current low level of Treasury and Corporate bond yields. At 1/24/20, the 10yr yield was 1.74% and the Moody's Baa yield was 3.74%. Our bond model reading was 3.7% expensive on '20 dividend yields and 1.6% inexpensive on 12 month out (expected '21) dividend yields. The model discounts corporates at ~3.8% a year out and the 10yr yield at ~1.59%, assuming a historic average spread of 222bp. Every 25 basis points of change in our target corporate bond yield assumptions—all things equal—impacts valuation by a little over half a turn on the P/E multiple.

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Regulated Utilities: 1/27/20—YELLOW FLAG ON VALUATION

Today We Roll Out '22 EPS Estimates, Update Target Prices & Are Rebalancing Ratings.

We Are Upgrading CNP, DTE, NI To Outperform From In Line. SRE, FE, EXC & AES (As Well As NRG and VST) Remain Rated Outperform.

We Are Upgrading PNW To In Line From Underperform.

We Are Downgrading CMS & NEE To In Line From Outperform.

We Are Downgrading ES & WEC to Underperform From In Line. HE Rated Underperform.

Waving The Valuation Yellow Flag! *The Group Is Now Very Full In All Our Models.*

Average Absolute P/E Valuation Is ~22.3x NTM FactSet Consensus, A Peak. Relative P/E Vs. The SP500 Is 1.20x.

Our DDM Shows That Current Valuations Price In The Current Growth / Return Profile Of The Sector With Very Little Downside Risk, Despite Some Fraying On The ROE Front.

In Our Bond Model They Are Fully Priced But Not Overvalued, Given Current Treasury & Corporate Bond Yields. 12-Months Out They Are Discounting A Moody's Baa Corporate Bond Yield Of 3.81% And A 10 Year T-Bond Yield Of 1.59%.

Our Universe: We Cover 26 Regulated Utilities, 3 Diversified Utilities, 2 IPPs

- **Utilities are trading at risk-off P/E multiples, above what we saw in '16 / '17 / '18.**
- **P/E multiples average 22.3x '20, 20.9x '21, and 19.8x '22 EPS.**
  - **All of those P/E multiple averages remove the extreme discounts of three stocks: EIX, PCG, and PPL.**
- **The group peaked in '18 on 12/13/18 at 20.9x '18, 19.7x '19, 18.5x '20.**
- **The group peaked in '17 on 11/14/17 at 21.8x '17, 20.4x '18, and 18.8x '19.**
- **The post-Brexit July '16 highs were 20.5x '16, 19.5x '17 and 18.5x '18.**

- **Within the Regulated Universe, the companies that are considered the safest (the best earnings and dividend growth compounders) are now trading at particularly high absolute and relative valuations.**
  - **Our downgrades of NEE and CMS to IL from OP and ES and WEC from IL to UP don't reflect a view that their fundamental ability to compound returns has changed, but more that they are increasingly fully / over-valued relative to those attributes.**
  - **Our upgrades: We concede that CNP, NI, DTE are cheaper because they are more complex / are seen as more risky but see opportunity. EXC is also a somewhat binary special situation. AES is transforming in to a lower risk more consistent EPS growth vehicle. We see FE as a good relative value vs. other higher priced regulated names. SRE remains—in our view—a differentiated total return story that is under-appreciated.**

Valuation & Earnings Snapshot (Trading Comps)

Regulated Utilities

Ticker	Company Name	1/26/20 Price	ISI Rating	Shares Out	Market Cap	2020 Div Yld	2020 Payout	ISI EPS Estimate 2020	ISI EPS Estimate 2021	ISI EPS Estimate 2022	P/E Multiple 2020	P/E Multiple 2021	P/E Multiple 2022	'18-'22 EPS Growth	Price to Book	Prem. to Group
NEE	NextEra Energy, Inc.	$263.72	In Line	486	128,168	2.1%	62%	9.15	9.85	10.65	28.8x	26.8x	24.8x	8.4%	3.3x	25%
WEC	WEC Energy Group	$98.96	Underperform	317	31,351	2.5%	67%	3.75	4.05	4.25	26.4x	24.4x	23.3x	6.2%	2.9x	18%
ES	Eversource Energy	$91.81	Underperform	336	30,823	2.5%	62%	3.65	3.85	4.05	25.2x	23.8x	22.7x	5.7%	2.1x	14%
CMS	CMS Energy Corp	$67.49	In Line	291	19,650	2.4%	61%	2.68	2.88	3.08	25.2x	23.4x	21.9x	7.2%	3.2x	11%
XEL	Xcel Energy Inc	$67.17	In Line	527	35,373	2.5%	60%	2.80	2.95	3.10	23.9x	22.8x	21.7x	5.9%	2.4x	9%
EVRG	Evergy	$71.37	In Line	229	16,344	2.9%	67%	3.15	3.30	3.40	22.7x	21.6x	21.0x	6.2%	2.3x	6%
PNM	PNM Resources, Inc.	$53.44	In Line	88	4,705	2.3%	55%	2.20	2.40	2.55	24.3x	22.3x	20.9x	6.3%	2.0x	6%
AEP	American Electric Power Co Inc	$102.16	In Line	497	50,821	2.7%	64%	4.35	4.65	4.95	23.5x	22.0x	20.6x	5.9%	2.4x	4%
ETR	Entergy Corp	$130.73	In Line	200	26,210	2.8%	65%	5.65	6.00	6.35	23.1x	21.8x	20.6x	-3.4%	2.4x	4%
HE	Hawaiian Electric Industries, Inc.	$48.45	Underperform	111	5,361	2.6%	63%	2.05	2.25	2.40	23.7x	21.5x	20.2x	6.7%	2.1x	2%
AEE	Ameren Corp	$80.39	In Line	257	20,637	2.5%	57%	3.45	3.75	4.00	23.3x	21.5x	20.1x	4.4%	2.2x	1%
SO	Southern Company Inc	$69.44	In Line	1,061	73,678	3.7%	79%	3.20	3.30	3.55	21.7x	21.0x	19.6x	3.8%	2.2x	-1%
ED	Consolidated Edison Inc	$93.61	In Line	345	32,281	3.3%	68%	4.50	4.70	4.85	20.8x	19.9x	19.3x	2.9%	1.6x	-3%
SRE	Sempra Energy	$159.76	Outperform	311	49,618	2.6%	59%	6.90	8.10	8.45	23.2x	19.7x	18.9x	11.0%	2.2x	-5%
NI	NiSource Inc	$29.08	Outperform	412	11,993	2.9%	61%	1.38	1.46	1.55	21.1x	19.9x	18.7x	4.6%	2.2x	-5%
AGR	Avangrid Inc.	$52.21	In Line	310	16,159	3.4%	74%	2.40	2.65	2.80	21.8x	19.7x	18.6x	6.1%	1.0x	-6%
FE	FirstEnergy Corp	$50.47	Outperform	544	27,435	3.1%	62%	2.50	2.65	2.75	20.2x	19.1x	18.3x	1.4%	3.4x	-7%
PNW	Pinnacle West Capital Corp	$97.12	In Line	113	11,010	3.3%	65%	4.85	5.00	5.30	20.0x	19.4x	18.3x	3.9%	1.8x	-7%
OGE	OGE Energy Corp	$45.52	In Line	201	9,140	3.5%	69%	2.30	2.40	2.50	19.8x	19.0x	18.2x	4.2%	2.1x	-8%
DTE	DTE Energy Co	$132.76	Outperform	195	25,883	3.1%	62%	6.65	7.00	7.55	20.0x	19.0x	17.6x	4.6%	1.9x	-11%
D	Dominion Resources Inc	$84.00	In Line	821	68,986	4.5%	86%	4.35	4.55	4.80	19.3x	18.5x	17.5x	4.3%	2.3x	-12%
DUK	Duke Energy Corp	$96.28	In Line	770	74,182	4.0%	73%	5.20	5.40	5.65	18.5x	17.8x	17.0x	4.7%	1.5x	-14%
EIX	Edison International	$76.92	In Line	412	31,667	3.2%	54%	4.55	4.45	4.60	16.9x	17.3x	16.7x	2.6%	1.6x	-16%
CNP	CenterPoint Energy Inc	$26.46	Outperform	530	14,023	4.5%	80%	1.50	1.60	1.70	17.6x	16.6x	15.6x	1.5%	1.6x	-21%
PPL	PPL Corp	$36.53	In Line	738	26,950	4.5%	65%	2.54	2.50	2.55	14.4x	14.6x	14.3x	1.6%	1.9x	-28%
PCG	PG&E Corp	$14.27	Rating Suspende	529	7,549	0.0%	0%	4.30	4.65	4.95	3.3x	3.1x	2.9x	5.4%	0.5x	-85%
Regulated Group Average (Excludes PCG for Div Values)						**3.1%**	**65.8%**				**21.1x**	**19.9x**	**18.8x**	**4.7%**	**2.12x**	
Regulated Group Average (Excluding Stocks: PPL, EIX, and PCG)						3.0%	66.3%				22.3x	20.9x	19.8x	4.9%	2.23x	
Regulated Group Max (Excludes PCG for Div Values)						4.5%	86.5%				28.8x	26.8x	24.8x	11.0%	3.4x	
Regulated Group Min (Excludes PCG for Div Values)						2.1%	54.5%				3.3x	3.1x	2.9x	-3.4%	0.5x	

Diversified Utilities

Ticker	Company Name	1/26/20 Price	ISI Rating	Shares Out	Market Cap	2020 Div Yld	2020 Payout	ISI EPS Estimate 2020	ISI EPS Estimate 2021	ISI EPS Estimate 2022	P/E Multiple 2020	P/E Multiple 2021	P/E Multiple 2022	'18-'22 EPS Growth	Price to Book	Prem. to Group
PEG	Public Service Enterprise Group Inc	$61.66	In Line	507	31,262	3.2%	59%	3.35	3.45	3.55	18.4x	17.9x	17.4x	3.3%	1.9x	-6%
EXC	Exelon Corp	$47.73	Outperform	981	46,839	3.2%	51%	3.00	3.00	3.00	15.9x	15.9x	15.9x	-1.1%	1.3x	-14%
AES	AES Corp	$20.38	Outperform	664	13,532	2.8%	41%	1.40	1.55	1.70	14.5x	13.2x	12.0x	8.2%	3.1x	-35%
Diversified Group Average						**3.1%**	**50%**				**16.3x**	**15.6x**	**15.1x**	**3.5%**	**2.1x**	
Diversified Group Max						3.2%	59%				18.4x	17.9x	17.4x	8.2%	3.1x	
Diversified Group Min						2.8%	41%				14.5x	13.2x	12.0x	-1.1%	1.3x	

Updated as of 1/24/20 close

Source: FactSet, Evercore ISI Research

We Are Updating '19-'21 EPS Estimates & Introducing '22 EPS Forecasts

- **Below is a summary of our updated EPS forecasts for '19-'21 and our mostly new estimates for '22. While we have factored into our analysis the most recent company disclosures, we expect to adjust further over the course of the next several weeks, as companies report FY '19 EPS and give updated medium- and long-term guidance.**

Company	2019 EPS			2020 EPS			2021 EPS			2022 EPS			'19-'22
Ticker	Change	New	Old	Change	New	Old	Change	New	Old	Change	New	Old	CAGR
AEE	0.00	3.28	3.28	0.00	3.45	3.45	0.00	3.75	3.75		4.00	0.00	6.9%
AEP	0.00	4.20	4.20	0.00	4.35	4.35	0.00	4.65	4.65		4.95	0.00	5.6%
AES	0.00	1.31	1.31	-0.02	1.40	1.42	0.03	1.55	1.52		1.70	0.00	9.1%
AGR	0.00	2.28	2.28	-0.06	2.40	2.45	-0.05	2.65	2.70		2.80	0.00	7.2%
CMS	0.00	2.49	2.49	0.00	2.68	2.68	0.00	2.88	2.88		3.08	0.00	7.3%
CNP	0.00	1.70	1.70	-0.15	1.50	1.65	-0.20	1.60	1.80		1.70	0.00	0.0%
D	0.00	4.20	4.20	0.00	4.35	4.35	0.00	4.55	4.55		4.80	0.00	4.5%
DTE	0.00	6.24	6.24	0.00	6.65	6.65	-0.11	7.00	7.10		7.55	0.00	6.6%
DUK	0.00	5.05	5.05	0.05	5.20	5.15	0.04	5.40	5.35		5.65	0.00	3.8%
ED	0.00	4.30	4.30	-0.10	4.50	4.60	-0.05	4.70	4.75		4.85	0.00	4.1%
EIX	0.00	4.75	4.75	-0.20	4.55	4.75	-0.15	4.45	4.60		4.60	0.00	-1.1%
ES	0.00	3.45	3.45	0.00	3.65	3.65	0.00	3.85	3.85		4.05	0.00	5.5%
ETR	0.00	5.35	5.35	0.01	5.65	5.65	0.00	6.00	6.00		6.35	0.00	5.9%
EVRG	0.00	2.85	2.85	0.00	3.15	3.15	0.00	3.30	3.30		3.40	0.00	6.1%
EXC	0.00	3.10	3.10	-0.05	3.00	3.05	0.00	3.00	3.00		3.00	0.00	-1.0%
FE	0.00	2.35	2.35	0.00	2.50	2.50	-0.01	2.65	2.65	0.00	2.75	2.75	5.4%
HE	0.00	1.97	1.97	-0.04	2.05	2.09	-0.05	2.25	2.30		2.40	0.00	6.9%
NEE	0.00	8.32	8.32	0.00	9.15	9.15	-0.01	9.85	9.85		10.65	0.00	8.6%
NI	0.00	1.30	1.30	0.00	1.38	1.38	0.00	1.46	1.46		1.55	0.00	6.2%
OGE	0.00	2.27	2.27	0.00	2.30	2.30	0.00	2.40	2.40		2.50	0.00	3.3%
PCG *	0.00	3.75	3.75	0.00	4.30	4.30	0.00	4.65	4.65	0.00	4.95	4.95	9.7%
PEG	0.00	3.20	3.20	0.00	3.35	3.35	0.00	3.45	3.45		3.55	0.00	3.5%
PNM	0.00	2.08	2.08	-0.01	2.20	2.20	0.00	2.40	2.40		2.55	0.00	7.0%
PNW	0.00	4.70	4.70	0.00	4.85	4.85	0.00	5.00	5.00		5.30	0.00	4.1%
PPL	0.00	2.46	2.46	0.00	2.54	2.54	0.00	2.50	2.50		2.55	0.00	1.3%
SO	0.00	3.12	3.12	0.04	3.20	3.15	0.06	3.30	3.25		3.55	0.00	4.4%
SRE	0.00	6.35	6.35	0.00	6.90	6.90	0.00	8.10	8.10		8.45	0.00	10.0%
WEC	0.00	3.53	3.53	0.00	3.75	3.75	0.00	4.05	4.05		4.25	0.00	6.4%
XEL	0.00	2.62	2.62	0.00	2.80	2.80	0.00	2.95	2.95		3.10	0.00	5.8%

* Before bankruptcy POR dilution. Under the terms of the current bankruptcy POR / equity backstop agreement we currently see a base case of +/-$0.90 of earnings power.

Updated as of 1/24/20 close

Source: FactSet, Evercore ISI Research

Summary Of Rating & Price Target Changes

- **We believe the group is very fully valued. But we set our target prices on a "market agnostic" basis, which means we are using an anchor P/E multiple of ~19.5x '22 EPS so investors can better see where we see good relative value.**
  - **Based on our updated 12-month target prices, the average utility (excluding PCG) should post a total return of 4.8%.**
  - **Our Outperform-rated stocks are expected to post a 12-month total return of 10.5%.**
  - **Our Underperform-rated stocks are expected to post a 12-month total return of (3.6%).**
- **We discuss rating changes over the following pages.**

Company	Rating			Target Price			Dividend	Price	Total
Ticker	Change	New	Old	Change	New	Old	Return	Return	Return
AES		Outperform	Outperform	$4.50	$23.00	$18.50	2.8%	12.9%	15.7%
EXC		Outperform	Outperform	$0.00	$52.50	$52.50	3.2%	10.0%	13.2%
CNP	+	Outperform	In Line	$1.00	$28.00	$27.00	4.6%	5.8%	10.5%
NI	+	Outperform	In Line	$1.00	$31.00	$30.00	2.9%	6.6%	9.5%
SRE		Outperform	Outperform	$10.00	$170.00	$160.00	2.6%	6.4%	9.0%
FE		Outperform	Outperform	$1.00	$53.00	$52.00	3.2%	5.0%	8.2%
DTE	+	Outperform	In Line	$11.00	$139.00	$128.00	3.1%	4.7%	7.8%
EIX		In Line	In Line	$8.00	$80.00	$72.00	3.2%	4.0%	7.2%
AEE		In Line	In Line	$7.00	$84.00	$77.00	2.5%	4.5%	6.9%
D		In Line	In Line	$3.00	$85.00	$82.00	4.5%	1.2%	5.7%
AGR		In Line	In Line	$2.50	$53.00	$50.50	3.4%	1.5%	4.9%
ED		In Line	In Line	$4.00	$95.00	$91.00	3.3%	1.5%	4.8%
DUK		In Line	In Line	$5.00	$97.00	$92.00	4.0%	0.7%	4.7%
CMS	-	In Line	Outperform	$4.50	$69.00	$64.50	2.4%	2.2%	4.7%
OGE		In Line	In Line	$4.00	$46.00	$42.00	3.5%	1.1%	4.5%
PPL		In Line	In Line	$3.50	$36.50	$33.00	4.5%	-0.1%	4.5%
PEG		In Line	In Line	-$1.00	$62.00	$63.00	3.2%	0.6%	3.7%
AEP		In Line	In Line	$7.00	$103.00	$96.00	2.7%	0.8%	3.5%
PNW	+	In Line	Underperform	$8.00	$97.00	$89.00	3.3%	-0.1%	3.1%
SO		In Line	In Line	$5.50	$69.00	$63.50	3.7%	-0.6%	3.0%
EVRG		In Line	In Line	$7.00	$71.00	$64.00	2.9%	-0.5%	2.4%
PNM		In Line	In Line	$3.50	$53.50	$50.00	2.3%	0.1%	2.4%
ETR		In Line	In Line	$7.00	$130.00	$123.00	2.8%	-0.6%	2.3%
NEE	-	In Line	Outperform	$23.00	$263.00	$240.00	2.1%	-0.3%	1.9%
XEL		In Line	In Line	$5.50	$66.50	$61.00	2.5%	-1.0%	1.5%
ES	-	Underperform	In Line	$5.50	$89.00	$83.50	2.5%	-3.1%	-0.6%
WEC	-	Underperform	In Line	$4.00	$95.00	$91.00	2.5%	-4.0%	-1.5%
HE		Underperform	Underperform	$2.00	$43.00	$41.00	2.6%	-11.2%	-8.6%
PCG		Rating Suspended	Rating Suspended	NA	NA	NA	NA	NA	NA
Average (ex-PCG)							**3.1%**	**1.7%**	**4.8%**

Updated as of 1/24/20 close

Source: FactSet, Evercore ISI Research

Upgrading CNP, NI, DTE to Outperform From In Line

CNP – Outperform, TP: $28, ETR: 10.5%: We are raising CNP to Outperform from In Line. CenterPoint has underperformed significantly over the past year, with developments in the Houston Electric rate case plus lower expected results at Enable midstream adding to the balance sheet issues created by CNP overpaying for the Vectren acquisition. The company has said it will provide a "reboot" of its financial outlook and financing plan with its Q4 results. CNP may or may not sell their unregulated businesses (per news reports) which while it would be EPS dilutive could improve its quality of earnings, enhance its risk profile and reduce equity needs because they have to shore up the balance sheet. We expect the company to issue guidance for '20 EPS of $1.50, and $1.45 is not out of the question. Off that reset, we believe they could grow EPS 6% annually through '22 after a repairing of the balance sheet due to above-average rate base growth at the utilities. Our $28 target price is 16.5x our '22 EPS estimate of $1.70 a 16.5% discount to peers at 19.8X '20 EPS which is warranted given midstream exposure and parent leverage.

NI – Outperform, TP: $31, ETR: 9.5%: We are raising NI to Outperform from In Line. NiSource stock has significantly underperformed the last two years and the stock now trades at a discount to peers. The company appears to have (finally) put a firm band around total costs for the Greater Lawrence incident, the cause of that underperformance. There is still some uncertainty regarding fines and penalties with Massachusetts investigations (e.g. Mass. DPU) but potential upside to cash flow with property insurance not included in the plan. Equity issuance announcement is behind them and they still expect to now deliver 5-7% annual EPS growth going forward. We derive a 9% estimated total return from our sum-of-the-parts analysis where, for the electric utility, we assign a 5% premium multiple to our base P/E target multiple of 19.5x '22 EPS. We assign a 5% discount multiple to comparable LDC's for the gas utilities. Our target price of $31 implies a 20X P/E multiple of '22 EPS.

DTE – Outperform, TP: $139, ETR: 7.8%: We are raising DTE to Outperform from In Line. We are upgrading our rating on DTE to Outperform from In Line and raising our price target to $139 from $128. That target price is 18.4X '22 EPS, a 7% discount to peers. DTE is trading at an 11% discount to peers on '22 EPS. We concede that due to DTE's business mix--which is +/-70% utilities but 30% pipeline/midstream, power and industrials, trading--that many investors will argue the stock is not cheap on a "sum of the parts" basis. However, we have heard that before, and DTE has a long history of overcoming that skepticism by over delivering on financial targets and we believe this will continue, with our expectation that DTE will deliver toward the upper end of its 5-7% EPS growth plan, with growth at the utilities and gas storage and pipeline business offsetting the next roll off of Reduced Emissions Fuel Credits in 2022. We expect outperformance over the coming months as investors get more comfortable with DTE's latest gas midstream acquisition and as the company potentially outperforms financial targets Our 2019 and 2020 estimates remain $6.24 and $6.65, respectively. We are lowering our 2021E by a dime to $7.00 and introducing a 2022E of $7.55.

Source: FactSet, Evercore ISI Research

Additional Outperform-Rated Stocks

AES – Outperform, TP: $23, ETR: 15.8%: We are increasing our 12-month target price to $23/sh from $18.5/sh. Rating remains Outperform. The stock currently trades at only ~12x our '22 EPS forecast of $1.70/sh. Given the progress AES is making towards firming up its EPS and FCF growth outlook and improving credit quality, we think the stock deserves a higher valuation albeit it should still trade at a material discount vs. the traditional U.S. utilities. Also their investment in Fluence (a battery JV with Siemens) could be a hidden upside as it is growing rapidly while not contributing to EPS. Our $23/sh target price is ~13.5X our '22 estimate vs. a 19.5x target for the U.S. utility peer group. International utility holding companies like Iberdrola trade at ~15.6X '22 consensus EPS.

EXC – Outperform, TP: $52.5, ETR: 13.4%: There is a lot of risk priced in to EXC shares. The stock is being weighed down by the lack of consideration of IL energy legislation in '19 and the Federal corruption investigation in which EXC has been issued several Grand Jury subpoenas, the first disclosed in a 7/15/19 8K. Investors should also note that ComEd's franchise agreement with the city of Chicago is set to expire at YE '20 and needs to be renewed, which poses another risk. This situation remains unpalatable near term given the uncertain direction and timeline for resolution of this investigation, but we think the risk is more than priced in. At a peer average multiple EXC's core utility business is worth between $42-$48/share at their '22 EPS guidance of $2.15-$2.45/share. We put EXC's utility value at ~$43/share, meaning you are buying ExGen for +/-$4.5/share which is the equivalent of ~4.5x EV/EBITDA, ~2.6X debt/EBITDA, generating cash at a ~20% unlevered FCF yield before any assumption of upside from IL legislation or closing money losing plants. Alternatively if you think ExGen is worth 6X EV/EBITDA you are paying ~17.5x '22 EPS for the utilities. There is over a ~$3.3bn valuation gap. If the IL legislature takes up and passes their energy policy agenda in 2020 that means there is a lot of upside.

FE – Outperform, TP: $53, ETR: 8.2%: Our 12-month target price is $53/sh which is ~19.2x our '22 UPO forecast of $2.75/sh. That is a ~2% discount vs. the average target multiple of 19.5x '22 EPS for our regulated utility coverage universe. Our valuation uses a sum of the parts methodology that takes in to account a risk adjustment for parent leverage and credit metrics being below the average for our coverage universe. For the distribution business, we apply a 19.0x multiple – a ~3% discount vs. what we view fair value for an average utility. For the transmission business, we apply 20.5x multiple, a ~5% premium to the 19.5x multiple that we view as fair value for an average utility due to the transmission segment's higher than average authorized ROE, formula rates, and higher earnings growth profile. The result is a consolidated P/E multiple target of ~19.2x, a slight discount to our group average target multiple. FE is a good investment alternative relative to some of the stocks in our universe trading at more exorbitant premiums currently.

Source: FactSet, Evercore ISI Research

Additional Outperform-Rated Stocks

SRE – Outperform, TP: $170, ETR: 9.2%: We see SRE as a core holding for the next several years as we think they have repositioned the company to exceed consensus EPS growth expectations short to medium term and have significant opportunities to enhance LT value through there LNG export business. We are raising our price target to $170/sh from $160/sh as part of our model rollforward. Our target price puts a 50% weighting on our base and bull case valuations, which results in a target P/E multiple on '22 EPS of 20.1x. Our bull case target price is $177/sh and incorporates some upside from SRE's incremental LNG projects. Our base case target of $163/sh only assumes Cameron trains 1-3 enter service.

- Base case: For SDG&E we apply a 5% premium to the anchor 19.5x multiple on '22 EPS for regulated electrics. Historically, we think investors accorded SRE's California utilities a premium P/E multiple due to their consistent growth outcomes and achieved returns on equity but due to wildfire liability issues associated with inverse condemnation that premium has melted out of the stock price. We value SoCalGas at a 5% discount to the trading value of a group of comparable pure play gas distribution companies. We use the 5% discount because we think the average pure play LDC multiple includes an implied takeover premium. For Oncor we use a 21.5x multiple which is a 10% premium to our base 19.5x multiple, due to the state's strong load growth and stable regulatory environment. For Cameron LNG we use a DCF approach to value ~$12bn in cash distributions over the next 20 years using a 7% discount rate to come up with a current equity value of ~$19/sh. We value IEnova based on SRE's percent ownership (66.5%) of the company's current market value. At the parent we use our "50/50" valuation method to average a P/E multiple approach against parent interest expense and deducting the per share value of parent leverage at YE '22.

- Bull case: We include potential uplift from Cameron trains 4 and 5 (~8 Mtpa) which they have signed an MOU with Total for significant capacity, but not from ECA or Port Arthur. However, using the same rough valuation math that we use for Cameron trains 4 and 5 Port Arthur could be worth ~$8.5/sh too, so our upside case assumptions are fungible as long as SRE executes on a portion of its LNG export growth ambitions. Given the constructive legislative outcome with the passage of the AB 1054 and related legislation in CA, the potential for multiple expansion on the component of SRE's EPS that comes from its CA utilities becomes much more probable, in addition to the upside from other areas of the business.

Source: FactSet, Evercore ISI Research

Downgrading CMS, NEE to In Line From Outperform

CMS – In Line, TP: $69, ETR: 4.8%: We are lowering CMS to In Line from Outperform. We continue to view CMS as a high-quality regulated utility with a top-tier management team and an impressive track record, particularly from an earnings execution standpoint. We also continue to expect CMS to deliver EPS CAGR of 7% through 2022 (well above average for a regulated utility) and at the midpoint of their targeted 6-8% CAGR. However, we expect it will be harder for the company to keep up this level of growth beyond our modeling time horizon. We expect rate base growth to slow as it becomes harder to offset growing depreciation and the anticipated retirement of coal plants (Karn 1 and 2 will retire in 2023 resulting in the loss of $660m in rate base and others could follow), and we also see the risk that authorized ROEs come down further in Michigan, making it harder for the utility to deliver premium earned returns at the electric business in particular. They could offset these headwinds by earning higher incentive based revenues and investing outside the core utilities. But even assuming that the stock is no longer cheap. The stock up almost 7% YTD after being up just under 30% in 2019, we cannot continue to support an Outperform Rating. As a result, we are downgrading our rating on CMS to In Line even as we raise our PT to $69 from $64.50 on a rolled forward and new 2022 EPS estimate of $3.08. This reflects a 22.4x P/E multiple (a 15% premium to our target regulated utility multiple of 19.5x). Meanwhile, our 2019E of $2.50 is up a penny and our 2020 and 2021 EPS forecasts are unchanged at $2.68 and $2.88, respectively.

NEE – In Line, TP: $263, ETR: 2.2%: We are lowering NEE to In Line from Outperform. NextEra is a "best in class" earnings and dividend growth compounder with a lot of visibility for continued growth. The core utility business (FPL) offers a strong rate base and earnings growth profile with significant capex opportunities in a historically stable regulatory environment. NEER is the largest renewable energy developer in the country with a robust backlog of development opportunities that bolsters EPS growth visibility. NEE has been successfully implementing its "playbook" at Gulf Power, driving operating costs lower and rate base higher, setting NextEra up for meaningful accretion this year and next. We have confidence NEE will grow at or near the top end of their long-term 6-8% EPS CAGR guidance through '22. However, it is hard to see material upside in the shares from here with the stock at a ~25x multiple on '22 EPS expectations. So while we have utmost confidence in their ability to deliver on financial results our 12-month total return profile of 2% determined using our sum-of-the-parts supports an In Line rating and comes despite assigning premium multiples across the business lines. We also have to consider there is some risk rate case filings at FPL and Gulf Power (possibly combined) in 2021 and the ongoing need to recycle a lot of capital at NEER to continue driving earnings growth in the renewable energy businesses.

Source: FactSet, Evercore ISI Research

Upgrading PNW to In Line From Underperform

PNW – In Line, TP: $97, ETR: 3.3%: We are raising PNW to In Line from Underperform. PNW has underperformed significantly over the past several months in the midst of a challenging regulatory environment. The APS rate case is likely to extend beyond the November 2020 election of two new commissioners. We acknowledge it is early to tell if there could be a change in the make-up (and tone) of the Arizona commission. That being said, we assume a conservative, below-consensus $5.00 EPS estimate for ’21 which we derive using the Staff position in the pending Tucson Electric rate case. From our conservative ’21 estimate, we assume a return to normal EPS growth and $5.30/share of EPS in ‘22. Our $97/share target price is ~18.3x our ’22 EPS estimate which is a 7% discount to peers. We know there is a long timeline of uncertainty here in the pending rate case and with an election pending but we can no longer justify an Underperform rating at this valuation.

Source: FactSet, Evercore ISI Research

Downgrading ES, WEC To Underperform From In Line

ES – Underperform, TP: $89, ETR: -0.4%: We are lowering ES to Underperform from In Line. ES is up over 7% YTD after rising 34% in 2019, and is now trading at 22.7x 2022 EPS, a 14% premium to the regulated utility group. While we believe ES merits a premium given an ESG friendly business mix, limited rate case related risk, above-average largely T&D driven EPS growth, and an impressive management team execution track record over many years we also worry that the stock has run up too much and too fast and is now already pricing in upside from planned offshore wind investments. That is despite what is still a long road ahead before the projects start generating power and cash flow the current valuation may overly minimize risks in that segment related to permitting and construction. This rating change also has much to do with frothy overall valuations in the regulated utility sector and what we see as an overextended premium being paid for best in class earnings and dividend growth compounders like ES. As a result, we are downgrading our rating to Underperform from In Line even as we raise our price target to $89 from $83.50. We maintain our 2019, 2020, 2021, and 2022 EPS estimates of $3.45, $3.65, $3.85, and $4.05.

WEC – Underperform, TP: $95, ETR: -1.3%: We are lowering WEC to Underperform from In Line. We are downgrading our rating on WEC to Underperform from In Line. While we believe WEC will deliver on targeted EPS growth, very likely at the upper end of their 5-7% range, with the benefit of a highly constructive rate plan in WI (finalized last year and running two years) and no equity needs, we also see the stock as more than pricing in these positive fundamentals, and see more risk of downside than upside, largely from a valuation perspective. WEC is currently trading at a 23.3x P/E multiple on 2022 EPS, representing a 17% premium to the group. We are raising our price target with this note to $95 from $91, as we roll forward our valuation to 2022 and capture another year of above average EPS growth. That said, we still see 4% downside risk (excluding the dividend yield) at our new target. This rating change has much to do with frothy overall valuations in the regulated utility sector and what we see as an overextended premium being paid for best in class earnings and dividend growth compounders like WEC. We maintain our 2019, 2020, 2021 EPS estimates of $3.53, $3.75, and $4.05 and are introducing a 2022E of $4.25.

Source: FactSet, Evercore ISI Research

Additional Underperform-Rated Stocks

HE – Underperform, TP: $43, ETR: -8.6%: We are raising our price target to $43 from $41 as part of our model rollforward. Our target price is based on a SOTP valuation: for the utility we use an 18.7x P/E multiple on our '22 EPS (a ~4% discount to our '22 P/E multiple for the regulated peer group of 19.5x), and apply the same multiple for earnings from Pacific Current (which will technically not reside at the utility). We utilize an equal-weighted methodology on P/E and P/TBV based on a set of comparable banks to derive our ASB valuation, which is ~$12/sh. Although we expect that the structural earned ROE lag at the utilities to diminish over time as HE continues to progress to their triennial rate case cycle, they still face regulatory risk from the ultimate outcome of the performance-based regulation (PBR) proceeding that is currently in Phase II. While the expected Decision and Order from PBR Phase I appeared to be relatively straightforward, and the full PBR proceeding is now expected to be completed in December '20 (after the 1/1/20 deadline laid out by SB 2939), it does appear that the ultimate outcome of the PBR proceeding may be more constructive than we had originally contemplated. However, we continue to believe that the market has taken an overly optimistic view on the PBR proceedings' ultimate impact on the future financial benefits for HE's utilities. At ASB, we expect NIM compression due to headwinds from the low interest rate environment, though this will be partly offset by low-to-mid single digit earning asset growth.

Source: FactSet, Evercore ISI Research

Yellow Flag! The Group Looks Pretty Fully Priced On Most Measures

- YTD regulated utilities are up 5.1%, outperforming the SP500, which is up 2.0%.
    - The top 10 excluding PCG are up 8.1%.
    - The bottom 10 are up 2% excluding VST and NRG.
- On 1/24/20, the FactSet consensus NTM absolute P/E was 22.31x, above the prior all-time high of 21.76x, reached on 9/29/19.
        - The peaks prior to June '19 were 12/3/17 at 20.84x and 7/15/16 (Post Brexit) at 19.93x.
        - Since '06 the average NTM absolute P/E is 15.89x. Since '95 it is 14.35x.
- On 1/24/20, the FactSet consensus NTM relative P/E to the SP500 was 1.20x,
    - Post Brexit vote that number was 1.17x, which we hit again mid-Nov '18.
    - Since '06 the average relative P/E has been 1.09x. Since '95 it has been 0.93x.
    - FactSet consensus NTM relative P/E to the SP500 peaked on 12/13/18 at 1.31x. On 5/1/19 it was 1.17x.
        - So we only likely go higher on relative P/E if the market goes increasingly risk off.
- Utilities are now discounting a ~1.59% UST 10yr yield and a ~3.81% corporate bond yield when looking at expected dividend yields in '21 (one year out).
    - So they are fully priced to bond yields staying low.
- Based on our DDM framework they also seem increasingly priced to perfection.

Source: FactSet, Evercore ISI Research

Utilities Stock Performance: Several Utes Laggards From ’18 Outpaced the Market In ‘19

- Utilities underperformed the SP500 in FY 2019 (up 26.5% vs. up 28.9%). However 13 of the 26 stocks in our regulated universe did beat the SP500 return for FY ’19. YTD in ’20, utilities have outperformed the SP500 (up 5.1% vs. up 2.0%).

- Stock selection matters!
  - In FY ’19 the top 5 best regulated performers were up 43.4% whilst the bottom 5 were up 7.7% (excluding PCG). PEG was up 17.1%, EXC was up 4.3%. VST was up 2.6% and NRG was up 0.7%.
  - In terms of group leadership in ‘19, only 4 were top 10 performers in ’18: ETR, NEE, WEC, FE.
  - The regulated names in the top 10 in ‘19 that were index or worse performers in ’18: SO, SRE, EIX, ES, PPL, XEL.

#	FY15		FY16		FY17		FY18		FY19		11/12/19-1/24/20		YTD	
1	S&P 500	(0.7%)	Regulated	18.8%	IPPs	75.7%	IPPs	32.2%	S&P 500	28.9%	Index	12.8%	Index	5.2%
2	Regulated	(1.2%)	Index	18.3%	S&P 500	19.4%	Diversified	20.3%	Regulated	26.5%	Regulated	11.5%	Regulated	5.1%
3	Diversified	(17.0%)	Diversified	18.1%	Index	16.1%	Index	7.0%	Index	21.7%	Diversified	8.0%	Diversified	3.8%
4	Index	(5.6%)	S&P 500	9.5%	Regulated	13.9%	Regulated	3.6%	Diversified	20.9%	S&P 500	6.6%	S&P 500	2.0%
5	IPPs	(54.2%)	IPPs	6.2%	Diversified	10.5%	S&P 500	(6.2%)	IPPs	1.7%	IPPs	(8.6%)	IPPs	(4.0%)

#	FY15		FY16		FY17		FY18		FY19		11/12/19-1/24/20		YTD	
1	VST	#N/A	VST	#N/A	NRG	133.3%	NRG	39.5%	SO	50.6%	PCG	102.1%	PCG	31.3%
2	NI	22.0%	CNP	39.8%	AGR	38.1%	AES	38.3%	SRE	43.6%	NEE	18.7%	EVRG	9.6%
3	AGR	16.3%	EVRG	36.5%	NEE	34.0%	FE	27.3%	ETR	43.4%	ES	16.6%	ETR	9.1%
4	CMS	7.2%	EXC	32.4%	XEL	21.7%	VST	24.9%	NEE	42.2%	EIX	16.0%	SO	9.0%
5	EVRG	6.3%	OGE	31.5%	PEG	21.3%	OGE	23.2%	AES	41.4%	SO	15.4%	NEE	8.9%
6	PNM	5.9%	DTE	26.7%	PNM	20.8%	EXC	17.9%	EIX	37.2%	AEP	15.4%	AEP	8.1%
7	PPL	5.7%	AES	26.0%	AEP	20.6%	NEE	14.1%	WEC	36.6%	WEC	14.2%	PNW	8.0%
8	XEL	3.5%	AEE	25.3%	CNP	19.4%	AEE	13.7%	ES	34.1%	EVRG	14.0%	ES	7.9%
9	PCG	3.3%	PNW	24.9%	NI	19.1%	EVRG	10.8%	FE	33.5%	ETR	13.8%	CMS	7.4%
10	ED	1.3%	EIX	24.9%	ED	19.0%	ETR	10.1%	PPL	32.5%	PNW	13.4%	WEC	7.3%
11	NEE	0.6%	ED	18.8%	VST	18.2%	CMS	8.0%	XEL	32.1%	CMS	13.3%	XEL	5.8%
12	WEC	0.6%	CMS	18.8%	ES	17.8%	WEC	7.6%	HE	31.5%	HE	13.1%	DUK	5.6%
13	SO	(0.3%)	HE	18.5%	CMS	16.8%	DUK	6.9%	AEP	30.1%	AES	12.8%	SRE	5.5%
14	AEP	(0.5%)	NEE	18.3%	WEC	16.8%	ES	6.1%	CMS	29.6%	XEL	12.3%	PNM	5.4%
15	ES	(1.5%)	WEC	18.2%	AEE	15.8%	XEL	5.6%	PNM	26.2%	PNM	11.6%	EXC	4.7%
16	PNW	(2.1%)	PCG	17.9%	ETR	15.5%	AEP	5.0%	ED	22.2%	NI	11.5%	AEE	4.7%
17	AEE	(2.7%)	PEG	17.7%	EXC	14.7%	HE	4.7%	DTE	21.2%	DUK	11.0%	NI	4.5%
18	PEG	(2.8%)	D	17.4%	DTE	14.5%	PEG	4.6%	D	21.0%	DTE	11.0%	PEG	4.4%
19	DTE	(3.9%)	XEL	17.1%	HE	13.1%	SRE	4.5%	AEE	20.7%	SRE	10.9%	FE	3.8%
20	EIX	(6.9%)	NI	16.8%	DUK	12.9%	PNM	4.2%	EVRG	18.1%	PPL	9.5%	ED	3.5%
21	D	(8.7%)	PNM	15.1%	PNW	12.6%	DTE	4.0%	OGE	17.3%	AGR	9.5%	HE	3.4%
22	HE	(9.8%)	DUK	13.4%	D	9.8%	CNP	3.5%	PEG	17.1%	AEE	9.0%	OGE	3.2%
23	DUK	(10.7%)	ETR	12.5%	SRE	9.5%	PNW	3.3%	NI	13.0%	FE	9.0%	AES	2.4%
24	SRE	(13.1%)	AEP	11.9%	FE	3.5%	AGR	2.5%	DUK	10.0%	EXC	8.5%	DTE	2.2%
25	FE	(14.9%)	ES	11.6%	SO	2.4%	NI	1.8%	PNW	9.1%	ED	8.3%	AGR	2.1%
26	CNP	(17.4%)	SRE	10.3%	OGE	2.1%	PPL	(3.2%)	AGR	5.6%	OGE	7.0%	EIX	2.0%
27	ETR	(18.0%)	SO	9.9%	AES	(2.7%)	SO	(3.7%)	EXC	4.3%	D	6.5%	PPL	1.8%
28	EXC	(21.8%)	NRG	6.2%	EVRG	(3.5%)	EIX	(6.4%)	VST	2.6%	PEG	2.8%	D	1.4%
29	OGE	(23.0%)	PPL	4.2%	PPL	(4.5%)	ED	(6.6%)	NRG	0.7%	NRG	(2.0%)	CNP	(3.0%)
30	AES	(27.6%)	AGR	3.1%	EIX	(9.1%)	D	(7.7%)	CNP	0.7%	CNP	(4.3%)	VST	(3.6%)
31	NRG	(54.2%)	FE	2.1%	PCG	(23.7%)	PCG	(47.0%)	PCG	(54.2%)	VST	(15.2%)	NRG	(4.5%)

Updated as of 1/24/20 close; columns during or after ’18 exclude PCG from regulated performance average

Source: FactSet, Evercore ISI Research

Yellow Flag! The Group Is Expensive On P/E Multiples & Fully Priced In Our Bond Regression Model

- **Up +/-5% since YE ’19, utilities are now trading at 19.8x ’22 EPS. above the ’22 multiple that we think is fair value in our dividend discount model *if* one risk adjusts for potentially rising interest rates and/or lower ROEs along with a risk adjustment for L-T growth assumptions.**

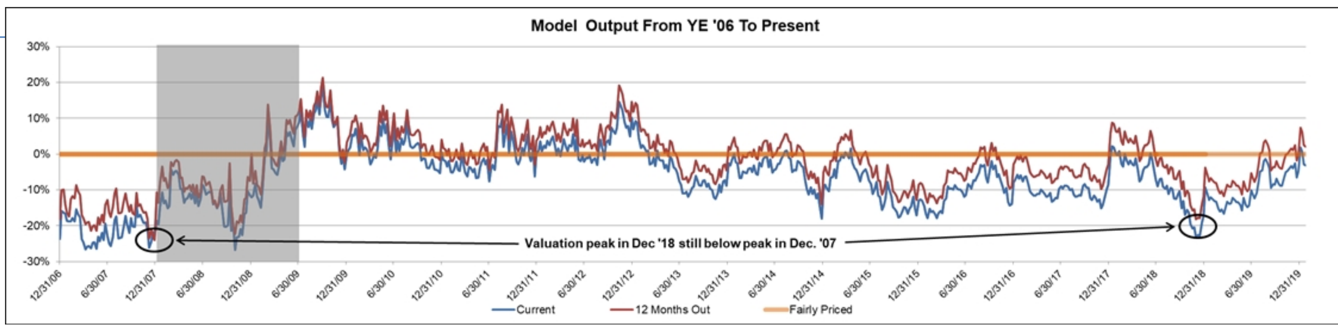
- **But we also understand what the market is discounting when it decides to pay 19.5x+ ’22 EPS for the average utility stock in our coverage universe.**
  - **1) It is pricing in resiliency of rate base growth outlooks, given a persistent lack of inflation in the utility business model.**
  - **2) It is pricing in a modest pace of declining authorized ROEs despite persistently low rates, driving a very attractive return over the cost of equity.**

- **If one adjusts our DDM inputs to capitalize the above-mentioned factors as sustainable longer term, you can justify P/E multiples at current levels and also see why the perceived best-in-class earnings and dividend growth compounders trade at premiums on top of that already-robust valuation.**
  - **But the group is increasingly priced to perfection.**
  - **We consider these factors in greater detail on pages 20-21 of this note.**

- **Our bond regression model tells us that utilities look 3.7% expensive on ’20 dividend yields and 1.6% undervalued on 12 month out / ’21 dividend yields.**
  - **On 12/31/19 the group was 2.0% expensive on ’20 dividend yields and 3.4% inexpensive on ‘21 dividend yields**
    - **The 10yr yield was 1.91% and the Moody’s Baa was 3.90%.**
  - **On 1/24/20 the group was 3.7% expensive on ’20 dividend yields and 1.6% inexpensive on ‘21 dividend yields**
    - **The 10yr yield was 1.74% and the Moody’s Baa was 3.74%.**

- **A bit over a year ago, on 12/3/18 (just before the peak on 12/13/18) we said that our bond regression model told us that regulated utilities were 23.2% expensive on then current yields and 18.3% expensive 12 months out assuming rates remained unchanged.**
  - **That elevated reading was just below the readings we saw prior to the ’08 recession when the group looked ~25% overvalued.**
  - **At YE ’18, we had rolled our bond yield to dividend yield regression model to reflect updated current and forward dividend yield expectations. So our model began to run off of ’19-’20 div. yields for current and 12 month forward valuations vs ’18-’19 before that. The roll forward lowered the group valuation vs. bonds by ~5%, all things equal, given estimated annual dividend growth.**

- **We have now rolled our model forward again to use ’20-’21 dividend yields.**
  - **~11% of the decline in valuation from 12/3/18 to today is due in part to rolling our model forward to ’20 / ’21 from ’18 / 19.**
  - **~24% of the decline in valuation is from the Baa moving from 5.29% on 12/3/18 to 3.74% today.**
  - **These were offset ~16% by *an increase* in group valuations.**
- **HERE IS OUR DDM BACKTEST GOING BACK TO 1/1/07 SHOWING WHERE GROUP VALUATION IS TODAY IN OUR BOND REGRESSION MODEL**



Updated as of 1/24/20 close

Source: FactSet, Evercore ISI Research

Utilities Look Fully Priced Assuming Yields Stay Low For The Next 12 Months

Regulated utilities looked 18.5% expensive on 12/13/18 on then current yields

Utility Valuation 12/13/18			10 YR / Baa	2.91% / 5.16%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2019 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	2.30%	2.20%	28.9x	65.2%
	2.52%	2.35%	27.0x	54.3%
	2.74%	2.51%	25.3x	44.8%
	2.96%	2.66%	23.9x	36.4%
	3.18%	2.82%	22.6x	29.0%
	3.40%	2.97%	21.4x	22.3%
- 68% Confidence Interval	3.62%	3.12%	20.3x	16.2%
	3.84%	3.28%	19.4x	10.8%
	4.06%	3.43%	18.5x	5.8%
Current Valuation	4.28%	3.59%	17.7x	1.2%
	4.50%	3.74%	17.0x	-2.9%
	4.72%	3.89%	16.3x	-6.8%
	4.94%	4.05%	15.7x	-10.3%
Predicted Valuation	5.16%	4.20%	15.1x	-13.6%
	5.38%	4.36%	14.6x	-16.7%
	5.60%	4.51%	14.1x	-19.5%
	5.82%	4.67%	13.6x	-22.2%
	6.04%	4.82%	13.2x	-24.7%
	6.26%	4.97%	12.8x	-27.0%
+ 68% Confidence Interval	6.48%	5.13%	12.4x	-29.2%
	6.70%	5.28%	12.0x	-31.3%
	6.92%	5.44%	11.7x	-33.2%
	7.14%	5.59%	11.4x	-35.1%
	7.36%	5.75%	11.1x	-36.8%
	7.58%	5.90%	10.8x	-38.5%
+ 95% Confidence Interval	7.80%	6.05%	10.5x	-40.0%

On 12/13/18 if rates stayed unchanged for 12 months utilities looked 13.6% expensive

Utility Valuation 12/13/18			10 YR / Baa	2.91% / 5.16%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2020 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	2.30%	2.20%	27.9x	66.2%
	2.52%	2.35%	26.1x	55.3%
	2.74%	2.51%	24.5x	45.8%
	2.96%	2.66%	23.0x	37.3%
	3.18%	2.82%	21.8x	29.8%
	3.40%	2.97%	20.7x	23.1%
- 68% Confidence Interval	3.62%	3.12%	19.6x	17.0%
	3.84%	3.28%	18.7x	11.5%
	4.06%	3.43%	17.9x	6.5%
Current Valuation	4.28%	3.59%	17.1x	1.9%
	4.50%	3.74%	16.4x	-2.3%
	4.72%	3.89%	15.7x	-6.2%
	4.94%	4.05%	15.1x	-9.7%
Predicted Valuation	5.16%	4.20%	14.6x	-13.0%
	5.38%	4.36%	14.1x	-16.1%
	5.60%	4.51%	13.6x	-19.0%
	5.82%	4.67%	13.1x	-21.7%
	6.04%	4.82%	12.7x	-24.2%
	6.26%	4.97%	12.3x	-26.5%
+ 68% Confidence Interval	6.48%	5.13%	12.0x	-28.7%
	6.70%	5.28%	11.6x	-30.8%
	6.92%	5.44%	11.3x	-32.8%
	7.14%	5.59%	11.0x	-34.6%
	7.36%	5.75%	10.7x	-36.4%
	7.58%	5.90%	10.4x	-38.0%
+ 95% Confidence Interval	7.80%	6.05%	10.1x	-39.6%

Utility Valuation 1/24/20			10 YR / Baa	1.74% / 3.74%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2020 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	0.88%	1.19%	53.2x	158.6%
	1.10%	1.35%	47.1x	128.9%
	1.32%	1.50%	42.2x	105.4%
	1.54%	1.65%	38.3x	86.2%
	1.76%	1.81%	35.0x	70.3%
	1.98%	1.96%	32.3x	56.9%
- 68% Confidence Interval	2.20%	2.12%	29.9x	45.5%
	2.42%	2.27%	27.9x	35.6%
	2.64%	2.43%	26.1x	27.0%
	2.86%	2.58%	24.6x	19.4%
	3.08%	2.74%	23.2x	12.6%
	3.30%	2.89%	21.9x	6.6%
Current Valuation	3.52%	3.04%	20.8x	1.2%
Predicted Valuation	3.74%	3.20%	19.8x	-3.7%
	3.96%	3.35%	18.9x	-8.1%
	4.18%	3.51%	18.1x	-12.2%
	4.40%	3.66%	17.3x	-15.9%
	4.62%	3.82%	16.6x	-19.3%
	4.84%	3.97%	16.0x	-22.4%
+ 68% Confidence Interval	5.06%	4.13%	15.4x	-25.3%
	5.28%	4.28%	14.8x	-28.0%
	5.50%	4.44%	14.3x	-30.5%
	5.72%	4.59%	13.8x	-32.9%
	5.94%	4.74%	13.4x	-35.0%
	6.16%	4.90%	12.9x	-37.1%
+ 95% Confidence Interval	6.38%	5.05%	12.5x	-39.0%

Regulated utilities now look 3.7% expensive on current yields

Utility Valuation 1/24/20			10 YR / Baa	1.74% / 3.74%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2021 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	0.88%	1.19%	53.1x	172.7%
	1.10%	1.35%	47.0x	141.4%
	1.32%	1.50%	42.2x	116.6%
	1.54%	1.65%	38.2x	96.4%
	1.76%	1.81%	35.0x	79.6%
	1.98%	1.96%	32.2x	65.5%
- 68% Confidence Interval	2.20%	2.12%	29.9x	53.4%
	2.42%	2.27%	27.8x	43.0%
	2.64%	2.43%	26.1x	33.9%
	2.86%	2.58%	24.5x	25.9%
	3.08%	2.74%	23.1x	18.8%
	3.30%	2.89%	21.9x	12.4%
	3.52%	3.04%	20.8x	6.7%
Predicted AND Current Valuation	3.74%	3.20%	19.8x	1.6%
	3.96%	3.35%	18.9x	-3.1%
	4.18%	3.51%	18.0x	-7.4%
	4.40%	3.66%	17.3x	-11.3%
	4.62%	3.82%	16.6x	-14.9%
	4.84%	3.97%	15.9x	-18.2%
+ 68% Confidence Interval	5.06%	4.13%	15.3x	-21.3%
	5.28%	4.28%	14.8x	-24.1%
	5.50%	4.44%	14.3x	-26.7%
	5.72%	4.59%	13.8x	-29.2%
	5.94%	4.74%	13.3x	-31.5%
	6.16%	4.90%	12.9x	-33.7%
+ 95% Confidence Interval	6.38%	5.05%	12.5x	-35.7%

If rates stay unchanged for the next 12 months, regulated utilities now look 1.6% cheap

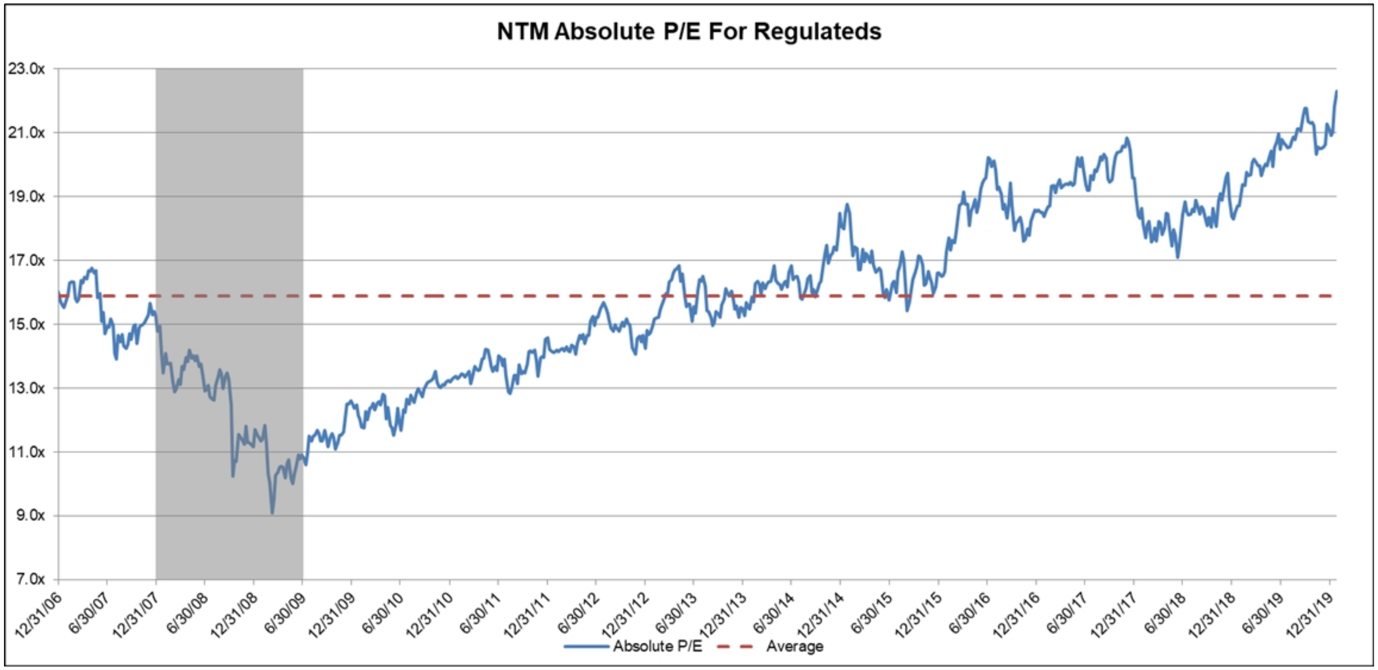
- **As we pointed out on the prior page, utilities are still trading at elevated valuations looking at absolute and relative P/E.**
- **They are above the levels we saw at the YE '18 valuation peak.**
- **We are close to fair value in the bond model assuming rates are flat to down over the next 12 months.**
- **Utilities are discounting corporate bond yields at 3.81% 12 months out, implying a 1.59% 10-yr UST yield if corporates and treasuries traded to their historic 222bp spread.**

Updated as of 1/24/20 close

Source: FactSet, Evercore ISI Research

Yellow Flag! NTM FactSet Consensus P/E Has Marched On To New Highs

- On 1/24/20, NTM absolute P/E was 22.31x using FactSet consensus, rising above the prior absolute peak of 21.76x on 9/29/19. Before that, the NTM absolute P/E had peaked on 12/3/17 at 20.84x and on 7/15/16 (post-Brexit) at 19.93x.
- Since '06 the average NTM absolute P/E is 15.89x. Since '95 it is 14.37x.

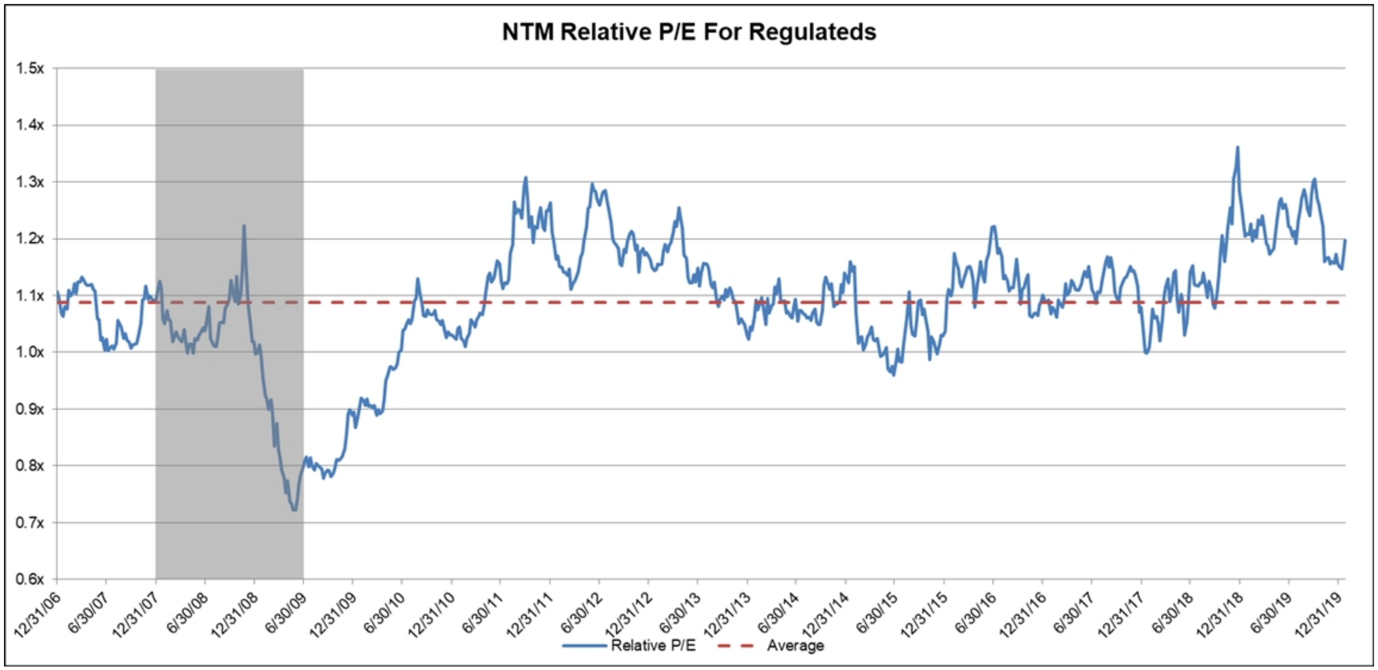


Updated as of 1/24/20 close

Source: FactSet, Evercore ISI Research

NTM FactSet Relative P/E Remains Elevated But Below All-Time Highs

- The average relative P/E since 2006 is 1.09x. Since ’95 it is 0.93x.
- On 1/24/20, the relative P/E was 1.20x, slightly above the 1.17x level at our YE ’19 update.
- The relative P/E post Brexit vote was 1.17x, which we hit again in mid November ’18.
- It was 1.36x on 12/23/18 when we were pricing in recession risk at a high probability.
- So relative P/E going higher would likely require a further “risk-off” move in the market.



Updated as of 1/24/20 close

Source: FactSet, Evercore ISI Research

Regulated Group P/E Valuations In '20 Remain At A Pretty Robust Multiple

- With the increase in P/E valuations since our last update at YE '19, the group is trading above the defensive P/E premium we saw in the extreme risk-off environments of 7/16 (post Brexit) 11/17, and 12/18. Bond yields were much lower in the first two instances, higher in the third. Remember looking below that the average P/E multiple is really a turn higher when you exclude the low P/E multiples of PPL, EIX and PCG.
- Looking at 12/13/18—the most recent valuation peak—the 10-year was 2.91% and the Moody's Baa yield average was 5.16% -- a 225bp spread.
  - The utilities were 18.6% expensive on '19 yields and 13.3% on '20 yields if bond yields remain unchanged in our bond regression model.
- **On 1/24/20, the 10-year bond yield was 1.74% and the Moody's Baa corporate bond yield average was 3.74% – a 200bp spread.**
  - **In our bond regression model the group now looks 3.7% expensive based on the expected '20 dividend yield.**
  - **They are 1.6% cheap on '21 dividend yields (a year out) if bond yields remain unchanged in our bond regression model.**
- The "breakeven" Baa yield at 12 months from now is ~3.81%, implying a 1.59% 10-year yield at an avg. historic spread of 222bp.
- We understand the argument that the way these stocks are trading in the regression model and vs. our DDM might discount a view that the long end of the curve will be held down by a persistent lack of global inflation and central bank easing. Also there is a pretty good medium-term total return profile for utilities vs. history due to low inflation, and the decline of authorized ROEs at a measured pace. Perhaps a scarcity premium for defensive stocks, as other traditionally-defensive sectors succumb to new competitive pressures is also a factor. But even after taking these factors into account, the group looks priced at close to perfection. On the ROE front, we are starting to see signs that the direction of travel is lower at a faster rate (CNP, the FERC MISO decision).

	Post Brexit Peak 7/15/2016	2017 Top 11/14/2017	Utes Bottom 2/8/2018	2nd Bottom 6/11/2018	Peak 12/13/2018	YE '18 12/31/2018	11/25/2019	YE '19 12/31/2019	Current 1/24/2020
Regulated P/E '16	20.1x								
Regulated P/E '17	19.6x	21.8x							
Regulated P/E '18		20.5x	16.7x	16.9x	19.8x	18.4x			
Regulated P/E '19			15.6x	15.7x	18.6x	17.3x	20.1x	21.0x	
Regulated P/E '20						16.2x	19.0x	19.9x	21.1x
Regulated P/E '21							17.9x	18.7x	19.9x
Regulated P/E '22									18.8x
Relative NTM Reg P/E to S&P500	1.16x	1.15x	1.05x	1.02x	1.30x	1.27x	1.16x	1.17x	1.20x
Regulated Dividend Yield	3.2%	3.1%	3.9%	3.9%	3.3%	3.5%	3.2%	3.1%	3.1%
10 Year Yield	1.59%	2.38%	2.85%	2.96%	2.91%	2.69%	1.77%	1.91%	1.74%
Moody's Baa Bond Yield	4.26%	4.31%	4.48%	4.85%	5.16%	5.14%	3.92%	3.90%	3.74%
Valuation vs. Corporate Bonds*	-5.1%	-9.7%	3.5%	1.1%	-18.6%	-11.4%	-3.9%	-2.0%	1.6%

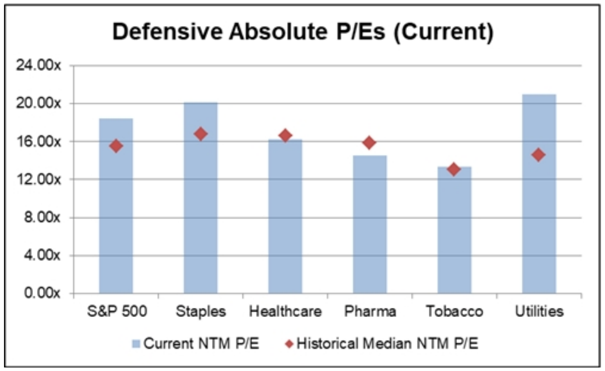
***Represents upside/downside to predicted valuation using Evercore ISI's proprietary dividend yield/bond yield regression looking at current yield vs. the corporate bond yields. Column 12/31/18's valuation vs. corporate bonds is reflective of '19 dividend yields. All other columns based on '20 dividend yields.**

Note that P/Es are inclusive of EIX, PCG, and PPL. The P/E multiples shown here for '18, '19, and '20 would all be approximately 1.0x higher adjusting those three names out. You can see that in the current data on page 3.

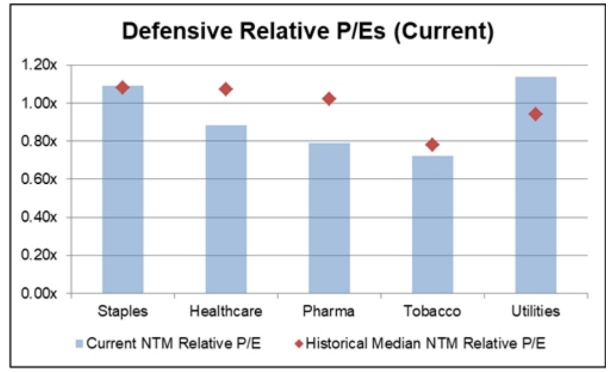
Updated as of 1/24/20 close

Source: FactSet, Evercore ISI Research

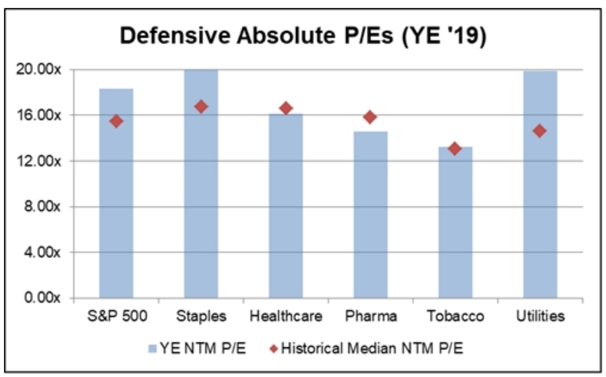
Utilities Look Pretty Rich Relative To Several Other Defensive Sectors



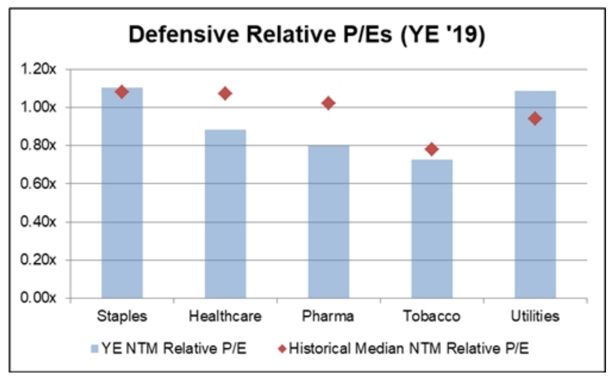
	Current NTM P/E	% Change Since YE '19
S&P 500	18.44x	0.8%
Staples	20.09x	-0.6%
Healthcare	16.26x	0.7%
Pharma	14.56x	-0.3%
Tobacco	13.32x	0.4%
Utilities	21.00x	5.6%



	Current NTM Relative P/E	% Change Since YE '19
Staples	1.09x	-1.4%
Healthcare	0.88x	-0.1%
Pharma	0.79x	-1.1%
Tobacco	0.72x	-0.4%
Utilities	1.14x	4.8%



	YE NTM P/E	Historical Median NTM P/E
S&P 500	18.30x	15.5x
Staples	20.21x	16.7x
Healthcare	16.15x	16.6x
Pharma	14.61x	15.8x
Tobacco	13.27x	13.0x
Utilities	19.89x	14.6x



	YE NTM Relative P/E	Historical Median NTM Relative P/E
Staples	1.10x	1.08x
Healthcare	0.88x	1.07x
Pharma	0.80x	1.02x
Tobacco	0.73x	0.78x
Utilities	1.09x	0.94x

Updated as of 1/24/20 close

Source: Bloomberg, Evercore ISI Research

Based On Our Dividend Discount Model Utilities Look Prices Pretty Close To Perfection.

- **The forward P/E multiple that utility investors are willing to pay is highly influenced by ROE and cost of capital assumptions, as well as the sustainability of rate base growth, which we can measure and calculate the value of in our proprietary DDM.**
  - **Up until 9/19 we had been defending the idea that utility stocks are trading above fair value, which we thought closer to ~17.5x '22 EPS. We had been making risk adjustments for potentially declining authorized ROEs, rising rates (a tightening ROE to cost of equity spread) and risk adjustments regarding the sustainability of rate base growth. Those assumptions have proven too conservative.**
  - **Disinflationary trends in the "cost +" framework by which utility rates are set have continued to drive bill headroom. That has extended the runway for capital spending at rates that supported rate base growth expectations for longer than we would have thought feasible. However, we are starting to hear, on the margin, that cost cutting opportunities may be dwindling for some companies, mainly a few who are mostly T&D infrastructure. The integrated companies that still have large fossil fuel and nuclear fleets seem to still have more headroom.**
  - **While authorized ROEs have been steadily declining, up until now they were not declining a rapid pace and interest rates have stayed low. However, the recent proposed decision in CNP's pending TX rate case (9.25% ROE, 40% equity ratio), and the FERC's decision in the MISO complaint case to lower the base ROE to 9.88% could be the "canaries in the coal mine" that the direction of travel on authorized ROE's is finally accelerating lower. CNP settled at 9.4%/42.5% and FERC is rehearing the MISO decision.**
- **If we continue to assume authorized ROEs decline but at a modest rate of change, and interest rates continue to be subdued and rise slower than our prior base case, then it is easy to justify the ~19.5x P/E multiples around where the group is currently trading.**
- **And on top of that, if you think both authorized ROEs and growth rates stay at "status quo" levels for longer, our DDM model generates valuation outcomes that support the 22-25x P/E multiples at which the perceived "best in class" earnings and dividend growth compounders trade (WEC, NEE, CMS, ES, XEL).**
- **However we now sit here today with the group trading at pretty close to perfection on these assumptions. So we concede they could stay at these elevated valuations until perspectives on the future level of interest rates and inflation change (higher) or the perspective on ROE trends changes (lower) but it is hard to see a lot of upside on an absolute valuation basis or on a relative valuation basis vs. the market unless we go to pre-recession "risk-off" levels.**

Source: Evercore ISI Research

Our DDM Shows Utilities Are Trading At Pretty Full Valuations. It Is Hard To See Big Upside

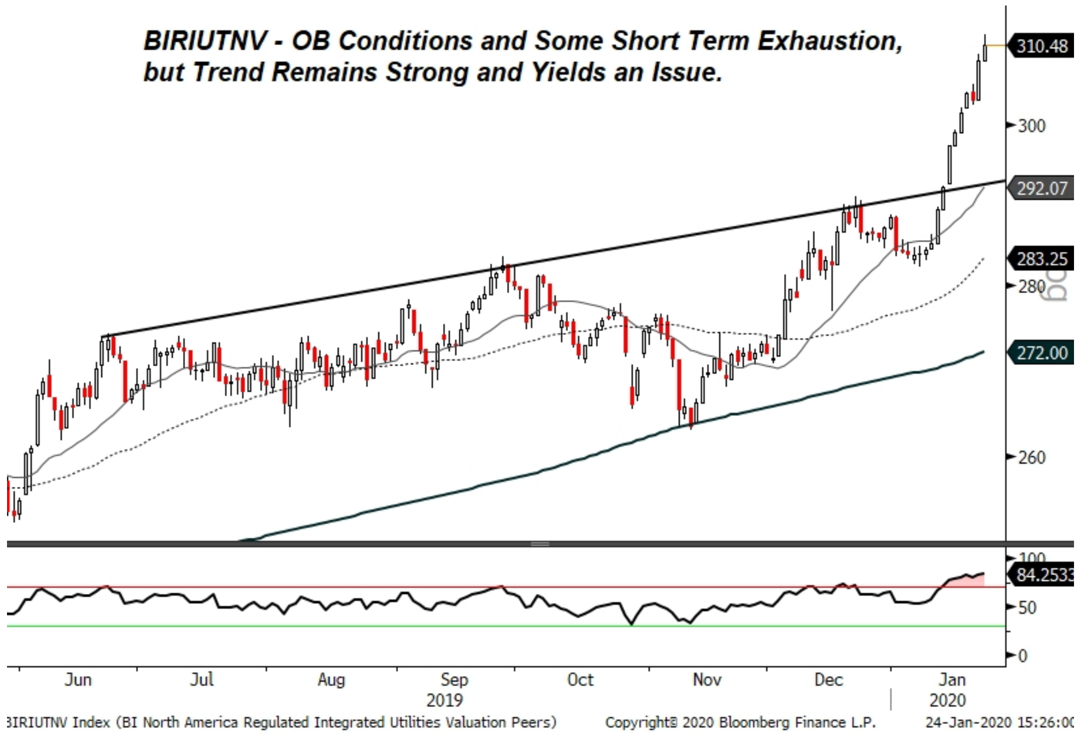
- **Our historic base case ("case 1") assumed an orderly transition to higher interest rates, with authorized ROEs falling to 9.25% from 9.75%, and 10- year Treasury yields rising over the next several years, resulting at the end in a 2.25% spread between the return on equity and the calculated cost of equity.**
- **When you look at the current valuation of 19.8x '22 it is closer to our "case 2" scenario, which means we are discounting a longer period of low interest rates without a change in the expected direction of travel of authorized ROEs (i.e. they continue to decline but at a modest pace). As we said on the prior page, those assumptions may be fraying around the edges but a clear negative move has been averted so far (in TX and at FERC).**
- **The perceived "best in class" earnings compounders (WEC, NEE, CMS, ES, XEL) trade a multiple that discounts both a more or less status quo authorized ROE regime and a longer runway for sustained rate base growth. That is "case 3".**
- **In our "case 4" scenario we assume authorized ROEs moderate and interest rates rise more rapidly, resulting in a more meaningful near-term reduction in profitability, along with a steeper decline in rate base growth, which drives utilities back to a P/E multiple that is closer to long-term historic averages. This looks unlikely.**
- **We believe the group is very fully valued. But we set our target prices on a "market agnostic" basis, which means we are using an anchor P/E multiple of ~19.5x '22 EPS so investors can better see where we see good relative value.**

DDM Model Summary	Case 1	Case 2	Case 3	Case 4
ROE and Cost of Equity Assumptions	Old Base Case	Rates Low Long Time	Rates Low Long Time	ROEs Fade Rates Rise
ROE (Year 1)	9.75%	9.75%	9.75%	9.75%
Annual ROE Change (+/-)	-0.10%	-0.10%	-0.10%	-0.10%
Final ROE	9.25%	9.25%	9.25%	9.25%
Years Until LT Cost of Equity Spread	5	5	5	5
Implied Annual Cost of Equity Change (+/-)	0.29%	0.19%	0.19%	0.34%
LT ROE / Cost of Equity Spread	2.25%	2.75%	2.75%	2.00%
LT Cost of Equity	7.00%	6.50%	6.50%	7.25%
Growth Assumptions	Base Case	Base Case	Higher Growth	Lower Growth
RB Growth (Year 1-5)	5.50%	5.50%	6.50%	4.00%
RB Growth (Year 6-10)	3.50%	3.50%	5.50%	2.00%
RB Growth (Year 11+ and Terminal)	2.50%	2.50%	3.00%	1.25%
Terminal Value (Yes/No)	Yes	Yes	Yes	Yes
35 Year Average Payout Ratio - Implied	71.2%	71.2%	67.5%	82.6%
'21 P/E Multiple	**17.5x**	**19.5x**	**22.0x**	**15.0x**

Source: Evercore ISI Research

EVRISI Technical Analyst Rich Ross On Utilities: Not Clear They Will Reverse Soon

- BIRIUTNV - While the presence of extreme overbought conditions and a modicum of short term exhaustion along with the broader market suggest and inflection lower might be nearing, both trend and pattern remain strong and the ongoing decline in yields an issue for the sector. RSI is like the technicians Valuation, which is to suggest that in isolation it is a poor timing tool and we need to see corroborative evidence from price both in Utes and Yields before we play too aggressively for a countertrend move down.



Source: Bloomberg, Evercore ISI Research

EVRISI Technical Analyst Rich Ross On The 10YR UST: Supportive Of Utility Valuation

- 10 Yr. - While I do not expect an outright collapse in yield, they nevertheless remain weak as they test tenuous support after failing into resistance within a downtrend (which is not great). While the recent weakness may be partially attributed to an ephemeral defensive shift in response to the Wuhan virus, we nevertheless cannot pound the table in terms of calling a top in Utes until Yields, Crude and the Dollar (too strong) find some semblance of stabilization.

Source: Bloomberg, Evercore ISI Research

Global Monetary Easing Is Supporting Our Macro / Policy Teams' Outlook

EVRISI's overall macro and policy call was cautiously bullish in '19 and continues into '20. Since our regulated update in mid-July '19, our thesis continues to be validated, with the Fed cutting rates in July and October '19 amidst continued trade tensions. In our last regulated update, we continued to note that indicators of dovish monetary policy globally could be a bullish tailwind. <u>Those dovish indicators have continued to materialize post the October '19 interest rate cut</u>. The market continues to grapple with a lower rate environment, as well as the recent uncertainty in China with the coronavirus outbreak. Our macro and policy experts opine on these developments:

While reports of the potential dire impact of the coronavirus on China's GDP are likely suppressing yields, investors should beware of headline-amplified narratives, cautions our Portfolio Strategist Dennis DeBusschere. We do not yet have enough information to declare the coronavirus an epidemic and we cannot know the effect on GDP yet. The MSCI Emerging Markets index has fallen -2.7% since Monday, but tailwinds to EM performance remain. Regional flash PMIs suggest the global PMI will rise to about 51. Almost every major constituent increased M/M. Don't look to rates for a signal. China's PMI isn't out yet, but (as noted on the next page by Ed) the EVRISI Sales to China survey continues to move off of its lows. The coronavirus will likely impact consumption around the Lunar New Year, but the extent to which it is affected is unknown. Currently, the EVRISI Survey Team's work suggests consumption is healthy going into the holiday. <u>We caution investors from overreacting to the move lower in rates, especially with an exogenous X-factor like the coronavirus likely impacting rates as well.</u>

Source: Evercore ISI Research

Global Monetary Easing Is Supporting Our Macro / Policy Teams' Outlook

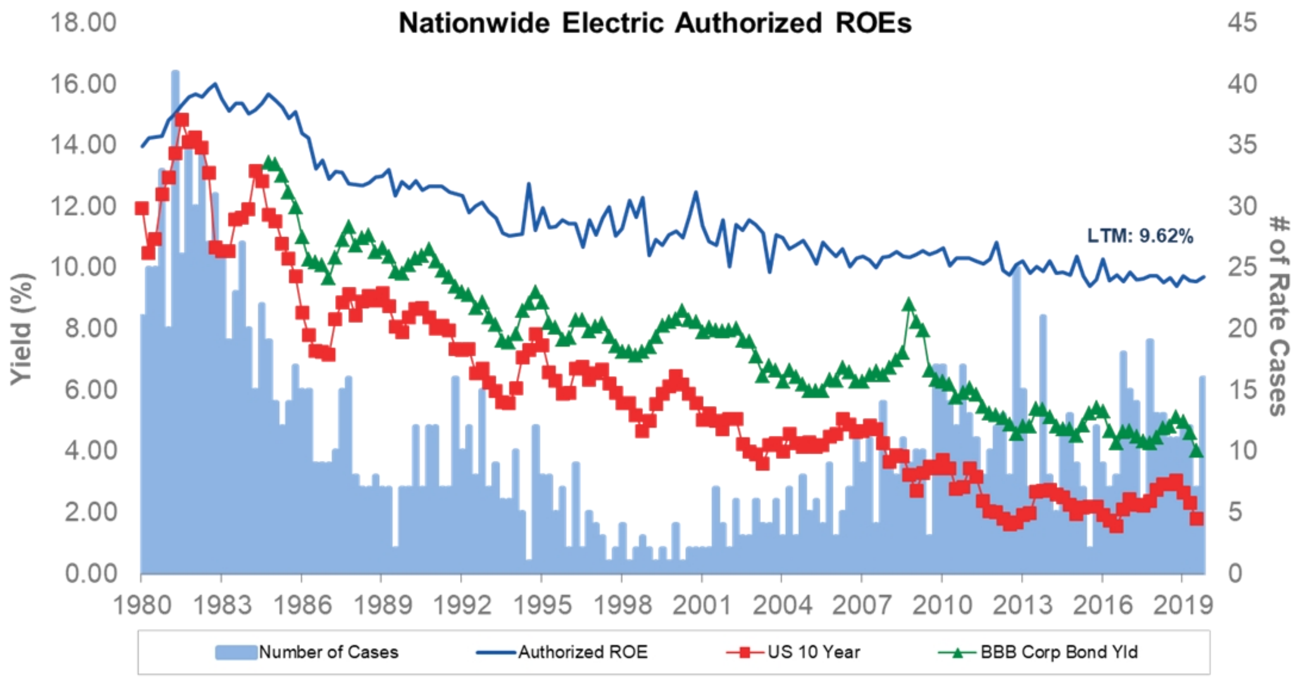
According to our Chief Economist Ed Hyman, with global short rates declining significantly over the past year, a synchronized global expansion now appears to be unfolding. Over the past six months, there have been 71 EM central bank easings, including most recently by Turkey, South Africa, and Malaysia. Individually, each is relatively unimportant. But as a package, they have been a significant part of the Global Easing Cycle that started about a year ago. Focusing on China, the source of the recent coronavirus impact, our survey of 21 multinationals indicated that China sales has improved over the past six weeks by +2.0, but still to just 42.7. This survey will be a useful gauge of the coronavirus impact, particularly with the Lunar New Year limiting eco data availability. Back in the US, there are a number of positive indicators: consumer confidence surveys indicate remarkable strength and unemployment claims have declined -24k over the past five weeks back into record-low territory; they may be at their lowest possible frictional level.

The Fed is gravitating towards a risk-friendly strategy of low interest rates for longer for inflation purposes, according to our Global Policy Strategist Krishna Guha. In our view, as the FOMC grows more confident that it has done enough to offset trade and global headwinds to growth – which we interpret as depressing the short-run neutral rate of interest consistent with growth around potential – the Committee is increasingly refocusing on the need to re-center inflation and inflation expectations that have slipped uncomfortably below its 2% target after serial undershooting over the past decade. Under this approach the Fed will enter an extended strategic hold and will likely keep rates at their current levels for a long time – through to late-2021 in the base case and quite plausibly beyond that date. We are not expecting any more cuts in the base case. The basic takeaway is that if we are right the emerging Fed approach will be very risk-friendly – a rare occasion on which can plausibly have their cake and eat it, i.e. get confirmation that the expansion phase of the business cycle is continuing, but keep low rates in nominal and in particular real (inflation-adjusted) terms.

Source: Evercore ISI Research

Authorized ROEs Have Come Down, But Much Slower Than Interest Rates, So Far

- **The spread between authorized ROEs and interest rates remains very wide, which has been impacted by the recent interest rate cuts.**
- **But authorized ROEs are starting to reflect lower interest rates, both at the state level and at FERC (see next few pages).**

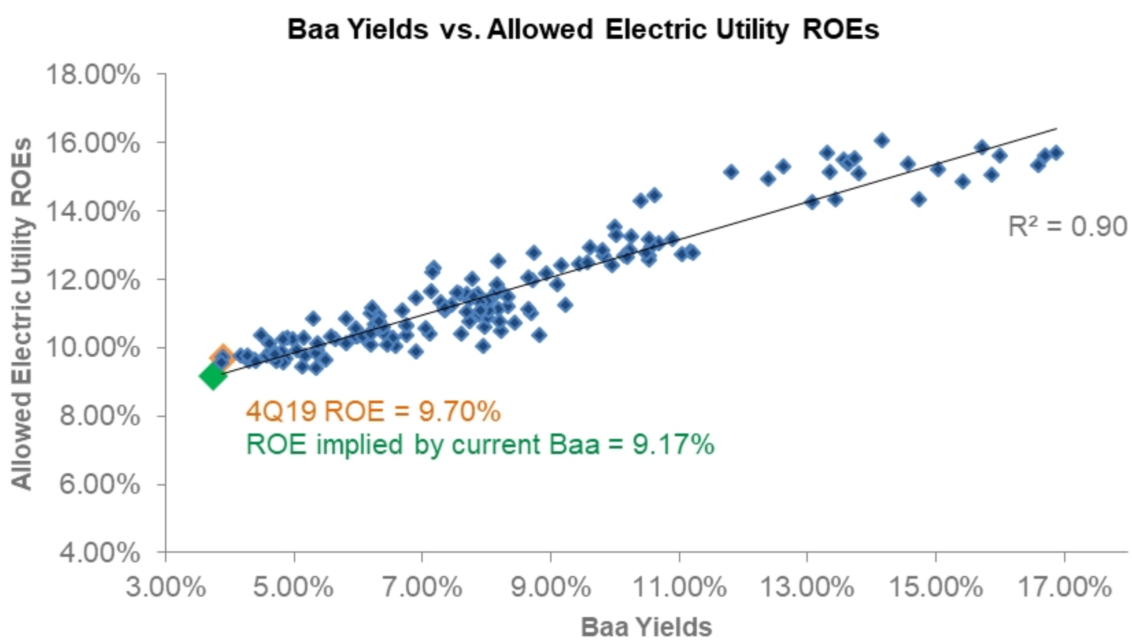


Updated as of 1/24/20 close

Source: SNL Research, FactSet, Evercore ISI Research

Authorized ROEs Look Highly Correlated With Baa Yields

- **ROE risk is definitely a risk to flag regarding longer-term earnings power.**
- **Based on the long-term linear relationship between Baa yields and authorized electric ROEs, the current Baa of 3.74% would imply a "correct" ROE of 9.17%, 45bp lower than the LTM average of 9.62%.**
  - **That is slightly below where the TX PUC was proposing to set the ROE in the still pending CNP rate case!**
  - **In VA and New Orleans, ROEs were also recently set in the low 9% range (see next page).**
- **But that could understate the risk, as the relationship as measured captures the decades-long widening of spreads between authorized ROEs and the cost of capital.**



Updated as of 1/24/20 close

Source: FactSet, Evercore ISI Research

Recent State-Level Regulatory Decisions On Electric ROEs

- **Over the last 12 months, the average state-level authorized ROE for electrics (based on 49 regulatory decisions) has been 9.62%. The list of decisions:**

State	Company	Case ID	Rate Case Event Occured	Return on Equity (%)	Common Equity to Total Capital (%)
Iowa	Interstate Power & Light Co.	D-RPU-2019-0001	1/8/2020	10.02%	51.00%
Michigan	Indiana Michigan Power Co.	C-U-20359	1/23/2020	9.86%	46.56%
New Jersey	Rockland Electric Company	D-ER19050552	1/22/2020	9.50%	48.32%
New York	Consolidated Edison Co. of NY	C-19-E-0065	1/16/2020	8.80%	48.00%
Nevada	Sierra Pacific Power Co.	D-19-06002	12/24/2019	9.50%	50.92%
Arkansas	Southwestern Electric Power Co	D-19-008-U	12/20/2019	9.45%	33.71%
California	Pacific Gas and Electric Co.	A-19-04-015	12/19/2019	10.25%	52.00%
California	San Diego Gas & Electric Co.	A-19-04-017 (Elec)	12/19/2019	10.20%	52.00%
California	Southern California Edison Co.	A-19-04-014	12/19/2019	10.30%	52.00%
Georgia	Georgia Power Co.	D-42516	12/17/2019	10.50%	56.00%
Maryland	Baltimore Gas and Electric Co.	C-9610 (EL)	12/17/2019	9.70%	NA
Illinois	Ameren Illinois	D-19-0436	12/16/2019	8.91%	50.00%
Illinois	Commonwealth Edison Co.	D-19-0387	12/4/2019	8.91%	47.97%
Indiana	Northern IN Public Svc Co.	Ca-45159	12/4/2019	9.75%	47.86%
Idaho	Avista Corp.	C-AVU-E-1904	11/29/2019	9.50%	50.00%
Louisiana	Entergy New Orleans LLC	D-UD-18-07 (elec.)	11/7/2019	9.35%	50.00%
Virginia	Virginia Electric & Power Co.	C-PUR-2019-00046 (Rider U)	11/1/2019	9.20%	51.17%
Wisconsin	Wisconsin Electric Power Co.	D-05-UR-109 (WEP-Elec)	10/31/2019	10.00%	52.50%
Wisconsin	Wisconsin Public Service Corp.	D-6690-UR-126 (Elec)	10/31/2019	10.00%	52.50%
Montana	NorthWestern Corp.	D2018.2.12	10/29/2019	9.65%	49.38%
Massachusetts	Massachusetts Electric Co.	DPU-18-150	9/30/2019	9.60%	53.49%
Wisconsin	Northern States Power Co - WI	D- 4220-UR-124 (Elec)	9/4/2019	10.00%	52.52%
Vermont	Green Mountain Power Corp.	C-19-1932-TF	8/29/2019	9.06%	49.46%
Maryland	Potomac Electric Power Co.	C-9602	8/12/2019	9.60%	50.46%
Virginia	Virginia Electric & Power Co.	C-PUR-2018-00195 (Rider E)	8/5/2019	9.20%	51.17%
Virginia	Virginia Electric & Power Co.	C-PUR-2018-00166 (Rider BW)	7/3/2019	10.20%	51.37%
Virginia	Virginia Electric & Power Co.	C-PUR-2018-00167 (Rider US-2)	7/3/2019	9.20%	51.37%
Michigan	Upper Peninsula Power Co.	C-U-20276	5/23/2019	9.90%	NA
Hawaii	Maui Electric Company Ltd	D-2017-0150	5/16/2019	9.50%	57.02%
South Dakota	Otter Tail Power Co.	D-EL18-021	5/14/2019	8.75%	52.92%
South Carolina	Duke Energy Progress LLC	D-2018-318-E	5/8/2019	9.50%	53.00%
Michigan	DTE Electric Co.	C-U-20162	5/2/2019	10.00%	37.94%
Virginia	Appalachian Power Co.	C-PUR-2018-00118 (RAC-EE)	5/2/2019	9.42%	NA
Virginia	Virginia Electric & Power Co.	C-PUR-2017-00168 (Rider DSM)	5/2/2019	9.20%	51.37%
South Carolina	Duke Energy Carolinas LLC	D-2018-319-E	5/1/2019	9.50%	53.00%
Kentucky	Kentucky Utilities Co.	C-2018-00294	4/30/2019	9.73%	NA
Kentucky	Louisville Gas & Electric Co.	C-2018-00295 (elec.)	4/30/2019	9.73%	NA
Virginia	Virginia Electric & Power Co.	C-PUR-2018-00101 (Rider US-3)	4/15/2019	9.20%	51.37%
Florida	Duke Energy Florida LLC	D-20180149	4/2/2019	10.50%	NA
Maryland	Potomac Edison Co.	C-9490	3/22/2019	9.65%	52.82%
New York	Orange & Rockland Utlts Inc.	C-18-E-0067	3/14/2019	9.00%	48.00%
Oklahoma	Public Service Co. of OK	Ca-PUD201800097	3/14/2019	9.40%	NA
New Jersey	Atlantic City Electric Co.	D-ER18080925	3/13/2019	9.60%	49.94%
Virginia	Virginia Electric & Power Co.	C-PUR-2018-00083 (Rider B)	2/27/2019	9.20%	51.37%
Virginia	Virginia Electric & Power Co.	C-PUR-2018-00084 (Rider GV)	2/27/2019	9.20%	51.37%
Virginia	Virginia Electric & Power Co.	C-PUR-2018-00085 (Rider R)	2/27/2019	10.20%	51.37%
Virginia	Virginia Electric & Power Co.	C-PUR-2018-00086 (Rider S)	2/27/2019	10.20%	51.37%
Virginia	Virginia Electric & Power Co.	C-PUR-2018-00087 (Rider W)	2/27/2019	10.20%	51.37%
West Virginia	Appalachian Power Co.	C-18-0646-E-42T	2/27/2019	9.75%	50.16%

Updated as of 1/24/20 close

Source: SNL Research, Evercore ISI Research

FERC Adopted A Revised Methodology And Lowered ROEs For MISO Transmission Owners

On 11/21/19, the FERC adopted a revised methodology for setting electric transmission returns, setting a new base ROE for Midcontinent ISO (MISO) transmission owners of 9.88%. On 1/21/20 the FERC issued a boilerplate order granting rehearing in the MISO transmission ROE dockets. We see the order as another example that the direction of travel for ROEs is down in the US utility industry. The ROE outcome is lower than the 10.32% approved by the FERC in 2016 (the initial order in the same proceeding) and below the 12.38% originally approved well over a decade ago. The average MISO transmission owner will still be able to earn in the mid 10% range with incentive ROE adders, suggesting the FERC is still trying to keep ROEs above those approved at the state level (trending closer to 9.5%-9.6% in the last 12 months, but with CNP looking at a 9.25% ROE in its pending TX case). The decision is notably lower than what FERC was considering at this time last year (around 10.3% base for MISO and 10.4% for NE). The recent rehearing order was expected, with the FERC widely seen by stakeholders as having made errors in judgment in the original November order in the case, because the methodology approved (discussed below) could lead to significantly lower ROEs for all FERC-regulated transmission owners.

Two models instead of four: The new methodology relies on Discounted Cash Flow (DCF) and Capital Asset Pricing (CAPM) Models. This is a departure from and less constructive than the proposed methodology introduced in October 2018. That methodology relied on four models: DCF, CAPM, Expected Earnings, and Risk Premium. The latter two, which were removed from the final product, resulted in higher ROEs.

Incentive cap now at 12.24%. FERC's new methodology results in a zone of reasonableness of 7.52%-12.24%. This means that MISO transmission owners should be able to take advantage of incentive ROE adders. The effective date of the new cap and ROE is Sep. '16.

Most directly relevant for AEE and WEC in our coverage. We see a potential $0.03/sh negative impact to AEE's 2020/2021 EPS. This assumes AEE's transmission ROE will fall from 10.82% (10.32% base + 50 bp adder) to 10.38% (9.88% + 50 bp adder). WEC's long-term forecast for ATC actually assumes a 10.2% ROE so we see this order (implying 10.38% with incentives) as in line to slightly positive (less than a penny of upside to EPS).

Decision now pending for New England ROE. FERC did not issue a decision in the outstanding New England transmission ROE case as Commissioner Glick has recused himself, and the commission can't vote with only two commissioners. We estimate this suggests the new ROE in NE could end up in the high 9s as well, with a cap of ~12.5%. This could imply downside of $0.03/sh to ES 2020/2021 EPS (assumes ROE goes from 11.5% to 11.25% all in) and $0.02-$0.03/sh to AGR EPS.

PEG has the highest exposure, but they haven't been called in yet: PSEG's transmission operates under a formula rate plan, with an authorized ROE of 11.68% (including a 50bp incentive adder). Their rate has not been challenged, but we see that as a real risk. PEG's '21 EPS would be $0.15 lower if their FERC ROE was lowered to 9.88% before incentives.

Source: Evercore ISI Research

Sensitizing Our Earnings Estimates To Potential ROE Changes – Near-Term Exposures Measured

- **Below we show regulatory risk by estimating the EPS impact of a 25bp change in authorized/earned ROEs for all utility holding companies that have subsidiaries that are currently undergoing a rate case across our coverage universe.**

- **With interest rates staying pinned at these low levels, we think this persistent lower interest rate environment is becoming a bigger risk as it relates to the potential for lower ROEs in pending rate cases.**

Near-Term Impact Of A 25bp Change In ROEs

Ticker	Company Name	EPS Impact			% EPS Impact		
		2019	2020	2021	2019	2020	2021
AES	The AES Corp	NA	NA	NA	NA	NA	NA
AEE	Ameren	$0.02	$0.02	$0.02	0.49%	0.50%	0.49%
AEP	American Electric Power	$0.02	$0.02	$0.02	0.37%	0.37%	0.37%
AGR	Avangrid	$0.03	$0.03	$0.04	1.29%	1.25%	1.26%
CMS	CMS Energy	$0.02	$0.02	$0.02	0.87%	0.87%	0.86%
CNP	CenterPoint Energy	$0.01	$0.01	$0.02	0.78%	0.78%	0.85%
D	Dominion Energy	$0.04	$0.04	$0.04	0.94%	0.95%	0.97%
DTE	DTE Energy	$0.09	$0.10	$0.11	1.49%	1.54%	1.54%
DUK	Duke Energy	$0.05	$0.05	$0.05	0.97%	0.99%	0.99%
ED	Consolidated Edison	$0.09	$0.10	$0.10	2.09%	2.17%	2.26%
EIX	Edison International	$0.10	$0.12	$0.11	2.12%	2.40%	2.39%
ES	Eversource	$0.00	$0.01	$0.01	0.14%	0.14%	0.14%
ETR	Entergy Corp	$0.11	$0.11	$0.12	2.01%	2.03%	2.10%
EVRG	Evergy	NA	NA	NA	NA	NA	NA
EXC	Exelon Corp	$0.04	$0.05	$0.05	1.39%	1.49%	1.63%
FE	FirstEnergy Corp	NA	NA	NA	NA	NA	NA
HE	Hawaiian Electric Industries, Inc.	$0.04	$0.04	$0.04	1.91%	1.85%	1.84%
NEE	NextEra Energy	NA	NA	NA	NA	NA	NA
NI	NiSource	$0.01	$0.01	$0.02	1.07%	1.10%	1.10%
OGE	OGE Energy	$0.05	$0.05	$0.05	2.12%	2.13%	2.11%
PCG	PG&E Corp	$0.11	$0.11	$0.12	2.84%	2.65%	2.60%
PEG	Public Service Enterprise Group Inc.	NA	NA	NA	NA	NA	NA
PNM	PNM Resources	NA	NA	NA	NA	NA	NA
PNW	Pinnacle West	$0.10	$0.11	$0.12	2.13%	2.16%	2.20%
PPL	PPL Corp (US Utilities)	$0.01	$0.01	$0.01	0.40%	0.40%	0.42%
SO	Southern Company	$0.03	$0.03	$0.03	1.07%	1.08%	1.07%
SRE	Sempra Energy	$0.08	$0.08	$0.09	1.36%	1.29%	1.12%
WEC	WEC Energy Group	$0.05	$0.05	$0.05	1.28%	1.27%	1.29%
XEL	Xcel Energy Inc	$0.04	$0.05	$0.05	1.64%	1.66%	1.66%

Source: Evercore ISI Research

Sensitizing Our Earnings Estimates To ROE Shocks – Theoretical Total Impact

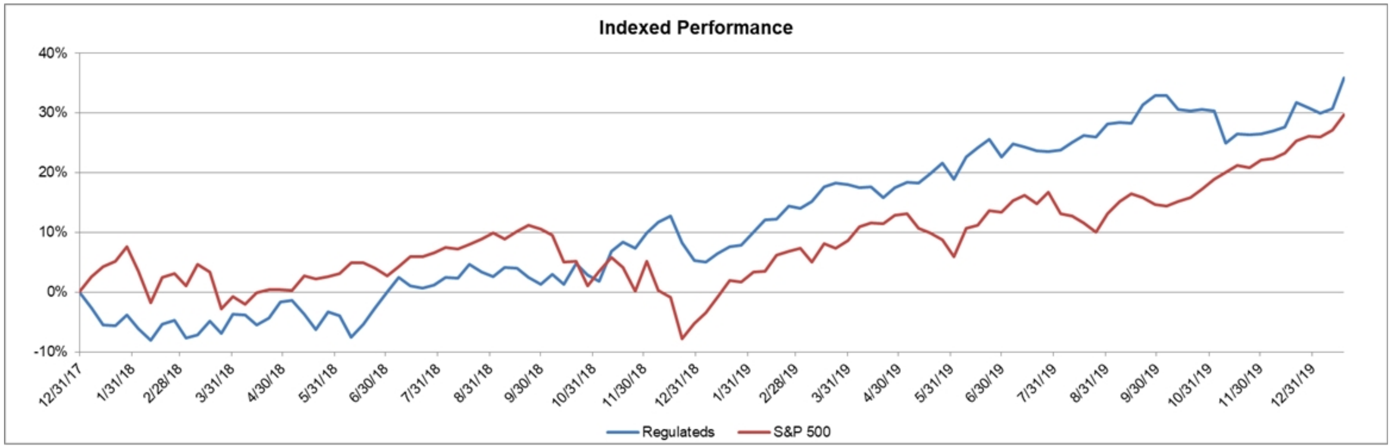
- **Below we show regulatory risk by estimating the EPS impact of a 25bp change in authorized/earned ROEs for all utility holding companies we cover, assuming a 25bp cut in authorized / earned ROEs for all their utility subsidiaries, whether they are in a rate review currently or not.**

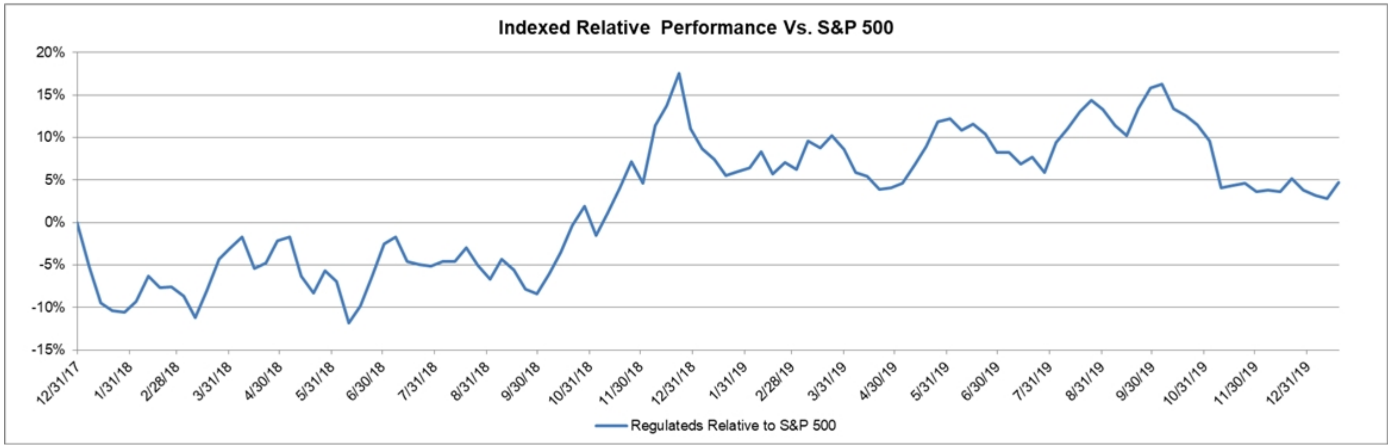
Total Theoretical Impact Of A 25bp Change In ROEs

Ticker	Company Name	EPS Impact			% EPS Impact		
		2019	2020	2021	2019	2020	2021
AES	The AES Corp	$0.01	$0.01	$0.01	0.55%	0.52%	0.52%
AEE	Ameren	$0.08	$0.08	$0.09	2.44%	2.42%	2.43%
AEP	American Electric Power	$0.09	$0.10	$0.10	2.17%	2.21%	2.20%
AGR	Avangrid	$0.04	$0.05	$0.05	1.92%	1.83%	1.85%
CMS	CMS Energy	$0.06	$0.07	$0.07	2.57%	2.55%	2.52%
CNP	CenterPoint Energy	$0.03	$0.04	$0.04	2.07%	2.03%	2.06%
D	Dominion Energy	$0.05	$0.05	$0.06	1.18%	1.18%	1.21%
DTE	DTE Energy	$0.12	$0.13	$0.14	1.99%	2.02%	2.05%
DUK	Duke Energy	$0.12	$0.13	$0.14	2.50%	2.53%	2.54%
ED	Consolidated Edison	$0.11	$0.11	$0.11	2.54%	2.51%	2.49%
EIX	Edison International	$0.10	$0.12	$0.11	2.12%	2.40%	2.39%
ES	Eversource	$0.07	$0.07	$0.08	2.05%	2.04%	2.01%
ETR	Entergy Corp	$0.15	$0.16	$0.17	2.85%	2.85%	2.91%
EVRG	Evergy	$0.08	$0.09	$0.09	2.64%	2.80%	2.79%
EXC	Exelon Corp	$0.05	$0.06	$0.06	1.72%	1.84%	2.03%
FE	FirstEnergy Corp	$0.03	$0.03	$0.04	1.44%	1.40%	1.38%
HE	Hawaiian Electric Industries, Inc.	$0.04	$0.05	$0.05	2.27%	2.20%	2.19%
NEE	NextEra Energy	$0.09	$0.10	$0.11	1.13%	1.12%	1.14%
NI	NiSource	$0.04	$0.05	$0.05	3.39%	3.38%	3.30%
OGE	OGE Energy	$0.05	$0.05	$0.05	2.13%	2.15%	2.12%
PCG	PG&E Corp	$0.11	$0.11	$0.12	2.84%	2.65%	2.60%
PEG	Public Service Enterprise Group Inc.	$0.05	$0.06	$0.06	1.71%	1.79%	1.87%
PNM	PNM Resources	$0.06	$0.06	$0.06	2.84%	2.84%	2.66%
PNW	Pinnacle West	$0.10	$0.11	$0.12	2.13%	2.14%	2.18%
PPL	PPL Corp (US Utilities)	$0.03	$0.03	$0.04	1.35%	1.38%	1.47%
SO	Southern Company	$0.06	$0.07	$0.07	2.13%	2.21%	2.21%
SRE	Sempra Energy	$0.13	$0.13	$0.14	2.12%	2.01%	1.74%
WEC	WEC Energy Group	$0.07	$0.08	$0.08	2.02%	2.03%	2.06%
XEL	Xcel Energy Inc	$0.08	$0.08	$0.09	2.93%	2.91%	2.90%

Source: Evercore ISI Research

Utility Stock Price Performance vs. SP500 From YE '17 To Present



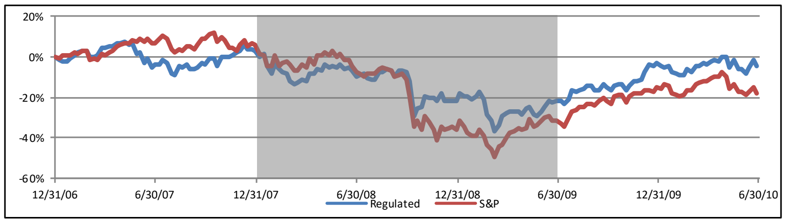


Updated as of 1/24/20 close, compounded return, 7 day intervals

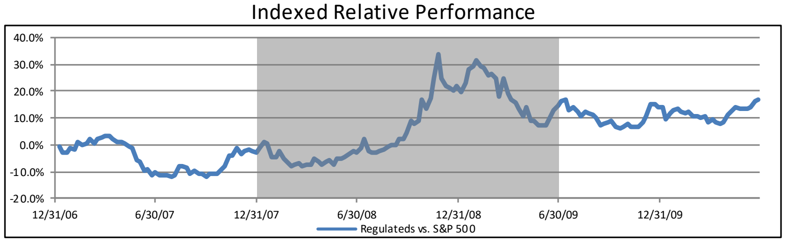
Source: FactSet, Evercore ISI Research

History Lesson: Utilities Outperformed Before The Last Recession, During The Credit Crisis, And Out The Back End

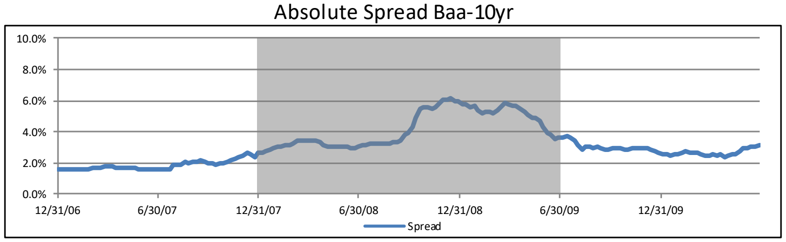
Indexed Performance



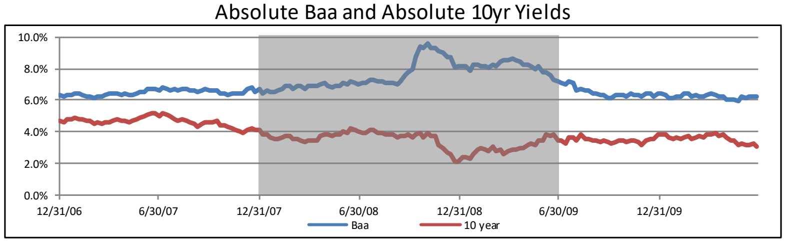
Indexed Relative Performance



Absolute Spread Baa-10yr



Absolute Baa and Absolute 10yr Yields

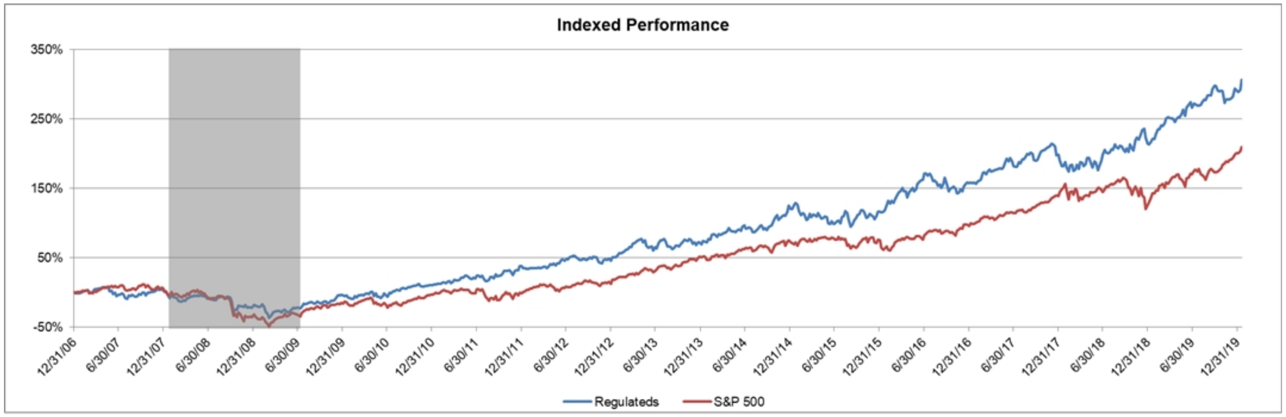


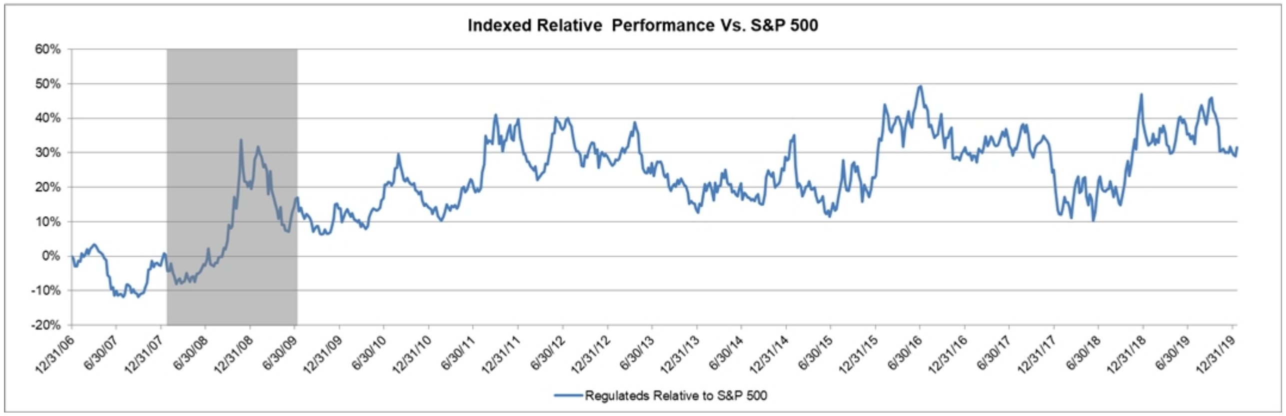
- On the charts to the left we show that regulated utilities outperformed the market in the latter half of '07 when they first peaked in valuation in our bond model (see page 15).
- From 6/30/07 through 12/31/07 utilities were up 6.3% vs. -1.4% for the SP500.
- Then performance tracked somewhat tight to the SP500 until the credit crisis hit a crescendo in late '08 / early '09 and utilities significantly outperformed, hitting very high valuations again in the bond model due to the blowout in Baa Yields (see page 15).
- During the '08 recession (from 12/31/07 until 6/30/09) regulated utility stocks delivered a total return of -23.4% vs. -35.0% for the SP500.
- In the year subsequent to the recession utilities returned 19.9% vs. 14.4% for the SP500.

Source: FactSet, Evercore ISI Research

History Lesson: Utility Stock Price Performance vs. SP500 From 2006 To Present

- This shows the performance of regulated utilities vs. the SP500 from YE ‘06, through the recession, until present.
- Assuming compounding returns and dividends reinvested, utilities are up 307% vs. 209% for the SP500 from YE ‘06 to present.



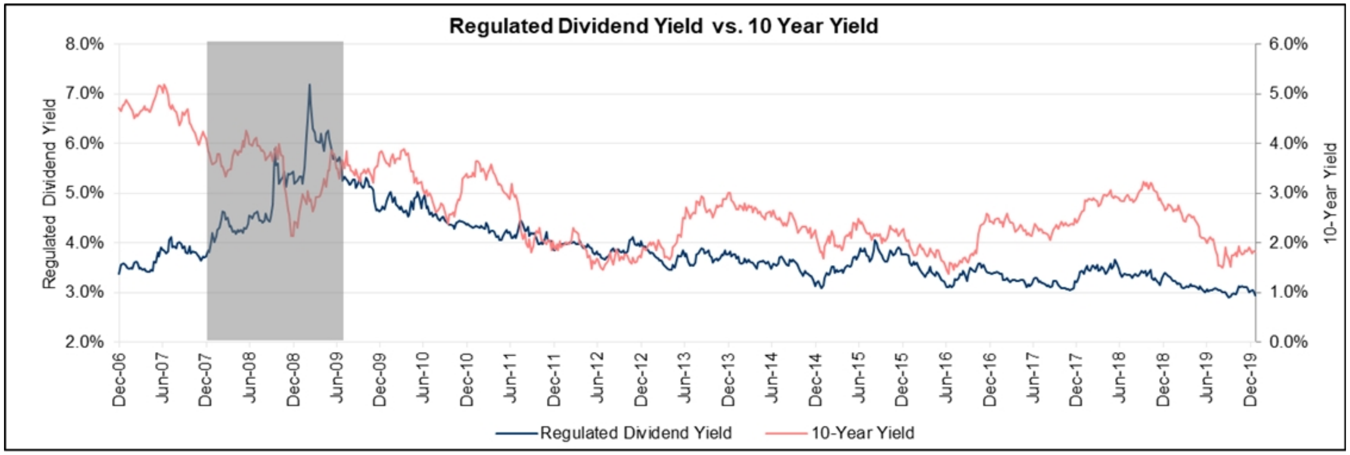


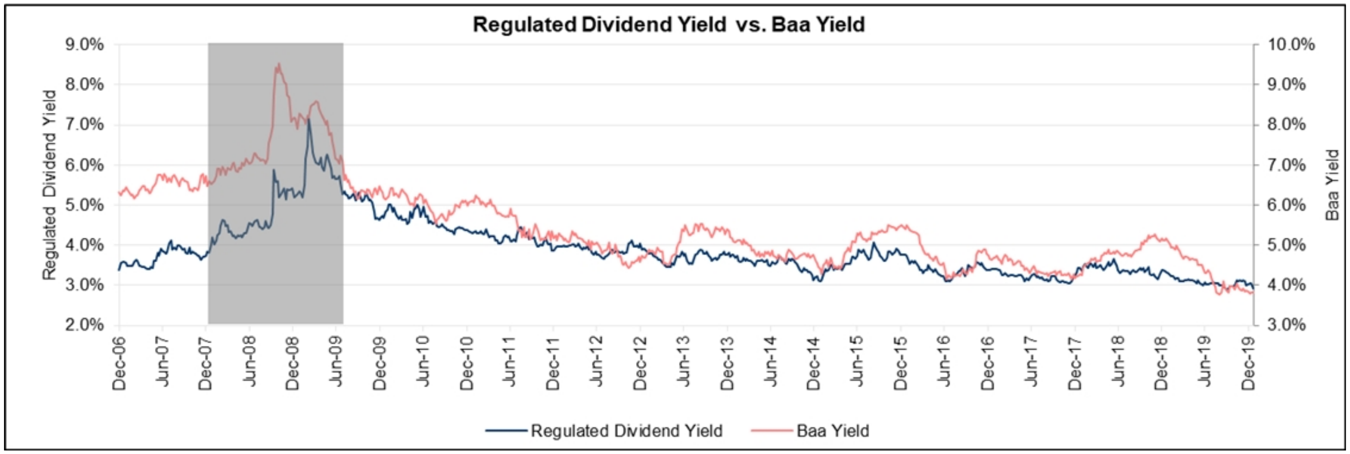
Updated as of 1/24/20 close

Source: FactSet, Evercore ISI Research

Regulated Dividend Yields vs. 10Y UST and Baa Yields Since 2006

- Below we show the dividend yield on regulated utility stocks as compared to the 10-year US Treasury yield and also as compared to the Moody's Baa Corporate Bond Yield Average. The narrowing spread between the utility dividend yields and bond yields is indicative of a moderating valuation due to the perceived risk of a recession / prolonged market downturn. Hence the less expensive reading in our bond regression model.





Updated as of 1/24/20 close

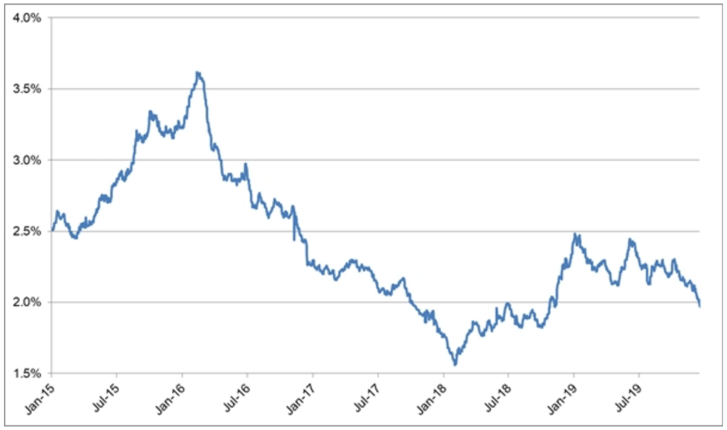
Source: FactSet, Evercore ISI Research

The Spread Between Corporates And Treasuries Has Narrowed

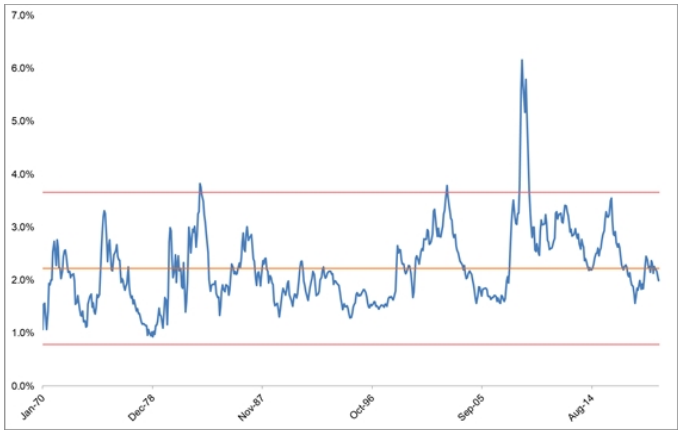
- The spread between corporates and Treasuries has averaged 222bp since 1970.
- At the beginning of 2015 the 10-year was ~2.2% and corporates were 4.7%, a spread of 250bp.
- The wide spread between US Treasuries and corporates was the key factor that made utilities look fully priced in our bond model from October 2015 through early April 2016.
- That spread peaked last at 363bp on 2/16/16, with the 10-year yield at 1.74% and corporate bond yield average at 5.37%.
- The tightening spread between corporates and Treasuries in the back half of 2016 was a key factor that allowed utilities to maintain value post the election despite rising inflation expectations.
- On 12/13/18 the spread was 228bp. On 12/31/18 the spread was 245bp. On 1/24/20, the spread was 200bp.

The Spread Between Baa Corporate Bond Yields and the 10 YR Treasury Yield Compressed In 2019

Daily Moody's Baa / 10 Year Spread



Monthly Moody's BAA / 10 Year Spread



Updated as of 1/24/20 close

Source: FactSet, Evercore ISI Research

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: January 26 2020 08:32

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Current Ratings Definition

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Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's universe
Coverage Suspended- the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
Rating Suspended- Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*

*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell" to equate their own ratings to these categories. For this purpose, and in the Evercore ISI ratings distribution below, our Outperform, In Line, and Underperform ratings can be equated to Buy, Hold and Sell, respectively.

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Sell -the total forecasted return is expected to be less than 0%

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Prior to October 10, 2014, the ratings system of ISI Group and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy- Return > 20%
Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

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Equal-Weight- the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
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Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

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Long- the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.
Short- the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
No Position- the stock is not included in the model portfolio.
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Rating Suspended - Evercore ISI has suspended the rating and/or target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon; a stock in the model portfolio is removed.

Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.

FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell," to equate their own ratings to these categories. For this purpose, and in the Evercore ISI ratings distribution below, our Long, No Position and Short ratings can be equated to Buy, Hold and Sell respectively.

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Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	420	52	Buy	95	23
Hold	306	38	Hold	36	12
Sell	48	6	Sell	5	10
Coverage Suspended	17	2	Coverage Suspended	10	59
Rating Suspended	15	2	Rating Suspended	4	27

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Evercore ISI or an affiliate has received compensation from these subject companies CenterPoint Energy and Inc., Eversource Energy, Hawaiian Electric Industries Inc., NextEra Energy Inc, PG&E Corp., PNM Resources, Inc, Southern Co., WEC Energy Group and Inc. for investment banking services in the last 12 months.

Price Charts

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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Underweight
Gas/Power Infrastructure – Market Overweight

January 14, 2020

NISOURCE

(NI US Equity – $28.18 – Peer Perform)

Looking past Mass in 2020; upgrade to Outperform

- **Same call, one year later; upgrade to Outperform with $31 PT.** We thought NI could get past the 2018 Mass. gas explosion last year, but more operational concerns and lingering regulatory and B/S issues got in the way. We like the risk/reward here and see 2020 as a de-risking year for NI as it removes equity overhang and resolves lingering MA reviews. But it's not just de-risking – we think NI has upward bias to its 5-7% EPS growth rate long-term, with visibility on renewables opportunities at NIPSCO coming into view later this year. NI currently trades at a full turn discount to the electric average; we see potential to re-rate closer to its historic 5-10% premium as these catalysts play out.

- **De-risking investment story with identifiable catalysts.** We see a big improvement in the risk profile of NI as it moves toward a resolution in MA. The scoping memo of the DPU's investigation was helpful in providing a manageable cap on fines. We sense NI will likely take equity off the table soon, rather than waiting for its property insurance claim to fully resolve. We see the current 5-7% growth rate intact, with an upward bias in the future as NI looks to replace all of its coal with renewables in Indiana across 2023-2028.

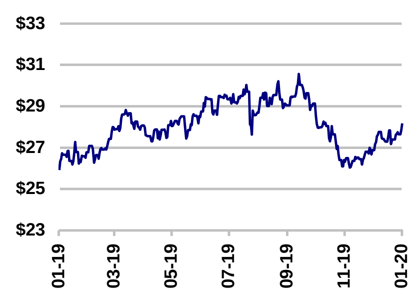
- **Risks – decarbonization, hiccup in MA or another safety event.** We see a debate over what the market wants to pay for gas businesses as decarbonization becomes a broader investor focus. Historically LDCs have traded at big premiums to electrics, but the gap has narrowed recently. This is the furthest from anyone's mind in NI's core Midwestern states though, and NI's gas utilities are simply low-risk other than MA. Another risk would be the situation in MA getting worse before it gets better; we expect that the public hearings will be noisy, but manageable given the bookend on fines. Finally, the probability of another major safety event is scary but unlikely given the company's complete overhaul / focus on its safety practices.

- **Raising PT to $31; big disparity in LDC comp group.** We are raising our PT by $2 to $31. We ascribe a 21x multiple on our 2021E – a premium for NI's electric utility and average on its gas LDCs. After digging through the LDC comp universe, we found a big disparity in multiples due to business mix differences. Premium pure-play names trading at 22-24x, discount diversified names at 18-20x – we think NI deserves something in between.

Estimates / Valuation				
(US$)	2019E	2020E	2021E	2022E
EPS	$1.29	$1.37	$1.45	$1.55
Consensus	$1.30	$1.38	$1.46	$1.54
P/E	21.8x	20.6x	19.4x	18.2x
Dividend Yield	2.8%	2.8%	3.0%	3.2%

Trading and Fundamental Data	
Price Target	**$ 31**
Current Price	28.18
52-Week Range	$26-$31
Market Cap. (MM)	10,530
Enterprise Value (MM)	20,910
Shares Out. (MM)	373.5
Dividend Yield	2.84%
Dividend Payout Ratio	61.7%
ROE	-1.4%
Debt to Cap	61.7%
Avg. Daily Vol. (000)	3,477

Price Performance	YTD	LTM
NI US Equity	1%	7%
Utility Index	1%	23%
S&P 500	2%	26%



Source: FactSet/Wolfe Research

Key Changes		
	New	Old
Rating	Outperform	Peer Perform
PT	$31	$29

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WOLFE RESEARCH

NiSource

January 14, 2020

NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2019E	2020E	2021E	2022E
EPS	$1.29	$1.37	$1.45	$1.55
Diluted Shares Outstanding	$378	$395	420	430
Dividends Per Share	$0.80	$0.85	$0.90	$0.95
Dividend Yield	2.8%	3.0%	3.2%	3.4%
Dividend Payout Ratio	62%	62%	62%	61%
Equity Ratio	39%	42%	43%	44%
FFO/Net Debt	16%	16%	16%	16%
Valuation Metrics				
P/E	21.8x	20.6x	19.4x	18.2x
Price/Book	1.9x	1.7x	1.6x	1.6x
Segment EPS				
Gas Distribution	$1.10	$1.16	$1.23	$1.30
Electric	$0.57	0.57	0.56	0.57
Parent & Other	($0.38)	(0.36)	(0.33)	(0.32)
Total EPS	**$1.29**	**$1.37**	**$1.45**	**$1.55**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2019E	2020E	2021E	2022E
Total Capital Spending by Segment ($M)				
Gas Distribution	$1,295	$1,328	$1,363	$1,363
Electric	455	472	487	487
Parent	25	25	25	25
Total Capex	**$1,775**	**$1,825**	**$1,875**	**$1,875**

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland and Massachusetts.

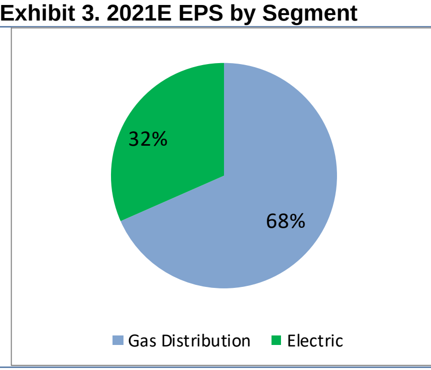
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of capital investment with recovery largely through trackers in mostly constructive regulatory environments. We see NI as a de-risking story in 2020 with an upward bias on rate base / EPS growth due to renewable investment opportunities at NIPSCO Electric.

Valuation

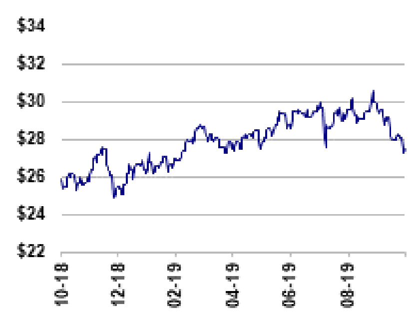
Our $31 price target is derived using a P/E multiple of 21x on our 2021E. This reflects a premium for NI's electric utility and an average for its gas LDCs Risks for NiSource are 1) further issues in MA 2) bad regulatory outcomes and 3) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer growth

Exhibit 3. 2021E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



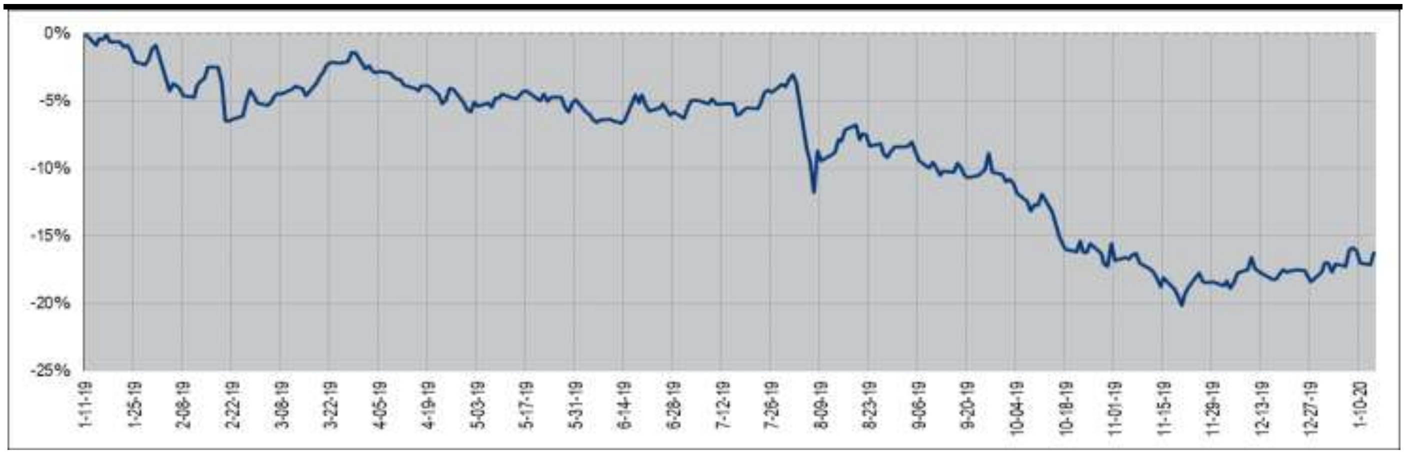
Source: FactSet

Path to return to a premium multiple in 2020

The Merrimack Valley explosion in Sept. 2018 was a tough event for NI and the company is still working to fully recover from it. We had hoped a turnaround would happen in 2019, but we downgraded the stock in early August 2019 as more operational concerns arose, the Mass investigations extended and our hope for an exit from the business did not play out. Since then, NI stock has underperformed significantly (see Ex 5 below) but has shown some signs of stabilizing. Despite the MA overhangs, NI made good regulatory progress in its states in 2019 and has made a lot of progress on safety improvements too.

We think the stock is ready to turn the page in 2020. We see a path for NI to creep back to the historical 5-10% premium (vs electric average) that the company enjoyed prior to the Merrimack Valley event. We see a material improvement in the risk profile of the company given the safety overhaul and as NI moves toward a resolution in MA – the recent scoping memo from the DPU was helpful in providing a manageable cap on the level of fines. **At NI's core, the company is a pure-play regulated utility with low business risk**. This has been overshadowed by the MA subsidiary, which only comprises 5-10% of the total company. We ultimately see NI as a de-risking story in 2020 with an upward bias on rate base / EPS growth as opportunities for renewables investment at NIPSCO Electric appear significant across 2023-2028.

Exhibit 5: NI vs the Regulated Average



Source: Wolfe Research, FactSet

Identifiable catalysts in 2020

Equity overhang, but likely not for long. We sense that NI will likely remove its $500-700M equity overhang sometime in the first half of the year. We do not believe the company will wait to see the outcome of its property insurance filing, which is still a quarter or two away. Any cash benefit from the property filing could then be reflected by tempering its ~$300M/yr. of ATM / DRIP equity. Once the equity overhang is removed, the market can then focus on the company's de-risking story as the investigations in MA are closer to being resolved.

Upward bias to rate base / EPS growth rate. NI currently targets 5-7% annual EPS growth – this is supported by ~5% rate base growth at NIPSCO Electric and ~10% rate base growth at its gas LDCs. We believe there is an upward bias to rate base growth at NIPSCO Electric as it works to replace its coal generation with renewables across 2023-2028. While this will require incremental external funding, we expect that the rate base investment opportunity is significant enough for NI to be well within its current consolidated EPS growth range with maybe a chance to move the range to 6-8%.

NI's recent rate case outcome in Indiana allows the company to execute on its generation strategy by guaranteeing full recovery of its early coal retirements. NI's Schaefer units will physically retire in 2023 and Michigan City in 2028 – at which time, the company will be coal-free. The Indiana Utility Regulatory Commission's (IURC) approval of NI's JV and ownership agreement for Rosewater Wind (102 MW, ~$90M of capex) was a good sign for future renewable ownership opportunities. NI has another pending request with the IURC for a BoT agreement for the Indiana Crossroads project (302 MW). We expect that these projects will be reflected in NI's capex forecast once it rolls forward through 2023. Through subsequent RFPs, we anticipate that NI will seek to procure significant solar / solar + storage capacity to come online in unison with its coal retirements as detailed in its most recent IRP.

What is still left to play out in Massachusetts

DPU Investigations
The Massachusetts DPU will hold two public hearings on Jan. 29th and Feb. 10th concerning its investigations into Columbia Gas for the Merrimack Valley gas explosions. The two investigations are for 1) Columbia's role in and responsibility for the incident as well as its restoration efforts following the incident; and 2) Columbia's preparation for the gas incident and the company's implementation of its emergency response plan. For the scope of the 2nd investigation, the DPU intends to focus on three distinct time frames, with the possibility of a fourth. MA law allows for up to a maximum fine of $20M per time frame. We believe the $80M cap (four time frames) would be manageable.

Criminal Investigation
Both NI and Columbia Gas are subject to a criminal investigation related to the Merrimack Valley incident which is being conducted by the U.S. Attorney's Office for the District of Massachusetts. We believe the criminal investigation has a high bar set to find the company guilty – proof of knowing and willful criminal intent. The NTSB reports did not show anything close to this. While a concern, we hope the investigation is something that can be resolved quietly or settled out of court.

Possible exit?
This was part of our original thesis when sticking with our Outperform rating immediately following the event in MA. We ultimately believe there is a path for NI to exit the state but think there are still issues that need to be cleaned up prior to a sale occurring. The investigations listed above are the most identifiable. A third-party audit report of the gas pipeline replacement work as part of the Merrimack Valley restoration is likely to be available by late Q1 / early Q2. Presumably a clean audit report would give a potential buyer piece-of-mind that the new system was installed / operating correctly.

Risks to our Outperform rating

The natural gas debate. In recent months, we have seen investors focus more on decarbonization and the potential effects on coal, and increasingly gas businesses. Nat gas will likely be a hot debate in 2020 on this topic. We have seen gas LDC multiples compress a bit with this as a potential reason. A few states – CA, NY, MA – have seen towns and municipalities limit new gas service. While we worry on this for all gas businesses, NI is likely one of the least exposed given its large Midwestern footprint where this issue is far from anyone's mind. NI's only higher risk state is MA which is very small and may go away anyway. Bottom line, NI has low-risk pure play utility businesses other than MA and the key issue is keeping them that way by good, safe operations.

Another major safety event. We believe that the probability of this is unlikely given company's complete overhaul / focus on its safety practices. NI's Safety Management System (SMS) is expected to be fully in place around midyear and we have been encouraged by recent Board appointments (e.g. former NTSB chair). If another major event was to occur, we think there would be the potential for major corporate changes at the company that would help limit any downside potential.

Things get worse before they get better in Massachusetts. Given the number of missteps that NI has had since the initial incident, another hiccup in MA would be very bothersome. While we expect that the public hearings will be noisy, the DPU's scoping memo was helpful in providing a bookend on the level of fines NI may ultimately face. We also think the company's focus on safety, as mentioned above, make the possibility of another misstep in MA unlikely.

Big valuation disparity amongst gas LDCs

We dug through the gas LDC comp universe and found a big disparity in trading multiples due to business mix differences. In exhibit 6 below, we have now separated our LDC comp table to distinguish between pure-play regulated companies and those with diversified (i.e., non-regulated) businesses. The pure-play gas LDC average is 23x whereas the diversified average is 19x on 2021 earnings – we believe NI's LDCs deserve a multiple in the middle (21x) for now. We believe the most comparable LDCs to NI are Atmos Energy (ATO) and ONE Gas (OGS). Both of these are high-quality, high-growth pure plays. We think it is possible that NI's embedded LDC multiple can re-rate higher over time, closer toward ATO (22.5x) and OGS (24x) as its safety practices and track record become more seasoned.

Exhibit 6: Gas LDC Comparables

Company Name	Ticker	Current Price	Mkt Cap ($M)	P/E Multiple 2019E	P/E Multiple 2020E	P/E Multiple 2021E	P/E Multiple 2022E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Atmos Energy	ATO	$112.81	$13,792	25.9x	24.2x	22.5x	21.0x	2.0%	7.3%	49%	2.3x	59%
ONE Gas	OGS	92.88	4,898	26.5x	25.5x	24.1x	22.1x	2.2%	8.2%	59%	2.4x	56%
NiSource	NI	28.18	10,526	21.8x	20.6x	19.4x	18.2x	2.8%	6.3%	62%	2.2x	39%
Northwest Natural Gas	NWN	72.05	2,193	30.2x	28.5x	27.1x	26.4x	2.7%	0.6%	75%	2.7x	44%
Pure-play Average				**26.1x**	**24.7x**	**23.3x**	**21.9x**	**2.4%**	**5.6%**	**62%**	**2.4x**	**50%**
New Jersey Resources	NJR	43.31	4,136	22.1x	20.5x	18.7x	17.6x	2.9%	N/A	59%	2.5x	49%
South Jersey Industries	SJI	31.29	2,891	28.1x	19.8x	18.5x	16.6x	3.8%	4.0%	75%	2.1x	29%
Southwest Gas	SWX	77.67	4,243	20.8x	19.2x	17.5x	NA	2.8%	4.9%	57%	1.8x	50%
Spire Inc.	SR	82.25	4,193	22.1x	21.3x	20.3x	19.1x	3.0%	4.6%	65%	NA	47%
Diversified Average				**23.3x**	**20.2x**	**18.7x**	**17.8x**	**3.1%**	**4.5%**	**64%**	**2.2x**	**44%**
Blended LDC Average				**24.7x**	**22.4x**	**21.0x**	**20.2x**	**2.8%**	**5.1%**	**63%**	**2.3x**	**47%**
Average - electric utilities				*22.5x*	*21.4x*	*20.1x*	*19.1x*	*3.1%*	*5.0%*	*65%*	*2.3x*	*43%*

Source: Wolfe Research, FactSet

WOLFE RESEARCH

NiSource

January 14, 2020

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Price Chart with Ratings and Target Price History

Note: OP = Outperform; PP = Peer Perform; UP = Underperform

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Company:	Fundamental Valuation Methodology:
NI US Equity	Forward P/E

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:	Risks That May Impede Achievement of the Recommendation, Rating or Target Price:
NI US Equity	Economy, regulatory outcomes, project execution, pipeline safety accidents

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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Underweight
Integrateds – Market Overweight
IPPs – Market Overweight
Gas/Power Infrastructure – Market Overweight

January 7, 2020

UTILITIES & POWER

Top 10 things to watch for 2020

1) **Following a tough 2019, history says utilities may do better in 2020…**The sector trailed the 2019 bull market by 500bps and has ping-ponged between out- and under-performing 6 years in a row, suggesting a bounce may be due in 2020. In years after large market rallies, utilities tend to meet or beat the market the following year.

2) **…but valuations are still high…**Utilities are trading at an 11% premium to the market, which is still well above the 4% average. They trade at nearly 20x 2021 earnings, an all-time high. While 5-6% EPS growth is decent, current valuations are still highly dependent on a low growth, low rate environment.

3) **...and the Presidential election really matters.** We believe the election will dominate investor attention during 2020 and will be the key driver for utility performance. A Democrat win would be a huge relative win for utilities (and particularly renewables) as most other sectors could face new risks and overhangs. A Trump re-election would likely be viewed as a relief for the market relative to utilities.

4) **ESG goes viral; renewables, electrification in focus; nat gas debate.** We see ESG going from mainstream to viral in 2020 and utilities could net benefit. Electricity is the fuel of choice for the new economy. Renewables growth and carbon reduction are accelerating. Coal is largely over and the debate has moved to the future of natural gas. NEE and AWK have been the winners so far, ES could be next.

5) **Renewables – 2020 will be the best year ever**. Wind additions will hit a new peak, solar backlog is accelerating and offshore wind growth is huge on the east coast. NEE/NEP remain the best ways to play it.

6) **De-risking stories the focus for value opportunities – FE, EXC, D, EIX.** Valuation dispersion in utilities has narrowed from the peak but is still quite wide providing opportunities for discount companies that are de-risking their business mix. Our DUTY portfolio (Dogs of the UTY) is another way to play this theme.

7) **California recovery continues in 2020.** The wildfire fund law combined with better regulatory stability (ROE, cap structure, GRC outcomes) sets the stage for a continued CA recovery in 2020. Resolving PCG's bankruptcy will be a key event. We see less chance of a market freak-out in 2020 fire season – it proved wrong in 2019.

8) **ROEs back in focus – key rate cases to watch in 2020.** With low rates and high stock prices, ROEs have crept lower and remain a risk in 2020. Key cases to watch include AGR, AWK, DUK and PNW. Transmission ROEs are also a potential risk as FERC updated its methodology.

9) **Balance sheets and credit remain a key focus; more equity coming.** We thought equity issuance would tail off in 2019 but it stayed flat at $19B. 2020 deals to come include CNP, NI, AEP and of course PCG. Overall, balance sheets look stable.

10) **Power at a crossroads.** After a disappointing 2019, there are more questions than answers. Will investors appreciate IPPs huge free cash flow? What is the future of PJM's capacity market? How will each state react? With the integrateds more regulated and IPPs struggling to find new investors – will this be a public sector?

Exhibit 1: Top Ideas by Theme

Name	Ticker	PT
Regulated Utilities		
Ameren	**AEE**	**78**
Edison International	**EIX**	**80**
FirstEnergy	**FE**	**53**
American Electric Power	**AEP**	**101**
Eversource	ES	85
Evergy	EVRG	68
PPL Corp	PPL	37
Gas/Power Infrastructure		
Dominion Energy	**D**	**90**
Sempra Energy	**SRE**	**164**
Renewables/YieldCos		
NextEra Energy Partners	**NEP**	**61**
NextEra Energy	**NEE**	**240**
Power Plays		
Exelon	**EXC**	**55**
Vistra Energy	**VST**	**34**
NRG Energy	**NRG**	**44**

Source: Wolfe Research Utilities & Power Research

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2020 outlook – staying underweight utilities, but election key

Following a tough year for utilities in 2019 vs the market, utilities appear due for a defensive bounce especially given how far the market ran over the past year and past decade. But 2020 will be all about the Presidential election. Utilities look like one of the only relative winners if a Democrat is elected with several key sectors of the economy being clear losers in that scenario (health care, tech, financials, energy). On the other hand, there will be little need to own utilities in a Trump re-election scenario.

Utilities valuations are still well above average, an 11% relative premium vs the 4% historic average. We think this valuation already assumes a sustained low rate, low growth environment continuing. We still believe utilities can be helpful as defensive ballast to a portfolio but buying them at a large premium is an offensive bet on a weak environment, not playing defense. We would be more interested in the sector if it gets closer to a market multiple.

Performance Review: 2019

Utilities ended 2019 up 22.2%, a great year on an absolute basis but nothing special in 2019. The S&P 500 ended up 28.9% beating utilities by over 500bps on a total return basis. A unique aspect of 2019 was that utilities underperformed the market despite long-term interest rates falling nearly 100bps. As shown in Exhibit 2, this broke the relationship we have seen between interest rate moves and utilities relative performance. In retrospect, utilities moved ahead of bonds with their strong move in late 2018 and thus had less room to run in 2019.

Exhibit 2: Utilities vs. 10-yr Treasury

Source: FactSet, Wolfe Research

As shown in Exhibit 3, all the large income sectors underperformed the market in 2019, not surprising amidst a tech-driven bull market. The one exception was Yieldcos which benefitted from better sponsors and increasing investor appetite for renewables. Staples and REITs also slightly beat utilities while Telecom and Pharma trailed. Midstream was all over the map with Midstream C-corps slightly beating utilities for the year, but MLPs trailing all income sectors by a wide margin.

Exhibit 3: Utilities vs. Other Income Sectors

Sector	2019 Price Performance
WR YieldCo Index	30.7%
S&P 500	28.9%
S&P Consumer Staples	24.0%
REIT Index (FNER)	23.9%
Wolfe Midstream C-corp basket	22.8%
S&P Utility	**22.2%**
S&P Telecom	20.1%
S&P Pharma	12.0%
XLE Index	4.7%
WR IPP Index	0.4%
MLP Index (AMZ)	(2.0%)

Source: FactSet, Wolfe Research

Performance Review: long-term

After the weak relative performance in 2019, the long-term utility performance data looks a lot worse than a year ago. Utilities are now underperforming the market on a 1-yr, 3-yr, 5-yr and 10-yr basis. See Exhibit 4 below.

Exhibit 4: Utilities Trailing 1/3/5/10-Year Performance – Price and Total Return

Trailing Performance	Utilities - Price	S&P 500 - Price	Relative - Price	Utilities - TR	S&P 500 - TR	Relative - TR
1 Year	22.2%	28.9%	**-6.6%**	26.3%	31.5%	**-5.1%**
3 Year	33.0%	44.3%	**-11.3%**	47.5%	53.2%	**-5.7%**
5 Year	36.7%	56.9%	**-20.2%**	63.2%	73.9%	**-10.7%**
10 Year	107.8%	189.7%	**-81.9%**	205.3%	256.7%	**-51.3%**

Source: FactSet, Wolfe Research

1) History says utilities may be due for a bounce, but…

Will the ping-pong performance continue?

This was the 6th year in a row that utilities have performed opposite the prior year, ping-ponging between outperforming and underperforming the market (see Exhibit 5 on following page). If this track record continues, utilities are due to outperform in 2020.

While it may not feel like it to investors, utility deviation versus the market has tightened the last five years with no year seeing more than a 1000bp performance deviation.

Exhibit 5: Utilities Deviation from the Market since 2007 – Total Return

Year	Utility Performance During Year	S&P 500 Performance During Year	Relative Performance
2007	19.4%	5.5%	**13.9%**
2008	-29.0%	-37.0%	**8.0%**
2009	11.9%	26.5%	**-14.6%**
2010	5.5%	15.1%	**-9.6%**
2011	20.0%	2.1%	**17.9%**
2012	1.3%	16.0%	**-14.7%**
2013	13.2%	32.4%	**-19.2%**
2014	29.0%	13.7%	**15.3%**
2015	-4.8%	1.4%	**-6.2%**
2016	16.3%	12.0%	**4.3%**
2017	12.1%	21.8%	**-9.7%**
2018	4.1%	-4.4%	**8.5%**
2019	26.3%	31.5%	**-5.1%**

Source: FactSet, Wolfe Research

How do utilities perform after big stock market rallies?

Given the 29% move in the S&P 500 last year, we thought it would be interesting to look at how utilities perform the year following large market rallies. We looked at every period where the market rose over 25% and how utilities performed the following year. On the surface, the data in Exhibit 6 below shows a mixed bag but the only years where utilities did poorly were during the 1990 tech bubble. Excluding this, utilities have consistently performed in line or better than the market in years following large rallies. This seems to bode well for 2020 performance.

Exhibit 6: Utilities Relative Performance Post Market Up Over 25%

Year Where Market Rose +25%	Utility Performance Following Year	S&P 500 Performance Following Year	Relative Performance
2019	?	?	**?**
2013	24.3%	11.4%	**12.9%**
2003	19.6%	9.0%	**10.6%**
1998	-12.8%	19.5%	**-32.4%**
1997	10.0%	26.7%	**-16.6%**
1995	0.2%	20.3%	**-20.1%**
1991	5.3%	4.5%	**0.9%**
1989	-6.5%	-6.6%	**0.0%**
1985	23.3%	14.6%	**8.7%**
1980	9.2%	-9.7%	**18.9%**
Average			**-1.9%**

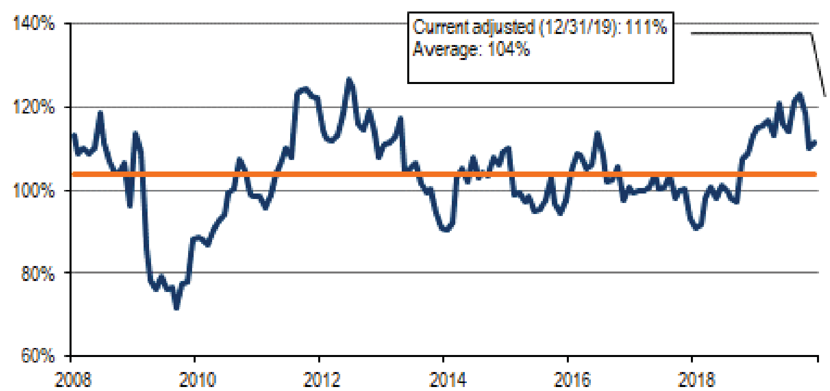
*Prior to 1995, Utilities = DUK, ED, EIX, EXC, FE, PCG, PPL, SO

Source: FactSet, Wolfe Research

2) Valuation Review – still at a decent premium

Utility valuations at 11% premium to market
Even after a pullback in Q4, utility relative P/E ended the year at an 11% premium to the market. This is down from over 20% at YE 2018 but still well above the 4% average premium we have seen post the financial crisis. Utilities have swung between a 9% discount in June 2018 to a 25% premium in mid 2019 – the volatility is pretty insane depending on macro conditions. We would be patient and wait for utilities to get closer to an average relative multiple or discount to buy them.

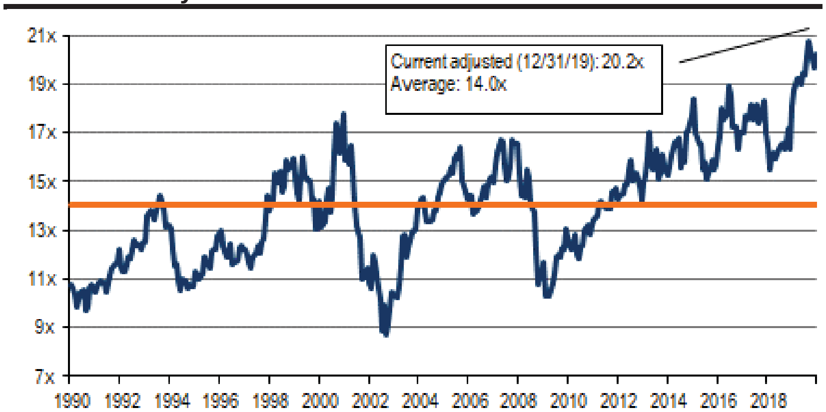
Exhibit 7: Utility Sector Forward P/E Relative to the S&P 500



Source: FactSet, Wolfe Research

Absolute valuations also near all-time highs
The current forward P/E of the sector is over 20x forward earnings. This is just below all-time highs. Given that the current is well above the L-T average of 14x and toward the higher end of the recent range, we view current valuations as highly dependent on sustaining the current low rate and strong stock market environment.

Exhibit 8: Utility Sector Forward P/E



Source: FactSet, Wolfe Research

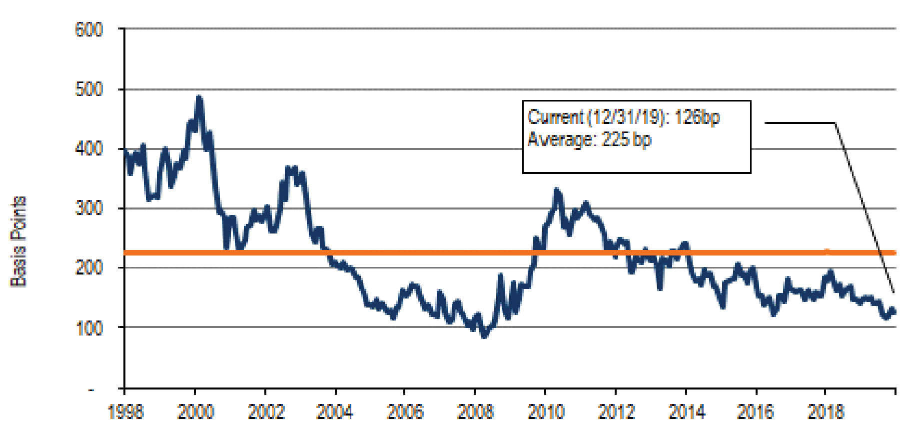
Yield valuations

Finally, we show yield valuations in Ex. 9 and 10 below. Utilities still look cheap to Treasuries as an income play (what doesn't!). Compared to the S&P 500, utilities look expensive on a yield basis at only 126bps above the S&P yield vs a historic average of 225bp. Many high-quality utilities now have yields below 3% these days.

Exhibit 9: Utility Dividend Yield vs. 10-Yr Treasury Yield

Source: FactSet, Wolfe Research

Exhibit 10: Utility Dividend Yield vs. S&P 500 Dividend Yield

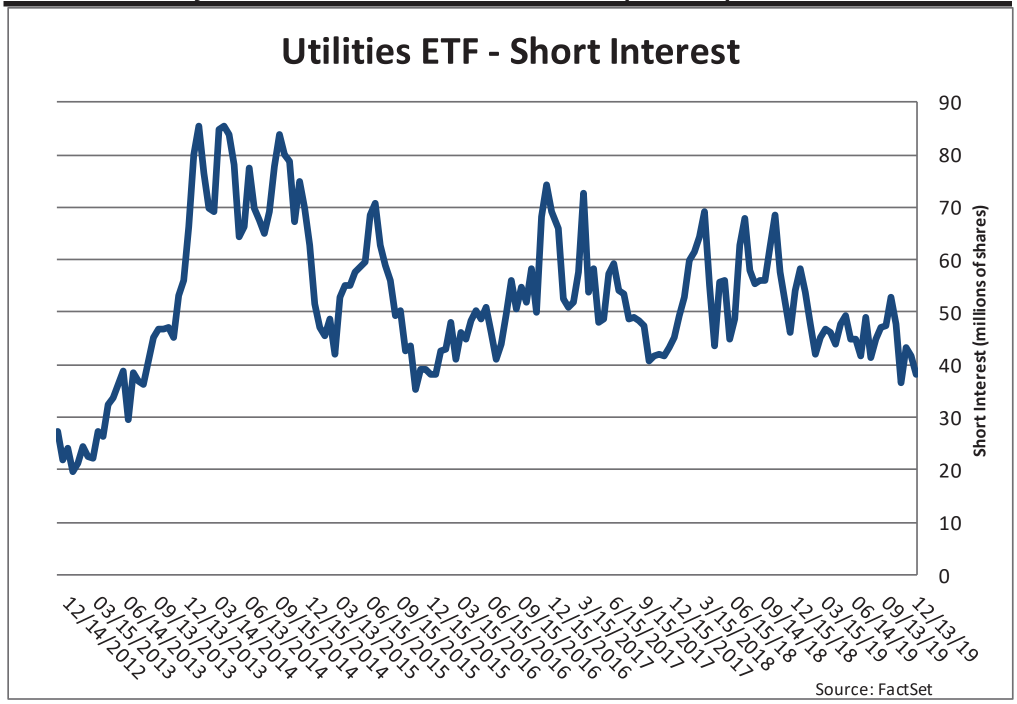


Source: FactSet, Wolfe Research

Short interest

One of our favorite contrarian indicators for utilities from a near-term trading standpoint continues to be short interest in the Utility ETF (XLU). When it's high, we view it as contrarian bullish. When it's low, we view it as a contrarian bearish signal. Today, the reading is as contrarian bearish as we have seen in the last 5 years with short interest at lows.

Exhibit 11: Utility ETF Short Interest – 38.2M Shares (12/13/19)



Source: FactSet, Wolfe Research\

Investor poll results

We conducted our yearend investor poll in mid-December. The responses painted a decidedly different sentiment for utilities vs six months prior – 51% think utilities will underperform the market in 2020 (was 29%) and only 26% think utilities will outperform (was 53%). Sentiment jives with the fact that the vast majority (92%) see interest rates staying flat or moving higher. It could also be reflective of expectations for the presidential election – 77% believe President Trump will be re-elected, likely suggesting a belief that the economy will continue to do decent and keep the bull market running. Interestingly, the preference is still to be overweight Regulateds (53%); Power is underweight (59%) for the first time in a while; YieldCos can't seem to catch a bid (60% underweight) despite how well they have performed in 2019.

EXC was the consensus favorite by a lot and we agree. 65% believe EXC will get IL legislation done this year. AEP was also a top long, which we view as a safe pick. shorts were the usual suspects – SO, DUK and ED – though SO more than doubled DUK for the top spot. Consensus' view on Vogtle 3 meeting the Nov. 2021 deadline were unchanged six months later, 75% still believe SO will miss the deadline.

The view on the CA utes was largely unchanged – 54% see them as value traps. This is despite fire season being over and recent constructive outcomes in rate cases. Consensus' view is still that MVP will get done (79%, up from 77%) but less people believe ACP will be completed (46%, down from 55%). Our first polling of Gas vs Electric and which deserves a higher multiple was interesting – 57% believe Electrics should trade higher. Europe's focus on decarbonization seems to be having an impact in the US.

Exhibit 12: 2020 Outlook Survey Results

	2020 Outlook Poll		
1) Top pick for 2020?	1) EXC 2) AEP 3) D / CNP / EIX		
2) Top short/underweight for 2020?	1) SO 2) DUK 3) ED		
3) Best non-consensus idea for 2020?	Long 1) NI 2) CNP 3) EXC	Short/Underweight 1) SO 2) D / ES / NEE	
4) How will utilities perform vs the market for 2020?	Outperform Underperform In-line	26% 51% 23%	
5) Do you prefer utilities or midstream in 2020?	Utilities Midstream	49% 51%	
6) Subsector views:	 Power Regulateds YieldCos	Overweight 41% 53% 40%	Underweight 59% 47% 60%
7) Interest rates - 10-yr yields at the end of 2020?	1.5% or less 1.5-2.0% 2.0-2.5% 2.5% or more	6% 54% 38% 2%	
8) California utilities - value plays or value traps?	Value plays Value traps	46% 54%	
9) Best activist candidate?	1) CNP 2) DUK 3) NI		
10) IPPs - do you prefer NRG or VST?	NRG VST	63% 37%	
11) Which company is the best / worst on ESG?	Best 1) NEE 2) AWK	Worst 1) DUK 2) WEC	

Note: These comments have been reproduced in their original form and have not been edited. Poll comments are not necessarily representative of the overall market, should not be attributed to Wolfe Research and are not representative of its views. We received 79 responses for our 2020 outlook poll.

Exhibit 13: 2020 Outlook Survey Results (cont.)

	2020 Outlook Poll	
12) Do MVP and ACP get completed?	Both	36%
	Neither	11%
	MVP but not ACP	43%
	ACP but not MVP	10%
13) Does EXC get IL clean energy legislation done in 2020?	Yes in 2020	65%
	No	35%
14) Does SO get Vogtle 3 done by November 2021 regulatory deadline?	Yes	25%
	No	75%
15) Who wins the presidential election?	Republican	77%
	Democrat	23%
16) Gas Utilities vs. Electric Utilities - which should trade at a higher multiple?	Gas	43%
	Electric	57%
17) Offshore wind - bullish or bearish?	Bullish	52%
	Bearish	48%

Note: These comments have been reproduced in their original form and have not been edited. Poll comments are not necessarily representative of the overall market, should not be attributed to Wolfe Research and are not representative of its views. We received 79 responses for our 2020 outlook poll.

3) Presidential election is The Event of 2020

We keep coming back to the Presidential election as the key event for 2020 and the key determinant of whether utilities will outperform or underperform the market. The differences between the Republicans and Democrats have widened (even moderates like Biden) to the point where the outcome likely makes a big difference to the market overall and which sectors outperform and underperform.

If a Democrat wins, most key sectors of the economy are likely viewed as net losers. Healthcare has increased cost exposures, Tech has anti-trust issues, Financials have renewed regulatory pressure, and Energy has a negative bias, at least conventional energy. The risk of tax rates rising, especially if Dems also win the Senate, could also be a huge pressure on the market and most sectors. Utilities seem to be relatively neutral to a Dem winning the White House and risk of tax increases. This makes them a big relative winner vs the market and other sectors if a Dem wins the White House. In fact, some utilities could be flat-out beneficiaries such as renewables plays (NEE/NEP), offshore wind (ES), and carbon free power such as nuclear if the Dems pursue climate change actions (EXC).

If Trump wins, not much changes. There would likely be a relief rally in the market especially for areas like health care and financials that are most exposed to Democrat win. Utilities would not be directly hurt, but could be left behind rallies in these other sectors and thus are a relative loser. For renewables plays, the current Administration is at worst neutral. In fact, Congress just passed extension of wind tax credits and offshore wind credits late last year

Other key events to watch in 2020

In exhibits 14 (below) and 15 (following page), we detail a full list of important events by company for 2020. Some highlights include:

AGR / ES – BOEM is expected to release a supplemental study on offshore wind during Q1; important for both AGR/ES. BOEM expected to rule on permit for Vineyard Wind in Q2; key for AGR.

CNP – Expected to re-issue 2020 guidance and provide an updated growth outlook on YE19 call.

D – VA's legislative session runs from Jan. through mid-March. Legislation to support D's offshore wind plans could be introduced.

DUK – Outcomes of its two NC rate cases around midyear will be key for stock.

D / DUK – ACP's fate should be known by mid-year; oral arguments at the SCOTUS will take place on Feb. 24th, with a final decision due by the end of June. The FWS' biological opinion should be re-issued by the end of Q1 and any challenges should be known by the June timeframe.

EXC – IL legislation potentially supporting state's nuclear and clean energy expected to be proposed in Q2 after primaries; it could slip into veto session in Q4.

NI – The MA DPU's investigation into Columbia Gas was launched last year in October and is expected to last about a year. By fall, we should know the outcome of the investigation and possibly NI's strategy for MA going forward.

PCG – Could emerge from bankruptcy by 6/30 and participate in the CA Wildfire Fund. A large equity issuance to emerge from BK could occur in Q2.

PNW – Staff's initial testimony in APS' rate case is due in May, with the commission hoping for a recommended decision by late November. 3 of the 5 seats at the ACC are up for re-election in the fall.

PPL – Possible Brexit in Q1; Ofgem's RIIO-ED2 sector specific methodologies are expected this summer.

SO – The gap between the company and GaPSC Staff on Vogtle timeline still remains wide; progress in 1H20 will be key.

Exhibit 14: 2020 Key Events

Ticker	Event	Timing
AEE	MO rate case decision	By June
	MO wind acquisitions	Late 2020
AEP	TX rate case decision	January
	IN/MI rate case decisions	By 2Q20
	North Central Wind decisions	2Q20
AES	Possible DP&L rate case filing	1H20
AGR	New York / Maine rate case decisions	1Q20
	BOEM supplemental study on offshore wind	1Q20
	BOEM permit decision on Vineyard Wind	2Q20
AWK	File Pennsylvania rate case	unknown
	File Missouri rate case	unknown
CMS	Electric/gas rate case decisions	2H20
CNP	Final order in CEHE rate case	1/16/2020
	New 2020 guidance	YE19 call

Source: Wolfe Utilities & Power Research

Exhibit 15: 2020 Key Events (cont.)

Ticker	Event	Timing
D	Virginia legislative session (offshore wind)	1/9/20-mid March
	File rate case for Dominion Energy South Carolina (SCANA)	1Q20
	ACP; biological opinion reissued by Fish & Wildlife Service	1H20
	ACP; oral arguments at US Supreme Court regarding App. Trail crossing	2/24/2020
	ACP; final decision on App. Trail crossing issue	By June 30th
DTE	Electric rate case decision	2Q20
	Gas rate case decision	2H20
DUK	NC rate case decisions	3Q20
	ACP; biological opinion reissued by Fish & Wildlife Service	1H20
	ACP; oral arguments at US Supreme Court regarding App. Trail crossing	2/24/2020
	ACP; final decision on App. Trail crossing issue	By June 30th
EIX	2021-23 GRC decision	possible by YE20
ES	BOEM supplemental study on offshore wind	1Q20
	FERC decision on NEISO transmission ROE	unknown
ETR	TX rate case decision	unknown
	Extension of LA rate plan	unknown
EXC	IL legislation	2Q20 or 4Q20
	Federal investigation	unknown
	PJM Capacity Auction 2022-2023	2H20
FE	FES Bankruptcy emergence	February
	Ohio legislative session - PUCO reform	7/12/2020
FTS	Arizona rate case decision	2Q20
	Alberta transmission decision	1Q20
LNT	Wisconsin rate case decision	2H20
	Wisconsin solar CPCN decision	2H20
NI	File Pennsylvania rate case	unknown
	Expected outcome of DPU's investigation in Mass.	September-October
NRG	ERCOT Summer	July-September
	PJM Capacity Auction 2022-2023	2H20
OGE	File application for grid mod rider in Oklahoma	1Q20
PCG	Possible Equity issuance	2Q20
	Possible emergence from BK	2Q20
PEG	Clean Energy Future Filing	March
PNW	Staff/intervenor initial testimony due in APS rate case (tent.)	5/27/2020
	Arizona Corporation Commission elections (3 of 5 seats open)	11/3/2020
	Recommended opinion and order filed in APS rate case (tent.)	11/25/2020
POR	Oregon PUC decision on 2019 IRP	2/20/2017
PPL	Possible Brexit (hard or soft)	1Q20
	UK RIIO-ED2 sector methodologies	Summer
SO	Vogtle update filing	February
	Vogtle cold hydro testing	Apr-Jun
	Vogtle hot functional testing	Jun-Jul
SRE	Targeted FID of Energia Costa Azul	1Q20
	Sempra Analyst Day	3/24/2020
	Targeted FID of Port Arthur	2Q20
VST	ERCOT Summer	July-September
	PJM Capacity Auction 2022-2023	2H20
XEL	File electric rate case for NSP-MN	November

Source: Wolfe Utilities & Power Research

4) ESG goes viral; electrification, renewables in focus; the nat gas debate

Last year, we thought ESG focused investing would go from niche to mainstream. We think this clearly played out in 2019. As we enter 2020, we sense that ESG focus will be taken up another notch. We have mixed feelings about this as we think ESG is moving to more of a ratings-based approach that will be subject to a lot of biases. In utilities, for example, the inclination is to focus solely on the “E” and not pay as much attention to the “S” and the “G”. Coal is bad no matter how much you have and renewables are good even if you way overpay for them.

That said, we have always been focused on management quality and business sustainability as key drivers to begin with and we hope the ESG trend will only further emphasize this. We also see opportunities to get ahead of the ESG “crowd” by trying to anticipate where they go next. In utilities, NEE and AWK have clearly been the focus names and they trade at the highest premium values in the sector today. We view ES as likely to be the next beneficiary given their long-term track record, T&D focus, lack of coal, and early mover in offshore wind together with ESG darling Ørsted.

In the context of the broader industrial and energy space, we think the utility sector has a good ESG story to tell. Electricity is on the favorable side of the long-term energy trends, especially as decarbonization becomes a bigger focus in more progressive areas like the UK, Europe and states like CA, NY and MA. Electrification of transportation and even home heating are huge long-term opportunities. Utilities are very focused on carbon reduction commitments for their fleet with many targeting 80%+ carbon reduction by 2050. The transition to renewables from conventional energy can provide a growth driver for many utilities as it drives ratebase growth.

In the latter part of 2019, we saw an increasing debate over how natural gas fits into an ESG friendly future. Some view gas as the next to be exposed to the decarbonization trend and thus an ESG risk. Many view natural gas as a critical piece of reducing coal and oil dependence and the most cost effective way to transition to lower carbon future. We have seen gas utility premium values compress from their prior levels and in our recent survey more investors said electrics should trade at a premium to gas utilities than vice versa. We expect this natural gas debate to be a key focus in 2020.

5) Renewables best year ever in 2020 – wind, solar and offshore wind

We expect 2020 to be another banner year for renewables. Wind additions are likely to hit a record peak as developers work to get projects across the line to get the maximum PTC by YE 2020. Solar additions will grow as well but the big story in solar will be backlog acceleration as developers have the full ITC in place through 2023. Finally, offshore wind backlog will continue to grow rapidly, but it will be important to get better visibility on BOEM permitting rules and timing.

Wind and Solar

As we noted in our annual Power Supply report (link), wind and solar additions over the next five years combined to be 63.3 GW – over 20 GW higher than our fall 2018 outlook and easily a record for our annual studies. This is almost triple the amount of forecasted gas new build over the same period. Even more, this is highly likely to be an underestimation given the limited visibility on projects more than 2-3 years out in the future. Most wind and solar farms can be built in under a year, such that the ramp time is much quicker. While tax credits remain a driver, technology improvements have gotten to the point where renewables are economic on their own. Couple that with advancements in storage, renewables are highly competitive with new natural gas.

Exhibit 16: Forecasted Wind Additions by Year and Region (MWs)

ISO	2019	2020	2021	2022	2023	Total
CA ISO	212	62	0	0	0	**274**
ERCOT	4,035	3,064	0	0	0	**7,099**
MISO	3,976	4,877	577	0	0	**9,430**
NE ISO	32	0	0	400	1,000	**1,432**
NY ISO	0	594	100	288	0	**982**
PJM	783	1,799	182	120	0	**2,884**
Rest of West	1,499	3,339	850	0	47	**5,735**
Southeast	0	236	0	0	0	**236**
SPP	1,454	3,548	1,786	0	0	**6,788**
Total	**11,991**	**17,519**	**3,495**	**808**	**1,047**	**34,861**

Source: Wolfe Utilities & Power Research

Exhibit 17: Forecasted Solar Additions by Year and Region (MWs)

ISO	2019	2020	2021	2022	2023	Total
CA ISO	1,480	937	486	433	400	**3,736**
ERCOT	901	2,636	1,110	0	0	**4,647**
Florida	673	1,172	588	589	347	**3,369**
MISO	8	913	395	149	299	**1,764**
NE ISO	63	91	295	0	50	**499**
NY ISO	43	134	140	620	0	**937**
PJM	359	1,052	501	86	0	**1,998**
Rest of West	980	2,083	1,649	390	1,240	**6,342**
Southeast	1,077	485	1,329	1,000	1,000	**4,891**
SPP	0	0	0	0	250	**250**
Total	**5,583**	**9,503**	**6,493**	**3,267**	**3,586**	**28,432**

Source: Wolfe Utilities & Power Research

Offshore Wind

Offshore wind remains a nascent industry in the US, but there has been a consistent push in this direction from policymakers in the Northeast. The waters off the coast are said to be the best suited for this type of technology and we saw RFPs pop up regularly the past two years.

Offshore wind obviously only impacts a few of our coastal utilities under coverage, but it has gotten a lot of attention, given the size of the investments and earnings potential. The mostly blue-dominated states along the East Coast have set strict renewables/emissions targets while restricting new gas infrastructure, facilitating offshore wind development. States with offshore wind targets through 2035 want over 21,000 MW of new offshore wind. Awards from RFPs to date total less than a third. More RFPs are expected in the future. We generally are wary large project risks. But we believe offshore wind could lead to supplemental earnings growth for those that are disciplined on price and able to manage construction risks.

The US players: US utilities with offshore wind under consideration or development include AGR, D, ES, and PEG. All have teamed up with foreign offshore wind developers, who have years of experience globally, namely Ørsted and Copenhagen Infrastructure Partners. There are a couple of other developers, Equinor and Shell/EDP Renewables who have won some RFPs.

AGR: CIP with AGR through their Vineyard Wind JV currently have 1,604 MW planned for 2022-2025 in CT and MA.

ES: Ørsted has a JV with ES, and they currently have about 1,700 MW of offshore wind projects planned for 2022-24 in CT, NY and RI.

PEG: PEG has an option to take a 25% stake in Ørsted's Ocean Wind project in NJ.

D: D teamed up with Ørsted on a 12 MW project in VA, which has received federal permits from BOEM and should be operational by summer 2020. However, D is eyeing over 2,600 MW of offshore wind development for the mid-2020s, with the investment being proposed for rate base. VA Gov Northam (D) has made offshore wind a priority.

The growth: The companies have been hesitant on specifying the investment in offshore wind, given the competitive nature of the business. However, D believes the opportunity would be $8B of capex (all in rate base). That's more than D's total enterprise wide annual capex. ES suggests earnings growth could rise from 5-7% to high single digits when its projects fully come online. ES also sees mid-teens ROEs from offshore wind. Investment tax credits support the pending projects, and those were recently extended a year.

The risks: Offshore wind has been successfully deployed in Europe, Asia and other parts of the world. However, it is a relatively nascent industry in the US. Although state policymakers and regulators have been supportive thus far, there are still concerns over impacts to certain constituencies (e.g., fishermen) and to delays/overruns. The Bureau of Ocean Energy Management is currently conducting a supplemental study on offshore wind projects, which could be released this quarter. BOEM is then anticipated to issue a decision on Vineyard Wind's request for permit, likely in 2Q20. This will be a harbinger for the other pending offshore wind projects. And then there is price. The two most recent auction winners have been by bidders who proclaimed their price (i.e., revenue) was the lowest to date in the US or North America. AGR said last month after the release of the latest CT RFP results that its bid "offered at a price lower than any other publicly announced offshore wind project in North America." Earlier last year Shell/EDP made similar comments after their Mayflower project won the latest MA RFP. Below are prices for offshore wind projects (where available):

Exhibit 18: Summary of offshore wind projects and corresponding price data

Developer	Project	MW	Nominal	Levelized	Year	State
Ørsted	Skipjack	120	$171	$132	2022	MD
Ørsted / Eversource	South Fork	130	$137		2022	NY
Avangrid / Copenhagen	Vineyard Wind	800	$65/$74	$65	2022/2023	MA
Ørsted / Eversource	Revolution	400	$98	$74	2023	RI
Ørsted / Eversource	Revolution	300			2023	CT
Ørsted	Ocean Wind	1,100	$98	$86	2024	NJ
Equinor	Empire Wind	816		$87	2024	NY
Ørsted / Eversource	Sunrise	880	$110	$80	2024	NY
Shell/EDP Renewables	Mayflower	800	<$84		2025	MA
Avangrid / Copenhagen	Vineyard Wind	804	lowest price		2025	CT
Dominion	Coastal Virgina	2,640			2024-2026	VA

Source: Wolfe Utilities & Power Research, Company Reports, Department of Energy

1) South Fork starting prices are $160 for 90 MW and $86 for 40 MW; wtd average = $137; escalator averages 2%over 20 yrs

2) Vineyard Wind nominal is $65 for 400 MW and $74 for 400 MW in MA

3) NY Sunrise/Empire levelized is based on $83.36 average between two projects

4) Companies said "long term prices below the original price cap of $84.23/MWh"

5) Vineyard said CT bid "offered at a price lower than any other publicly announced offshore wind project in North America"; no deadline

6) De-risking stories the focus for value opportunities

While the valuation dispersion within the sector has come in from its peak, it is still fairly bifurcated, particularly amongst the companies trading at a discount. In exhibits 19-21 below, we sort the sector on 2021 P/E and show characteristics of each companies such as growth rate, business mix, balance sheet data and unique risks (or lack thereof). Business mix issues and unique project/regulatory risk are clearly the most influential factors that determine where a company trades relative to the sector average.

Within the discount utilities, we see opportunities for certain companies to re-rate higher – FE, EXC, D and EIX. A common theme amongst these companies is an improving / de-risking business mix. For FE, once FES emerges from bankruptcy (February), we believe its relative valuation should improve as investors can fully focus on FE's low-risk T&D utility story. For EXC, we believe there is a good chance for IL legislation to pass in 2020 which could provide L-T certainty to the earnings of the company's merchant nuclear fleet; EXC should also experience a natural re-rating over time as its utilities become a bigger part of its business mix. We hope that the market will start to appreciate the steps D has taken to de-risk its business mix once ACP's fate is known around mid-year. The AB 1054 Wildfire Fund provides downside protection for EIX, and we believe 2020 will be a year of stabilization for the CA utilities.

Exhibit 19: Utilities Trading at a Premium

Company Name	2021 P/E Multiple	Market Cap ($M)	EPS Growth Rate	FFO/debt (2021E)	Pure Plays	Project/Regulatory Risk
NextEra Energy	24.6x	$117,927	6-8%	22%		
WEC Energy Group	23.0x	28,828	5-7%	17%	✓	
CMS Energy	21.9x	17,747	6-8%	16%	✓	
Eversource Energy	21.6x	26,971	5-7%	15%	✓	✓
Xcel Energy	21.2x	32,832	5-7%	17%	✓	
Alliant Energy	21.1x	13,147	5-7%	18%	✓	
Median		27,899				
Mean	22.2x					

*Group P/E avg is 19.7x as 1/6/20
Source: Wolfe Utilities & Power Research

Exhibit 20: Utilities Trading Near the Group Average

Company Name	2021 P/E Multiple	Market Cap ($M)	EPS Growth Rate	FFO/debt (2021E)	Pure Plays	Project/Regulatory Risk
Ameren	20.4x	$18,754	6-8%	20%	✓	
American Electric	20.0x	46,278	5-7%	14%	✓	
Entergy	20.0x	23,735	5-7%	16%	✓	
Portland General	19.8x	4,912	4-6%	21%	✓	
Evergy	19.5x	14,445	5-7%	16%	✓	
Fortis	19.1x	24,741	N/A	12%	✓	
Sempra Energy	19.0x	41,959	8-10%	17%		✓
NiSource	18.9x	10,246	5-7%	15%	✓	✓
Avangrid	18.9x	15,701	8-10%	19%		✓
Southern Company	18.8x	65,792	4-6%	16%	✓	✓
Con Edison	18.8x	29,379	N/A	15%		
Median		23,735				
Mean	19.4x					

*Group P/E avg is 19.7x as 1/6/20
Source: Wolfe Utilities & Power Research

Exhibit 21: Utilities Trading at a Discount

Company Name	2021 P/E Multiple	Market Cap ($M)	EPS Growth Rate	FFO/debt (2021E)	Pure Plays	Project/Regulatory Risk
DTE Energy	18.5x	$24,782	5-7%	16%		
OGE Energy	18.4x	8,790	4-6%	22%		
FirstEnergy	18.0x	25,678	5-7%	12%	✓	
Dominion	17.8x	67,798	5%	15%		✓
Pinnacle West	17.3x	10,000	N/A	19%	✓	✓
Duke Energy	16.8x	66,504	4-6%	14%		✓
PSEG	16.7x	29,431	N/A	18%		
CenterPoint	16.2x	13,435	5-7%	15%		✓
Edison International	15.9x	26,895	N/A	23%	✓	✓
Exelon	15.2x	44,333	6-8%	22%		✓
PPL Corp.	14.2x	25,599	5-6%	13%	✓	✓
AES Corp.	12.9x	13,298	7-9%	15%		
Median		25,639				
Mean	16.5x					

*Group P/E avg is 19.7x as 1/6/20
Source: Wolfe Utilities & Power Research

The 2020 DUTY Portfolio – Dogs of the UTY

Keeping with our theme over the past couple of years, we have compiled a DUTY portfolio for 2020 which comprises some of the worst performers in 2019. Our thesis behind the DUTY portfolio is to buy a basket of the most beaten-up stocks from the prior year on the premise that risks can often be over-discounted by the market, creating value opportunities for investors. The 2020 DUTY portfolio includes the following names: CNP, EXC, AGR, PNW, DUK and NI. Of these names, we like EXC best as we see significant re-valuation potential if IL nuke legislation gets done in 2020. We are still cautious on AGR and PNW – AGR due to a lot of execution risks and PNW due to a very tough rate case and regulatory environment.

Exhibit 22: 2020 DUTY Portfolio

Ticker	2019 Performance
AGR	2.1%
CNP	-3.4%
DUK	5.7%
EXC	1.1%
NI	9.8%
PNW	5.6%
Average	3.5%
S&P Utilities	22.2%
Relative Performance	**-18.8%**

Source: Wolfe Utilities & Power Research

In exhibits 23 and 24 below, we show the performance of our 2019 and 2018 DUTY portfolios. The 2019 DUTY portfolio outperformed the utilities index by 550bps, led by strong years from SO (top performer in the sector), EIX and PPL. The 2018 DUTY portfolio, when excluding the CA utilities due to the historic wildfires, similarly outperformed but by over 1500bps; AES and FE were two of the top four performers in the sector in 2018.

Exhibit 23: 2019 DUTY Portfolio

Ticker	2019 Performance
D	15.9%
ED	18.3%
EIX	32.9%
PPL	26.7%
SO	45.0%
Average	27.8%
S&P Utilities	22.2%
Relative Performance	**5.5%**

Source: Wolfe Research Utilities & Power Research

Exhibit 24: 2018 DUTY Portfolio

Ticker	2018 Performnace
AES	33.5%
EIX	-10.2%
FE	22.6%
PCG	-47.0%
PPL	-8.5%
DUTY Average	-1.9%
S&P Utilities	0.5%
Relative Performance	**-2.4%**
Relative Performance (ex Cali)	***15.4%***

7) California – we finally see stabilization in 2020

As we entered into 2019, multiyear wildfire liabilities had led CA's biggest utility (PCG) into bankruptcy and threatened junk credit ratings for the other two CA utilities. But by summer the state had enacted wildfire legislation (AB 1054) that provided downside protection for participating utilities: EIX and SRE made an initial contribution into the AB 1054 Wildfire Fund, and PCG plans to once it emerges from bankruptcy; the deadline for PCG is 6/30. The 2019 fire season was the first test under the post-AB 1054 environment. And there was clear overreaction in EIX's stock price to the Oct-Nov fires. But the stock fully recovered by year's end. It also certainly helped to see a constructive rate case decision for SRE, a reasonable outcome in the cost of capital proceeding, and an extension of future rate plans to four from three years; all of which are reflective of the new CPUC leadership. And as 2019 closed, PCG settled a CPUC investigation into 2017-18 wildfires and its 2020-22 GRC.

So the question is, after several years of volatility, can we see stabilization in CA stocks in 2020. We believe yes for EIX and SRE. The CA Gov will determine how PCG trades in the near term, but we ultimately think PCG can stabilize once we learn who will lead the BK exit. We will be watching a few items here…

1) **Gov support for plan to emerge from bankruptcy** – Gov Newsom rejected PCG's POR in December, which included settlements with victims (Torts) and insurers (Subros), both of which were approved in December. He has made several demands, including an option for a state takeover under certain circumstances. The Ad Hoc Noteholders, led by Elliott Management, continue to push their POR for PCG, including meeting Gov Newsom's governance demands and takeover option. But the Gov has yet to side with either proposed plan. To benefit under AB 1054, PCG must emerge from bankruptcy by 6/30/20 deadline. With the CPUC needing several months to review and approve any BK exit plan, we believe the Gov will likely indicate a preference of one plan over another soon.

2) **PCG equity offering** – Regardless of who leads it out of BK, PCG will likely need to issue a significant amount of external equity. We believe the capital will follow once there is certainty on the exit plan. We expect PCG to ramp up an investor outreach throughout 1Q20, with an offering potentially in 2Q20. We will be gauging the investor interest in the offering. If we see traditional utility investors come back to PCG, then we will view that positively for CA names. Once PCG emerges from BK, the AB 1054 Wildfire Fund will have $21B of funding with capacity for more.

3) **Seasonality trade** – The CA utilities have been the ultimate in seasonal trading stocks. The risk profile of owning the stocks today, when there is no fire season, is lower since you can just focus on the fire claims that have already occurred for EIX and the bankruptcy for PCG. On the other hand, despite the Wildfire Fund, it becomes harder to own these stocks into the next fire season given risk of up to nearly $3B of shareholder exposure to new fires (over a three-year period). This was evident last fall. But we are heartened by the ability of EIX stock to recover completely from the Oct-Nov fires by yearend. We think this seasonal trade should moderate over time.

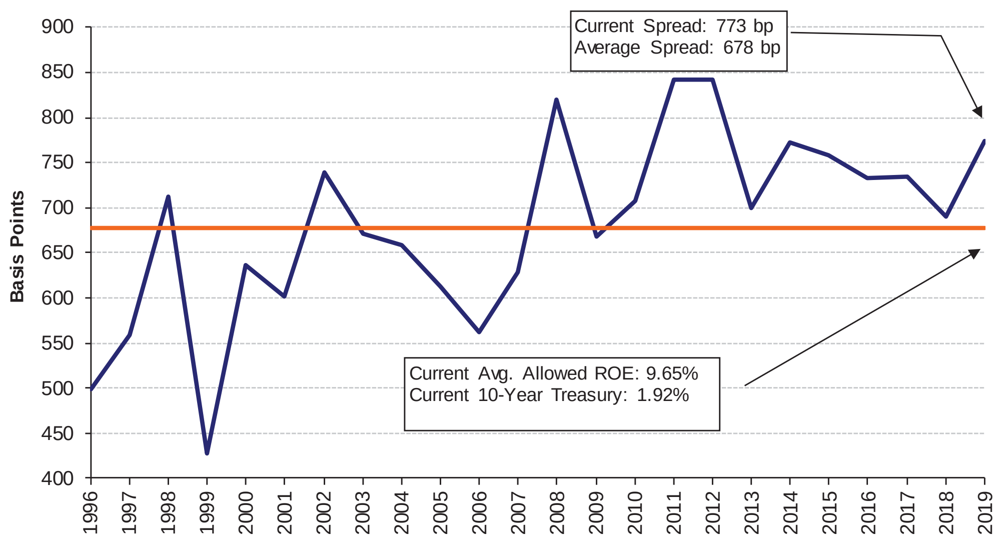
4) **EIX specific items** – EIX still is facing claims from 2017-18 fires. We believe EIX has time on its side to winnow down the gross claims. Given its position, we could see a settlement in past fire claims sometime this year, which would likely be viewed favorably. Regarding EIX's GRC, we expect a reasonable outcome, with a possible settlement by yearend, as we saw with PCG last month. Even without a settlement, we believe SRE's constructive GRC outcome is a positive indicator. Under the CPUC's new leadership, it is evident that proceedings will no longer be unduly delayed, providing regulatory certainty at a time when the state is trying to attract new investment for its clean energy goals.

By the end of 2020, we expect it will have been year of stabilization for CA, with the volatility largely being centered around PCG's BK exit/financing in 1H20.

8) Low rates puts ROEs back in focus

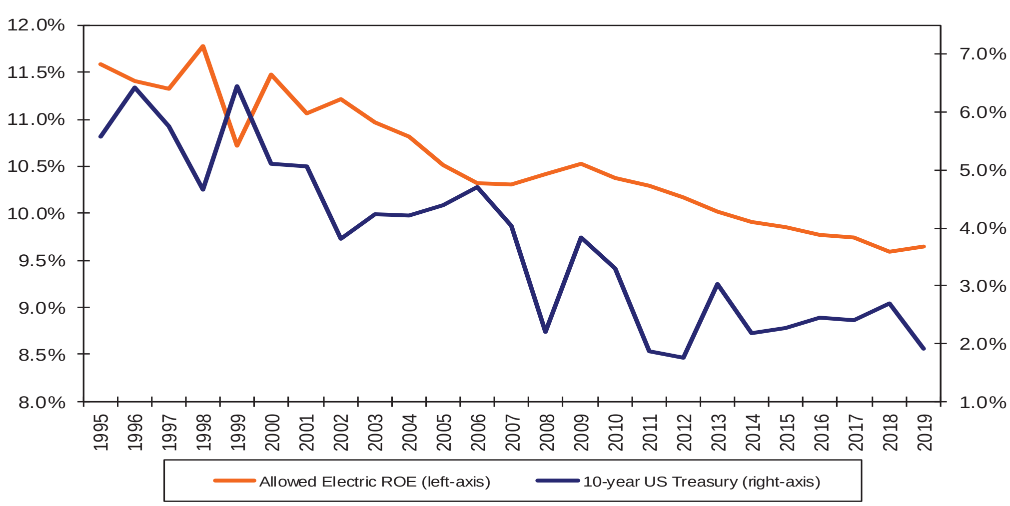
For the past several years, ROEs at the state level have been relatively sticky despite Treasury yields that have fluctuated. Typically, the spread between these two data points has trended directionally in tandem, though currently it sits near recent highs. This comes as allowed ROEs have averaged ~9.6% for the past 3 years in a row now (See Exhibits 25-26 on the follow page). That said, there have been some recent rate case scares that show this may be changing sooner rather than later. ED saw its allowed ROE fall below 9% in New York and XEL saw an allowed ROE decline of over 50bps in Colorado. The CNP and SO rate cases were other potential examples last year, but CNP is now working through settlement discussions, and SO's final order ended up being constructive. Meanwhile, at the FERC level, the new methodology put forth in November, leaves open the possibility of ROEs moving lower formulaically and setting a blueprint for similar action elsewhere. It's possible FERC and state commissions continue to work the data in such a way that more gradualism is employed, but we are increasingly mindful of this risk.

Exhibit 25: Spread between Allowed Electric Utility ROEs and 10-year Treasury Yields



Source: Wolfe Utilities & Power Research; SNL; FactSet

Exhibit 26: Allowed Electric ROE v. 10-year Treasury Yields



Source: Wolfe Utilities & Power Research; SNL; FactSet

In Exhibit 27 below, we review near-term rate case risk across our coverage. This includes ROE sensitivities and percentage of rate base by jurisdiction. Some of the companies below file on a fairly regular-basis and have been successful in settlements or otherwise constructive outcomes (LNT, CMS, DTE) – thus we view these cases as less risky. Regulatory situations where we are wary include PNW in Arizona and DUK in the Carolinas. PNW's regulatory situation has fallen apart amidst what has become a hostile situation between the company and commissioners. DUK has big Carolinas and Indiana cases. Looking at this another way, we're finding comfort in some of the names that have minimal rate case risk near-term. Amongst our Outperform-rated names, this includes: FE, ES, EVRG. Peer Perform-rated OGE and PEG also fit the bill.

Exhibit 27: Company Rate Case Exposure by Subsidiary

Ticker	Subsidiary	State	Year Filed or Expected	Type of Case	Subsidiary % of Total Rate Base	Current Allowed ROE	2021E Δ for every 50bps Δ	% of 2021E Total EPS
LNT	**WPL**	**WI**	**2020**	**Electric & Gas**	**39%**	**10.00%**	**$0.05**	**2%**
	AMO	MO	2019	Electric	50%	9.3-9.7%	$0.09	3%
	AIC	IL	Annual FRP	Electric	20%	Avg 30y-UST yield + 580bp	$0.04	1%
AEE							**$0.13**	**4%**
	IN-MI Power	IN	2019	Electric	9%	9.95%	$0.02	0%
	IN-MI Power	MI	2019	Electric	2%	9.90%	$0.00	0%
	AEP TX	TX	2019	Electric	5%	9.96%	$0.01	0%
AEP							**$0.03**	**1%**
	NYSEG	NY	2020	Electric & Gas	30%	9.00%	$0.03	1%
	RGE	NY	2020	Electric & Gas	20%	9.00%	$0.02	1%
AGR							**$0.05**	**2%**
	PA Am. Water	PA	2020	Water	25%	10.00%	$0.05	1%
	NJ Am. Water	NJ	2019	Water	25%	9.60%	$0.04	1%
	MO Am. Water	MO	2020	Water	10%	10.00%	$0.02	0%
AWK							**$0.11**	**3%**
CNP	**CEHE**	**TX**	**2019**	**Electric**	**45%**	**10.00%**	**$0.03**	**2%**
	Consumers	MI	2020	Gas	39%	9.90%	$0.07	2%
	Consumers	MI	2020	Electric	61%	10.00%	$0.11	4%
CMS							**$0.18**	**6%**
D	**DE S.C.**	**SC**	**2020**	**Electric & Gas**	**16%**	**10.30%**	**$0.02**	**0%**
	DTE	MI	2019	Electric	80%	10.00%	$0.30	4%
	DTE	MI	2020	Gas	20%	10.00%	$0.07	1%
DTE							**$0.37**	**5%**
	DEC	IN	2019	Electric	10%	10.50%	$0.03	1%
	DEC	NC	2019	Electric	20%	9.90%	$0.05	1%
	DEP	NC	2019	Electric	14%	9.90%	$0.04	1%
DUK							**$0.12**	**2%**
EIX	**SCE**	**CA**	**2020 CoC**	**Electric**	**81%**	**10.30%**	**$0.21**	**4%**
	ETR-L	LA	Annual FRP	Electric	40%	9.2-10.4%	$0.15	3%
	ETR-MS	MS	Annual PEP	Electric	10%	9.35-11.37%	$0.03	1%
ETR							**$0.18**	**3%**
EXC	**ComEd**	**IL**	**Annual FRP**	**Electric**	**30%**	**Avg 30y-UST yield + 580bp**	**$0.03**	**1%**
FTS	**TEP**	**AZ**	**2019**	**Electric**	**12%**	**9.75%**	**$0.02**	**1%**
NI	**Columbia PA**	**PA**	**2020**	**Gas**	**14%**	**Black box**	**$0.01**	**1%**
PCG	**PG&E**	**CA**	**2020 CoC**	**Electric & Gas**	**77%**	**10.25%**	**$0.04**	**4%**
PNW	**APS**	**AZ**	**2019**	**Electric**	**84%**	**10.00%**	**$0.21**	**4%**
	SoCalGas	CA	2020 CoC	Gas	32%	10.05%	$0.02	0%
	SDG&E	CA	2020 CoC	Electric & Gas	24%	10.20%	$0.02	0%
SRE							**$0.03**	**0%**
SO	**GPC**	**GA**	**2019**	**Electric**	**50%**	**10.0-12.0%**	**$0.08**	**2%**

Source: Wolfe Utilities & Power Research

We also recently reviewed the new FERC transmission ROE methodology set forth in the November MISO decision. This has garnered a lot of interest, as it may open the door to unintended consequences like future ROE complaints. At the time, FERC and many others, thought this issue would finally be put to bed, but the decision was based on stale 2015 data. Taking into account the continued run in utility valuations, this would undoubtedly pressure future ROE calculations – dividend yields have decreased, earnings growth rates are increased. We attempted to replicate FERC's methodology that unexpectedly shifted to just using DCF and CAPM to determine if the ROE fell outside a zone around the midpoint. We found that ROEs could be headed further south (Transmission ROE Calculator). For this reason, we believe virtually every party filed for rehearing in the MISO transmission case. FERC also has a pending New England transmission complaint that requires another Commissioner (Glick is recused) to decide. At the same time, there is also the broader notice of inquiry (NOI) pending on ROEs. Ultimately, we believe the latter may be the avenue where FERC decides to try and settle this issue once and for all. Our view is that FERC doesn't intend to lower transmission ROEs below nearly every state in the country and also would like to avoid a high frequency of future complaints. How this all plays out will be in focus in 2020.

Exhibit 28: Wolfe Estimate of MISO Transmission ROE on Current Data

DCF Lower	6.41%	DCF Lower - Mid Quartile	8.07%
DCF Upper	10.83%	DCF Upper - Mid Quartile	9.17%
CAPM Lower	6.74%	CAPM Lower - Mid Quartile	8.29%
CAPM Upper	10.88%	CAPM Upper - Mid Quartile	9.33%
Average Lower	6.57%	Average Lower - Mid Quartile	8.18%
Average Upper	10.86%	Average Upper - Mid Quartile	9.25%

Current ROE	9.88%
Pass or Fail?	Fail
New ROE	8.72%

Source: Wolfe Utilities & Power Research

Exhibit 29: Utilities with FERC transmission exposure

Company	Ticker	Capex Trans. % of Total 2019-22E	EPS Trans. % of Total 2021E	Base Trans. ROE	$ ∆ in 2021 EPS 100bp ∆ ROE	% ∆ in 2021 EPS 100bp ∆ ROE
Alliant Energy	LNT	2%	5%	9.88%	$0.01	0%
Ameren	AEE	17%	21%	9.88%	0.08	2%
American Electric	AEP	23%	26%	9.85-10%	0.11	2%
Avangrid	AGR	20%	23%	10.57%	0.05	2%
Dominion	D	17%	10%	10.90%	0.04	1%
Edison Intl	EIX	16%	21%	10.70%	0.10	2%
Evergy	EVRG	16%	17%	9.80%	0.05	2%
Eversource Energy	ES	27%	38%	10.57%	0.13	3%
Exelon	EXC	20%	18%	10.5-11.5%	0.05	2%
FirstEnergy	FE	40%	38%	10.25%	0.10	4%
Fortis	FTS	26%	38%	9.88%	0.13	5%
OGE Energy	OGE	6%	10%	11.10%	0.02	1%
PG&E	PCG	19%	23%	NA	0.02	2%
Pinnacle West	PNW	16%	20%	10.75%	0.09	2%
PPL Corp.	PPL	18%	14%	11.18%	0.03	1%
PSEG	PEG	39%	37%	11.18%	0.11	3%
Sempra	SRE	10%	11%	10.10%	0.08	1%
WEC Energy Group	WEC	9%	13%	9.88%	0.05	1%

Source: Wolfe Utilities & Power Research
*On AEP, the transmission earnings are only for its Transco. There are other FERC transmission earnings embedded in some of its utility subsidiaries.
**FE base ROE is weighted average
***Some of the utilities in Exhibit 3 do not disclose transmission earnings. We have estimated those based on projected rate base and earned/allowed transmission ROEs.

9) Balance sheets and credit remain a key focus; more equity coming

We recently published our annual utility financial metrics review (here) which provides insights on utility balance sheets and cash flow metrics. With M&A and no ceiling in sight for utility capital plans, we continue to see a wide differentiation among balance sheets in the sector. In 2019, we saw a large number of utilities back in the market with sizable equity deals ($19B+ in total). This was despite a similar amount of equity completed in 2018 to combat tax reform.

Exhibit 30 below is a summary of the key metrics (unadjusted) that we project for our utility group in 2021. We project the key utility metric, FFO/debt, to stay steady around 17% through 2021. For the first time, we included EV-to-rate base for our coverage and see it at 1.6x in 2021. On average, we see the percentage of regulated earnings rising 1% to 87% through 2021. For companies with material improvement on this front, we view it constructively given that regulated utilities tend to trade at a premium vs the group average.

Exhibit 30: 2021 Summary credit metrics – 2021E (alphabetical order)

Company	Ticker	FFO-to-debt	Parent-to-debt	EV-to-Rate base	EV-to-EBITDA	Debt-to-EBITDA	Equity Ratio	Percent Regulated	Dividend Payout Ratio
Ameren	AEE	20%	16%	1.6x	11.3x	4.3x	45%	100%	54%
American Electric	AEP	14%	16%	1.4x	13.7x	5.8x	39%	93%	63%
The AES Corporation	AES	15%	15%	N/A	8.8x	4.7x	29%	16%	39%
Avangrid	AGR	19%	32%	1.5x	9.9x	4.0x	61%	76%	71%
American Water	AWK	15%	18%	1.9x	14.9x	4.8x	39%	87%	56%
CMS Energy	CMS	16%	17%	1.5x	11.0x	4.4x	30%	96%	61%
CenterPoint	CNP	15%	28%	1.4x	11.2x	5.7x	45%	73%	72%
Dominion	D	15%	31%	N/A	12.7x	5.3x	37%	69%	83%
DTE Energy	DTE	16%	40%	1.2x	12.1x	5.4x	42%	71%	63%
Duke Energy	DUK	14%	26%	1.5x	11.5x	5.7x	45%	95%	73%
Consolidated Edison	ED	15%	5%	1.3x	10.7x	4.5x	48%	90%	67%
Edison International	EIX	23%	18%	1.3x	8.2x	3.4x	40%	100%	55%
Eversource Energy	ES	15%	28%	2.0x	13.7x	5.0x	47%	100%	62%
Entergy	ETR	16%	22%	1.5x	12.5x	5.9x	34%	100%	68%
Evergy	EVRG	16%	15%	1.4x	10.7x	4.6x	44%	100%	68%
Exelon	EXC	22%	17%	1.4x	9.2x	4.3x	48%	73%	53%
FirstEnergy	FE	12%	31%	2.0x	11.9x	5.6x	27%	100%	66%
Fortis	FTS	12%	33%	1.7x	11.4x	6.1x	44%	95%	73%
Alliant Energy	LNT	18%	17%	1.7x	12.1x	4.1x	45%	100%	62%
NextEra Energy	NEE	22%	16%	1.7x	16.0x	5.3x	37%	56%	66%
Nisource	NI	15%	25%	1.4x	10.9x	5.2x	43%	100%	62%
OGE Energy	OGE	22%	4%	1.5x	14.6x	4.3x	56%	77%	70%
PSEG	PEG	18%	17%	1.9x	11.3x	4.3x	47%	79%	58%
Pinnacle West	PNW	19%	9%	1.4x	10.5x	4.2x	49%	100%	66%
Portland General	POR	21%	0%	1.4x	9.8x	3.8x	47%	100%	62%
PPL Corp	PPL	13%	14%	1.6x	10.4x	5.1x	39%	100%	68%
Southern Company	SO	16%	28%	1.5x	10.8x	4.6x	36%	94%	79%
Sempra	SRE	17%	32%	1.4x	13.4x	4.0x	57%	74%	61%
WEC Energy Group	WEC	17%	32%	2.1x	14.9x	5.1x	43%	100%	68%
Xcel Energy	XEL	17%	21%	1.6x	13.1x	5.1x	42%	100%	62%
Avg		**17%**	**21%**	**1.6x**	**11.8x**	**4.8x**	**43%**	**87%**	**64%**

Source: Wolfe Research and company filings

Credit metrics stabilized, but companies still living on the edge

Over the past two years, utilities have taken action to help stabilize their credit metrics – equity issuances, cost controls, proactive discussions with regulators to help offset lost cash flow. Recognizing this, Moody's moved its outlook for the sector to Stable from Negative toward the tail-end of 2019. In exhibit 31 below we show that average FFO/debt is projected to remain steady over the next couple of years at 17%. That said, many utilities are still living on the edge of their downgrade thresholds. This could become problematic given the capital-intensive nature of the sector and propensity (at least historically) for M&A.

Exhibit 31: FFO-to-debt (ranked from least to most levered in 2021)

Ticker	2018	2019	2020	2021
EIX	21%	16%	21%	23%
OGE	26%	24%	24%	22%
NEE	22%	22%	22%	22%
EXC	25%	23%	23%	22%
POR	24%	22%	20%	21%
AEE	24%	21%	21%	20%
PNW	25%	22%	20%	19%
AGR	28%	21%	20%	19%
PEG	19%	20%	19%	18%
LNT	19%	16%	17%	18%
XEL	18%	18%	17%	17%
SRE	14%	14%	17%	17%
Avg	**18%**	**17%**	**17%**	**17%**
WEC	21%	18%	17%	17%
SO	15%	16%	17%	16%
CMS	19%	19%	17%	16%
ETR	14%	16%	15%	16%
DTE	18%	17%	17%	16%
EVRG	21%	17%	15%	16%
D	14%	14%	15%	15%
AES	13%	14%	14%	15%
ED	14%	16%	15%	15%
ES	14%	13%	15%	15%
NI	13%	15%	15%	15%
AWK	16%	15%	15%	15%
CNP	14%	14%	15%	15%
AEP	17%	18%	15%	14%
DUK	13%	14%	14%	14%
PPL	13%	13%	13%	13%
FTS	11%	11%	12%	12%
FE	8%	11%	12%	12%

Source: Wolfe Research and company filings

Line of sight to more big equity deals

We counted over $19B of equity issuance in the sector during 2019. We continue to be amazed at how accessible the equity market is for utilities, pricing deals at very little discounts and often upsizing from the original deal size. We have a line of sight for more big equity deals in 2020 – PCG, CNP and NI to name a few, with PCG being the mother of all deals. For most companies, our projections (see exhibit 32 below) reflect ATM / DRIP equity which is used to help fund growing capex plans.

Exhibit 32: Projected equity needs

Ticker	2019	2020	2021	2022	% of Mkt Cap
AEE	650	100	100	100	**5.2%**
AEP	887	100	100	600	**3.7%**
AES	-	-	-	-	**0.0%**
AGR	-	-	-	-	**0.0%**
AWK	-	-	-	250	**1.1%**
CMS	70	130	140	150	**2.8%**
CNP	-	1,400	250	250	**15.2%**
D	2,300	300	300	700	**5.5%**
DTE	1,945	-	250	-	**9.1%**
DUK	3,000	500	500	500	**6.9%**
ED	600	500	500	500	**7.3%**
EIX	2,700	-	-	-	**10.6%**
EVRG	(1,680)	(855)	-	-	**-17.8%**
ES	1,300	-	200	200	**6.5%**
ETR	862	-	297	297	**6.2%**
EXC	105	105	105	105	**1.0%**
FE	120	120	120	600	**3.7%**
FTS	1,488	233	233	233	**11.9%**
LNT	400	250	25	25	**5.4%**
NEE	1,500	-	1,500	-	**2.6%**
NI	298	898	298	298	**17.7%**
OGE	-	-	-	-	**0.0%**
PEG	-	-	-	-	**0.0%**
PNW	-	150	125	125	**4.2%**
POR	-	-	-	-	**0.0%**
PPL	-	100	100	100	**1.2%**
SO	2,305	-	-	-	**3.6%**
SRE	-	-	-	-	**0.0%**
WEC	-	-	-	-	**0.0%**
XEL	830	205	205	80	**4.1%**

Source: Wolfe Research and company filings
*market cap as of 12/11/19

10) Power at a crossroads – what now?

After a strong two-year run over 2017-2018, the power rally hit a road block in 2019. NRG, VST, and EXC all essentially finished the year right where they started – while the market went up almost 30% and the utilities sector went up over 20%. Fundamentally, 2019 was as strong as ever – both VST and NRG are well on track to hit numbers, while proving out their capital allocation flexibility. For VST, the selling shareholder issue was just too much to overcome – exacerbated by Brookfield's 21M share unloading in early-December. NRG may have simply been due for a breather. As we stand at the beginning of 2020, the IPPs have been focused on proving out the sustainability of true terminal value, particularly in a low carbon future. There is a solid case for this. But is anyone listening? Increased investor sponsorship without an obvious identifiable catalyst will be critical.

Commodities pricing in 2019 was mixed. Most regional power prices weakened considerably alongside natural gas. ERCOT was the exception – seeing improvement further out on the curve, after tight summer conditions validated that there could be price spikes if intermittent wind failed to show. Entering 2020, ERCOT summer will once again be in focus, as the IPPs are more levered to energy pricing in this region than anywhere else.

PJM capacity market hanging in the balance. Watching state action. At long last, FERC finally ruled in December on the PJM auction and how it will handle subsidized bidding going forward. As expected, the MOPR (minimum offer price rule) was strict, but this is now just the first step in the process. Attention now shifts to the state level, namely Illinois, where legislative efforts will be put forth to employ the FRR (fixed resource requirement) method to procure capacity outside of the traditional PJM construct. If this is unsuccessful, EXC will likely close its nuclear plants. If successful, Illinois/ComEd seems primed to leave the PJM capacity market – leaving questions about what this means for the residual market. There could be a domino effect where New Jersey and Ohio follow suit, given their offshore wind goals and nuclear support respectively. Generators will undoubtedly put up a fight. PJM seems to be stuck in super-limbo at this point. Everything could look very different a year from now. Not to mention that there should be another auction by year-end to determine 2022-2023 revenues over one-year behind schedule, but forecasting that outcome seems impossible at the moment.

More nuclear ZECs potential? This has been going on for a while now, as each year a new state seems to pass legislation that is supportive for nuclear units. Last year it was OH, with FES' two nuclear plants benefitting. PA came up short, but could try again in 2020 (or move closer joining RGGI). More broadly, a potential Democrat President could renew the call for carbon pricing/taxing to address this issue on a larger scale.

Will there be a public power sector left? We highlighted this in our Weekly Mark yesterday. With the IPPs finishing up 2019 lost and forgotten, we wonder how much patience these companies will have with the public markets. The fundamentals remain attractive, but a complicated sector of 2 is proving to be a difficult selling point. We believe in the sustainability of EBITDA and Free Cash Flow, as the companies did a particularly good job of proving out their resiliency with Q3 calls. However, if they continue to trade at high-teens free cash flow yields, this ultimately should become a private equity story. The returns are simply too attractive. Meanwhile, the Integrateds also wrapped up a lukewarm 2019, with investors most receptive to their increasing percentage of regulated earnings. PEG probably should have sold its fossil fleet when it had the chance, and EXC is looking to move toward either a primarily contracted-like structure with its nukes or simply shutting them.

Power supply/demand now all about intermittent renewables. Our annual power supply study wasn't nearly as bullish as a year ago from a pure capacity perspective. But not all capacity is created equal. Baseload supply is effectively decreasing (coal and nuclear shuts continue to offset gas additions), while renewables supply continues to explode. The year-end budget bill featured a one-year wind tax credit extension that should only further bolster the next decade as the "Golden Age of Renewables" takes hold. We summarize our market outlook in Exhibit 33 below. ERCOT is bearing the brunt of the heavy renewables build-out, but as we saw last summer, this intermittent supply can't always be counted on. Reserve margins are still low double-digits, such that if the wind doesn't blow during late-August heat, we could see price spikes to the $9,000/MWh cap once again. In PJM, we'll be monitoring whether any CCGT new builds are able to move forward despite the continued delays in the capacity auction. In New England, we'll be monitoring the build-out of offshore wind in the coming years given the ambitious state goals, and what that means for reliability and pricing.

Exhibit 33: Net Capacity Additions by Fuel Type, ISO over 2019-2023 (MWs)

ISO	Coal	Gas	Nuclear	Solar	Wind	Other	Total	% Increase
CA ISO	(165)	(4,227)	0	3,736	274	913	**531**	**0.8%**
ERCOT	(1,544)	(727)	0	4,647	7,099	495	**9,970**	**9.7%**
Florida	(1,222)	5,840	0	3,369	0	(1,207)	**6,780**	
MISO	(9,207)	5,975	(1,426)	1,764	9,430	(123)	**6,414**	**3.5%**
NE ISO	(383)	1,467	(688)	499	1,432	(577)	**1,750**	**5.0%**
NY ISO	0	1,123	(2,069)	937	982	25	**998**	**2.3%**
PJM	(5,433)	10,112	(837)	1,998	2,884	(841)	**7,883**	**3.9%**
Rest of West	(6,777)	840	0	6,342	5,735	1,136	**7,277**	
Southeast	(6,690)	1,504	2,389	4,891	236	0	**2,330**	
SPP	(724)	142	0	250	6,788	210	**6,666**	**7.6%**
Total	**(32,145)**	**22,049**	**(2,631)**	**28,432**	**34,861**	**31**	**50,598**	

Source: Wolfe Research Utilities & Power Research

Investment Theses, Catalysts, and Valuations for Buy-rated Stocks

American Electric Power (AEP): The wind at its back to exceed growth target

- **Investment Thesis**. Base EPS and dividend growth of 5-7%, mostly from low-risk T&D investments. North Central Wind project would put growth above 7% by YE22 even with likely equity needs.
- **Catalysts**. Approval of North Central Wind in 1H20. Continuing to execute on T&D investments.
- **Valuation**. Stock trades in-line with regulated peers but warrants premium of 1.5x, given low-risk T&D growth and North Central Wind.

Ameren (AEE): High quality trading at a reasonable price

- **Investment Thesis**. Low risk EPS growth of 6-8%, mostly from investments in jurisdictions with little to no regulatory lag. ROE risk is manageable, with IL electric returns (20% of rate base) directionally proportionate to the 30-year UST bond yield.
- **Catalysts**. MO rate case decision by 2Q20, with a potential settlement in 1Q20. Maintaining above-average EPS growth on Feb earnings call. Continuing to execute on high-single digits rate base growth.
- **Valuation**. Stock trades at a 4% premium to regulated average but warrants a multiple in line with high-quality, low-risk utilities, which trade at 7-16% premiums.

Dominion Energy (D): Attractive with or without Atlantic Coast Pipeline

- **Investment Thesis**. We believe ACP-related overhangs have overshadowed the good work D has done recently to de-risk its business. Further, we believe the stock is attractive with or without ACP and note that D's balance sheet would remain intact even in an abandonment scenario. D also has a unique offshore wind opportunity in Virginia – $8B of potential regulated capex, most of which is outside the current 5-year plan and would help fuel robust rate base growth throughout the decade.
- **Catalysts**. A hearing at the SCOTUS on the App. Trail crossing issue is in late Feb., with a final decision by the end of June; by June, any appeals on the new biological opinion should be known – we should know ACP's fate by mid-year. Virginia's legislative session (Jan. through mid-March) could include legislation that provides a concrete path forward for D's offshore wind plans.
- **Valuation**. We use an equal-weighted scenario analysis around ACP (with and without the project in numbers). We then apply the regulated group average to arrive at our price target.

Edison International (EIX): To live and buy in LA

- **Investment Thesis**. With capped downside to future wildfires and with 2019 fire season relatively much less destructive than 2017-18, stock is a value play as EIX's rate base growth should continue to grow above industry average. Cost of capital certainty and improving CA regulation are positives.
- **Catalysts**. Resolution of wildfire damages from 2017-18. GRC outcome, possibly by yearend. Start of fire season in the fall – despite downside protection, the stock likely will be seasonal, with low utility-caused fire risk in Jan-Aug but higher risk in Sep-Dec.
- **Valuation**. Stock trades at a 4x discount, but that reflects more than both the past 2017-18 net fire damages and the capped potential future fire damages. Discount of 2x is reasonable.

Evergy (EVRG): Avoiding ROE risk in low-rate environment

- **Investment Thesis**. One of the few companies in our coverage that has 3+ years of regulatory certainty across its jurisdictions, following base rate freeze agreements in Kansas and Missouri. Particularly amidst lower interest rates, mitigates potential ROE risk. Company is growing rate base at a below average clip, but there is potential capex upside in MO from PISA and incremental merger savings opportunities are achievable. All of this while the share repurchase program continues through mid-2020.
- **Catalysts**. Year-end 2019 call should feature update on incremental capex potential, of which the company has already added $150M in Missouri. EVRG also has the opportunity to continue overachieving on merger synergies execution, as it has been tracking ahead of plan thus far.
- **Valuation**. Using slight premium to group average multiple on 2021 EPS given potential for incremental capex and continued technical support from share repurchase program.

Eversource Energy (ES): Solid core growth supplemented by offshore wind, well positioned for ESG

- **Investment Thesis**. Core utility holding, as we see earnings growth of 5-7% on ES' base capital plan, before incremental earnings from offshore wind in the mid-20s. The name is also well positioned for ESG, behind NEE and AWK.
- **Catalysts**. Updated capital plan on YE19 earnings call in Feb. BOEM supplemental study on offshore wind projects in 1Q20 and ultimately approval of permits for ES' projects.
- **Valuation**. Could see stock at one of the highest multiples given core growth, supplemental offshore wind growth and demand for top ESG names.

Exelon (EXC): All about Illinois

- **Investment Thesis**. Regulated investments provide stable predictable utility growth. However, EXC's generation business in IL needs legislative support. The pending federal investigations into IL lawmakers and lobbying activities, including with EXC/ComEd, has been an overhang. But stakeholders in IL have been supportive of capacity market reform.
- **Catalysts**. IL legislation on capacity markets possibly by 5/30 (or in the fall veto session).
- **Valuation**. An average regulated P/E on utility earnings. Plus a 7.5x EBITDA for the merchant business. IL legislation is a cheap option in EXC stock.

FirstEnergy (FE): Full appreciation for fully regulated T&D story

- **Investment Thesis**. Risk/reward skew attractive given discount multiple with minimal risks. High visibility on 5-7% EPS growth outlook through 2023, with dividend growth expected to track closely. FES emergence ends all ties with competitive generation business. Now focused on pure transmission and distribution operations with low-risk capital plan and lack of rate case overhang, particularly in Ohio where there is certainty beyond 2024.
- **Catalysts**. FES emergence from bankruptcy expected in February. Implementation of decoupling in Ohio, which starts in 2020. Any potential incremental capital projects.
- **Valuation**. Using a regulated average multiple on 2020 EPS. While the low-risk T&D operations are attractive, this is somewhat offset by a weaker balance sheet.

NextEra Energy (NEE): Premier renewables play into election year; high-growth utility, ESG darling

- **Investment Thesis.** Combination of a best in class high-growth utility in a balanced regulatory environment, the dominant renewable development operation in the country, and the capital recycling advantages of NEP. Also has one of the strongest balance sheets in the sector with unused capacity for future value enhancing actions.
- **Catalysts.** Santee Cooper sale process and FP&L/Gulf Power integration. Potential Democratic victory in Presidential election. Continued development of renewables backlog at NEE, as wind PTC has been extended another year.
- **Valuation.** Sum of parts – using premium multiple on the utility operations and a YieldCo valuation of the potential dropdown backlog to NEP.

NextEra Energy Partners (NEP): Best total return and renewables play, particularly in low rate environment

- **Investment Thesis.** NEP remains the best positioned YieldCo with high visibility on 15% distribution growth at least through 2024 supported by a parent that continues to add to its dropdown backlog. No need for external equity or drop-downs until at least next year.
- **Catalysts.** Resolution of PCG bankruptcy could free trapped cash at Desert Sunlight project. Potential Democratic victory in Presidential election. Continued development of renewables backlog at NEE, as wind PTC has been extended another year.
- **Valuation**. Combination of near-term yield and long-term DCF approaches.

NRG Energy (NRG): Cash flow machine offers very strong value

- **Investment Thesis.** NRG has an incumbent generation / retail business that generates relatively steady results and a very attractive mid to high teens FCF yield. The balance sheet is strong and NRG has significant financial flexibility even after paying the stepped-up 3%+ dividend yield.
- **Catalysts.** Specific 2020 capital allocation plans, Texas summer power prices, potential retail acquisitions, PJM and Northeast capacity auctions.
- **Valuation**. Combination of a target 8x EV/EBITDA multiple applied to our 2021E and a target 12% FCF yield.

PPL Corp (PPL): Finally in a position of strength

- **Investment Thesis**. UK regulation and political uncertainty pummeled PPL from mid-2017. But the stock had a solid run at the end of 2019, as the threat from Labour renationalization has been removed and Brexit nears finality. Potential long-term benefits from UK policy on electrification.
- **Catalysts**. Ofgem's frameworks for Electric Distribution Networks on RIIO-2 this summer.
- **Valuation**. Despite a solid run, PPL still trades at a 5.5x discount to the average regulated utility P/E, second lowest after PCG. A 4x discount is reasonable.

Sempra Energy (SRE): Solid growth visibility

- **Investment Thesis**. Growth comes from SRE's utility business (CA and TX) and gas infrastructure investments, including LNG. Cameron online in 2020/21. Growth upsides from ECA, Port Arthur and Cameron Phase in later years.
- **Catalysts**. Anticipate higher utility capex at March 2020 Analyst Day.
- **Valuation**. Sum-of-the-parts values (i) utility segment at $122 using a 10% premium to group utility P/E, (ii) LNG at $26 using 13x EBITDA, and (iii) stake in IEnova at $15. Total value is $164.

Vistra Energy (VST): Cash generation and allocation story remains compelling

- **Investment Thesis**. Attractive valuation coupled with a compelling capital allocation plan. Strong EBITDA generation ($3B+/year) and conversion to Free Cash Flow (60%+) that drives capital allocation opportunities – debt paydown (2.5x Net Debt / EBITDA by 2020), a dividend policy (2% yield plus 6-8% growth), and share repurchases. Free Cash Flow yield is 20%+ right now.
- **Catalysts**. Another tight summer from a reserve margin perspective in ERCOT with potential for price spikes / curve improvement. Future of PJM auction remains in the balance as it relates to state level proceedings on subsidized unit supply (namely Illinois nuclear). Potential investment grade rating by year-end.
- **Valuation**. Price Target derived using an average of a 12% FCF yield target and 7.5x EV/EBITDA multiple.

Comparables Tables

Exhibit 34: Regulated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2019E	P/E 2020E	P/E 2021E	P/E 2022E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Alliant Energy	LNT	$53.80	245	$13,161	23.4x	22.4x	21.1x	20.0x	2.8%	6.0%	63%	2.7x	44%
Ameren	AEE	76.43	246	18,804	23.5x	22.1x	20.5x	19.3x	2.6%	4.0%	57%	2.4x	46%
American Electric	AEP	93.69	494	46,278	22.3x	21.2x	20.0x	18.8x	3.0%	6.0%	63%	2.4x	41%
Avangrid	AGR	50.57	309	15,626	22.4x	20.2x	18.8x	17.5x	3.5%	2.5%	70%	1.0x	67%
CMS Energy	CMS	62.28	284	17,678	24.9x	23.3x	21.8x	20.3x	2.6%	7.0%	61%	3.7x	27%
Con Edison	ED	87.68	332	29,147	20.3x	19.4x	18.6x	18.1x	3.4%	3.5%	65%	1.6x	47%
Duke Energy	DUK	90.27	733	66,148	17.9x	17.4x	16.7x	16.0x	4.2%	2.5%	73%	1.5x	44%
Edison International	EIX	75.86	359	27,203	15.8x	17.1x	16.1x	15.1x	3.4%	3.0%	58%	2.1x	42%
Entergy	ETR	119.14	199	23,721	22.3x	21.2x	20.0x	18.9x	3.1%	3.0%	66%	2.4x	35%
Evergy	EVRG	63.35	228	14,438	22.3x	20.6x	19.5x	18.7x	3.2%	6.0%	66%	1.6x	47%
Eversource Energy	ES	82.72	324	26,782	24.0x	22.5x	21.5x	20.3x	2.6%	6.0%	58%	2.2x	44%
FirstEnergy	FE	47.52	540	25,676	18.7x	19.1x	18.0x	17.3x	3.3%	6.0%	63%	3.5x	26%
Fortis*	FTS	54.13	458	24,775	21.8x	20.8x	19.2x	18.0x	3.5%	6.0%	73%	1.5x	42%
NiSource	NI	27.64	374	10,323	21.4x	20.2x	19.1x	17.8x	2.9%	2.5%	58%	1.9x	40%
PG&E	PCG	10.58	529	5,599	2.8x	11.5x	11.1x	N/A	0.0%	0.0%	0%	0.3x	84%
Pinnacle West	PNW	88.67	112	9,967	18.9x	18.2x	17.2x	16.4x	3.5%	6.0%	64%	1.8x	50%
Portland General	POR	55.15	89	4,929	23.1x	21.3x	19.9x	19.2x	2.8%	6.5%	59%	1.9x	51%
PPL Corp.	PPL	35.17	723	25,429	14.5x	13.8x	14.1x	N/A	4.7%	1.5%	65%	2.1x	34%
Southern Company	SO	62.62	1,049	65,672	20.1x	19.6x	18.8x	17.4x	4.0%	3.4%	78%	2.4x	39%
WEC Energy Group	WEC	90.96	315	28,692	25.8x	24.4x	22.8x	21.4x	2.8%	7.0%	68%	2.9x	45%
Xcel Energy	XEL	62.46	524	32,753	23.9x	22.5x	21.2x	19.9x	2.6%	6.0%	58%	2.5x	44%
Average					**20.5x**	**19.9x**	**18.9x**	**18.4x**	**3.1%**	**4.5%**	**61%**	**2.1x**	**45%**
Average (ex EIX, PCG, PPL)					**22.0x**	**20.9x**	**19.7x**	**18.6x**	**3.1%**	**5.0%**	**65%**	**2.2x**	**43%**

Source: Wolfe Utilities & Power Research
*Prices as of 1/7/20

Exhibit 35: Gas Power Infrastructure Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2019E	P/E 2020E	P/E 2021E	P/E 2022E	Div Yield	Div Growth	Payout Ratio
The AES Corporation	AES	$20.10	664	$13,344	15.0x	14.1x	12.9x	12.0x	2.7%	5.0%	41%
CenterPoint	CNP	26.87	502	13,495	15.9x	16.5x	16.3x	15.3x	4.3%	1.5%	68%
Dominion	D	82.22	823	67,675	19.5x	18.7x	17.8x	17.0x	4.5%	2.5%	87%
DTE Energy	DTE	128.57	192	24,699	20.7x	19.5x	18.4x	17.2x	3.2%	7.0%	61%
NextEra	NEE	241.33	489	117,956	28.8x	26.7x	24.6x	23.0x	2.1%	13.0%	60%
OGE Energy	OGE	44.05	200	8,818	19.6x	19.3x	18.4x	17.7x	3.5%	6.0%	69%
Sempra	SRE	148.88	282	41,969	23.3x	20.7x	19.0x	17.9x	2.6%	8.0%	61%
Average					**21.3x**	**20.2x**	**19.1x**	**18.0x**	**3.3%**	**7.8%**	**68%**

Source: Wolfe Utilities & Power Research
*Prices as of 1/7/20

Exhibit 36: YieldCo Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2019E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBITDA 2022E	Div Yield
Clearway Energy	CWEN	19.98	193	3,852	10.7x	9.5x	8.7x	N/A	4.0%
NextEra Energy Partners	NEP	52.26	156	8,153	9.9x	8.5x	9.3x	9.2x	4.0%
Atlantica Yield*	AY	26.47	102	2,689	8.9x	7.8x	7.4x	N/A	6.2%
Pattern Energy*	PEGI	26.75	98	2,628	13.8x	11.3x	11.0x	N/A	6.3%
TerraForm Power*	TERP	15.34	227	3,483	12.4x	11.3x	11.0x	N/A	5.3%
Average					**10.9x**	**8.5x**	**9.3x**	**9.2x**	**5.4%**

Source: Wolfe Utilities & Power Research
*Not covered by Wolfe Research, estimates based on consensus
*Prices as of 1/7/20

Exhibit 37: Integrated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2019E	P/E 2020E	P/E 2021E	P/E 2022E	Implied Genco EV / EBITDA 2019E	Implied Genco EV / EBITDA 2020E	Implied Genco EV / EBITDA 2021E	Implied Genco EV / EBITDA 2022E	Div Yield	Div Growth	Payout Ratio
Exelon	EXC	45.68	972	44,406	14.6x	14.8x	15.2x	14.6x	5.2x	5.5x	5.1x	5.0x	3.2%	5.0%	46%
PSEG	PEG	57.64	506	29,150	17.7x	16.7x	16.5x	16.6x	7.2x	6.9x	7.1x	7.9x	3.3%	4.2%	58%
Average					**16.2x**	**15.7x**	**15.9x**	**15.6x**	**6.2x**	**6.2x**	**6.1x**	**6.5x**	**3.2%**	**4.5%**	**52%**

Source: Wolfe Utilities & Power Research
*Prices as of 1/7/20

Exhibit 38: IPP Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2019E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBITDA 2022E	Free Cash Flow Yield 2019E	Free Cash Flow Yield 2020E	Free Cash Flow Yield 2021E	Free Cash Flow Yield 2022E
NRG Energy	NRG	36.87	252	9,276	7.6x	7.2x	7.3x	6.8x	12.8%	15.9%	17.6%	19.0%
Vistra Energy	VST	22.83	487	11,127	6.9x	5.8x	5.7x	5.4x	18.4%	19.7%	20.1%	21.4%
Average					**7.3x**	**6.5x**	**6.5x**	**6.1x**	**15.6%**	**17.8%**	**18.8%**	**20.2%**

Source: Wolfe Utilities & Power Research
*Prices as of 1/7/20

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BofA GLOBAL RESEARCH

BofA SECURITIES

NiSource Inc

Upgrade to Buy: Mass bookend with an Indiana renewables kicker

Rating Change: BUY | PO: 31.00 USD | Price: 27.39 USD

Rerating opportunity as Mass reaching pivot point: Buy

We see a discount to shares entering into 2020 as we see key items in MA and IN start to be resolved. We perceive the stock as undervalued and upgrade to Buy from Neutral: NI vs. the IXU Index is at a 5% premium now (versus 10-20% earlier in '19), which is supported by our view that gas utilities' growth prospects remain intact in the 2020s even though in '19 we saw gas sector valuations at near parity with electric. Further, pertinent to NI's story is the latest de-risking in the quantum of incidents around Merrimack: we see the DPU's recent Order as providing a bookend for state fines forthcoming year-end. Gaining clarity here (as well as through the recently settled NIPSCO ratecase) is critical in providing NI with confidence to determine the amount and timing of its proposed $500-700mn block. We expect the raise in 1H20 as early as end of February and we see this articulation of equity timing as a constructive factor not only an important catalyst but also another reason in support of our rating change given ensuing confidence from mgmt. in what it implies.

Potential upside from gen spend coming with large IRP

Amidst the focus on MA, we think the market underappreciates the largest solar & wind RFP in the Midwest with ratebase opportunity a further upside angle as capex is awarded (none of the awards and/or future awards are in the budget today). We estimate $0.06/sh of EPS from net build-own-transfer (BoT) once projects are dropped into ratebase by '23; this factors in 1.3GW of BOT renewables in RFP 2 on top of the 402MW of wind from RFP 1, as well as tax equity having a 50% stake in this project upon drop and an increase of depreciation from the last ratecase. This brings our '20-'24E CAGR to 6.3% (still squarely in the 5-7% range upon a roll-forward at a future Analyst Day). We raise our PO from $30/sh to $31/sh based on an updated 19.3x / 18.9x gas & electric peer multiple (to which we apply -1x gas / +1x electric premium as well as 1x RAB to $0.750Bn MA utility net of ~$ 80M fine). We see the potential for an investor day in 2H to help articulate this LT earnings power; this could roll forward guidance to '24 (now thru '22) to help roll out updates..

Estimates (Dec)

(US$)	2017A	2018A	2019E	2020E	2021E
EPS	1.21	1.30	1.33	1.37	1.42
GAAP EPS	0.39	1.30	1.33	1.37	1.42
EPS Change (YoY)	14.2%	7.4%	2.3%	3.0%	3.6%
Consensus EPS (Bloomberg)			1.30	1.38	1.46
DPS	0.73	0.79	0.83	0.88	0.94

Valuation (Dec)

	2017A	2018A	2019E	2020E	2021E
P/E	22.6x	21.1x	20.6x	20.0x	19.3x
GAAP P/E	70.2x	21.1x	20.6x	20.0x	19.3x
Dividend Yield	2.6%	2.9%	3.0%	3.2%	3.4%
EV / EBITDA*	17.1x	16.5x	14.4x	13.6x	12.7x
Free Cash Flow Yield*	-9.3%	-12.5%	-5.9%	-5.4%	-5.0%

* For full definitions of *iQmethod* SM measures, see page 10.

Refer to important disclosures on page 11 to 13. Analyst Certification on page 8. Price Objective Basis/Risk on page 8. **12079620**

Timestamp: 07 January 2020 06:51AM EST

07 January 2020

Equity

Key Changes

(US$)	Previous	Current
Inv. Opinion	B-2-7	B-1-7
Inv. Rating	NEUTRAL	BUY
Price Obj.	30.00	31.00
2019E EPS	1.31	1.33
2020E EPS	1.36	1.37
2021E EPS	1.41	1.42
2019E EBITDA (m)	1,750.1	1,758.9
2020E EBITDA (m)	1,853.3	1,856.8
2021E EBITDA (m)	1,989.1	1,997.1

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Stock Data

Price	27.39 USD
Price Objective	31.00 USD
Date Established	7-Jan-2020
Investment Opinion	B-1-7
52-Week Range	25.43 USD - 30.67 USD
Mrkt Val (mn) / Shares Out (mn)	10,231 USD / 373.5
Average Daily Value (mn)	104.33 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2019E)	9.7%
Net Dbt to Eqty (Dec-2018A)	156.7%

DPU: Department of Public Utilities

NIPSCO: Northern Indiana Public

iQprofile℠ NiSource Inc

*iQ*method℠ – Bus Performance*

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Return on Capital Employed	2.6%	3.9%	4.1%	4.1%	4.2%
Return on Equity	9.5%	10.1%	9.7%	9.1%	8.9%
Operating Margin	18.7%	18.3%	20.4%	21.0%	22.2%
Free Cash Flow	(954)	(1,278)	(608)	(557)	(517)

*iQ*method℠ – Quality of Earnings*

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash Realization Ratio	1.9x	1.2x	2.3x	2.3x	2.2x
Asset Replacement Ratio	3.0x	3.0x	2.5x	2.4x	2.4x
Tax Rate	71.0%	19.7%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	207.7%	156.7%	151.0%	132.5%	126.4%
Interest Cover	2.6x	2.6x	3.0x	3.1x	3.2x

Income Statement Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Sales	4,875	5,084	5,170	5,299	5,470
% Change	8.5%	4.3%	1.7%	2.5%	3.2%
Gross Profit	3,356	3,325	3,605	3,710	3,858
% Change	8.2%	-0.9%	8.4%	2.9%	4.0%
EBITDA	1,481	1,531	1,759	1,857	1,997
% Change	5.4%	3.4%	14.9%	5.6%	7.6%
Net Interest & Other Income	(468)	(335)	(353)	(361)	(380)
Net Income (Adjusted)	**398**	**463**	**502**	**542**	**605**
% Change	**15.6%**	**16.6%**	**8.3%**	**8.0%**	**11.6%**

Free Cash Flow Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Net Income from Cont Operations (GAAP)	129	463	502	542	605
Depreciation & Amortization	570	600	702	742	783
Change in Working Capital	(415)	110	(186)	(186)	(186)
Deferred Taxation Charge	307	(188)	118	127	140
Other Adjustments, Net	152	(445)	0	0	0
Capital Expenditure	(1,696)	(1,818)	(1,744)	(1,781)	(1,858)
Free Cash Flow	**-954**	**-1,278**	**-608**	**-557**	**-517**
% Change	**-41.9%**	**-34.0%**	**52.4%**	**8.4%**	**7.3%**

Balance Sheet Data (Dec)

(US$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash & Equivalents	29	121	133	133	133
Trade Receivables	945	1,147	1,333	1,519	1,706
Other Current Assets	790	787	787	787	787
Property, Plant & Equipment	14,360	15,543	16,584	17,624	18,699
Other Non-Current Assets	3,839	4,206	4,206	4,206	4,206
Total Assets	**19,962**	**21,804**	**23,044**	**24,270**	**25,531**
Short-Term Debt	1,490	2,027	2,274	2,302	2,403
Other Current Liabilities	1,688	2,010	2,010	2,010	2,010
Long-Term Debt	7,512	7,105	7,409	7,501	7,831
Other Non-Current Liabilities	4,951	4,911	5,029	5,156	5,296
Total Liabilities	**15,642**	**16,053**	**16,721**	**16,969**	**17,539**
Total Equity	**4,320**	**5,751**	**6,323**	**7,301**	**7,992**
Total Equity & Liabilities	**19,962**	**21,804**	**23,044**	**24,270**	**25,531**

* For full definitions of *iQmethod*℠ measures, see page 10.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

NI's positives including 5-7% earnings/dividend growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries with earned ROEs consistently near the allowed. We are starting to see resolution of overhang from the MA incident as the recent DPU Order provides a bookend of potential costs of the state's investigation. Bottom line, given the discount of shares, confidence on MA costs and thus NI's forthcoming block, and ratebase upside in NI, we rate NI Buy.

Stock Data

Average Daily Volume	3,809,007

Quarterly Earnings Estimates

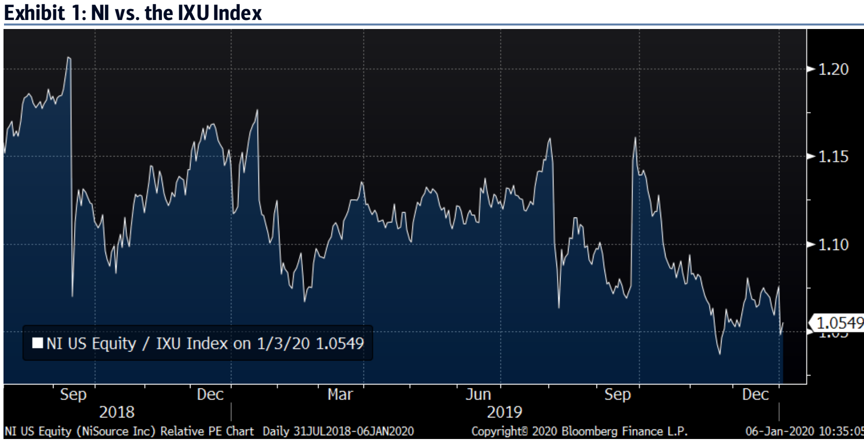
	2018	2019
Q1	0.77A	0.82E
Q2	0.08A	0.05E
Q3	0.10A	0E
Q4	0.38A	0.45E

De-risking with renewables upside this year too

We see shares trading at a discount as unwarranted given the de-risking of the final MA cost as well as the strong LT EPS growth opportunity supported by NIPSCO's renewable RFPs to replace coal coming off line in the 2020s. We perceive mgmt's renewed sense of confidence in its total equity raise as critical alongside our growing confidence in owning gas utilities overall. While the uncertainty from Mass is still likely protracted, we reflect both the fine in our estimates as well as only a RAB valuation at 1x on its core $750 Mn (a sober assessment on both) alongside a full $700 mn of further equity and still find shares at a sizable discount. We stress that a sale of the MA business not only likely given the backdrop of a potentially noisy rate case but would help put finality to a lingering and largely negligible earnings contributor to the company overall.

Moreover, we stress our latest stakeholder discussions reflect our growing confidence that NIPSCO could be among few companies in the state able to avoid confrontation with the key coal lobbyists and pursue its solar/wind procurement (given it has already agreed with interveners to accelerate depreciation and retire its *non*-Indiana coal burning generation station at Schaefer). Moreover, it has already been working with the local community to mitigate the tax & jobs impacts and as such perceive less headline risk (although we expect continued headlines throughout the year as NI's peers in the state face challenges still, including principally AES and CNP). Below we include NI vs. the IXU Index – highlighting today's 5% premium versus the 10-20% premium from earlier in 2019 and 2018. While we admittedly could be early as investors are concerned about shares through the course of a likely still noisy 2020, we perceive a wider bid for gas utilities in 2020 alongside a bid for NI with increasing resolution to its MA backdrop and forthcoming Analyst Day as all accruing relatively favorably. Bottom line, we believe financial clarity in 1H should pivot to capex upside in 2H and in turn, an earnings pivot off consistently reduced estimates. We upgrade to Buy.

Exhibit 1: NI vs. the IXU Index



Source: Bloomberg

Massachusetts

NI still has fines outstanding due to the Merrimack incident in 2019; Massachusetts (MA) policy has cost caps associated with events of the like – and after EEI stakeholders did not have a clear view of how many 'events' the Department of Public Utilities (DPU) would be able to argue fit NI's incident. Clarity was gained at the end of 2019, however, as the MA DPU issued a procedural order to characterize Merrimack as at least three events (giving itself the flexibility to determine one or two more in the future).

The DPU Order

The December 23, 2019 order broke the Merrimack incident into at least three 'events': The initial event (i.e. Sept 13, 2018 incident and Bay State response), the Phase I Restoration (i.e. Sept 21 - Dec 16, 2018), and the Improperly Abandoned Services (i.e. Sept 27, 2019 Grade 1 Gas Leak). It directed NI to file the third time frame (i.e. Sept 27,

2019) as a separate event report. It also detailed the scope of investigation, in which the DPU indicated it may investigate a fourth time frame, i.e. the "continued restoration and related repair work that took place after Dec 16, 2018". The commission also gave itself flexibility to add additional events beyond the four aforementioned "should further emergency events related to the restoration and reconstruction…occur".

NI view

NiSource (NI) affirmed and re-affirmed at and after EEI its confidence that the two formal Massachusetts (MA) Department of Public Utilities (DPU) Merrimack investigations should have a maximum $22mn cost cap. Recall NI's $22mn cost cap expectation (split between $2mn for the incident and $20mn for the emergency response) was formed by NI's expectation that the full Merrimack incident would be defined as one "event" or one "series of events". NI used past precedent of electrical outages in helping form its interpretation: Storms damaging multiple poles or causing electrical outages in multiple homes are grouped into a series of events rather than individual events that results in a fine for each individual damage. *We assume four such events in our SOTP; we perceive that this interpretation and total fine could still be negotiated from the most punitive approach we've adopted for the purpose of our SOTP.*

Our view: We assume $700mn of equity forward helps resolve balance sheet uncertainties at last around Mass

While the final DPU decision on the investigations remains outstanding, we see the Order quantifying the 3-5 events positively because it provides more clarity around the maximum fines NI would be responsible for at the state level. NI has been waiting for clarification on a few outstanding items before providing more details on timing and amount of its $500-700mn block expected in 2020 (others include insurance recovery and the federal criminal investigation). With clarification of two major items (a bookend for these DPU fines as well as the NIPSCO ratecase in Indiana), we perceive the company is growing more confident in its equity needs. As such, we anticipate the company enters the market for the block in 1H20, and as early as end of February (since the company is in blackout until its 4Q earnings release). We factor in $700mn of the range into our estimates via a forward – and we factor in $500mn of dilution in 4Q20 and the remaining $200mn in 1Q21. Note that we are still within NI's guidance of 5-7% YOY EPS growth. Bottom line: We find this DPU order as constructive in starting to determine final costs and expect a rerating of shares as this helps de-risk the recovery process.

What's next? Still expecting noise, but greater certainty around all the financial risks as best we can tell

We expect more clarity around state fines only with the DPU investigation resolution – which isn't expected until 3Q/4Q 2020 at the most aggressive of timelines (and potentially pushed out to '21). Note there is still potential this is merged with a ratecase filing. Also note the final number of events will likely be a negotiation topic between NI and the DPU as it works out the investigation and expected ratecase filing. While we await final details on the remaining insurance recovery, we expect this largely to go according to expectations or even provide upside: NI filed for $130mn from casualty coverage (which NI assumes it will receive as it has in other instances) as well as $260mn from property insurance (which NI has not yet factored into assumptions, meaning that receiving this would be upside to guidance). Finally, we highlight that a third party is conducting an independent audit of the system, but this is with regards to a previous MA DPU order and we doubt will result in substantial costs given NI's work ensuring proper abandonment.

Indiana

Factoring in the block equity in 4Q20/1Q21, the Street is paying close attention to NI's roll-forward of EPS and if the company can maintain its 5-7% trajectory. We see NI able to maintain strong long-term earnings – particularly due to the renewable ownership opportunity in Indiana. When including this opportunity, our CAGR rolling forward ’20 into ’24 is 6.3% – higher than Consensus’ 5.7%.

Round 2 RFP: Building on Rosewater techniques

Following the first round of RFPs, in which NIPSCO secured two build-own-transfer (BOT) wind projects (the 100MW Rosewater and 302MW Crossroads), we see a prime opportunity for NI to own more renewables through its second round of RFPs. This round 2 targets at least 2.6GW of renewable capacity (300MW wind and 1.3GW solar – some with storage) and is ongoing, with details on bids likely to be available this upcoming February. We anticipate these are highly competitive and provide NI with a strong opportunity to replace its retiring coal facilities (Schahfer in ’23 and Michigan City in ‘28) with ratebase-able renewables. Given success in receiving commission approval to own Rosewater in round 1, we anticipate roughly half of the 2.6GW is build-own-transfer projects – in which NI will own 1% of the project originally, buy out the developer’s 49% project stake in year 2023 when the company goes in for a ratecase, and then buy out the tax equity (TE) provider’s 50% stake upon the tax equity flip (usually around year 7 or 10 for solar or wing projects – once the TE provider makes a 6-7% return).

While the financials & math is not exactly ‘normal’ for ratebase given the tax equity nuance – and admittedly we do not yet know how much will be awarded to management in terms of RFP quantum – we stress this remains a potential upside to many across the Street.

Modeling in upside

As noted above, we assume NI is able to own roughly half of the second RFP (i.e. 1.3GW of the 2.6GW total) via build-own-transfer agreements with projects starting to be added to ratebase in ’23. However, we note that the tax equity provider will have a 50% stake in projects in ’23, reducing NI’s ownership opportunity in ’23 to 650MW. We find $0.06/sh of *net* upside associated with ratebasing these additional projects after we factor out about 50mn of annual increased depreciation (of existing ratebase) from the last ratecase to the next. Note that without this increased depreciation assumption, there would be total $0.08/sh of upside associated with the BOT projects added to ratebase in ’23 (factoring in 50% tax equity stake). We include our EPS estimates below – which factors in debt and equity assumptions – as well as our table of assumptions.

Table 1: Renewables Rate Base, via Build-Own-Transfer: 402MW wind from Round 1, and we expect 1.3GW from Round 2 (tax equity has 50% stake)

	2018	2019	2020	2021	2022	2023	2024	2025
Ratebase (YE)	5,119	5,343	5,674	6,009	6,334	6,632	0	0
Beginning Ratebase Additions			0	-50	-100	-150	946	899
Wind Capex			0	0	0	558	0	0
Wind Depreciation (25 yrs)			0	0	0	-22	-22	-22
Solar Capex			0	0	0	636	0	0
Solar Depreciation (25 yrs)			0	0	0	-25	-25	-25
Increase in Depreciation coming off from last ratecase			-50	-50	-50	-50	0	0
Ending Ratebase Additions			-50	-100	-150	946	899	851
Average Ratebase Additions			-25	-75	-125	398	922	875
New Ending Ratebase			5,649	5,934	6,209	7,030	922	875
New Average Ratebase			5,496	5,804	6,109	6,682	3,777	437
Implied Net Income (50% Equity, 9.975% ROE)			-1	-4	-6	19	45	43
BofA Global Research Model Implied NI for NIPSCO Electric			252	273	288	303	316	328
Shares			395	426	440	449	454	457
Incremental shares			0.0	0.0	0.0	17.6	17.6	17.6
Implied EPS			**$0.00**	**-$0.01**	**-$0.01**	**-$0.02**	**$0.06**	**$0.06**
BofA Global Research Model Implied EPS for NIPSCO Electric			$0.64	$0.64	$0.66	$0.68	$0.70	$0.72
Total Earnings Power (NI)			58					
D&A			48					
FFO			106					

Ratio

Table 1: Renewables Rate Base, via Build-Own-Transfer: 402MW wind from Round 1, and we expect 1.3GW from Round 2 (tax equity has 50% stake)

	2018	2019	2020	2021	2022	2023	2024	2025
Total Debt			707	59.17% Debt				
Total Equity			488	40.83% Equity				
Project Investment			1,194					

Source: BofA Global Research estimates, company report

Below we include our assumptions. We reiterate that in year 2023 when NI buys the project developer's stake, the tax equity provider still has a 50% stake. As such, we show NI owning half of the RFP 1 opp (201MW of the 100MW Rosewater and 302MW Crossroads) and half of the RFP 2 opp (650MW of the 1.3GW BOT opp – most of which we anticipate is solar). We caution that NIPSCo's procurement will be among the first solar ratebase constructs with meaningful tax equity employed; we anticipate a meaningful further bump in ratebase earnings upon eventual flip.

Table 2: Assumptions

Assumptions (note TE owns 50% until flip at yr 7-10 when NI would then own 100%)	
Wind BOT Capacity Online (MW)	351
Existing Awards	201
New RFP2 Awards in BOT form	150
Wind ($1,500/kW implied) + 6% buy-out premium	558
Solar BOT Capacity Online (MW) = All from RFP2, some w/ storage	500
Solar ($1,200/kW implied) + 6% buy-out premium	636
Total Capacity	851
Total Capex	1,194
Equity Ratio	50%
ROE	9.750%
Leverage Multiple (Maintain 15%)	6.7x
Share Price	$27.67
Incremental Shares	**17.6**

Source: BofA Global Research estimates, company report

Estimates

We update our estimates below, updating our block equity issuance total to $700mn, diluting shares in 4Q20 and 1Q21 as well as including the net renewable ownership opportunities in NIPSCO electric hitting in '23 (making sure to account for increase in depreciation since the last ratecase). We stress the uplift through '24 of the full net uplift from the IRP appears to be $0.06 net of the acceleration depreciation and net of the full tax equity impacts. Bottom line, we see a clear cut ability to roll forward the EPS CAGR off '20 and then push to '24 and keep the full 5-7%. Admittedly, using a '19 base would prove at or below the low end of the earlier 5-7% range given the diluted impact of the base year in '20 (this could be yet another factor in accelerating equity; meanwhile we continue to see a forward settlement).

Table 3: NI EPS Estimates: ***a bit shy of Street in near-term given equity – but see sustained EPS in longer-term***

NI EPS Estimates		2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Gas		0.96	0.94	1.01	1.05	1.07	1.14	1.20	1.26	1.32
Electric		0.56	0.60	0.63	0.64	0.64	0.66	0.68	0.69	0.70
Electric - BOTs from RFP 1 & 2		0.00	0.00	0.00	0.00	-0.01	-0.01	-0.02	0.06	0.06
Parent/Other		-0.32	-0.23	-0.32	-0.31	-0.29	-0.28	-0.28	-0.27	-0.26
BofA EPS		**1.21**	**1.30**	**1.33**	**1.37**	**1.41**	**1.50**	**1.58**	**1.74**	**1.81**
Previous EPS		1.21	1.30	1.31	1.36	1.41	1.53			
-										
Guidance		**1.17-1.20**	**1.26-1.32**	**1.27-1.33**	**1.36-1.40**					
Consensus		1.19	1.28	1.30	1.38	1.46	1.54			
Consensus '19-'23 CAGR	5.6%									
BofA CAGR '19-'23 CAGR	4.5%									
BofA CAGR '20-'24 CAGR	**6.3%**									
5%-7% CAGR EPS off '19 guidance range	High End			1.33	1.42	1.52	1.63	1.74	1.87	2.00
	Mid-Point			1.30	1.38	1.46	1.55	1.64	1.74	1.85
	Low End			1.27	1.33	1.40	1.47	1.54	1.62	1.70

Table 3: NI EPS Estimates: ***a bit shy of Street in near-term given equity – but see sustained EPS in longer-term***

NI EPS Estimates	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E

Source: BofA Global Research estimates, company report

Valuation

Below we include our SOTP Valuation for NI. We break out MA from the rest of the gas utilities and value the subsidiary based on its ratebase. note this contributes less than $1/sh of value to the total price objective. We update the gas and electric peer multiple to 19.3x and 18.9x gas. To this, we apply a 5.1% / 5% CAGR for growth. We continue to apply a -1x gas discount to subsidiaries, but award the NIPSCO Electric subsidiary a +1x premium to reflect the coal retirement and owned renewable replacement opportunity. We arrive at a $31/sh PO and upgrade to Buy based on a 16% potential total return.

We also net out a $80 Mn fine for the purposes of our SOTP as well given the latest developments.

Table 4: NI SOTP Valuation

NI SOP Valuation	Metric			P/E Multiple				Equity Value		
	2022E EPS	Low	Peer	Prem/ Discount	Base	High		Low	Base	High
Group Peer Multiple - Gas	-	-	19.3x	-	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Gas	-	-	5.10%	-	-	-	-	-	-	-
	-	-		-	-	-	-	-	-	-
Gas Utilities	-	-	20.3x	-	-	-	-	-	-	-
Columbia Gas of OH	$0.49	18.3x	20.3x	-1.0x	19.3x	20.3x		$8.91	$9.40	$9.88
Columbia Gas of PA	$0.25	18.3x	20.3x	-1.0x	19.3x	20.3x		$4.51	$4.75	$5.00
NIPSCO Gas	$0.20	18.3x	20.3x	-1.0x	19.3x	20.3x		$3.72	$3.93	$4.13
Columbia Gas of VA	$0.07	18.3x	20.3x	-1.0x	19.3x	20.3x		$1.37	$1.44	$1.51
Columbia Gas of KY	$0.04	18.3x	20.3x	-1.0x	19.3x	20.3x		$0.77	$0.81	$0.86
Columbia Gas of MD	$0.02	18.3x	20.3x	-1.0x	19.3x	20.3x		$0.31	$0.32	$0.34
Group Peer Multiple - Electric			18.9x							
Group EPS '18-'22 CAGR - Electric			5.00%							
Electric Utilities			19.8x							
NIPSCO Electric	$0.66	19.8x	19.8x	1.0x	20.8x	21.8x		$13.01	$13.67	$14.32
Total Utility	**$1.73**	*18.9x*			*19.9x*	*20.9x*		**$32.59**	**$34.32**	**$36.04**
-Parent EPS Drag (ex-Interest Expense)	-$0.02	18.9x	0.0x		10.1x	11.1x		-$0.35	-$0.19	-$0.20
Total EPS *(incl. debt drag)*	**$1.50**									
Midpoint of 5-7% EPS	*$1.59*									
	Ratebase		*RAB per Share*			*Cap Struct (Equity)*			*Net Equity*	
Columbia Gas of MA (1x RAB)	$750		$1.71	1.0x		47%		$0.80	$0.80	$0.80
Fine (20*4)	$80								-$0.18	
Holdco Debt @ Parent, *not* allocated to Utilities										
(50% Netting out Debt)				-$2,000	50%			-$1,000	-$1,000	-$1,000
(50% P/E multiple on Interest Exp)				5.5%	50%			-$820	-$864	-$907
Grand Total Equity Value								**$28.10**	**$30.51**	**$31.50**
Shares Outstanding 2022E									440	
Total Equity Value								**$28.00**	**$31.00**	**$31.00**
Implied Consolidated P/E										
Current Price									$27.39	
Dividend Yield (2020E)									3.2%	
Total Return									**16.4%**	

Source: BofA Global Research estimates, company report

Price objective basis & risk

NiSource Inc (NI)

Our $31 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2022 forward P/E multiples of 19.3x for gas utilities and 18.9x for electric utilities with a -1.0x discount for gas utilities and a 1.0x premium for the electric utility's strong growth rates and earned ROEs. We note that electric / gas peer P/E multiples are grossed up by 5% / 5.1% to reflect capital appreciation across the sector. We now value Columbia gas of MA using a ratebase methodology to reflect the discounted ratebase of the subsidiary following Merrimack in 2018 and subsequent costs. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Aqua America	WTR	WTR US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Terraform Power	TERP	TERP US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
RSTR				
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith
	Pattern Energy Group	PEGI	PEGI US	Julien Dumoulin-Smith

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Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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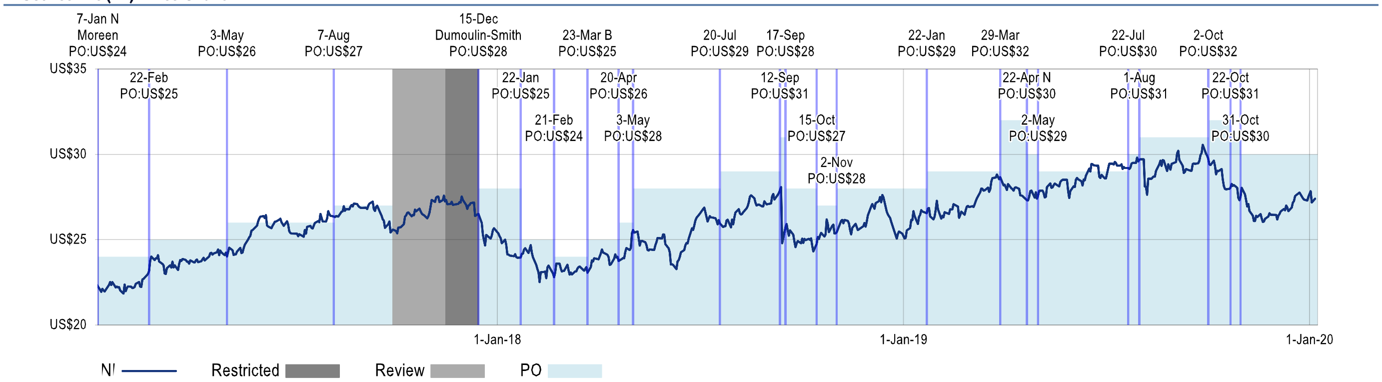
NiSource Inc (NI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	88	54.32%	Buy	72	81.82%
Hold	36	22.22%	Hold	21	58.33%
Sell	38	23.46%	Sell	21	55.26%

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	63	44.06%	Buy	44	69.84%
Hold	43	30.07%	Hold	31	72.09%
Sell	37	25.87%	Sell	27	72.97%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1560	50.49%	Buy	991	63.53%
Hold	717	23.20%	Hold	461	64.30%
Sell	813	26.31%	Sell	415	51.05%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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UTILITIES & POWER

Regulateds – Market Underweight
Integrateds – Market Overweight
IPPs – Market Overweight
Gas/Power Infrastructure – Market Overweight

January 5, 2020

THE UTILITY TRADER

The 2019 recap; introducing the 2020 DUTY portfolio

- **Utilities play ping pong vs the market for 6th year in a row**
  Utilities ended 2019 up 22.2%, a great year on an absolute basis but nothing special in 2019. The S&P 500 ended up 28.9% beating utilities by over 500bps, including dividends. Utilities now trail the market on a 1-yr, 3-yr, 5-yr and 10-yr basis which may be surprising to some. This is the 6th year in a row that utilities have ping-ponged between outperforming and underperforming the S&P 500, highlighting the shifting risk-on, risk-off trade amidst an underlying bull market. A unique aspect to 2019 was the breakdown between utilities relative performance and L-T interest rates. Utilities underperformed despite rates falling almost 100bps. In retrospect, utilities moved ahead of bonds with their strong move in late 2018 and thus had less room to run. While there is a lot to worry on in 2020, including the election, we remain underweight utilities and wait for the current 11% premium to get closer to its historic 4% average.

- **Utilities vs other income sectors – middle of the pack**
  All the large income sectors underperformed the market in 2019 (exhibit 1 on right), not surprising amidst a tech-driven bull market. The one exception was Yieldcos which benefitted from better sponsors and increasing investor appetite for renewables. Staples and REITs also slightly beat utilities while Telecom and Pharma trailed. Midstream was all over the map with Midstream C-corps slightly beating utilities for the year, but MLPs trailing all income sectors by a wide margin.

- **What worked in 2019 – barbell of value and high quality, plus renewables**
  2019 was a year where both low P/E value names and quality premium utilities worked. Low P/E names mainly worked by de-risking – SO, SRE, ETR, AES, EIX, FE, and PPL. High quality names saw multiple expansion on consistent execution and in some cases ESG halo – NEE, AWK, WEC, ES, LNT, XEL, CMS. Renewables exposure benefited the Yieldcos and utility leaders NEE, AES and ES (offshore).

- **What didn't work in 2019 – power, midstream, EPS re-basers, regulatory risk**
  The power names were all near the bottom – NRG, VST, EXC and PEG – as the PJM market overhang and renewables fears offset summer Texas price spikes. Midstream exposed names also performed poorly as investors worried about weaker fundamentals and project risks – CNP, OGE, DTE, and D. Companies that re-based their earnings CAGRs early in the year never caught up – CNP, AGR, DUK, NI, EVRG. Finally, regulatory and event risks became big issues for certain names PNW in AZ, EXC in IL, NI in Mass, and CNP in TX.

- **2019 DUTY outperformed; introducing 2020 DUTY portfolio**
  Our DUTY (Dogs of the UTY) comprises the worst performing utilities of the prior year. The 2019 DUTY portfolio (ex PCG) outperformed by 550bps led by strong years from SO, EIX, and PPL. The 2020 DUTY portfolio includes the following names: CNP, EXC, AGR, PNW, DUK and NI. Of these names, we like EXC best as we see significant revaluation potential if IL nuke legislation gets done in 2020. We are still cautious on AGR and PNW – AGR due to a lot of execution risks and PNW due to a very tough rate case and regulator.

Source for all exhibits in this report: FactSet, Wolfe Research; prices as of 12/31/19.

Ex 1: 2019 Income Sectors Perf

Sector	2019 Performance
WR YieldCo Index	30.7%
S&P 500	28.9%
S&P Consumer Staples	24.0%
REIT Index (FNER)	23.9%
Wolfe Midstream C-corp basket	22.8%
S&P Utility	**22.2%**
S&P Telecom	20.1%
S&P Pharma	12.0%
XLE Index	4.7%
WR IPP Index	0.4%
MLP Index (AMZ)	(2.0%)

Source: FactSet, Wolfe Research

Ex 2: 2019 Utilities Perf

Company	Ticker	YTD Perf
Top 10	**Top 10**	
Southern Co	SO	44.9%
Pattern Energy	PEGI	43.7%
Sempra	SRE	39.9%
NextEra Energy	NEE	39.2%
Entergy Corp.	ETR	39.1%
AES Corp.	AES	37.3%
TerraForm Power	TERP	37.2%
American Water	AWK	35.3%
Atlantica Yield	AY	34.6%
WEC Energy Group	WEC	33.0%
Bottom 10	**Bottom 10**	
Avista Corp.	AVA	13.3%
NiSource	NI	9.7%
Duke Energy	DUK	5.6%
Pinnacle West Cap	PNW	5.4%
Avangrid	AGR	2.0%
Exelon Corp.	EXC	1.1%
Vistra Energy	VST	0.7%
NRG Energy	NRG	0.3%
CenterPoint	CNP	(3.5%)
PG&E Corp.	PCG	(54.5%)

Source: FactSet, Wolfe Research

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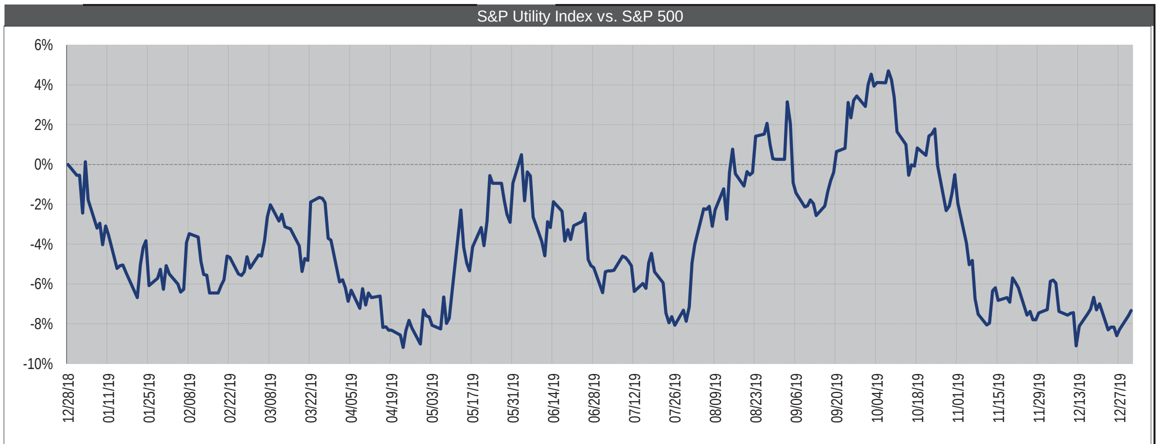
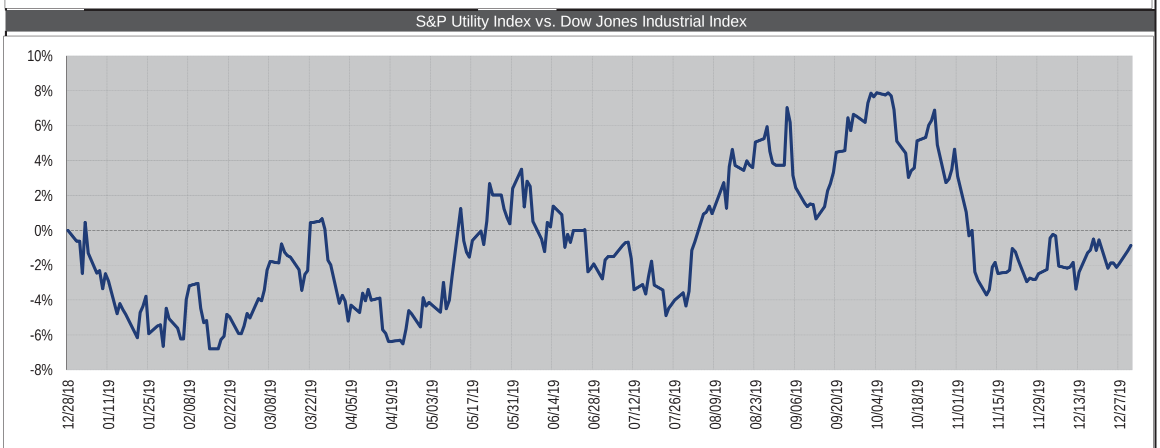
S&P Utility Index vs Market

Utilities underperformed the S&P 500 by 665bps in 2019. It was a bit of a seesaw battle during the year, with overall market sentiment largely driven by US/China trade headlines. In late summer, the 2-yr and 10-yr yield briefly inverted, prompting a big utility rally which brought the group ahead of the market by the end of September. The market went on to beat utilities in each of the final three months, due in part to a phase 1 trade resolution with China. Signs of declining allowed returns and a return of large equity deals also caused sentiment on the utility sector to wane.





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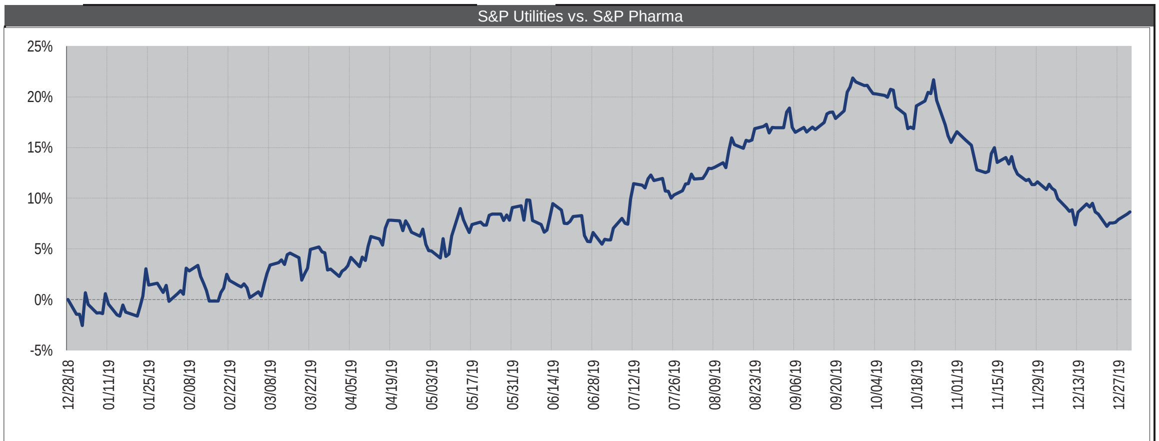
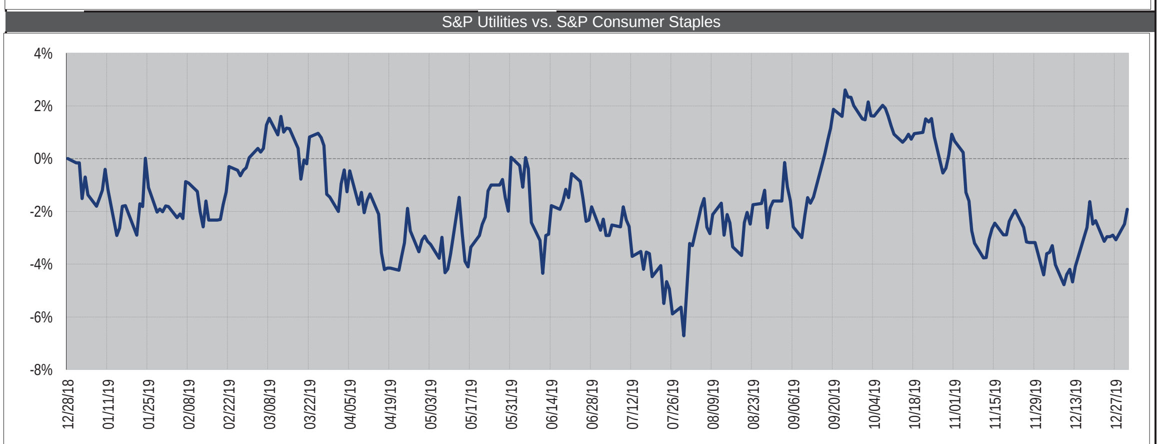
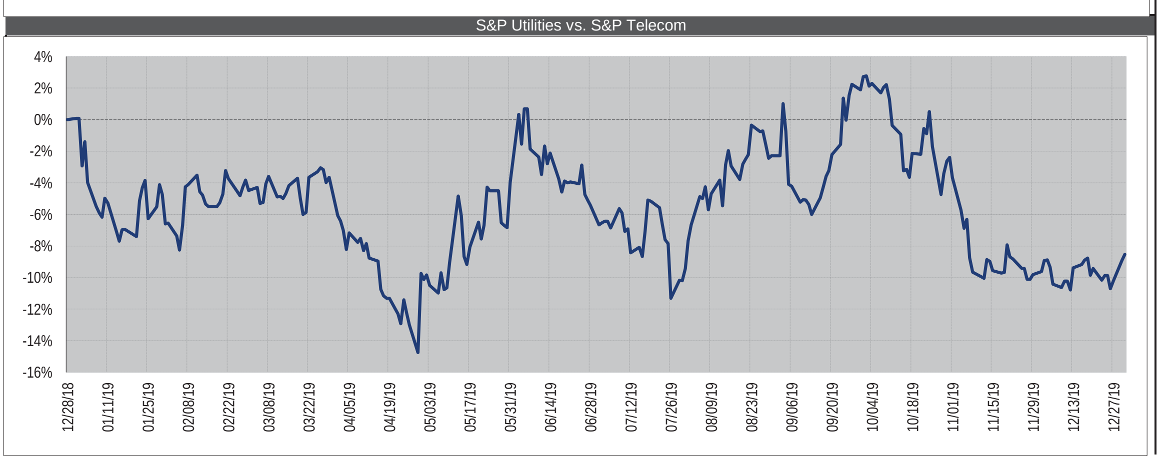
Utilities vs Other Sectors

Pharma (+6.2%) were one of the top performing income sectors in December. Telecom (+2.9%) and Staples (+2.0%) both underperformed utilities during the month.







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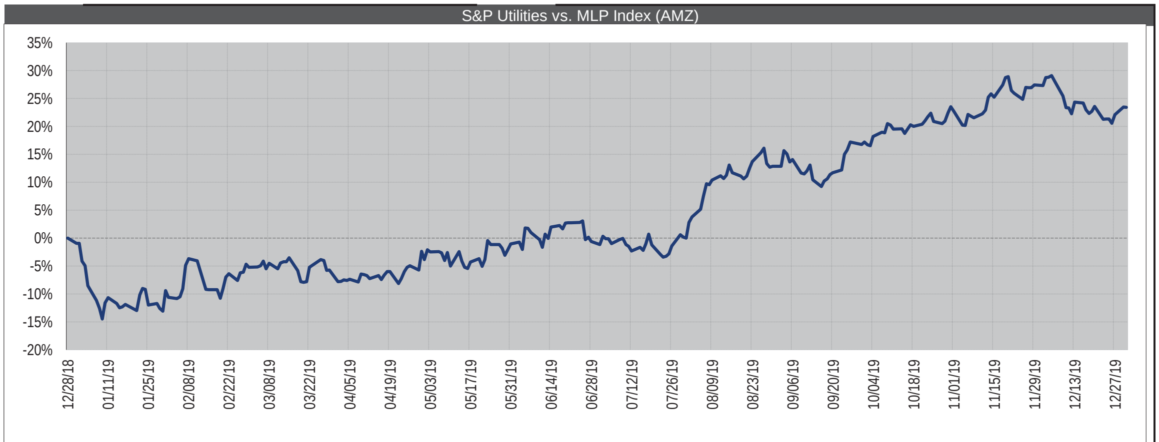
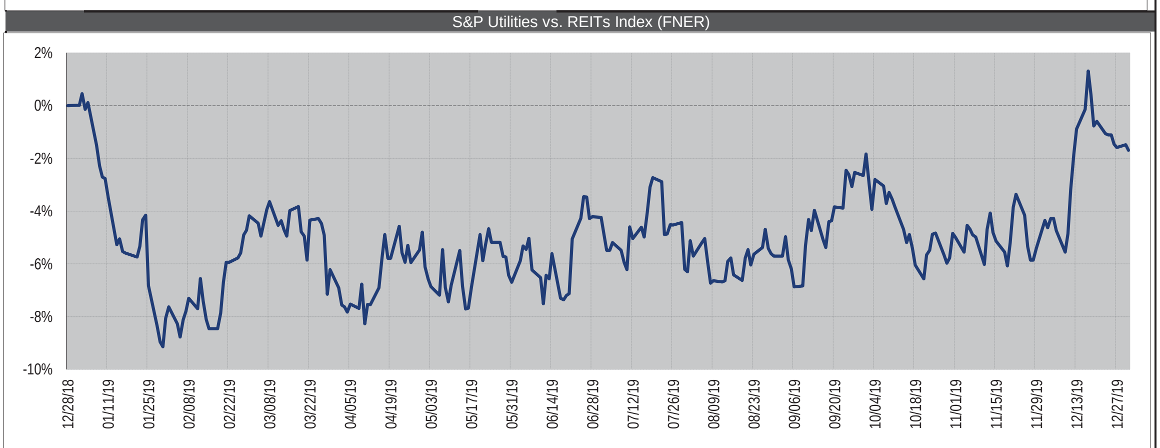
Utilities vs Other Sectors continued

The MLPs led midstream in December for a change as this year's MLP "Santa" rally led to an 8.4% rebound in the AMZ Index and cut the year's losses to 2.1%. More broadly, midstream stock performance in 2019 was largely characterized by the persistent outperformance by the C-corps, which closed the year outperforming the MLPs by 24.9% on a price-return basis, as structural concerns over the historically preferred MLP structure remain an overhang into 2020.





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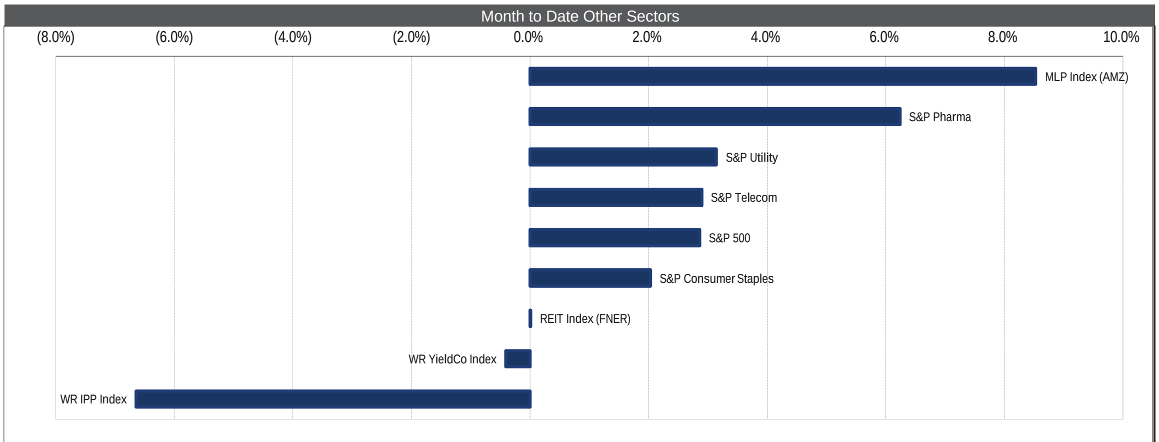
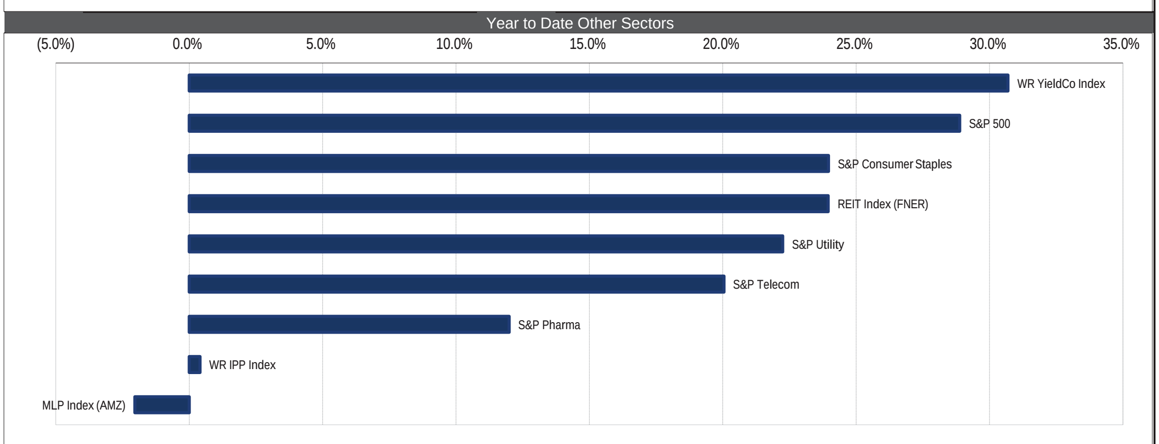
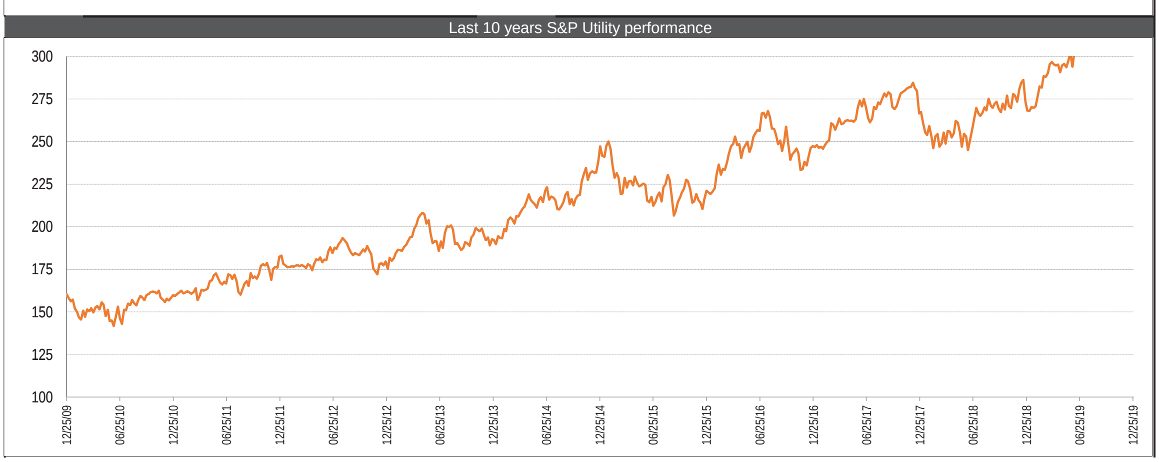
Month to Date and Year to Date performance of income sectors

The Yieldco group finished as the top performing income sector in 2019, edging out the S&P 500 by 200bps. MLPs were the only income sector to finish in the red in 2019 (-2.1%) and were well off Pharma (+12%) which finished second-to-last.

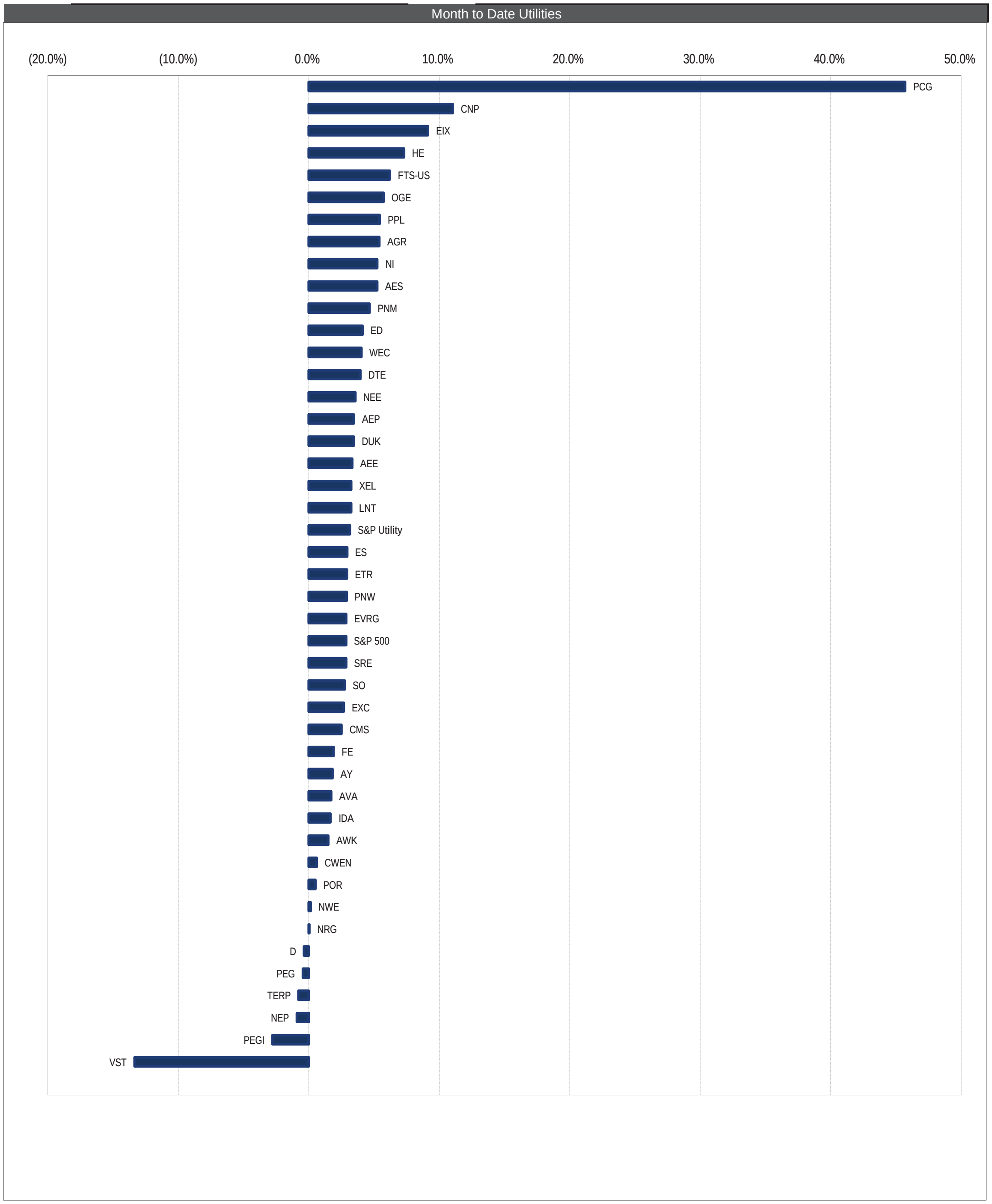






Month to Date performance of Utilities Group

PCG was the top performer in December. PCG's bankruptcy judge approved settlements between the company and fire victims / insurers; the ruling was a major victory for PCG, putting it back in the driver seat in the bankruptcy process. CNP was also a top performer after the company's TX rate case took a turn for the better – at the PUCT's direction, CNP and key intervenors were able to reach a settlement. EIX fared well as fire season is now in the rearview; the CPUC also finalized the CA cost of capital proceeding where EIX got a 400bps bump in equity layer (in-line w/ other CA utes). VST was the worst performer, coming under pressure at the beginning of the month after Brookfield (top holder) sold over 20M shares (1/3 of its position). Another bearish ERCOT CDR report also aided in VST's weakness (NRG as well). D was weak, likely due to an unexpected $800M perpetual preferred offering early in the month. PEG also underperformed, possibly a reaction to FERC's ruling on PJM's capacity market construct.



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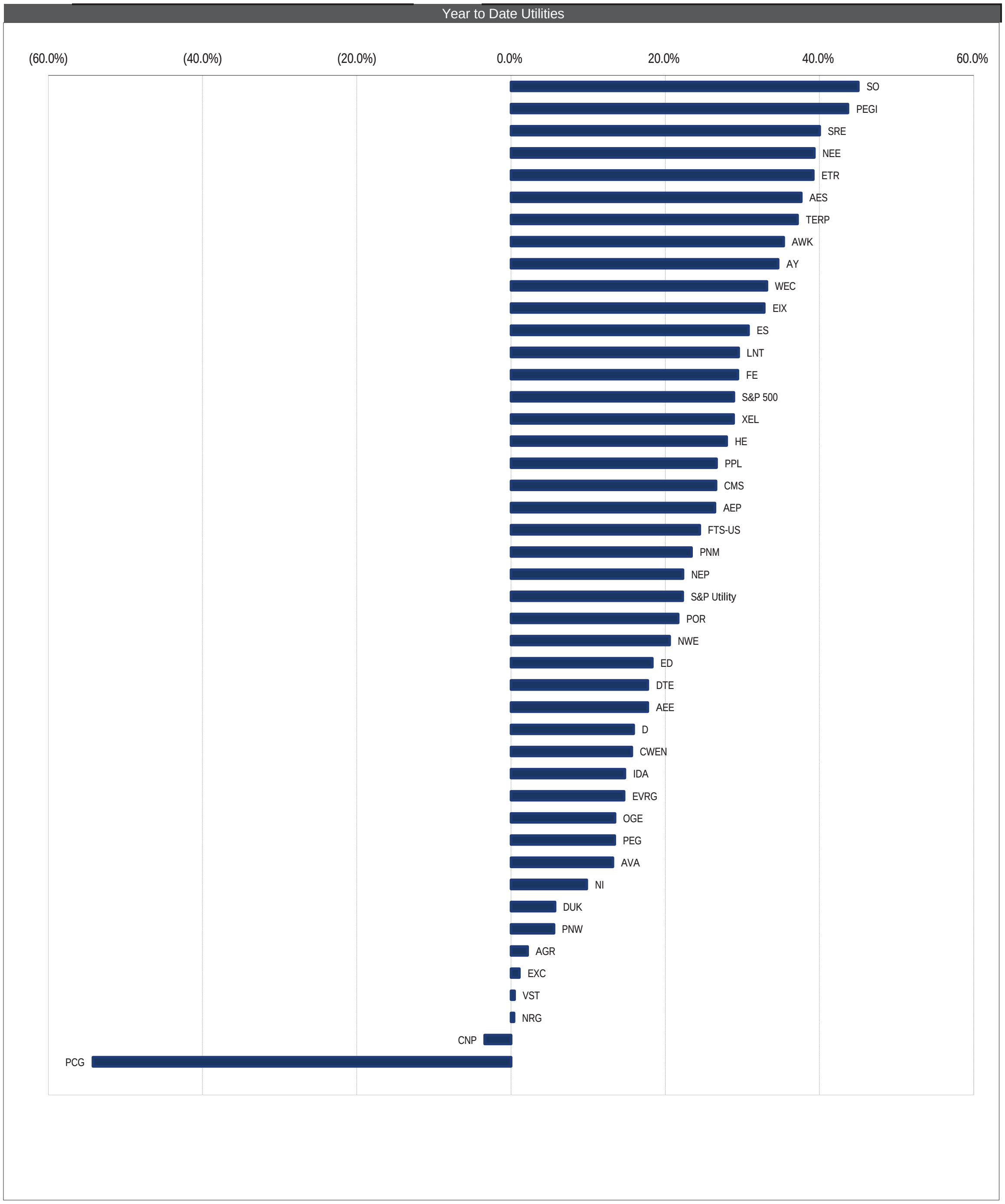
Year to Date performance of Utilities Group

SO was the top performer in 2019. SO's strength last year was largely tied to optimism for Vogtle's construction schedule throughout the year. SO also received a constructive outcome in its recent GA Power rate case. PEGI was also a top performer; PEGI announced a sale of the company to the Canada Pension Plan Investment Board late in November. SRE executed very well throughout the year on LNG projects, asset sales and the integration of Oncor. ETR's strong performance stems from a midyear guidance/capex raise. Despite a strong finish to the year, PCG was the worst performer by a wide margin due to bankruptcy related issues. CNP and AGR weakness both stem from earnings disappointments, among other issues. EXC was plagued by political issues in Illinois. Both IPPs, NRG and VST, were out of favor – VST struggled with selling shareholder issues and NRG perhaps just took a breather after a strong 2017 & 2018.



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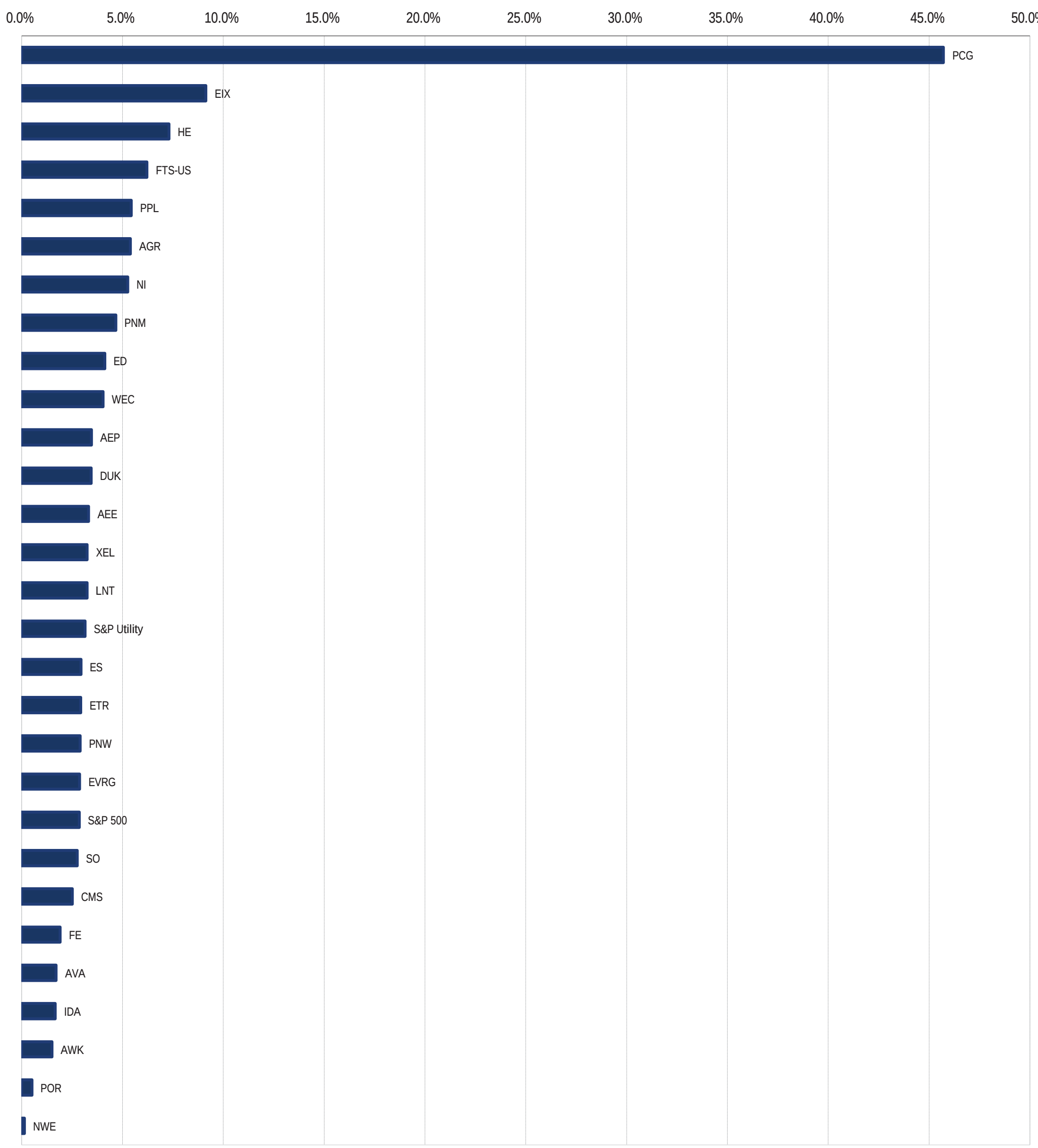
Month to Date performance of Regulated Utilities

PCG was the top performing regulated utility in December. PCG's bankruptcy judge approved settlements between the company and fire victims / insurers; the ruling was a major victory for PCG, putting it back in the driver seat in the bankruptcy process. EIX fared well as fire season is now in the rearview. FTS bounced back after a challenging November. AGR also caught a bid, possibly on investors positioning for a rebound in 2020 as 2019 was a bad year for the stock. POR was one of the worst performing regulateds after OPUC Staff filed unsupportive final comments for the company's 2019 IRP. AWK was weak after issuing disappointing 2020 guidance; well-liked CEO Susan Story also announced her retirement. SO underperformed largely due to uncertainty in its GA Power rate case after failing to reach a full settlement (these fears proved overdone as the company ultimately received a constructive outcome).

Month to Date Regulated Utilities



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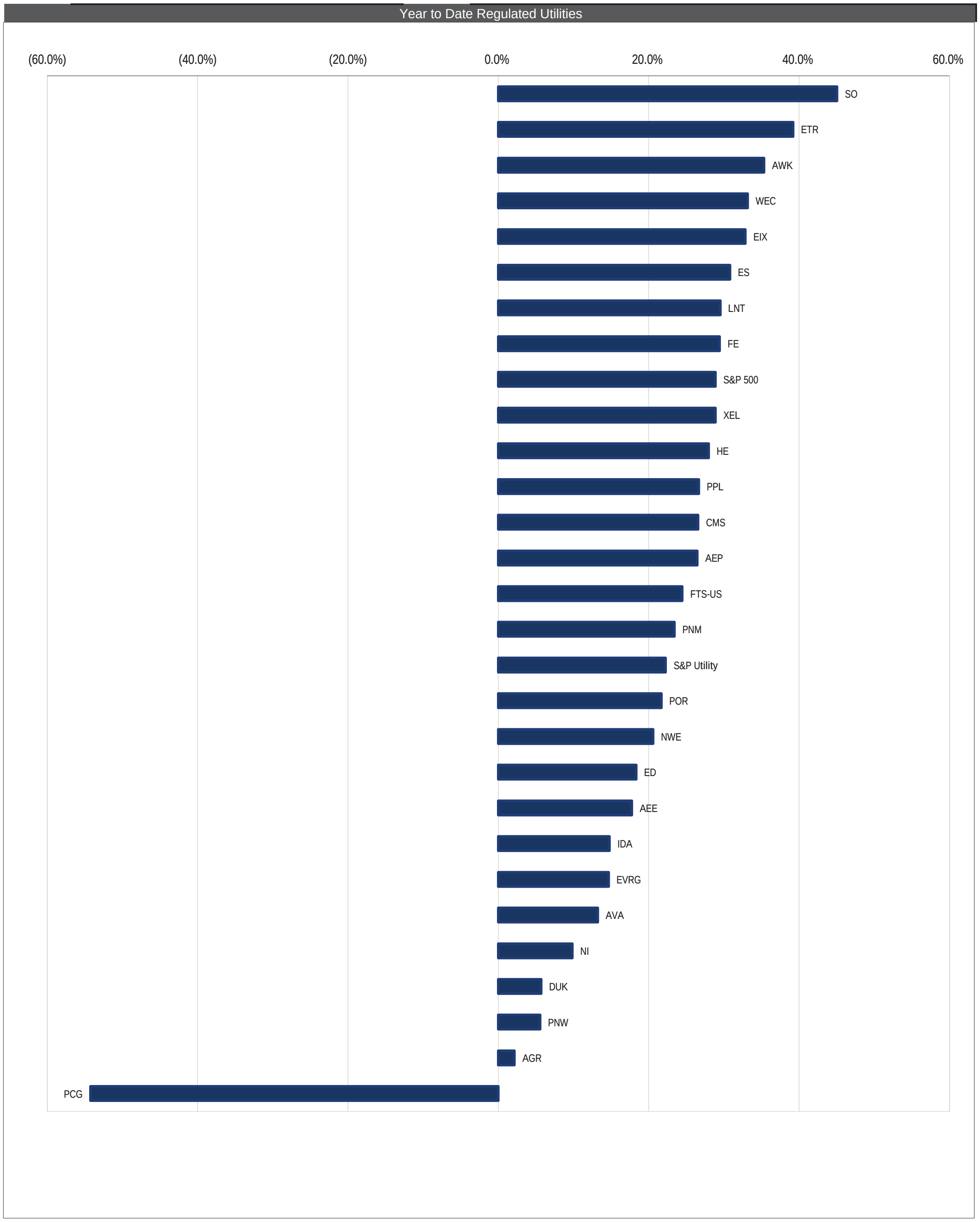
Year to Date performance of Regulated Utilities

SO finished as the top regulated in 2019. SO's strength last year was largely tied to optimism on Vogtle's construction schedule as well as execution at its utilities. ETR also fared well, sustaining momentum throughout the 2H of the year after raising EPS / capex guidance in July. High quality / low risk names like AWK and WEC finished toward the top of the pack, due in part to macroeconomic tailwinds (e.g., low interest rates). PCG was the worst performing regulated as the company wrestled with issues tied to its bankruptcy. DUK was mired by a number of issues, incremental equity needs and failed NC legislation being near the top of the list. AGR's weakness stemmed from the company's inability to execute on its financial targets the past four quarters, among other things. PNW was weak due to a tough regulatory environment in Arizona.



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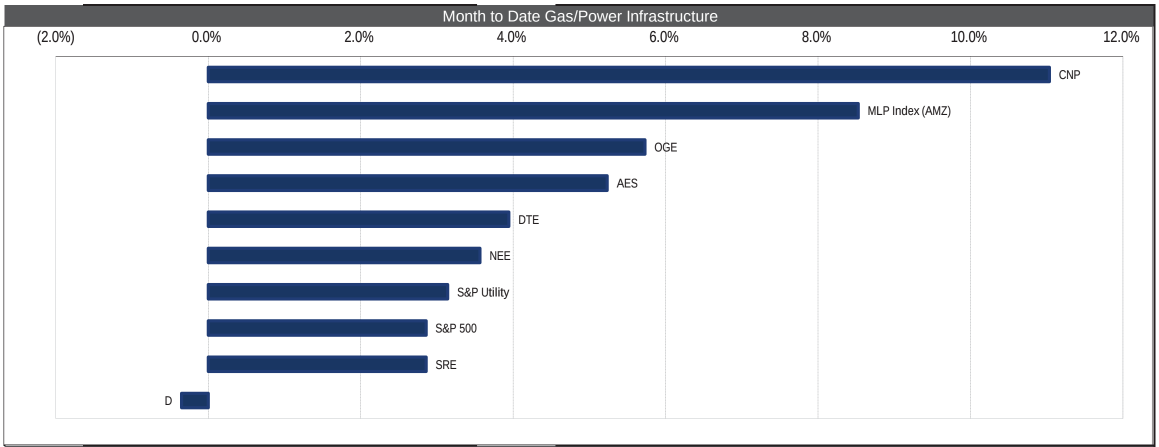
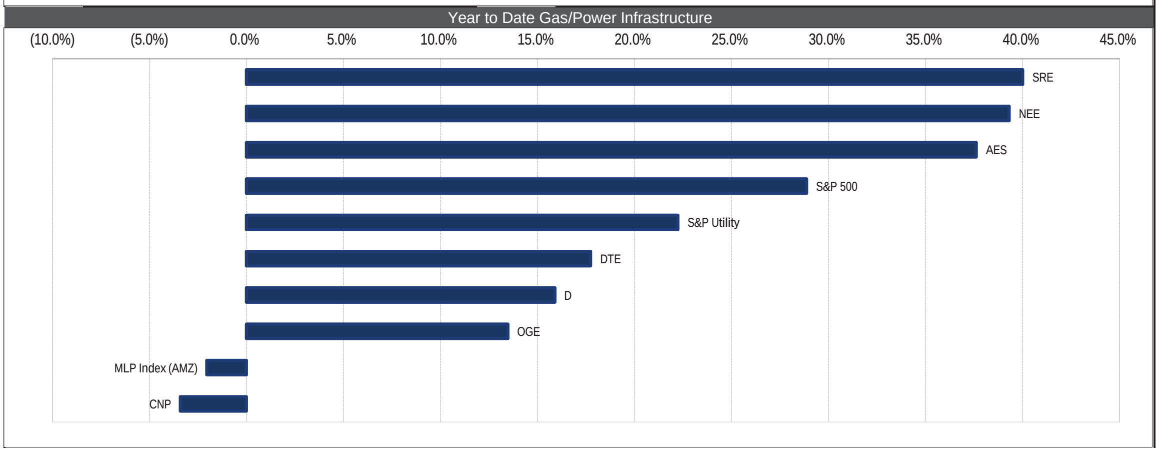
Month to Date and Year to Date performance of Gas/Power Infrastructure

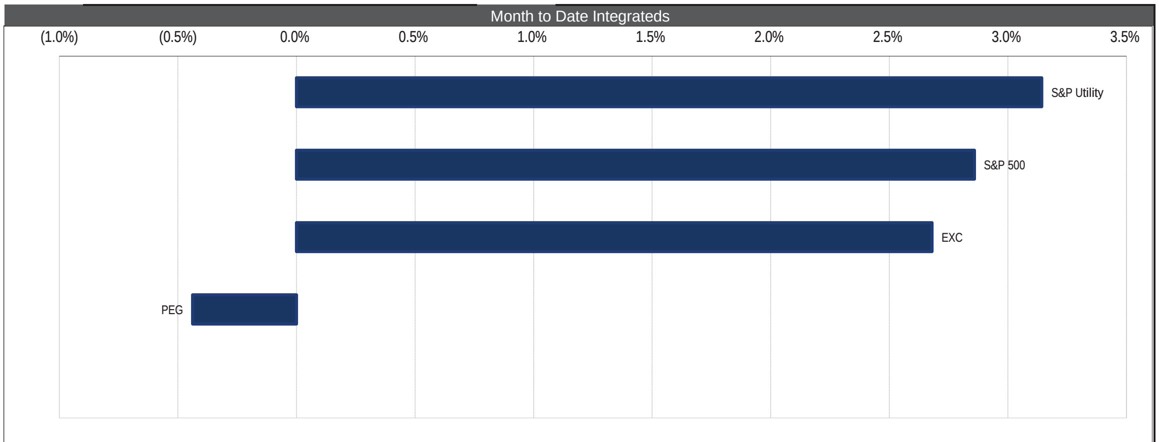
CNP was the top performer in December after the company's TX rate case took a turn for the better – at the PUCT's direction, CNP and key intervenors were able to reach a settlement. OGE also fared well despite no notable news; ENBL finished the month up over 8% alongside the MLP rally, potentially explaining some of OGE's performance. AES' momentum from previous months carried forward into December and the stock finished as a top performer in 2019. D was the worst performer in the group in December. We sense most of the weakness stemmed from the company's surprise $800M perpetual preferred offering at the beginning of the month.

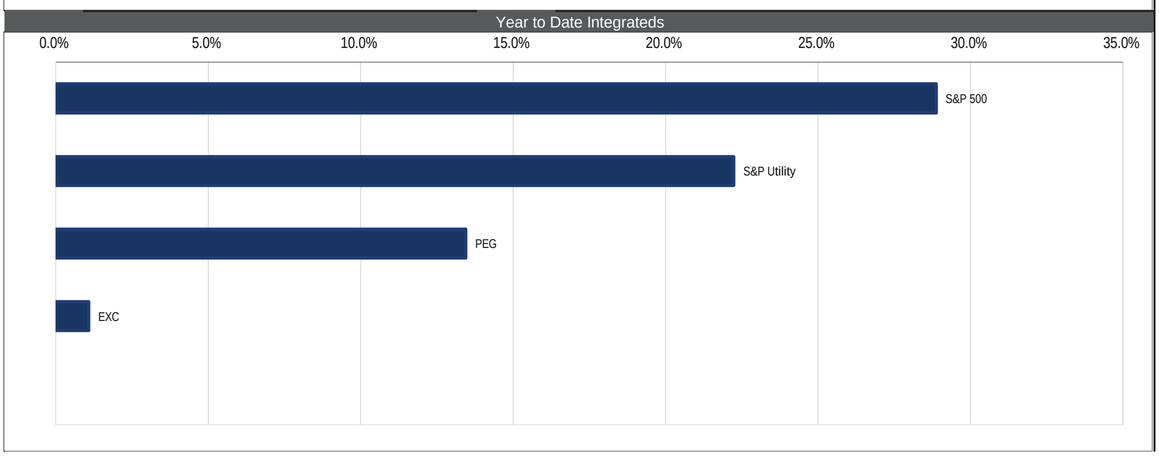




Month to Date and Year to Date performance of Integrateds

EXC outperformed lone integrated peer PEG, but both trailed the utility average in December. We believe EXC's outperformance is due to FERC's order on the PJM market auction construct and the likelihood that it prompts IL to pass legislation that would support EXC's merchant nukes. PEG was weak, potentially related to concerns with PEG Power following FERC's order.

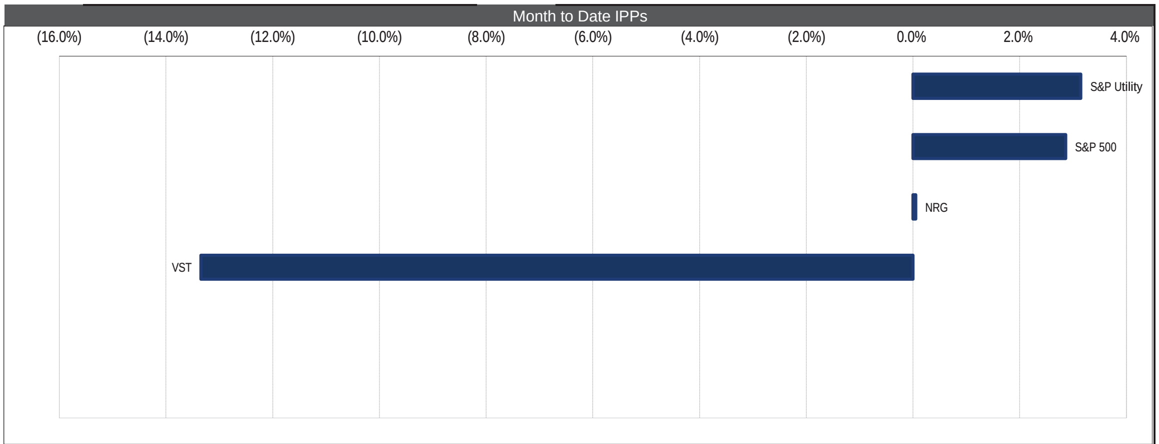


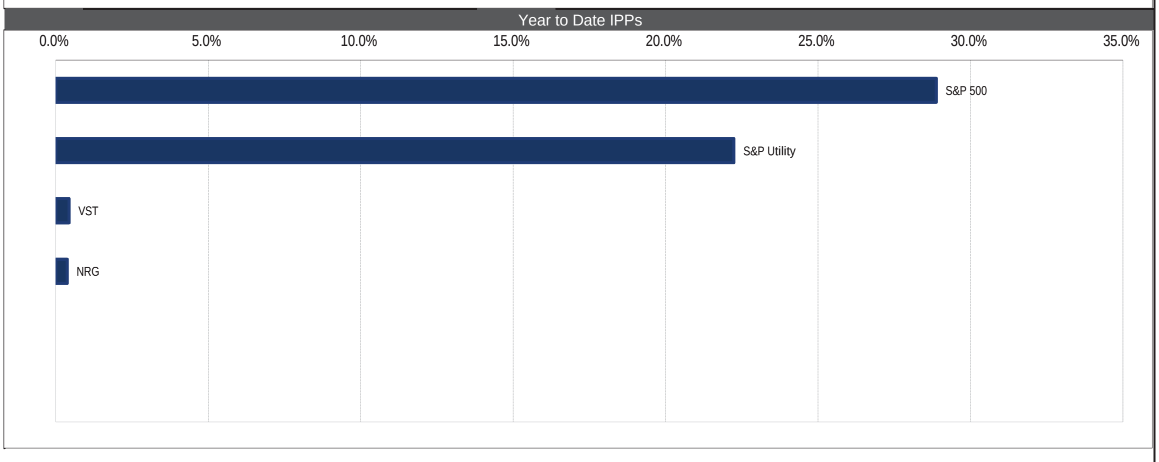


WOLFE RESEARCH

Month to Date and Year to Date performance of IPPs

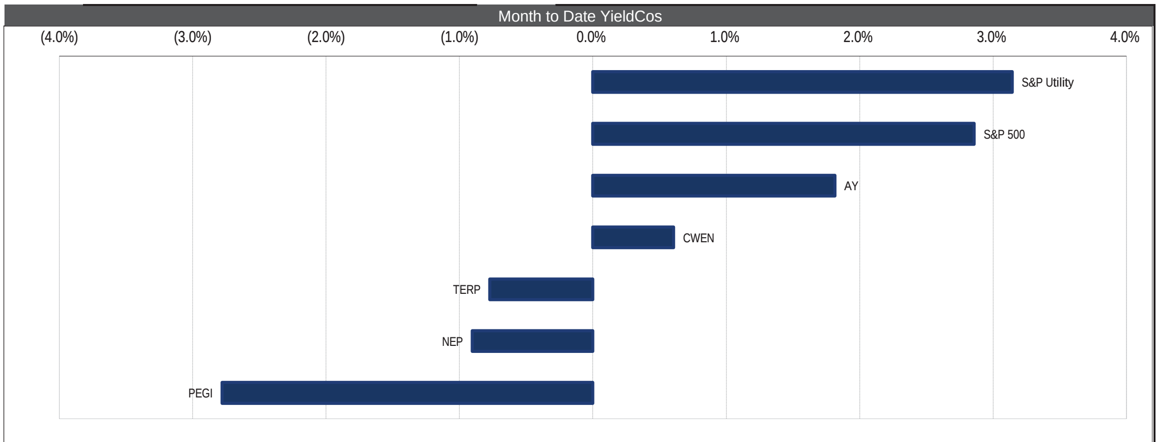
NRG outperformed VST by a wide margin, but both trailed the utility average and overall market during December. VST came under significant pressure at the beginning of the month after Brookfield (top holder) sold over 20M shares (1/3 of its position). Another bearish ERCOT CDR report released during the month hurt both IPPs.

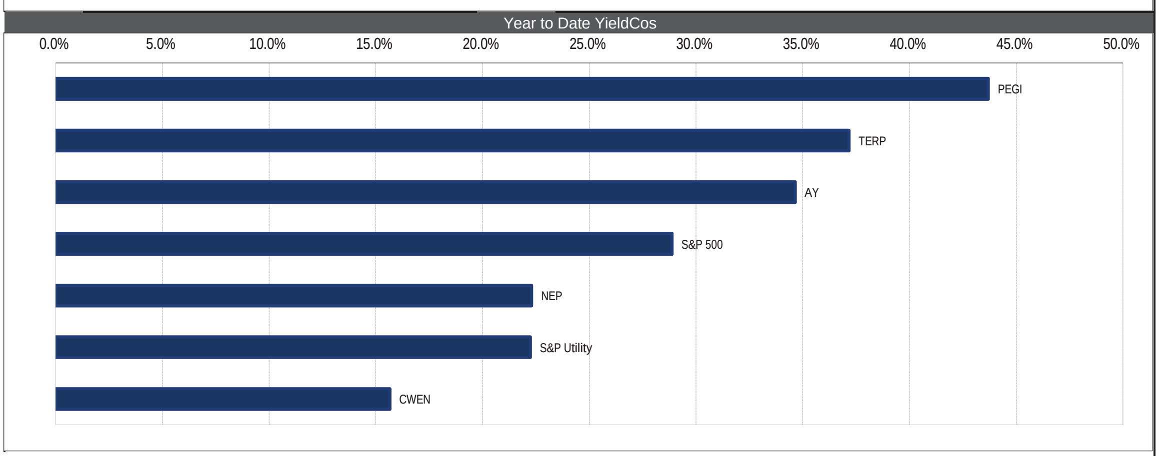




Month to Date and Year to Date performance of YieldCos

AY was the top performing Yieldco in December, but the entire group trailed both the utility index and overall market. PEGI fell during December but finished as the top performer on the year; for PEGI, 2019 culminated with the November announcement that the company was being sold to the Canada Pension Plan Investment Board. CWEN was the lone Yieldco to underperform the utility average in 2019 as key customer PCG's bankruptcy led to a 40% dividend cut early in the year.

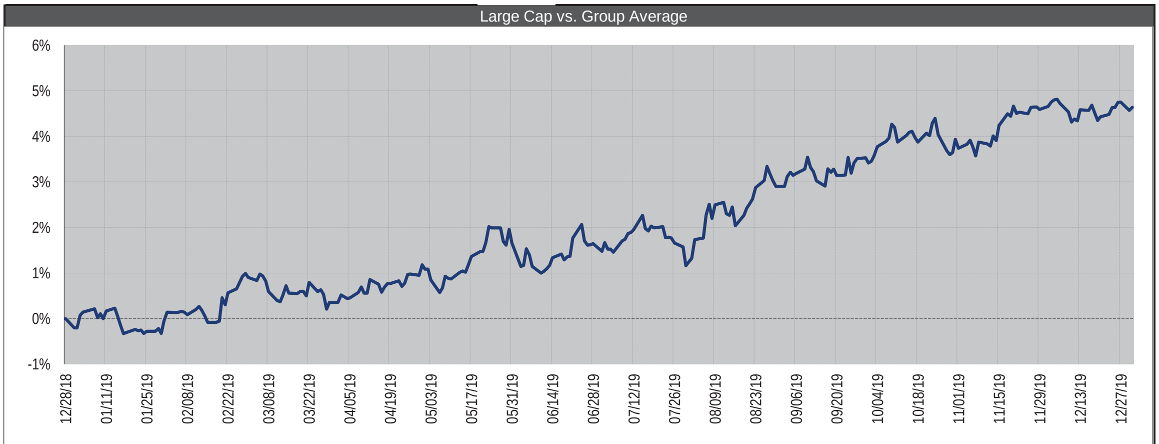


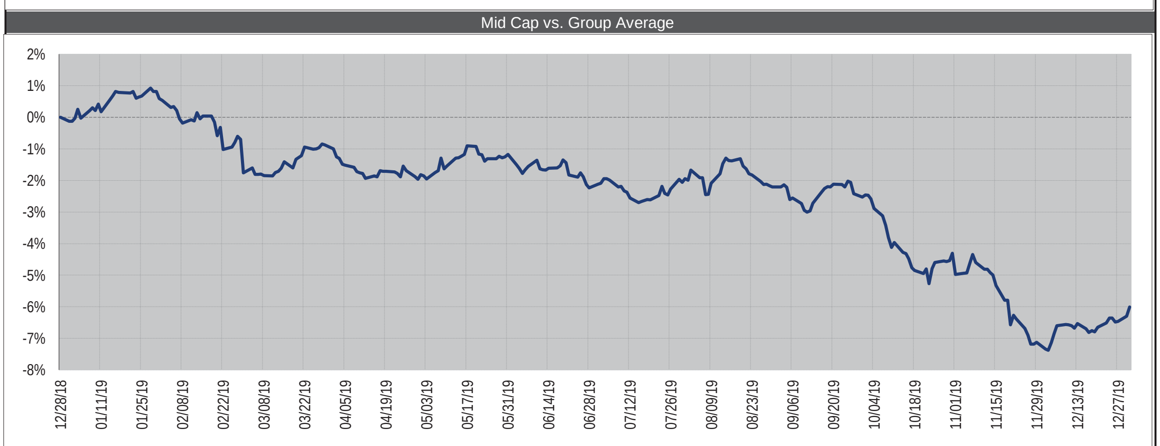


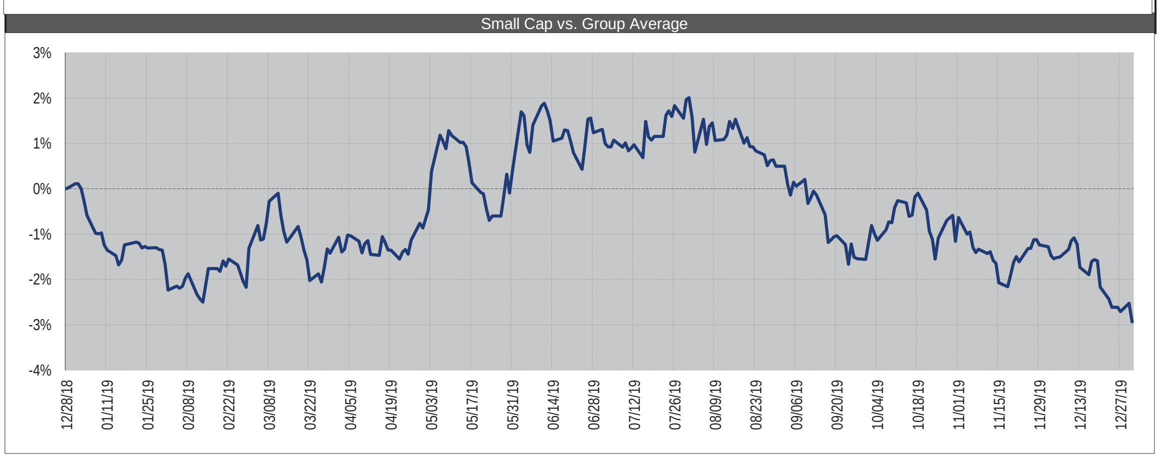
WOLFE RESEARCH

Utilities Performance by Market Cap

•Large-caps outperformed the broader utility group in December and finished near the group's 52-week high
•Mid-caps outperformed the broader utility group in December, led by a sharp rebound from CNP
•Small-caps underperformed the group average in December as NWE, POR and AVA were three of the five worst performing regulateds during the month



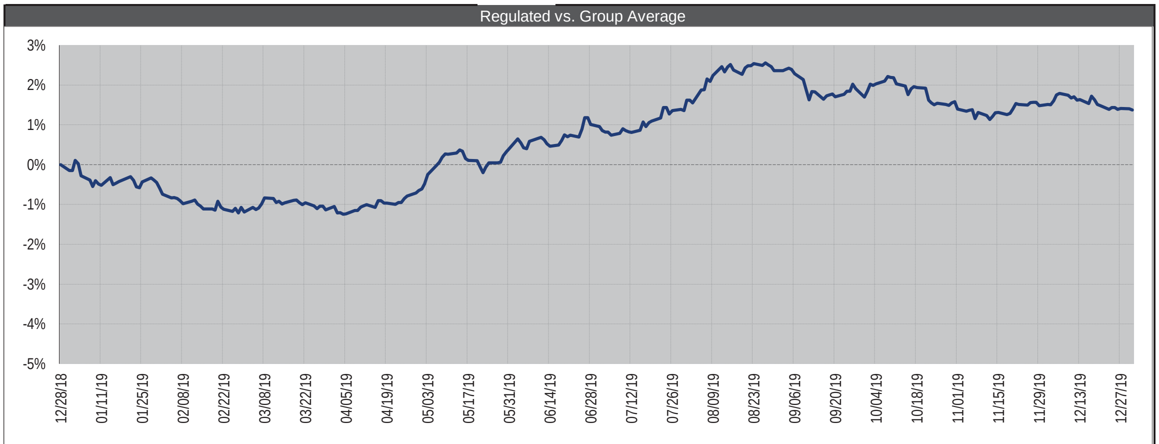


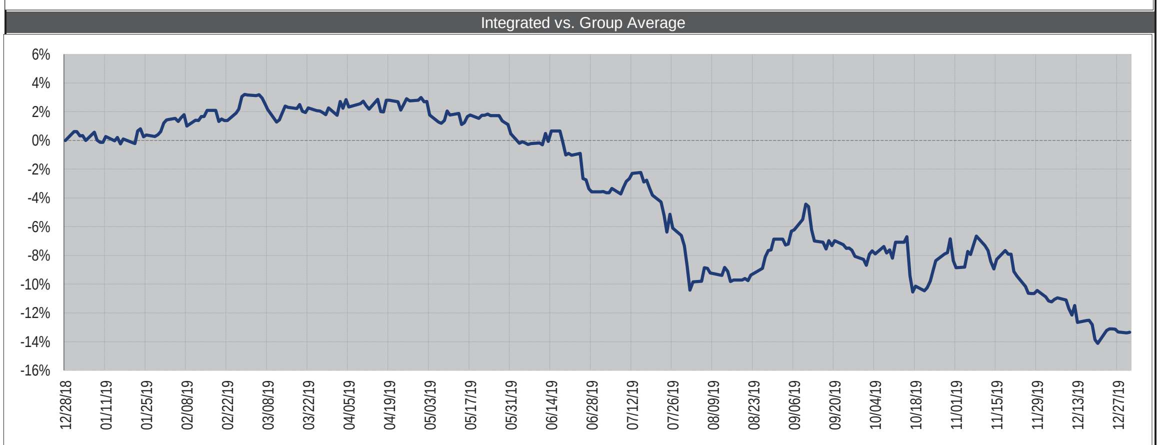


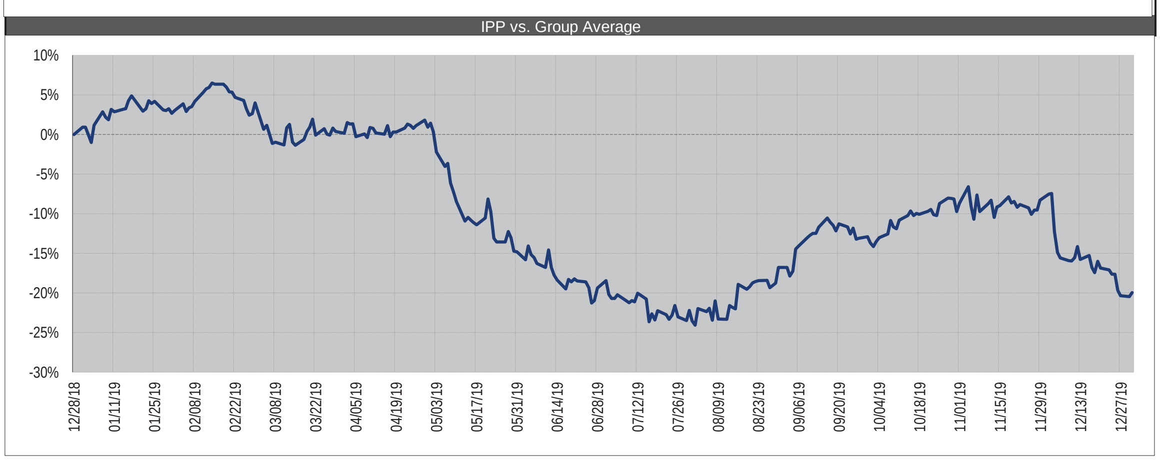
WOLFE RESEARCH

Utilities Performance by Segment

•Regulateds performed in-line with group average in December
•Integrateds underperformed the broader utility group in December
•The IPPs performed underperformed the utility average in December



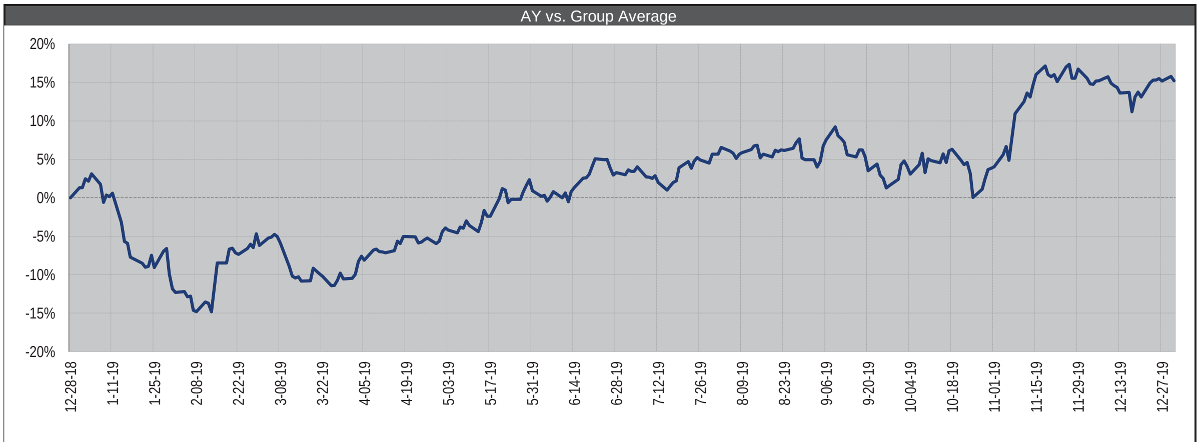


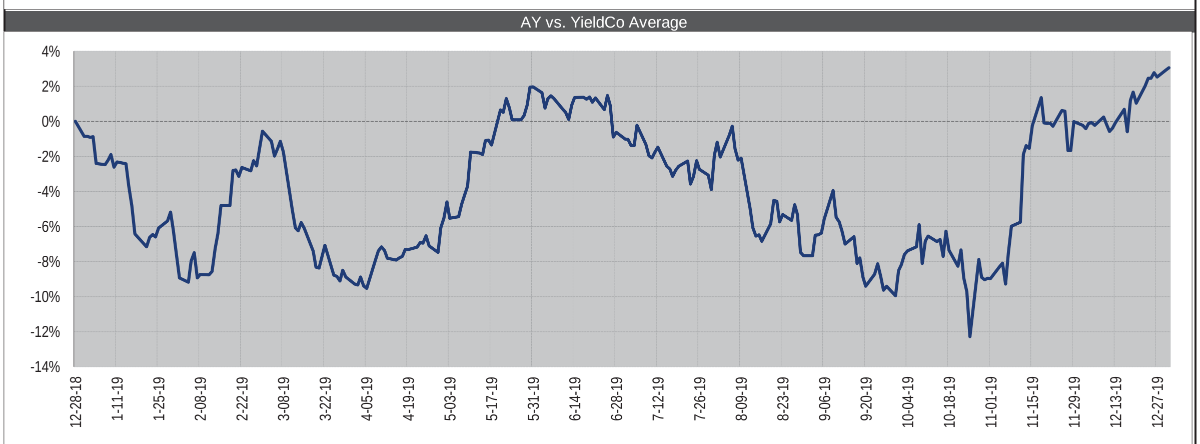


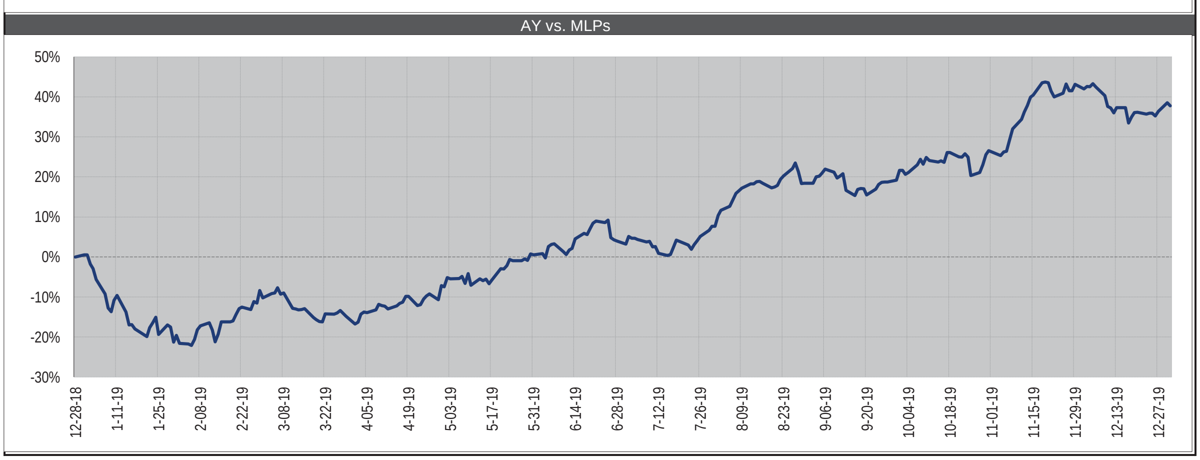
WOLFE RESEARCH

Atlantica Yield (AY) $26.39, NR

Atlantica Yield had a decent December and a good 2019 as the stock outperformed the market by about 5% for the year.



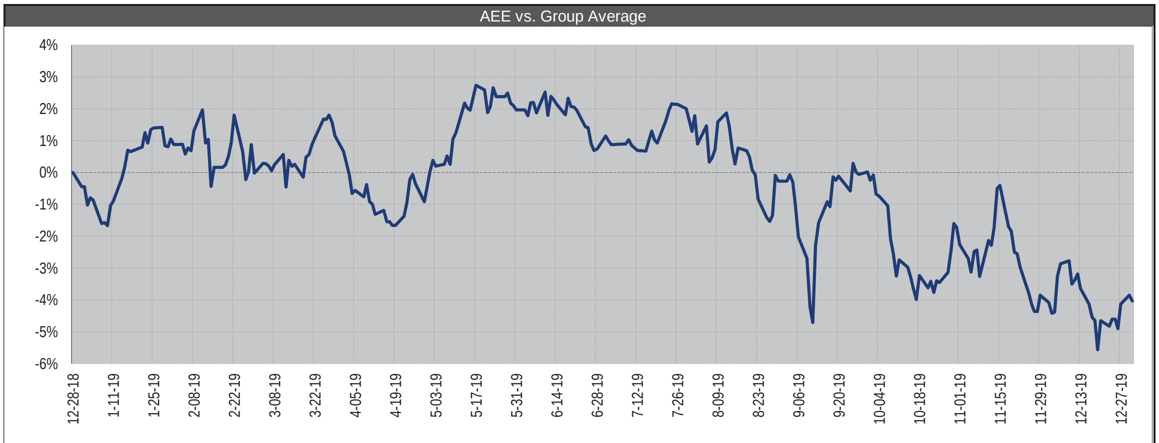


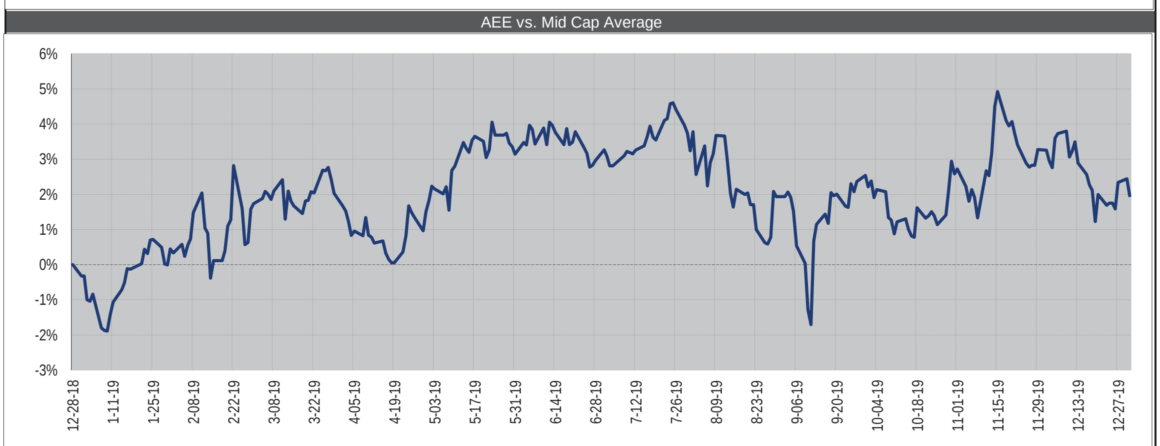


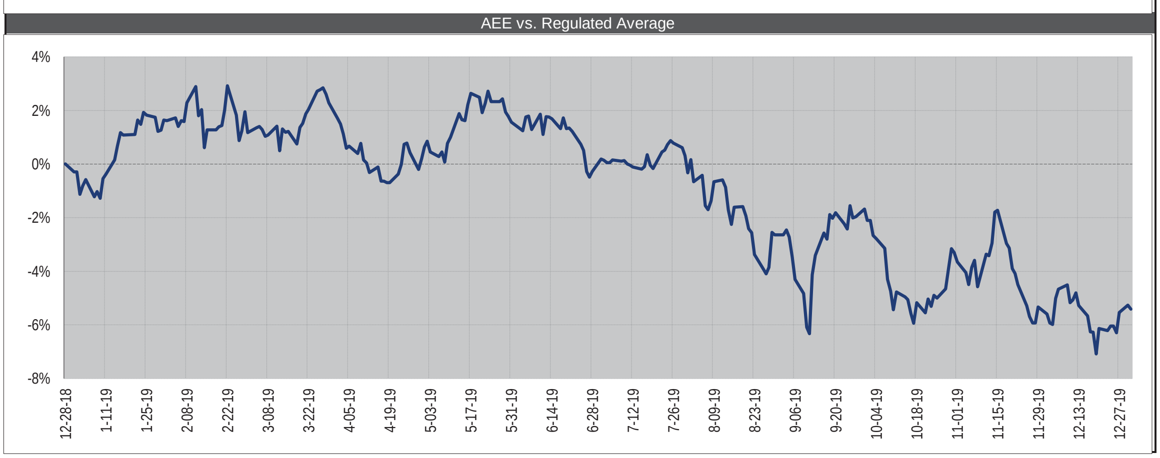
WOLFE RESEARCH

Ameren (AEE) $76.80, Outperform, $78 PT

AEE modestly outperformed regulateds in Dec but ended the year trailing them, as some investors focused on potential 2020 earnings miss, pending MO rate case, impact from lower FERC ROEs and a 30-yr UST yield implying low 8% ROEs in IL. We see the underperformance as overdone.





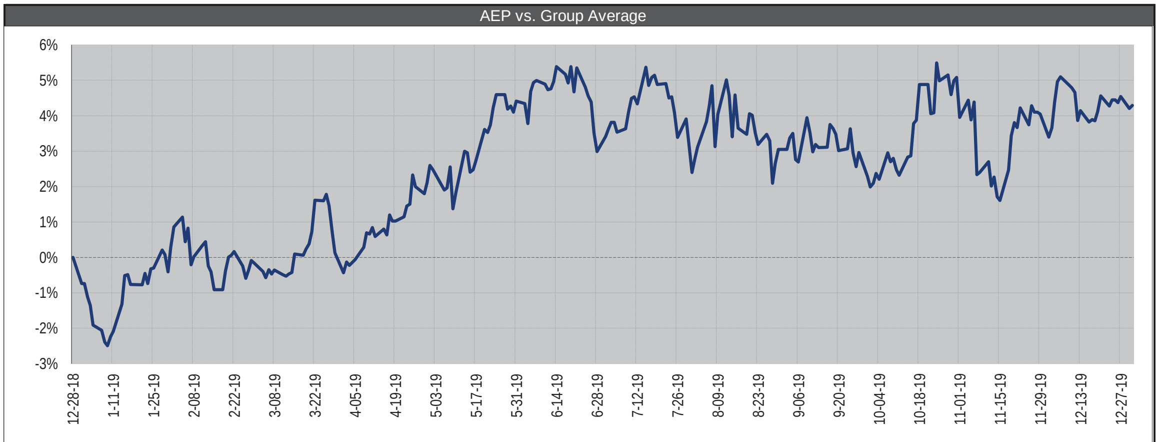


WOLFE RESEARCH

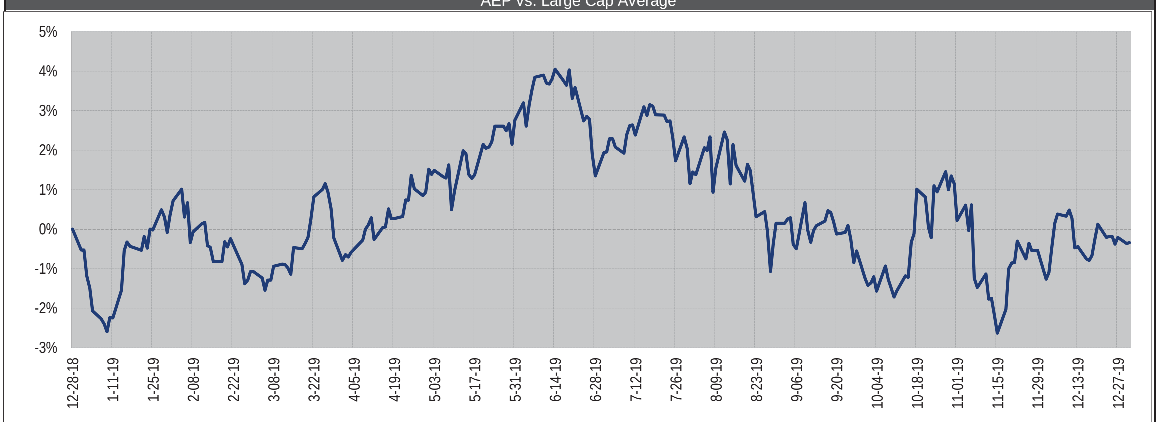
American Electric Power (AEP) $94.51, Outperform, $101 PT

AEP slightly outperformed regulateds in Dec, and modestly outperformed them for the year, as EPS growth was affirmed at 5-7%, with potential to hit top end even without a $2B North Central wind project, which looks likely.

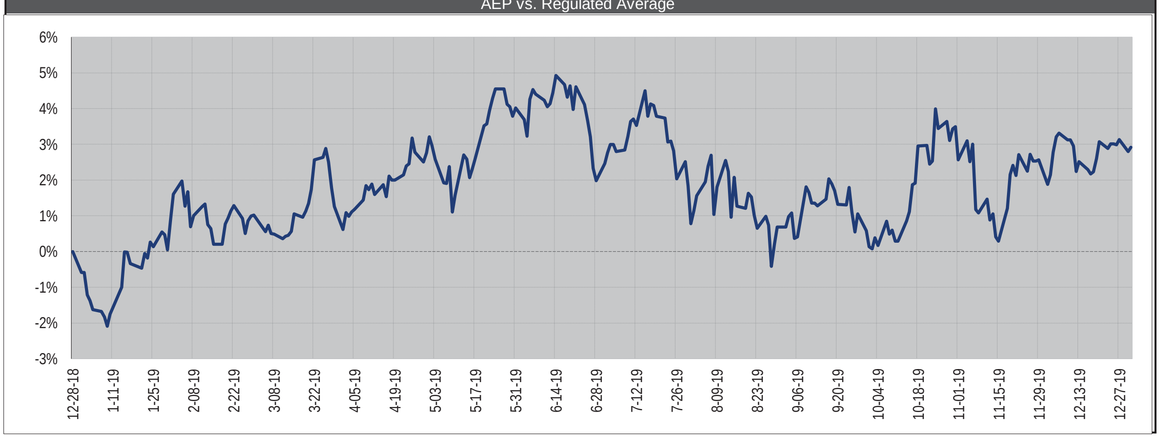
AEP vs. Group Average



AEP vs. Large Cap Average



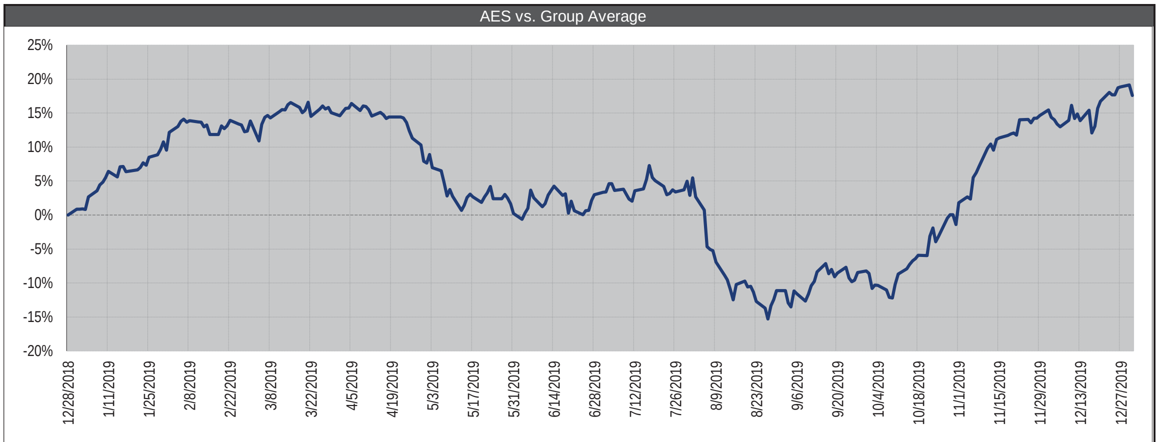
AEP vs. Regulated Average

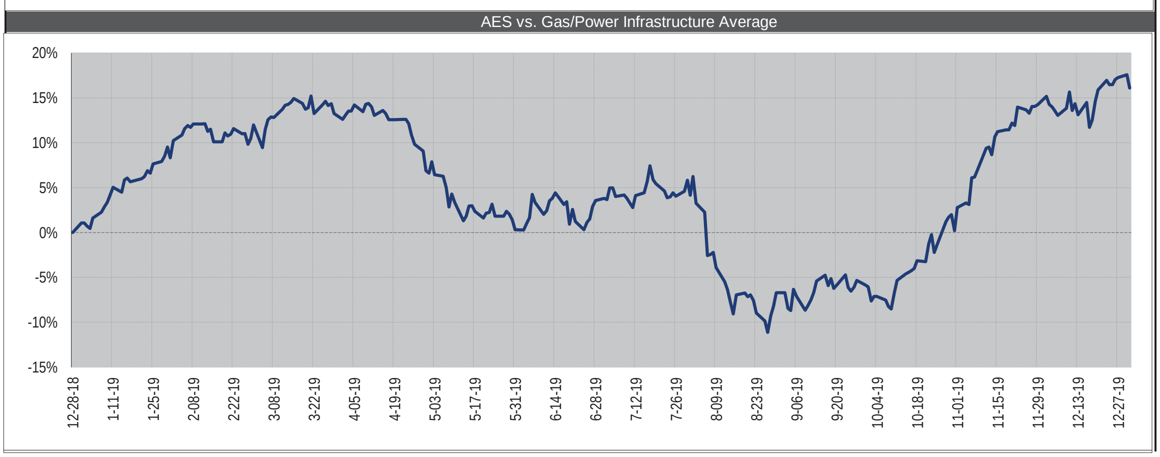


WOLFE RESEARCH

AES Corporation (AES) $19.90, Peer Perform, $18 PT

AES was one of the top performers in 2019. The company's focus on – 1) deleveraging; 2) renewables development; 3) simplifying the business / selling non-core assets – has continued to resonate well with the market. AES' ability to execute on its financial targets recently has allowed the market to overlook issues this year that might have derailed its stock performance in the past (Argentina, DPL's DMR).

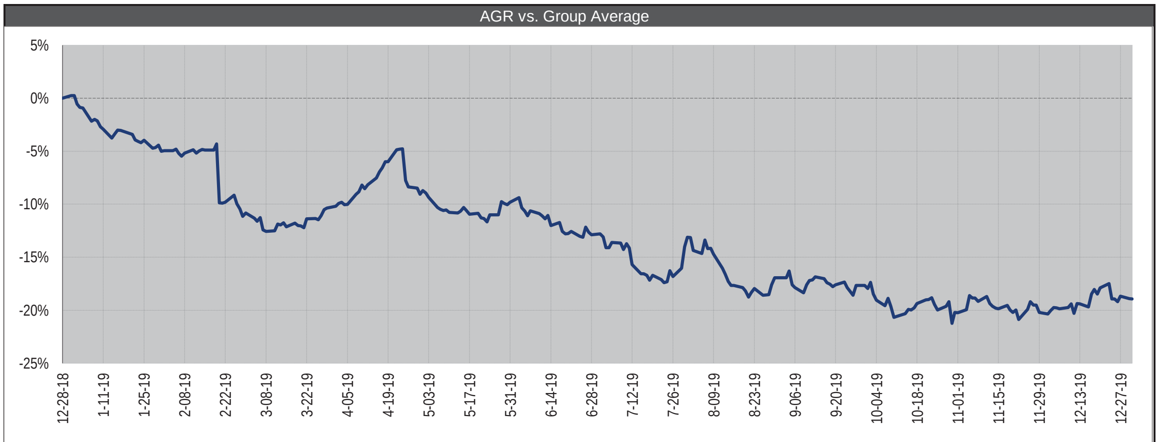


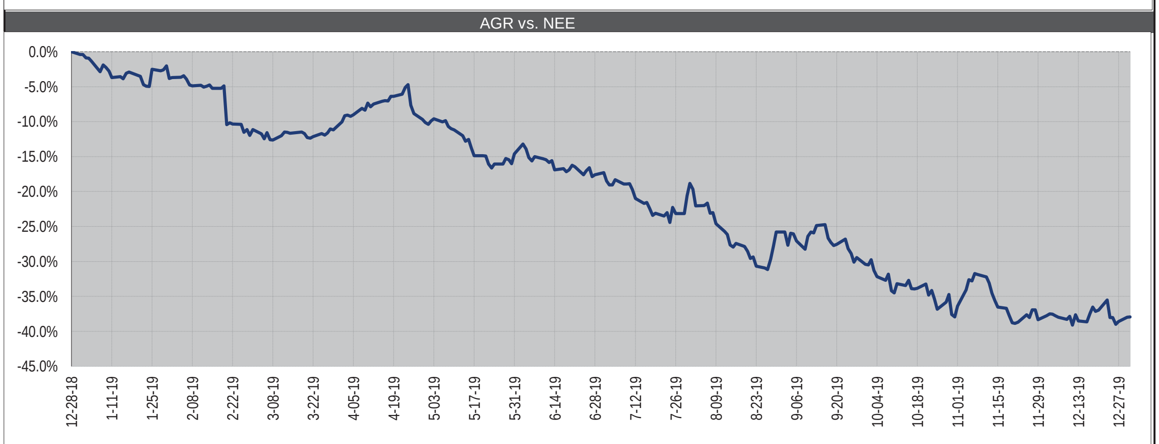


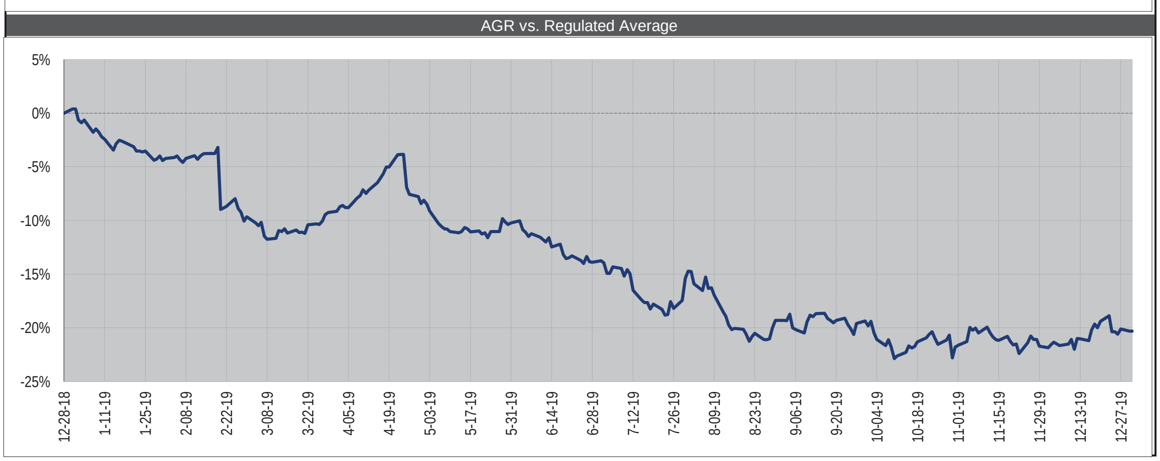
WOLFE RESEARCH

Avangrid (AGR) $51.16, Underperform, $47 PT

- AGR finished 2019 in an upswing, after what was a very disappointing year. It was the worst-performing regulated in 2019 (excluding PCG), as hitting financial targets and project execution have continued to be a problem. AGR was announced as the winner of the latest Connecticut offshore wind RFP in early-December.



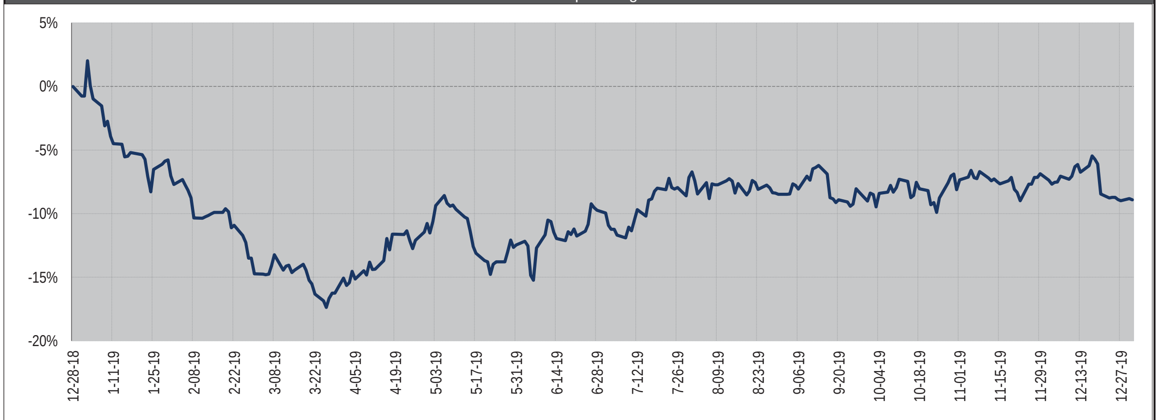




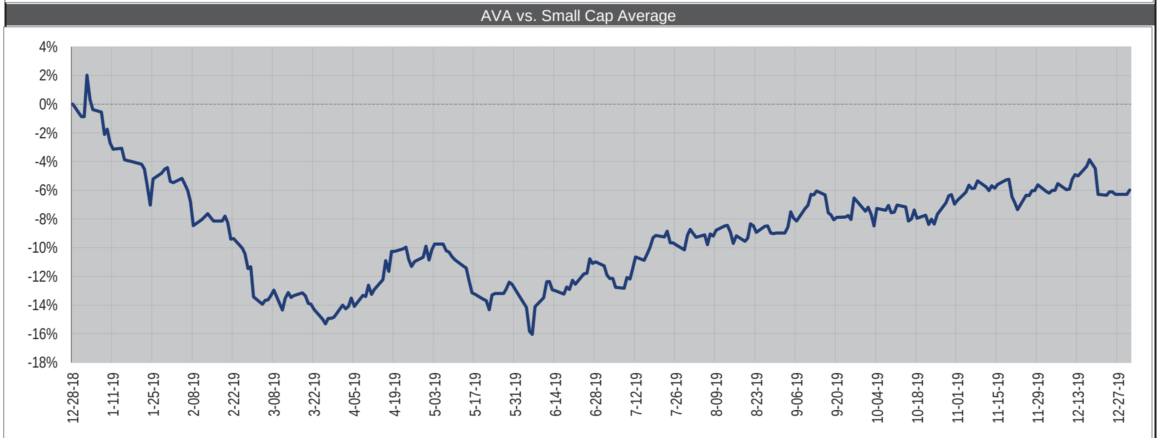
WOLFE RESEARCH

Avista Corporation (AVA) $48.09, NR

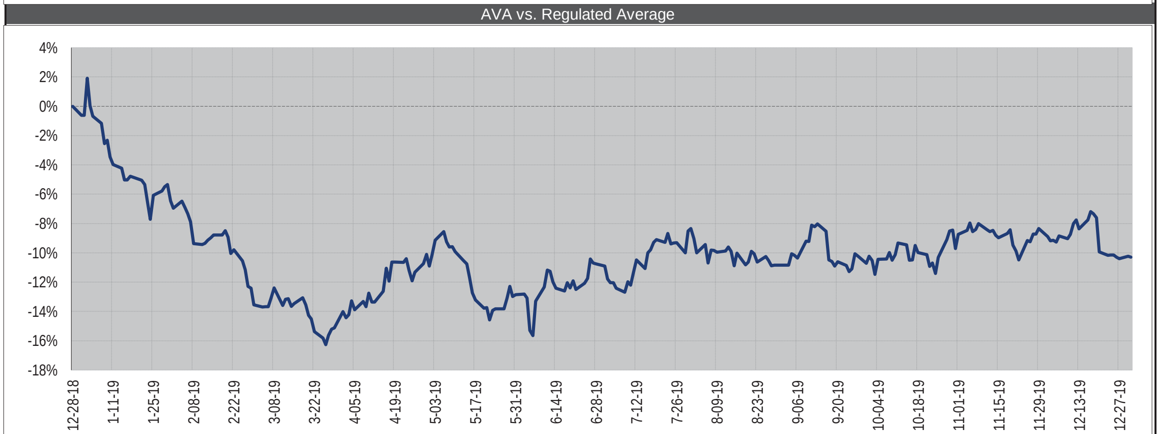
AVA vs. Group Average



AVA vs. Small Cap Average



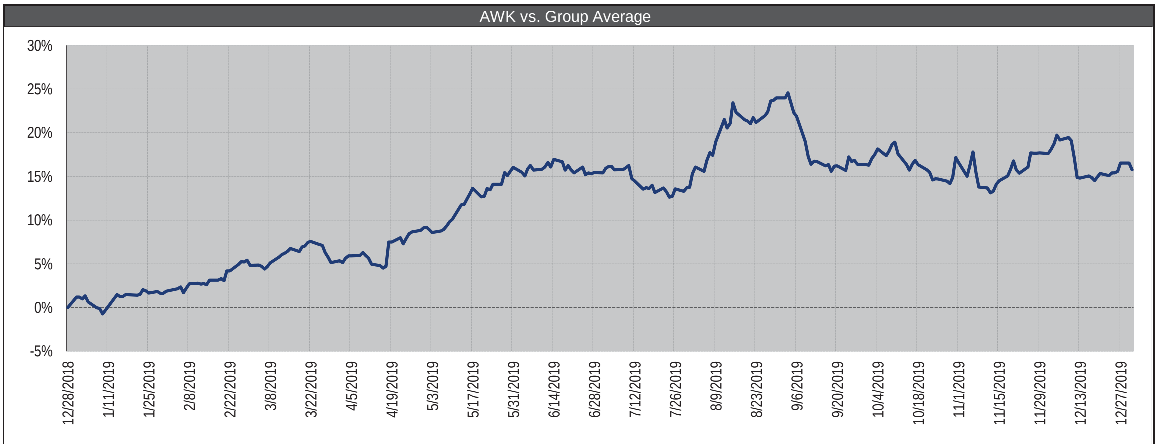
AVA vs. Regulated Average

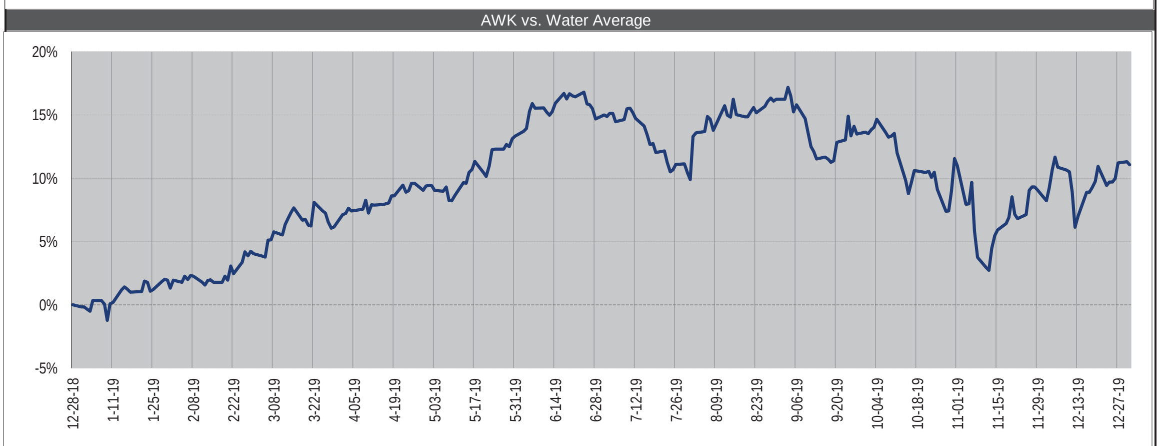


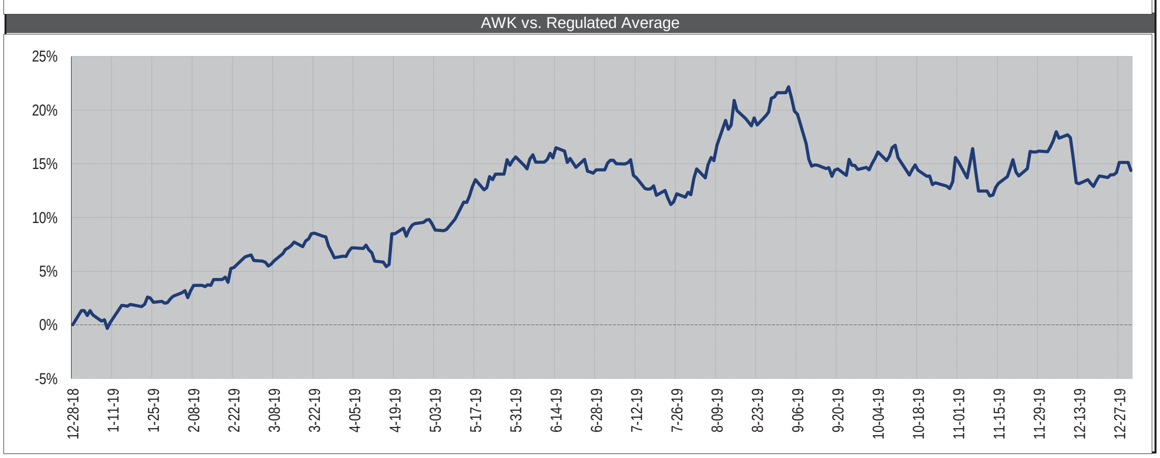
WOLFE RESEARCH

American Water Works (AWK) $122.85, Peer Perform, $121 PT

AWK was one of the top performing regulated names in 2019. AWK was a primary beneficiary of the high-quality trade that worked for most of the year within the sector. The company is also a favorite of ESG investors, which is a thematic that continues gain momentum. In December, AWK held its annual Analyst Day, which featured a disappointing 2020 guide and the announcement that well-liked CEO Susan Story would retire 4/1/20.



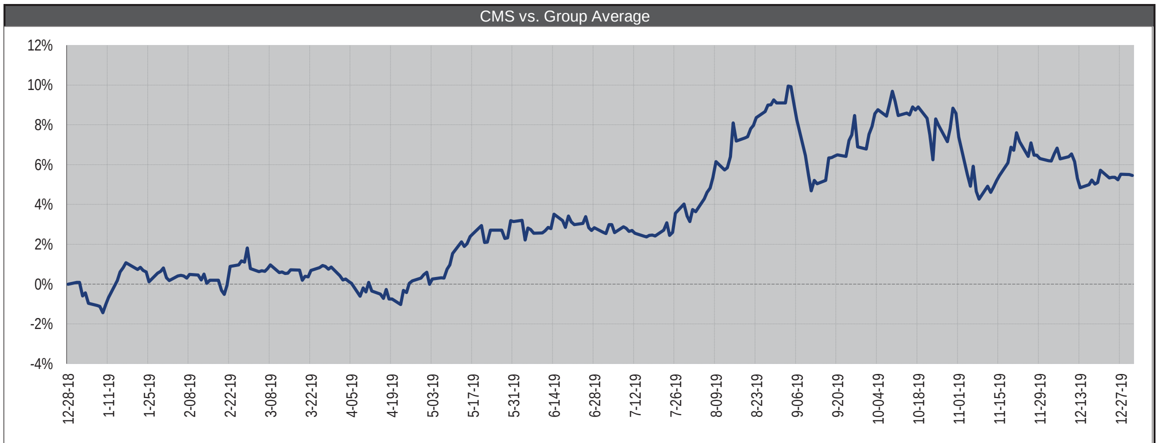


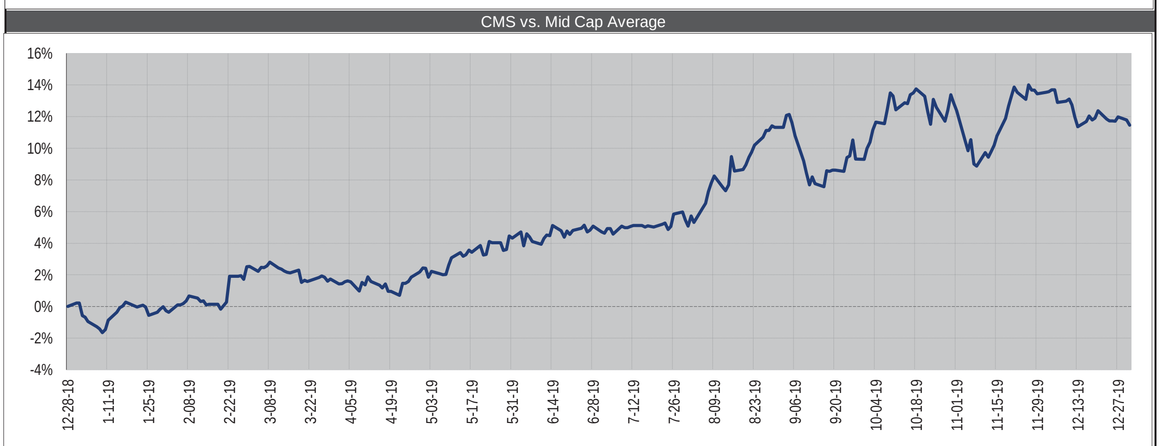


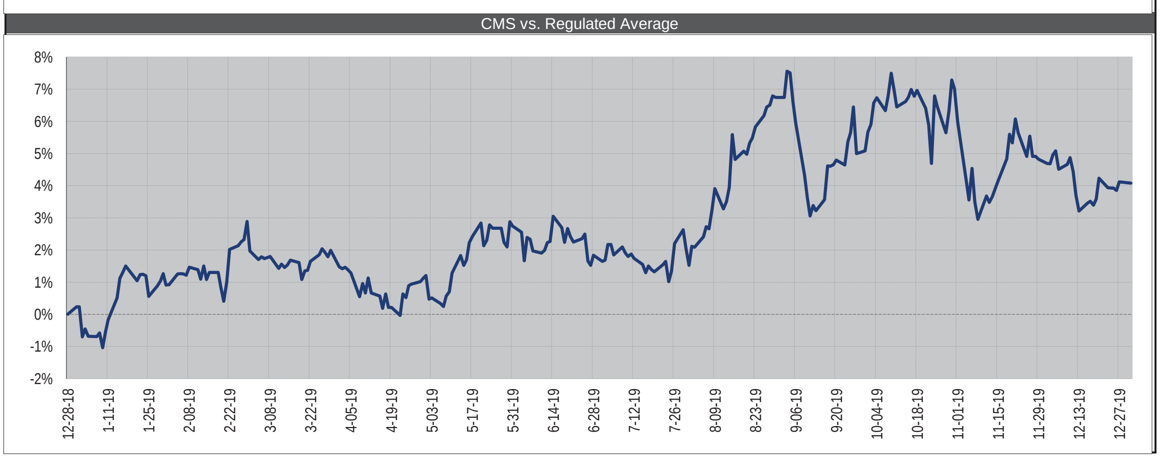
WOLFE RESEARCH

CMS Energy (CMS) $62.84, Peer Perform, $66 PT

- CMS underperformed slightly to close the year, but still finished ahead of peers for 2019. CMS filed its latest gas rate case in mid-December, but otherwise has been quiet.



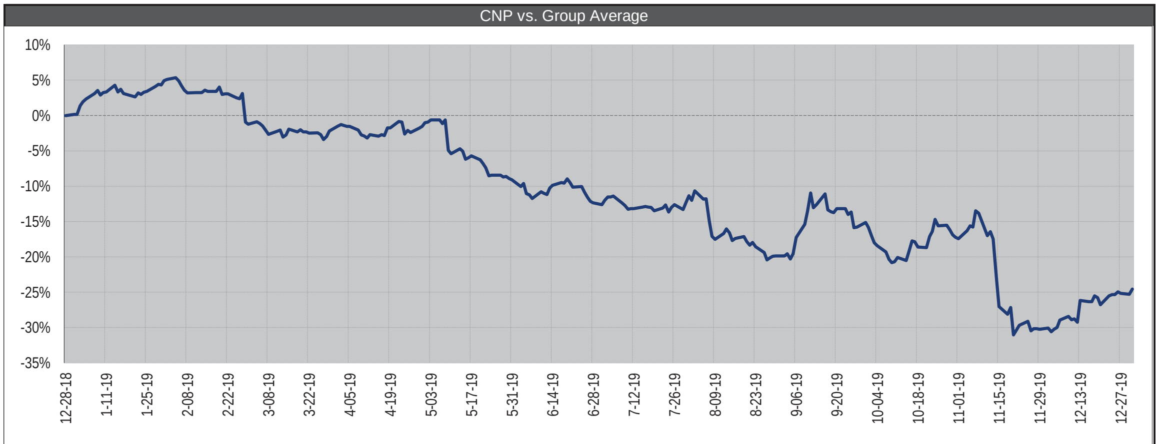


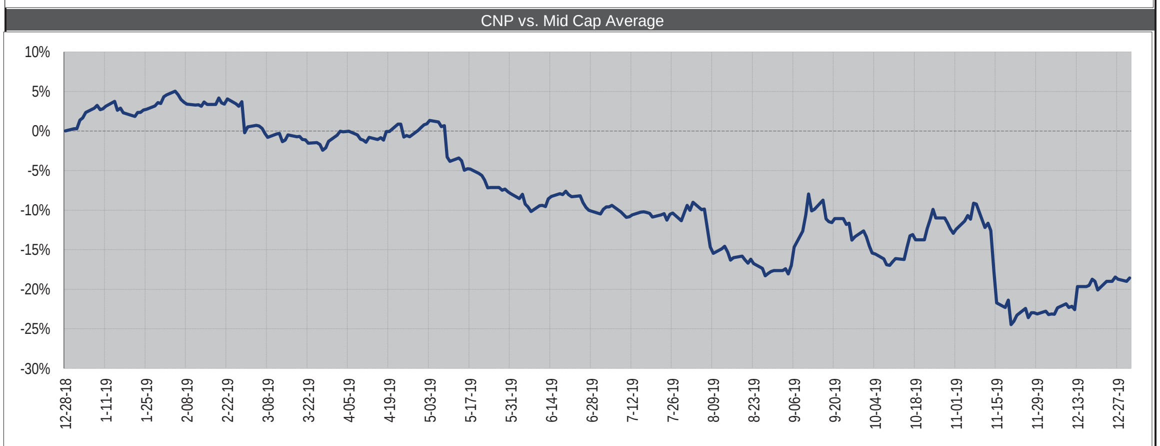


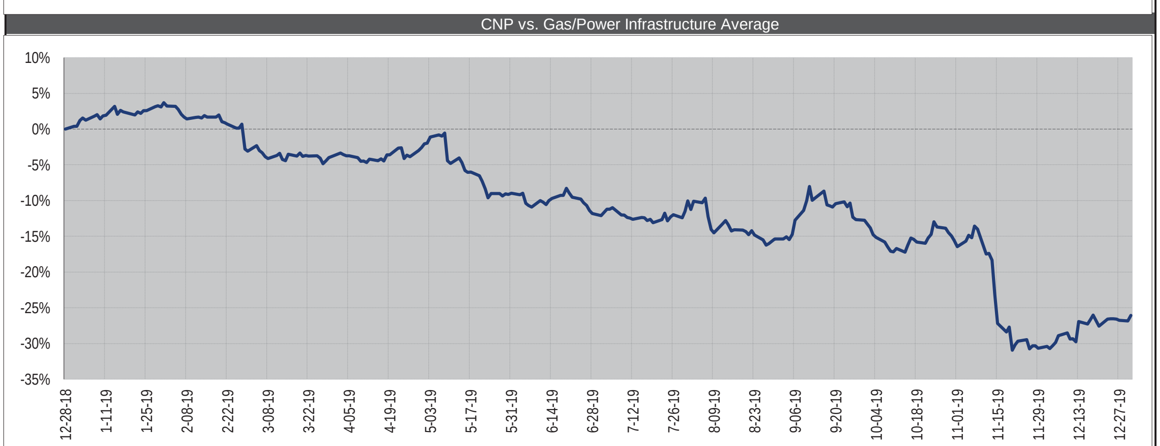
WOLFE RESEARCH

CenterPoint Energy (CNP) $27.27, Peer Perform, $27 PT

CNP was the worst performer in the utility group in 2019 (ex PCG). The underperformance was due to several earnings disappointments, uncertainty associated with its TX rate case and a realization that the company needed a significant amount of equity in 2020 to stabilize its balance sheet. Fortunately, in December, CNP notified the PUCT that it had reached a settlement with parties in its TX rate case.



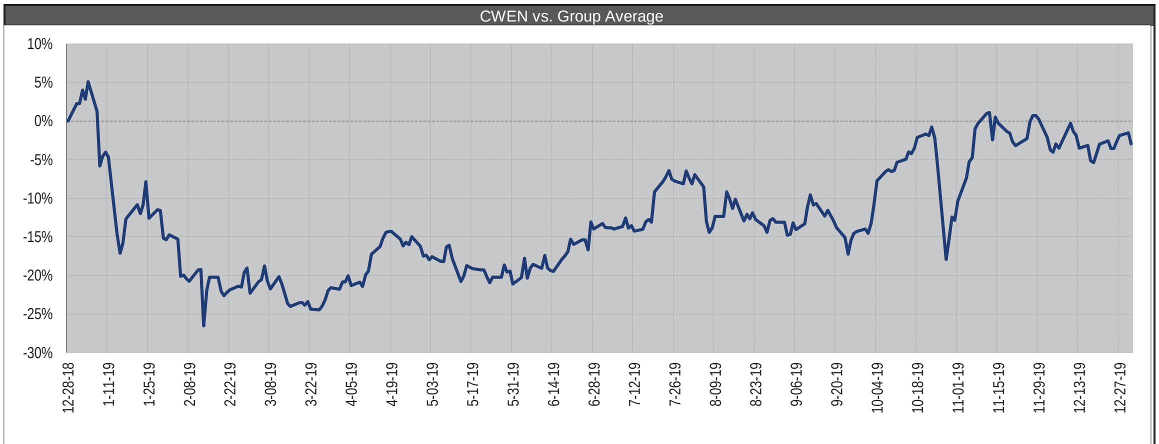


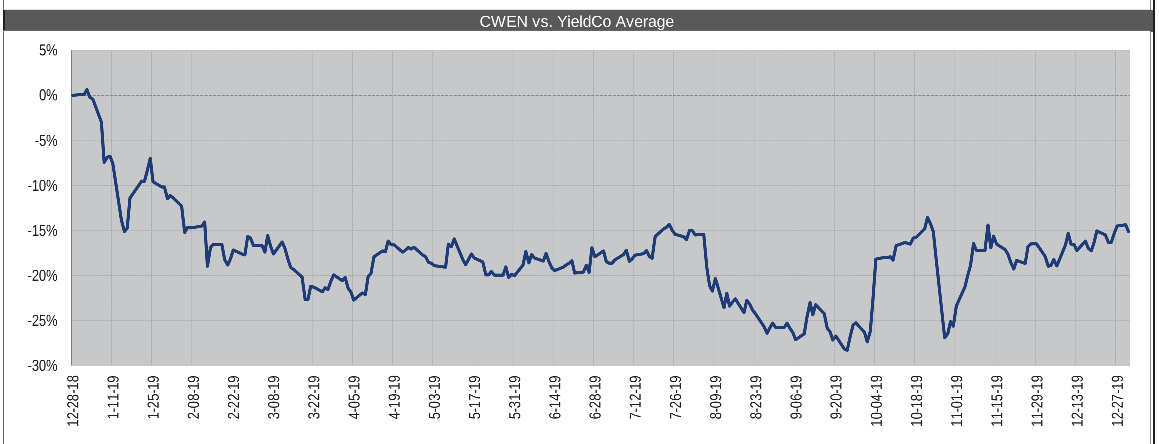


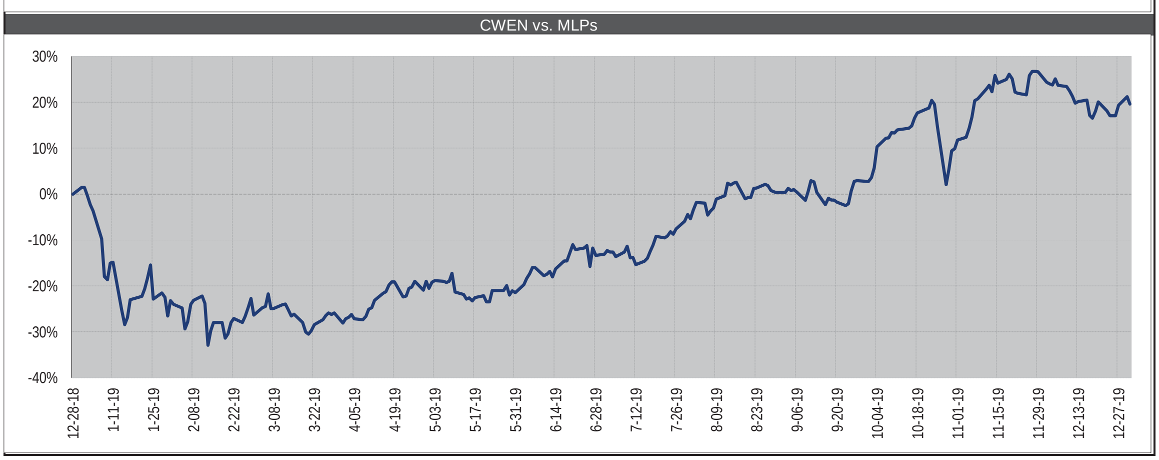
WOLFE RESEARCH

Clearway Energy (CWEN) $19.95, Peer Perform, $19 PT

Clearway outperformed YieldCo peers slightly in December but was the worst performing YieldCo on the year rising by 16%. 2019 was all about key customer PG&E whose bankruptcy drove a 40% dividend cut by CWEN in February and continued uncertainty for much of the year. That said, there have been no signs that contracts with PG&E will be broken and CWEN seems poised for a better 2020 if and when PG&E emerges.



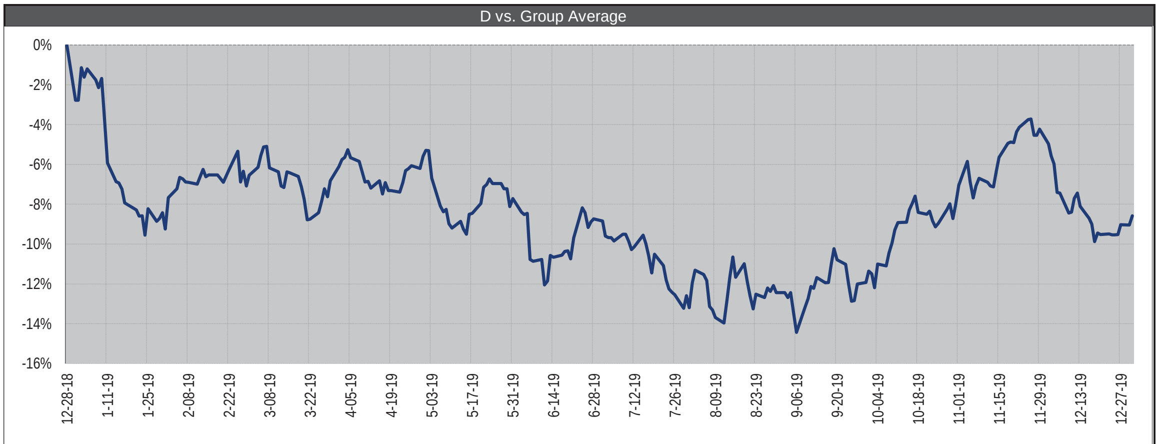


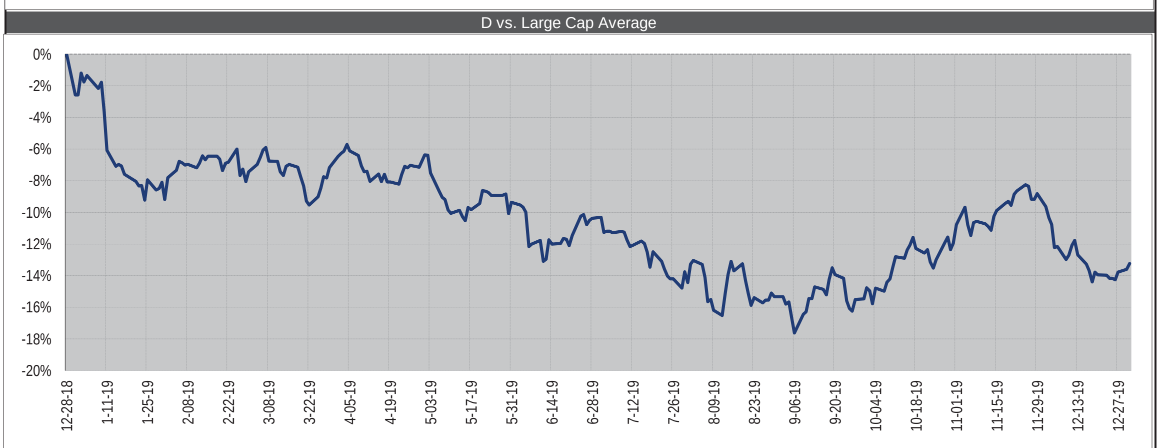


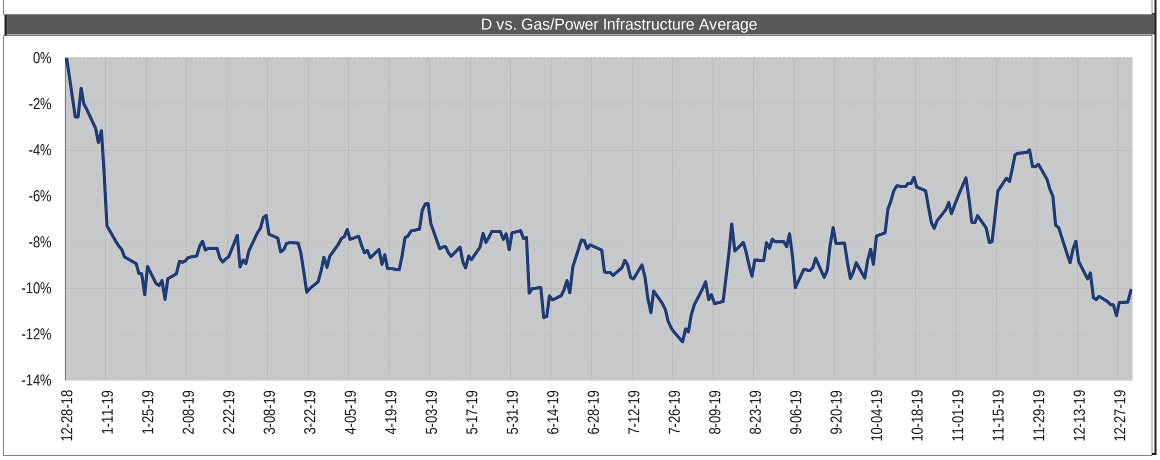
WOLFE RESEARCH

Dominion Resources (D) $82.82, Outperform, $90 PT

D was one of the worst performers in the group during December. We sense most of the weakness stemmed from the company's surprise $800M perpetual preferred offering at the beginning of the month. D also made a $500M pension contribution using its common stock toward month end. D underperformed most of its large-cap peers in 2019 largely due to ACP related overhangs; we continue to believe D is attractive with or without ACP.



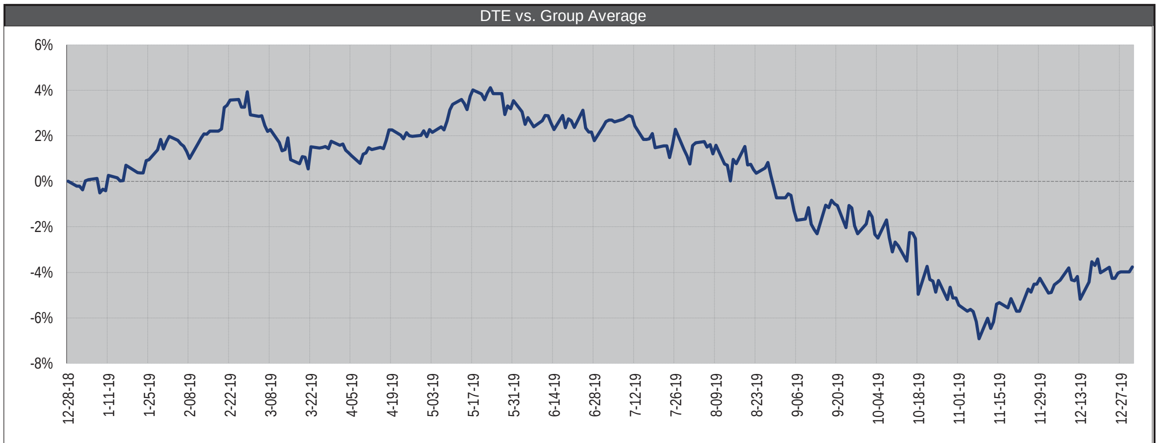


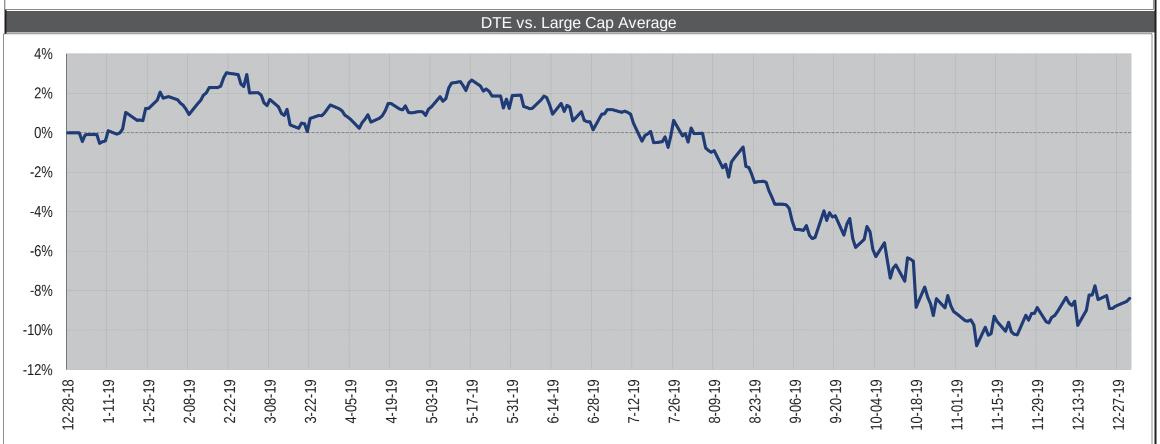


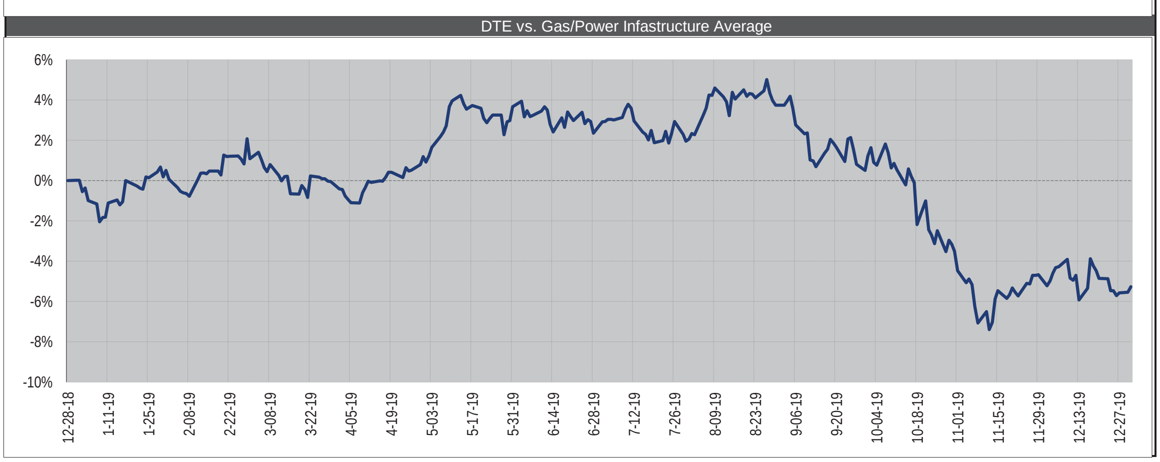
WOLFE RESEARCH

DTE Energy (DTE) $129.87, Peer Perform, $135 PT

- DTE traded sideways for most of December, to close out what was a disappointing year for stock performance. While the company continues to plan conservatively and hit numbers, the market took a bearish stance on DTE's midstream business – whether it be exposure to the Appalachia were growth has been limited or the big Haynesville gathering deal that caught many by surprise.



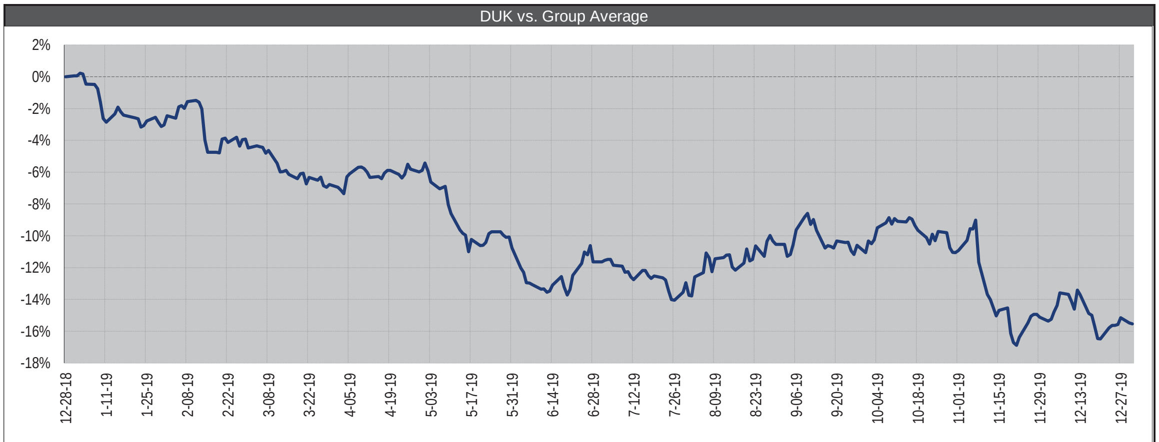


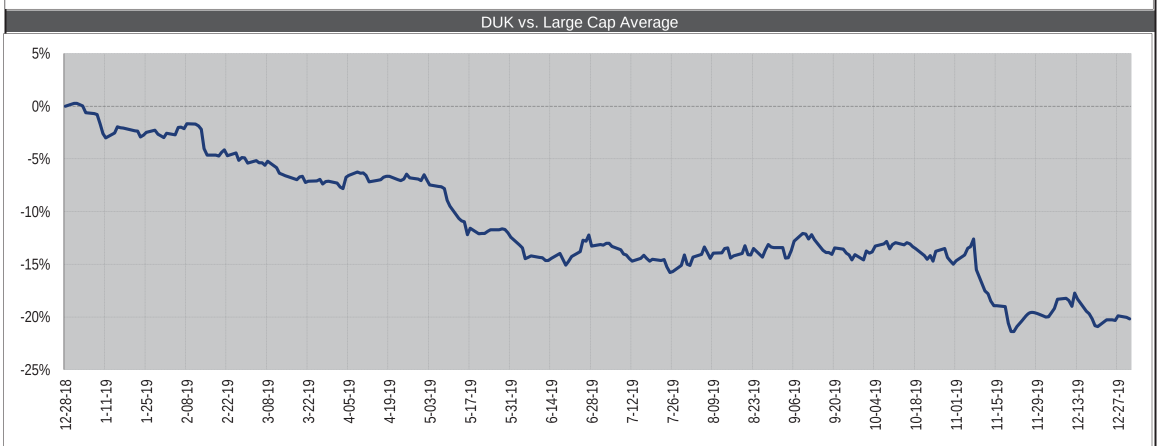


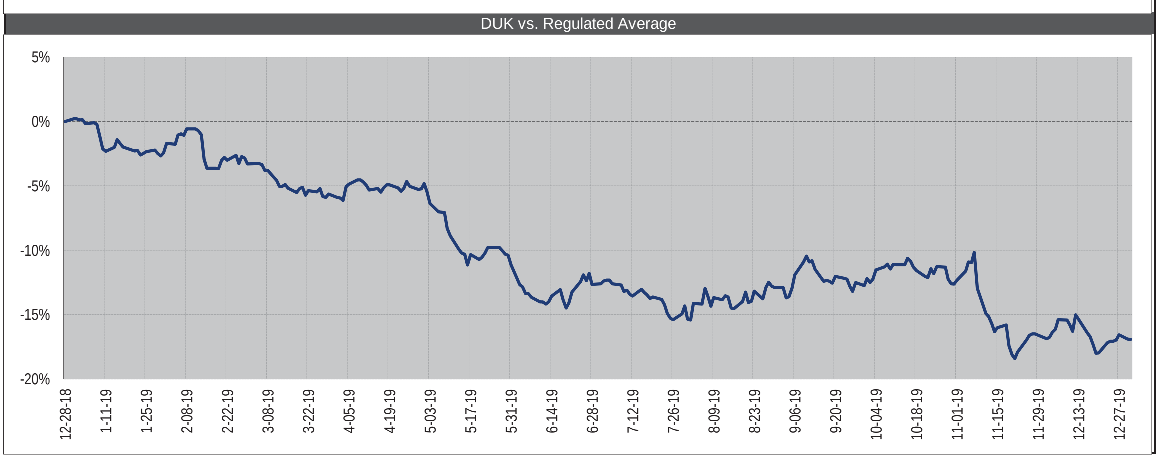
WOLFE RESEARCH

Duke Energy (DUK) $91.21, Peer Perform, $92 PT

DUK was in line with peers in Dec but was among the worst performing regulateds in 2019, as ACP was delayed, $2.5B of new equity was surprisingly announced, and other factors.



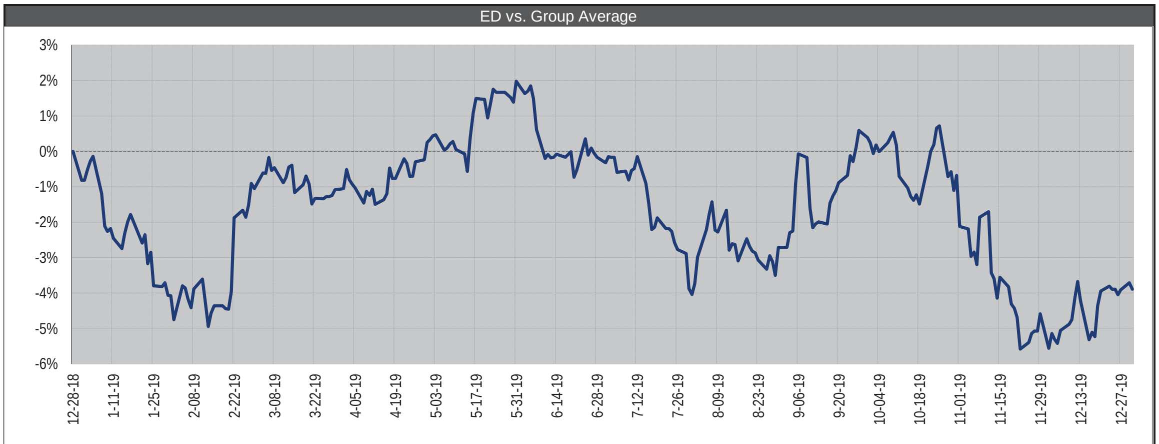


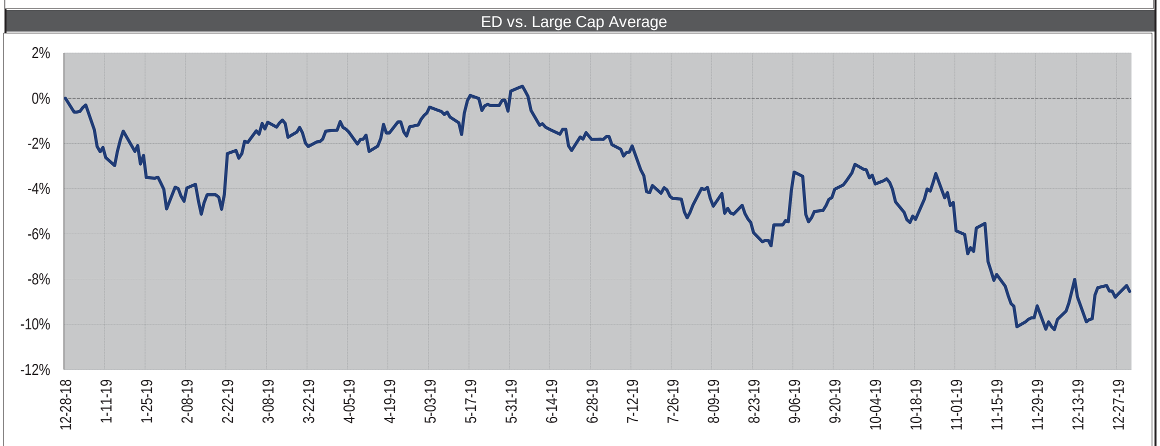


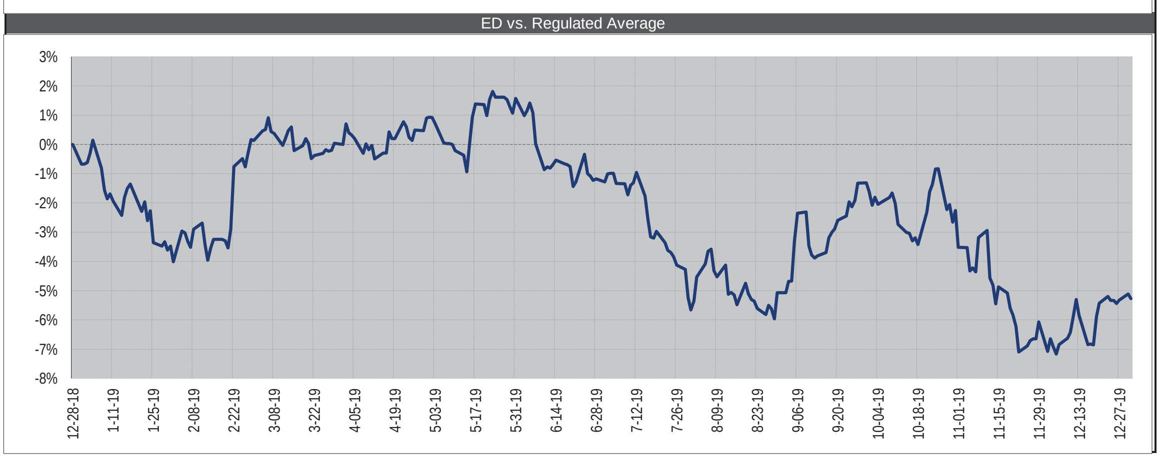
WOLFE RESEARCH

Consolidated Edison (ED) $90.47, Underperform, $87 PT

ED modestly outperformed the regulated average and its large-cap peers in December; we saw no notable news during the month. ED underperformed most of its regulated peers in 2019 as CECONY's rate case acted as an overhang for much of the year. ED ultimately reached a settlement which featured an 8.80% ROE, the lowest in the country for a major utility.





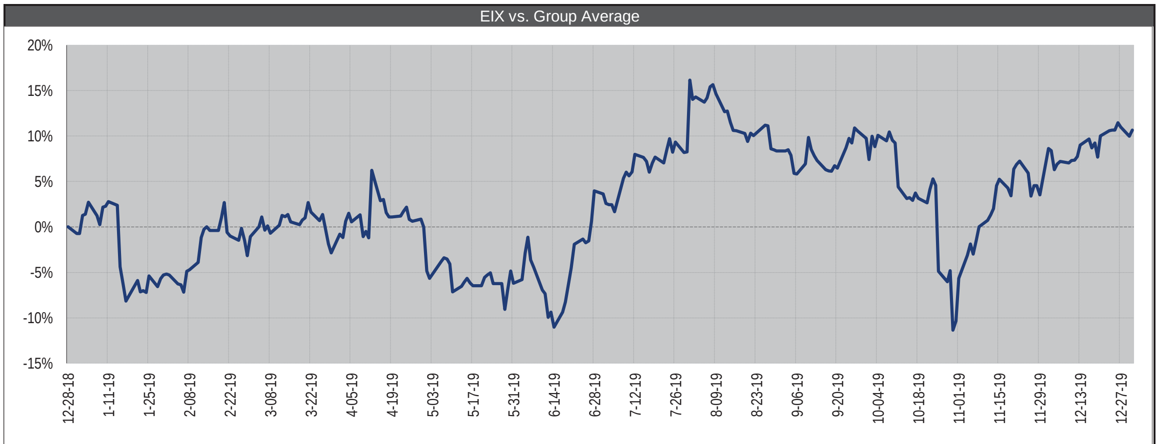


WOLFE RESEARCH

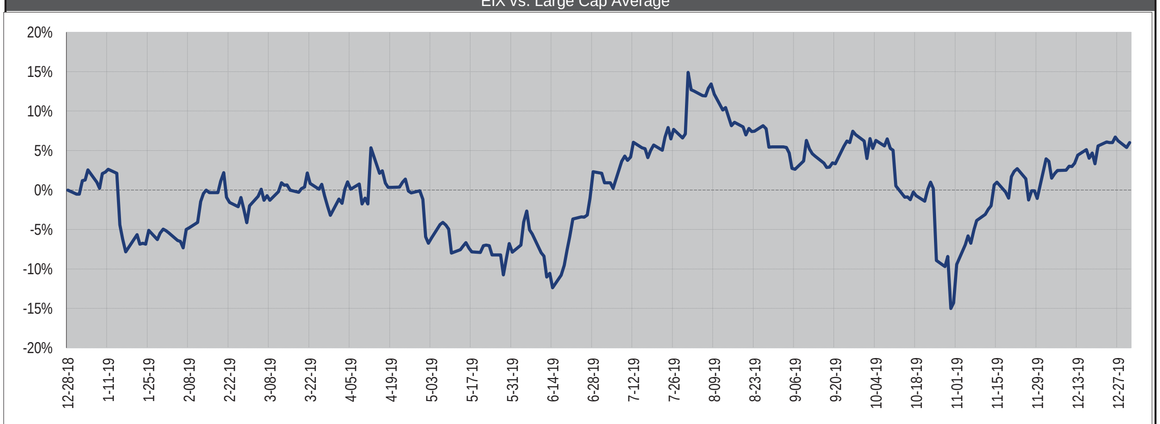
Edison International (EIX) $75.41, Outperform, $80 PT

For a second straight month, EIX solidly outperformed peers, beating them by roughly 2,000bp since hitting a 52-week low on 10/31 after an overreaction to several SoCal fires; and for 2019, EIX beat regulateds by nearly 1,000bp despite new equity and wildfires.

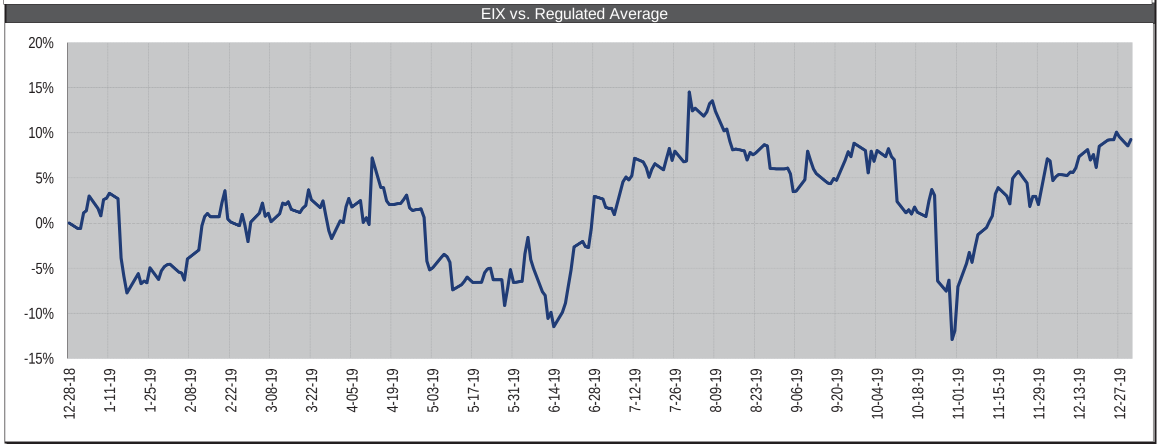
EIX vs. Group Average



EIX vs. Large Cap Average



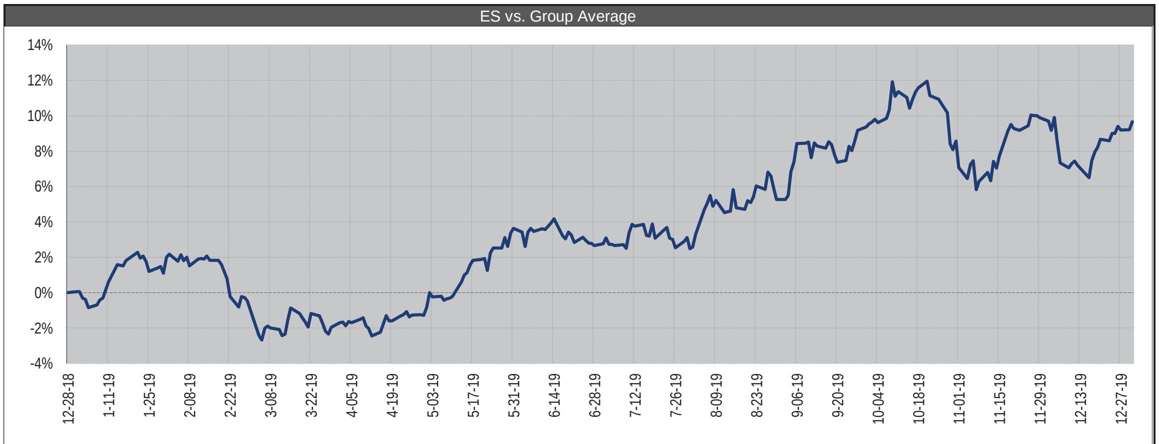
EIX vs. Regulated Average

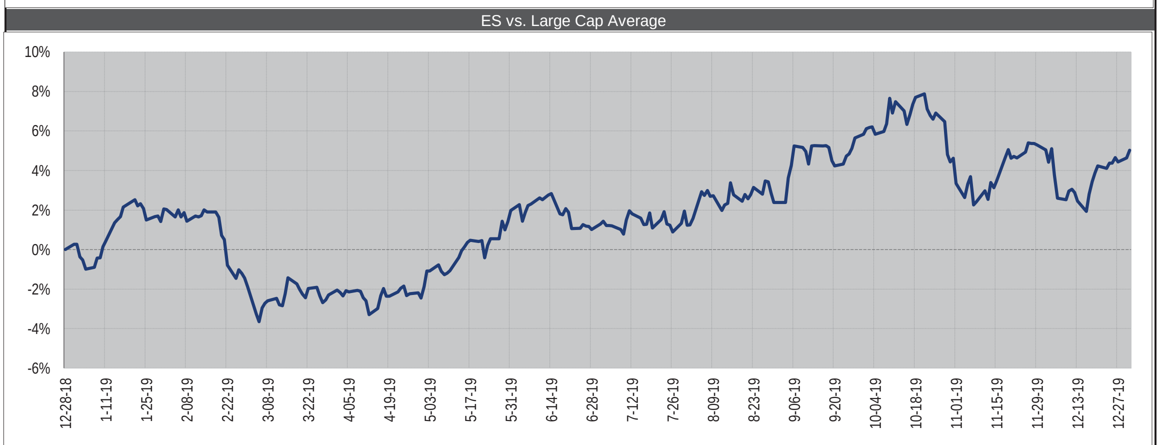


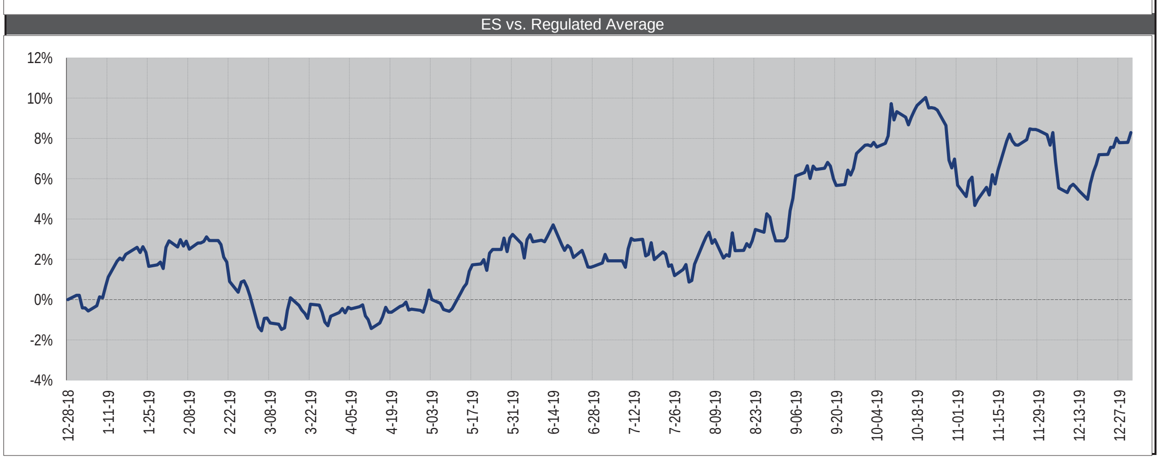
WOLFE RESEARCH

Eversource Energy (ES) $85.07, Outperform, $85 PT

ES was in line with peers in Dec but had a good 2019, beating regulateds by around 800bp, given 5-7% growth from the base business, incremental offshore wind opportunities, and increasingly ESG focus.



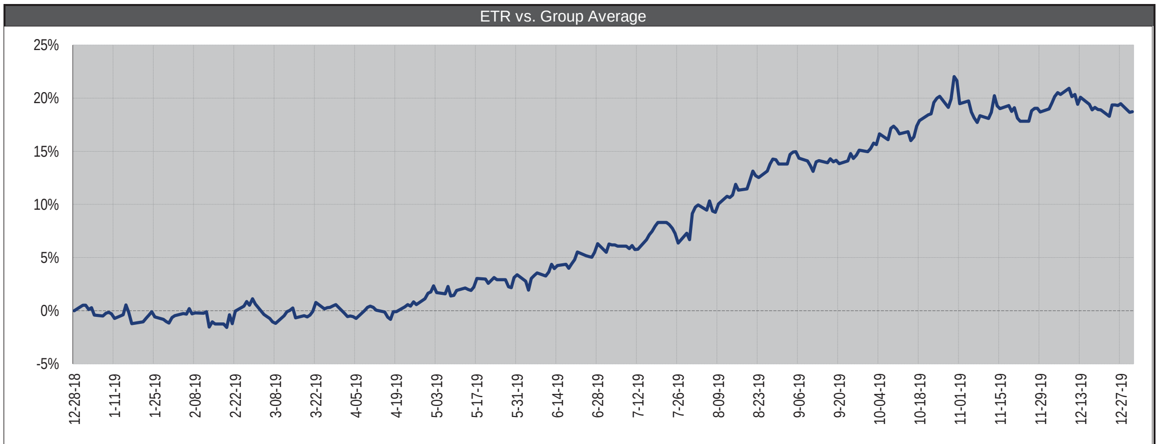


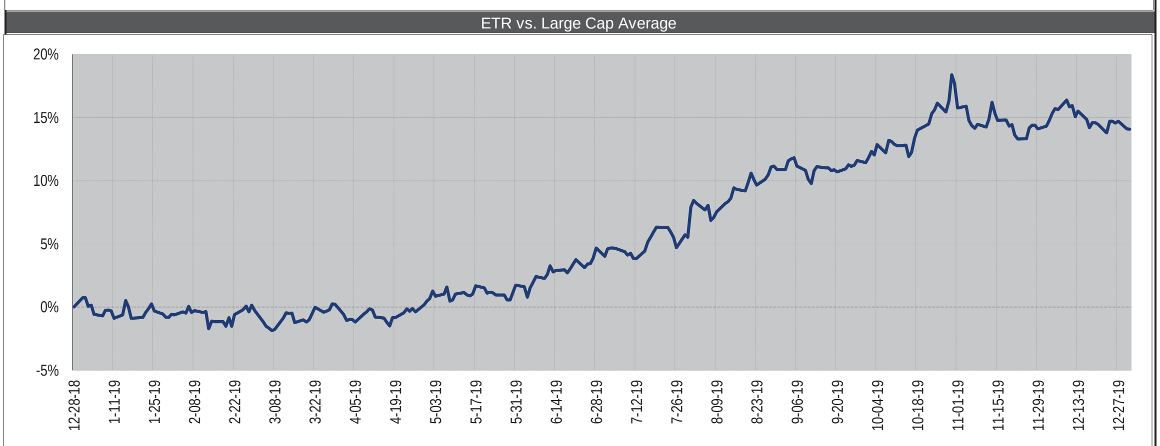


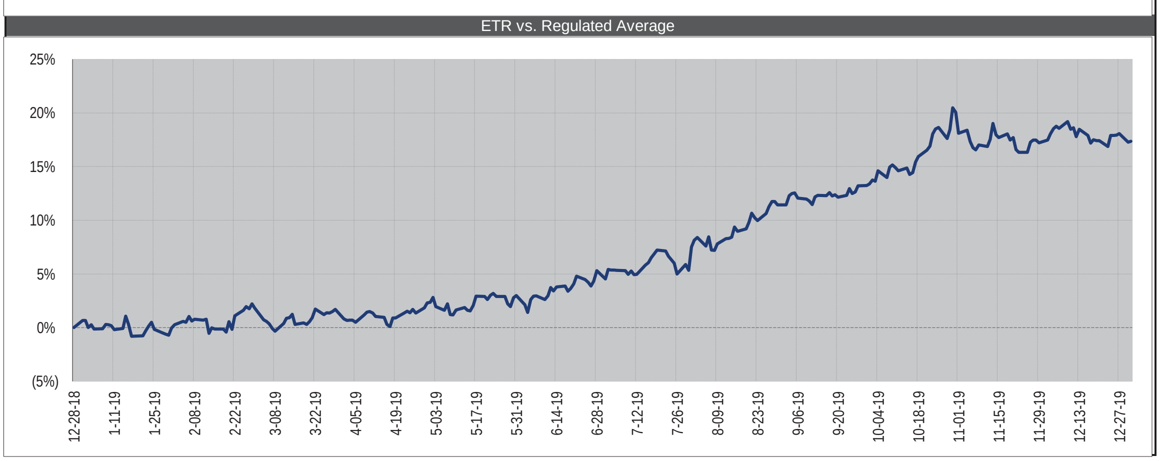
WOLFE RESEARCH

Entergy (ETR) $119.80, Peer Perform, $119 PT

ETR was in line with peers in Dec but had a stellar 2019, trailing only SO among the best performing regulateds; ETR raised LT guidance midyear and plans to raise its dividend in line with EPS by 2021.



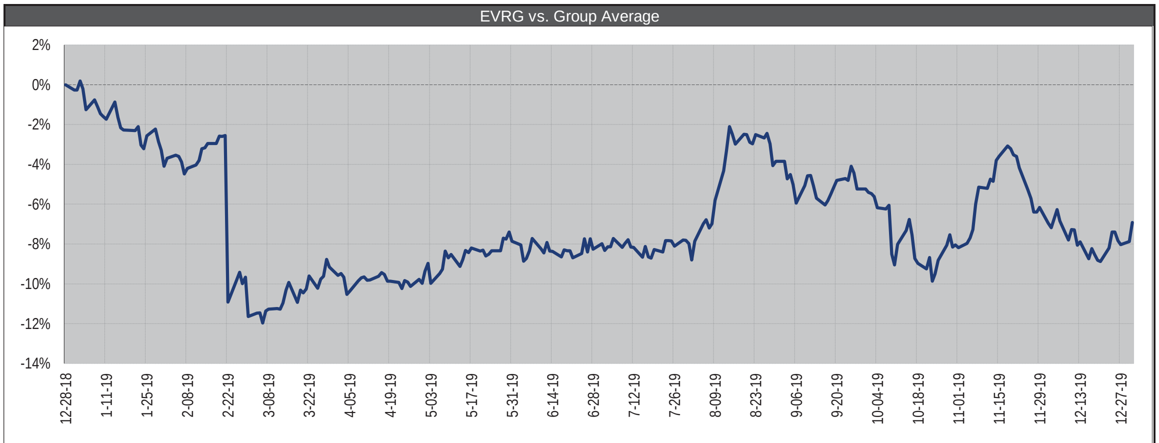


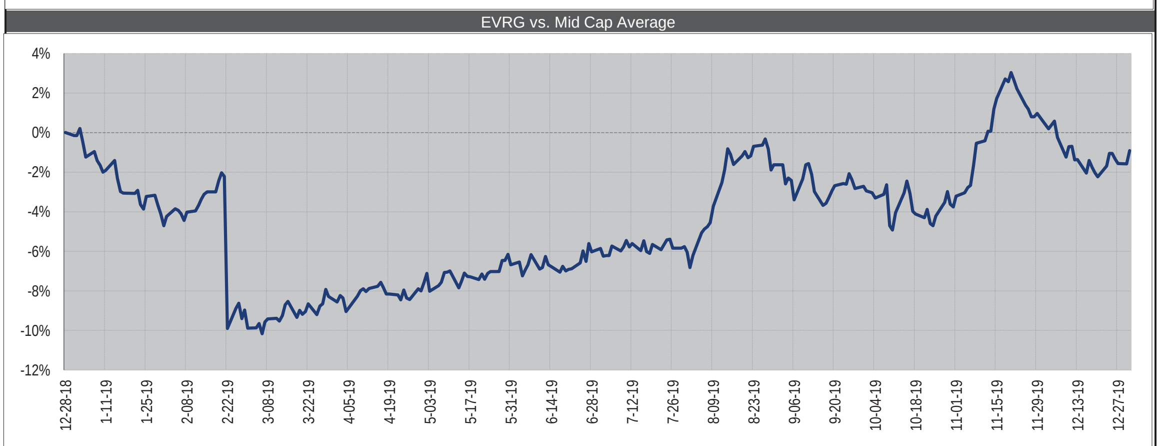


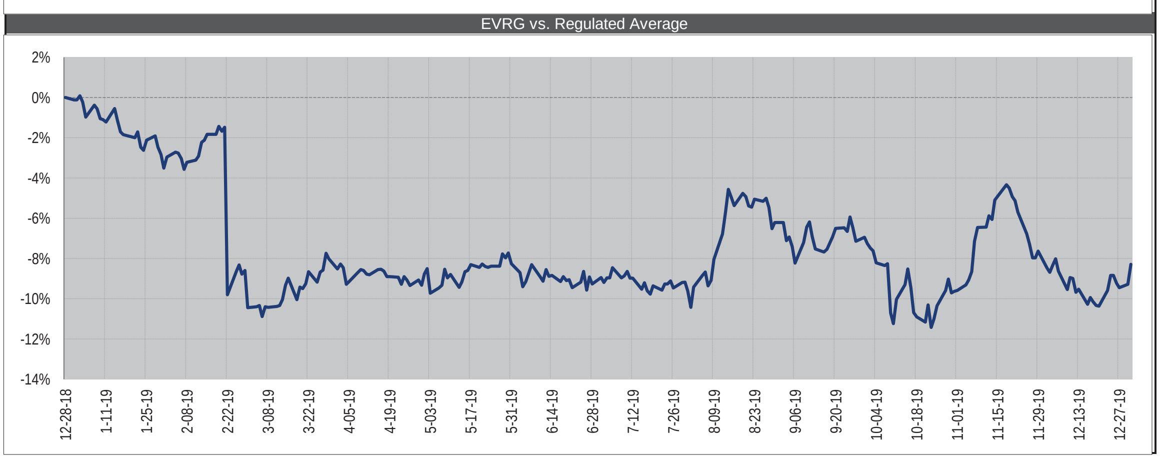
WOLFE RESEARCH

Evergy (EVRG) $65.09, Outperform, $68 PT

- EVRG continued its late-November underperformance into December and has now completely round-tripped since the positive Q3 update. News has been quiet, as we await incremental updates on capital plan upsides and completion of the buyback program in 2020. For 2019, EVRG underperformed most of its peers.

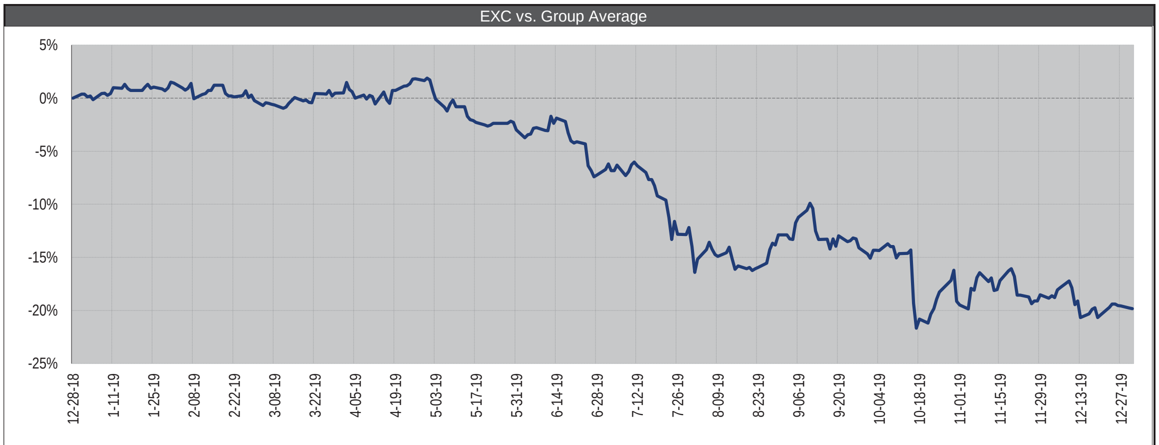


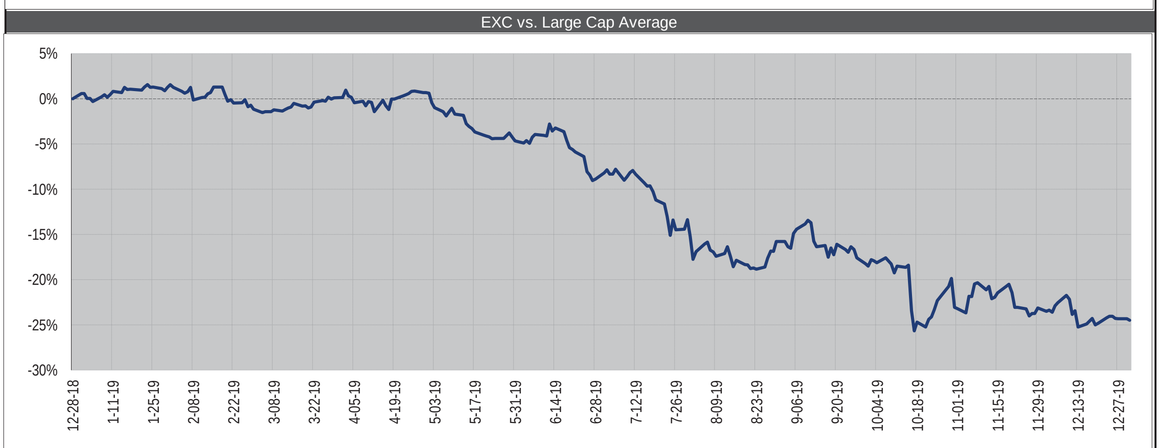


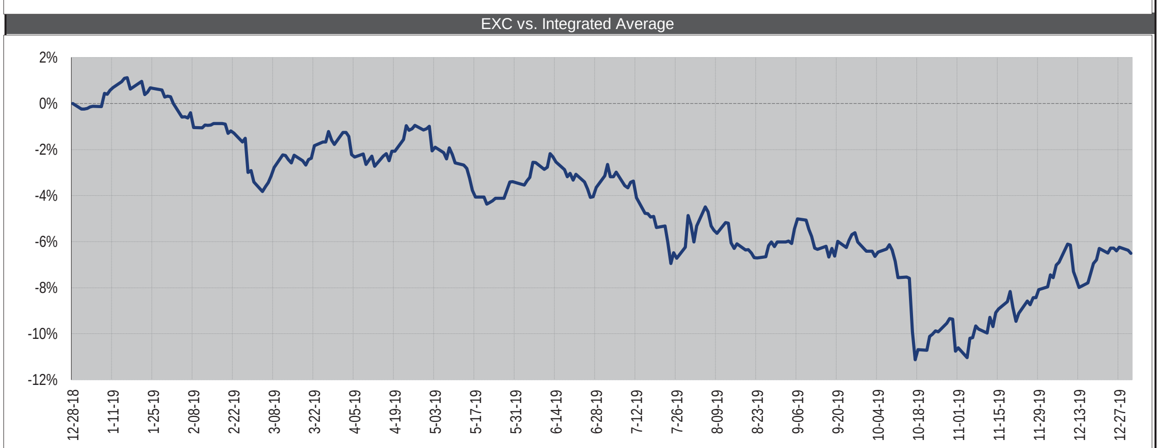


Exelon (EXC) $45.59, Outperform, $55 PT

EXC trailed the wider utility group and large caps but bested its only integrated peer (PEG) in Dec. For the year, however, EXC stock was buffeted by federal investigations into IL lawmakers and lobbying activities.



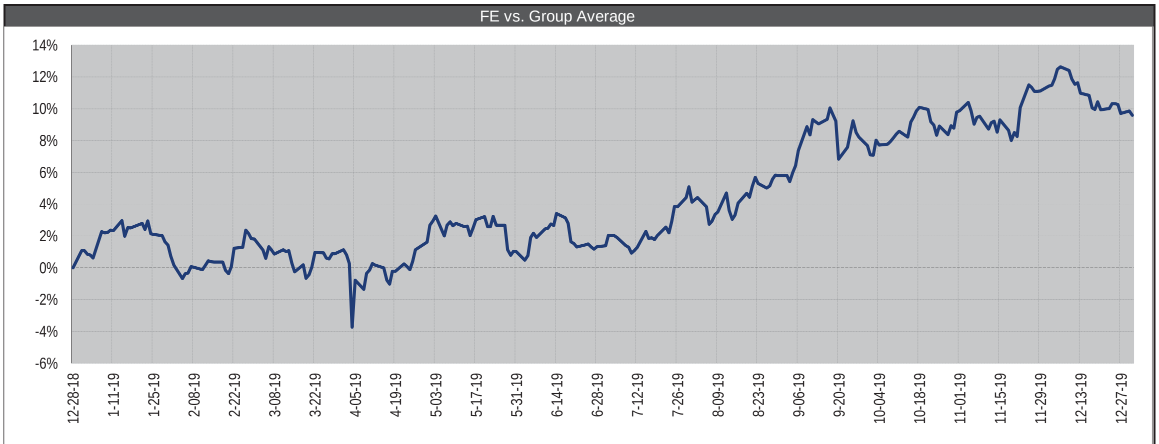


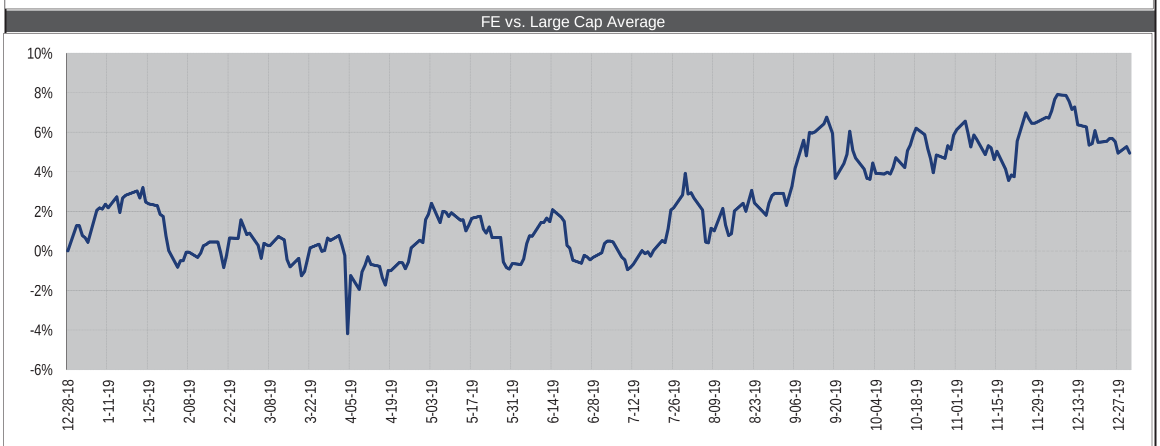


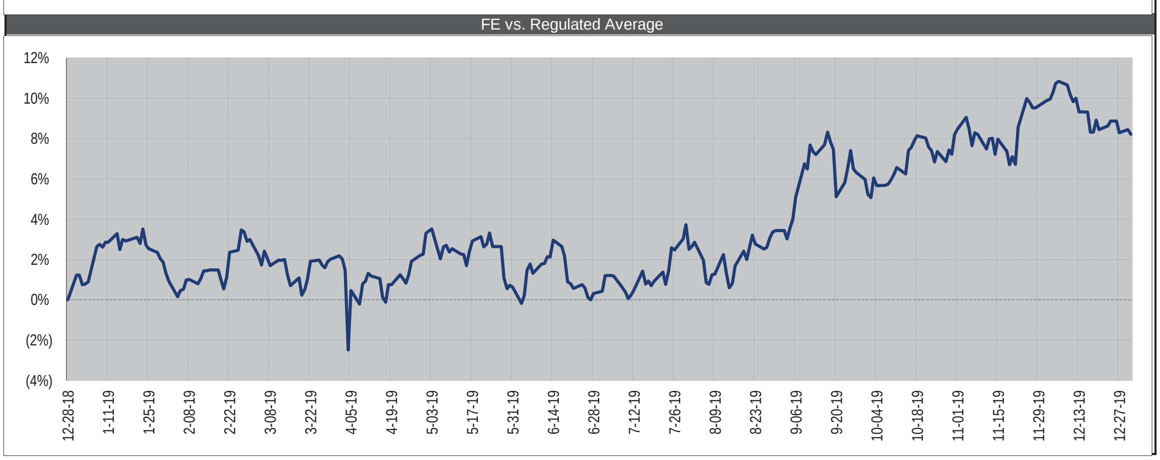
WOLFE RESEARCH

FirstEnergy (FE) $48.60, Outperform, $53 PT

- FE underperformed most of the group in December, but still finished the year ahead of peers. The company remains focused on its low-risk T&D story, with FES (Energy Harbor) bankruptcy emergence expected in January – fully completing the separation from merchant generation.



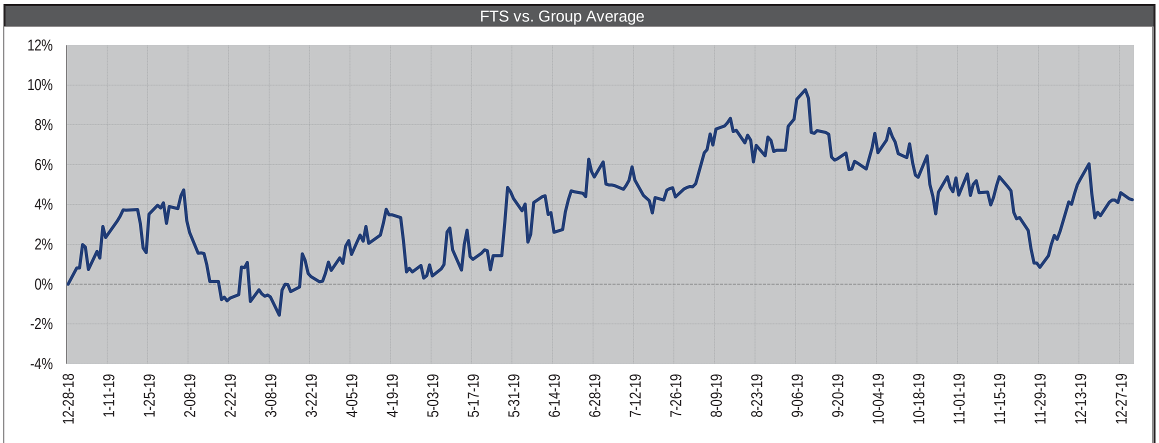


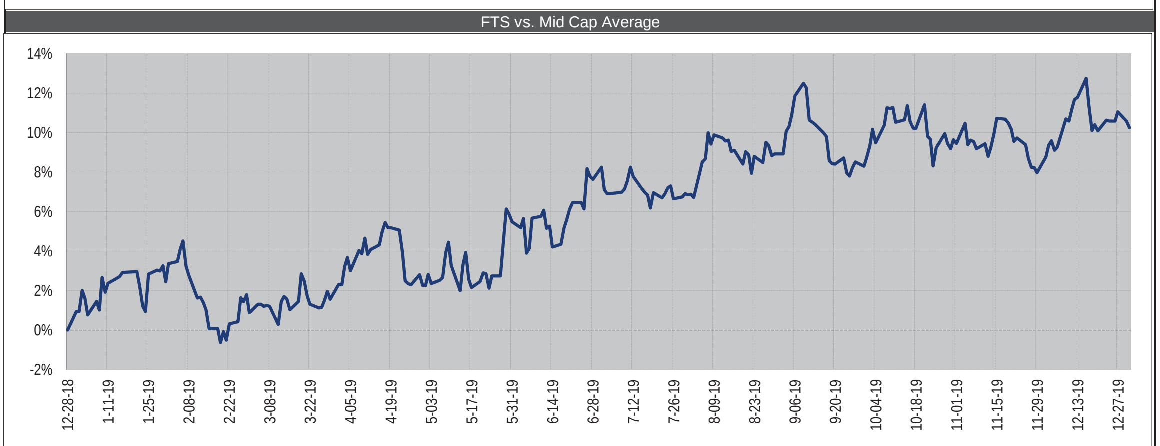


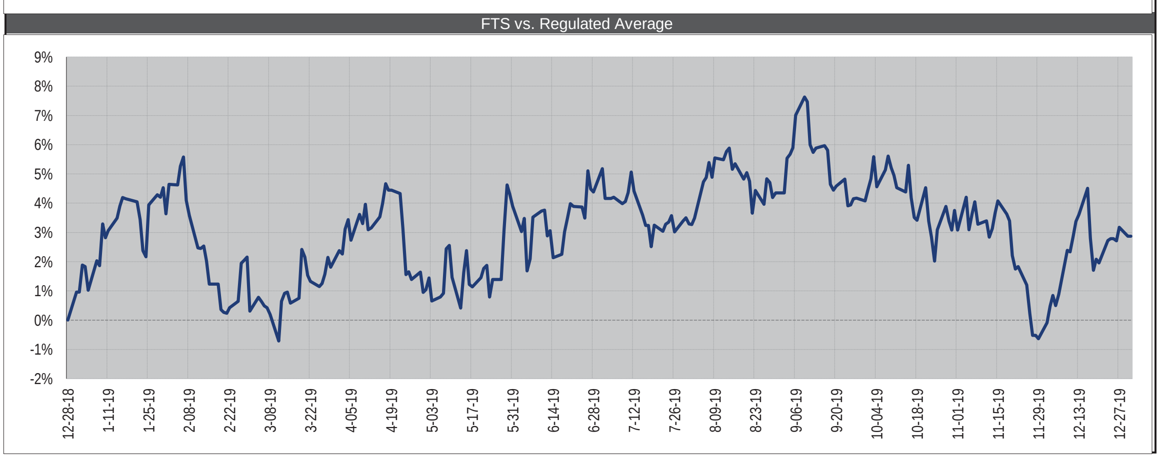
WOLFE RESEARCH

Fortis (FTS) $41.52, Peer Perform, $41 PT

- FTS bounced back in December after a difficult November – finishing the year in-line with the group. While FERC's ruling on transmission ROEs provided some certainty, the new methodology opens the door to potential future complaints and most parties are now challenging the decision.



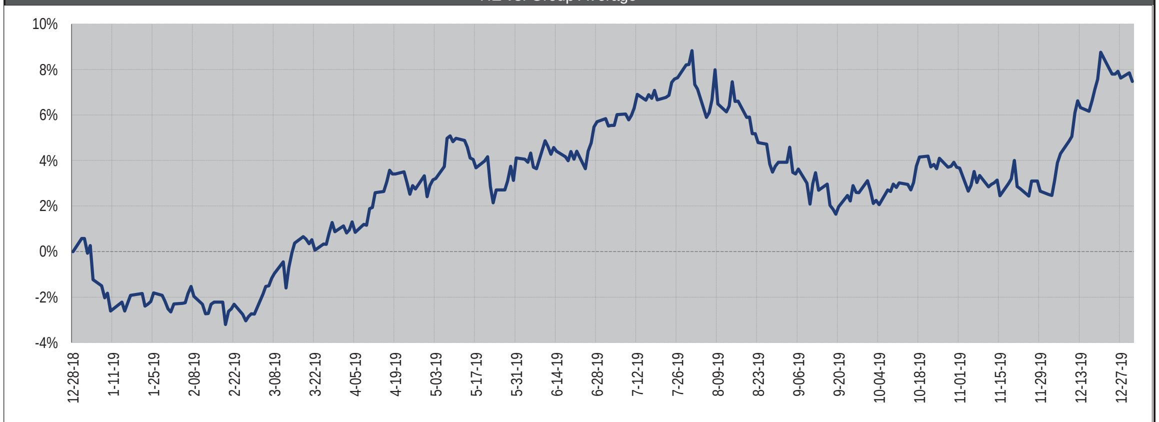




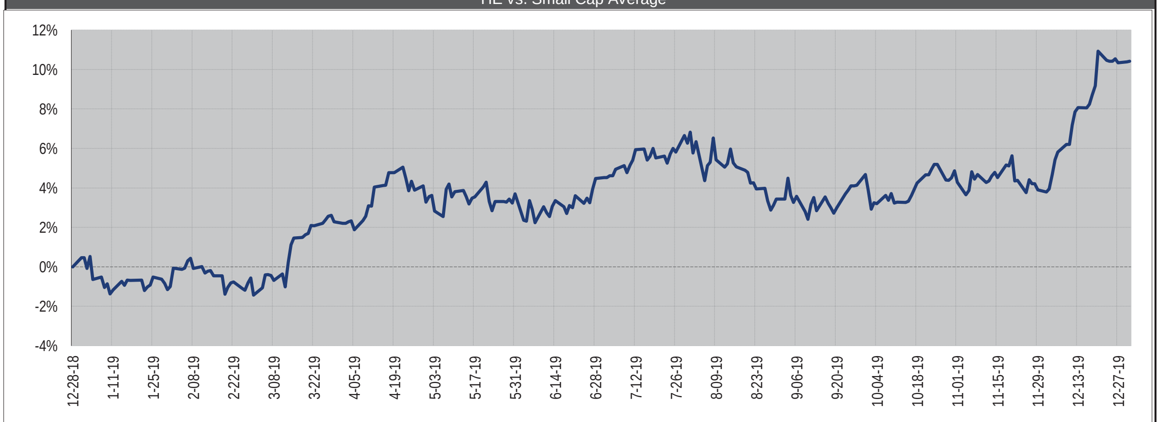
WOLFE RESEARCH

Hawaiian Electric (HE) $46.86, NR

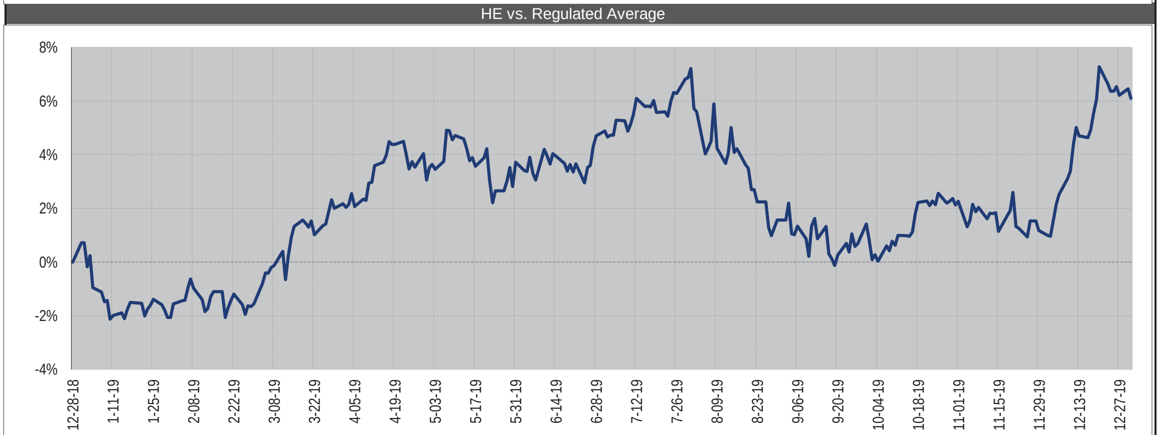
HE vs. Group Average



HE vs. Small Cap Average

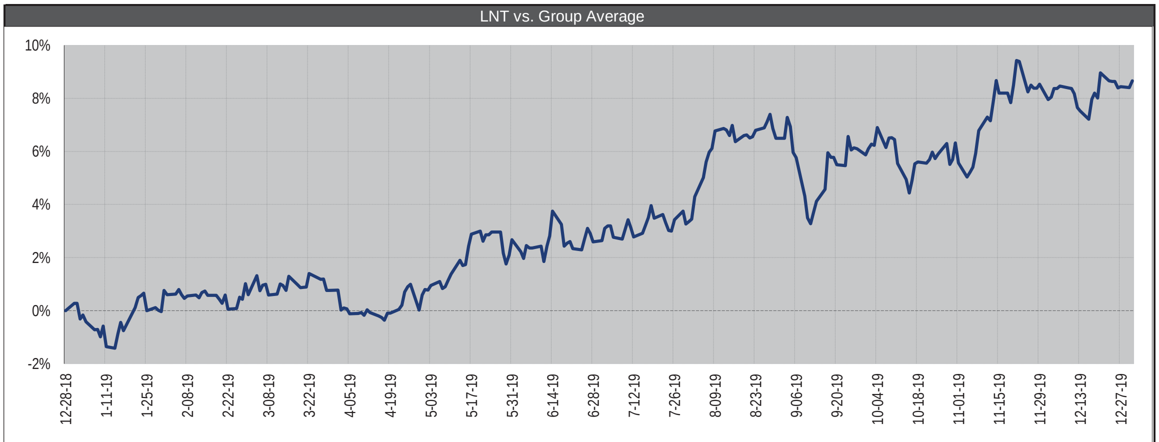


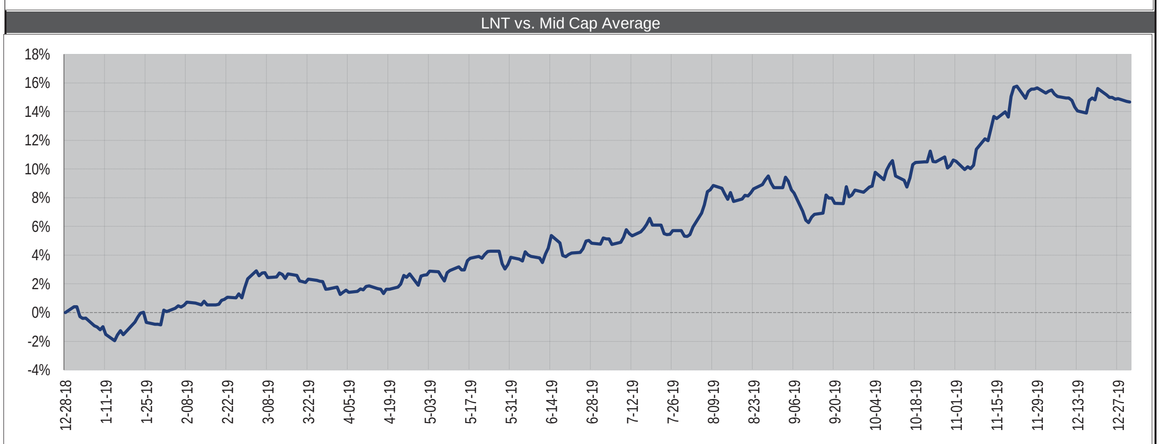
HE vs. Regulated Average

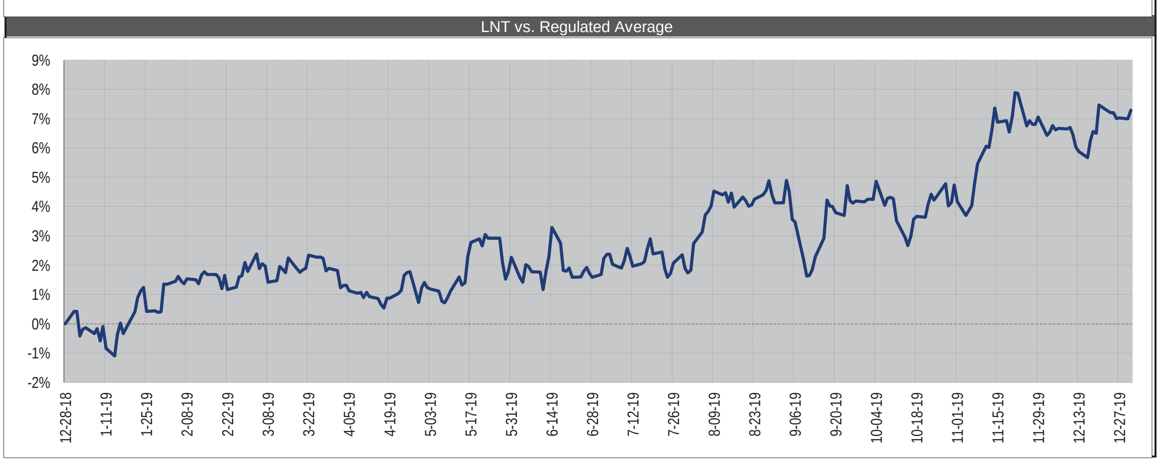


Alliant Energy (LNT) $54.72, Peer Perform, $53 PT

- LNT traded sideways in December, but still finished 2019 as an outperformer. The company was once again able to achieve constructive regulatory outcomes in Iowa in 2019, while executing at the high-end of its earnings targets.



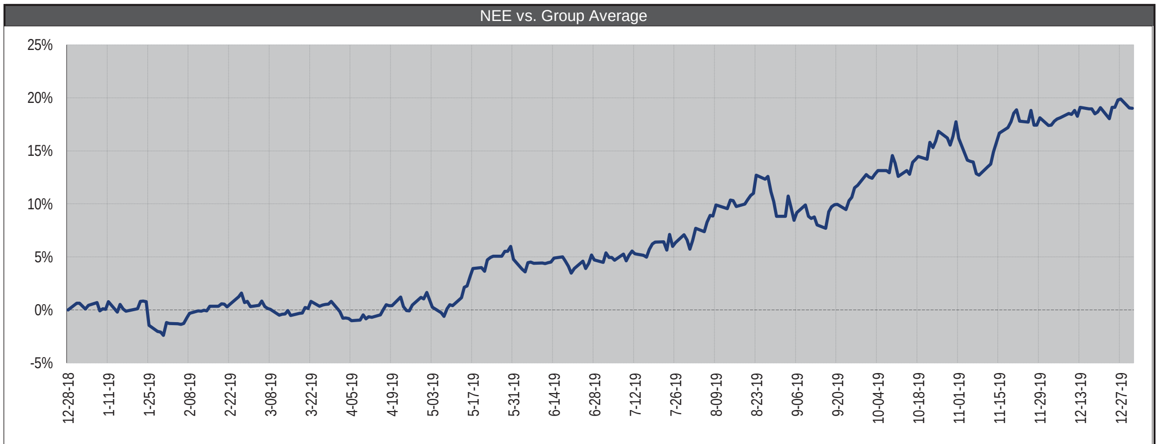


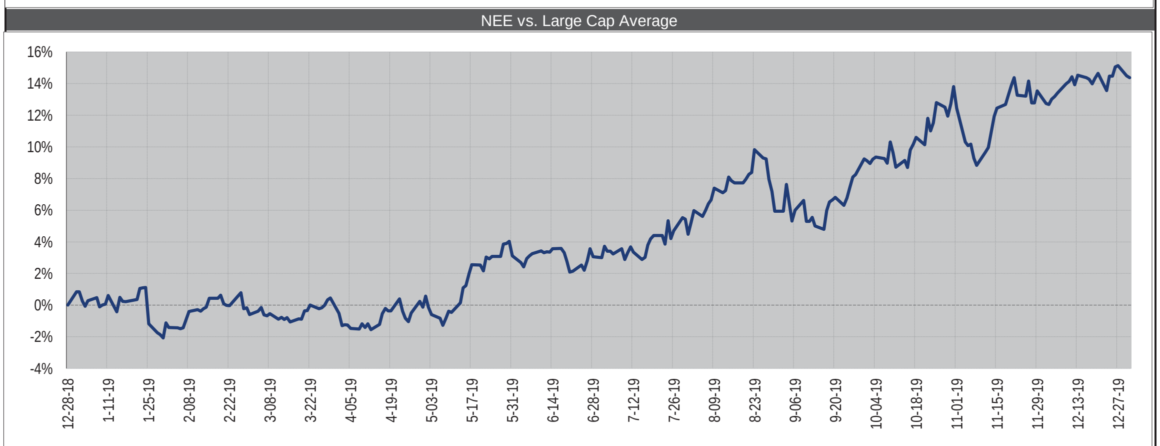


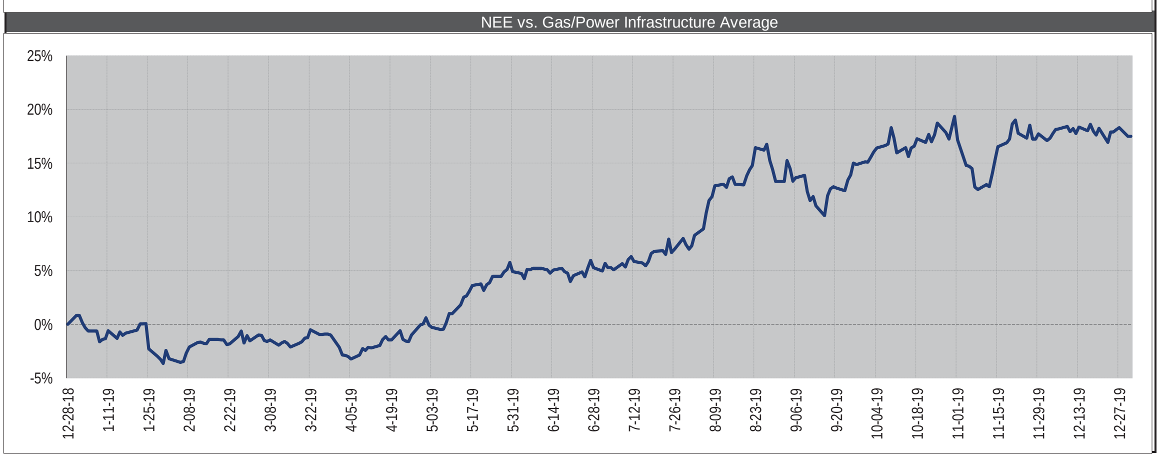
WOLFE RESEARCH

NextEra Energy (NEE) $242.16, Outperform, $240 PT

- NEE outperformed in December and was one of the top-performers in the sector for 2019. The company furthered its position as the dominant renewables player in the world, as investors increasingly became focused on the potential for cleaner energy policy in the U.S. Disappointingly, the JEA sale process of which NEE was interested, looks to have gotten waylaid for the time being.



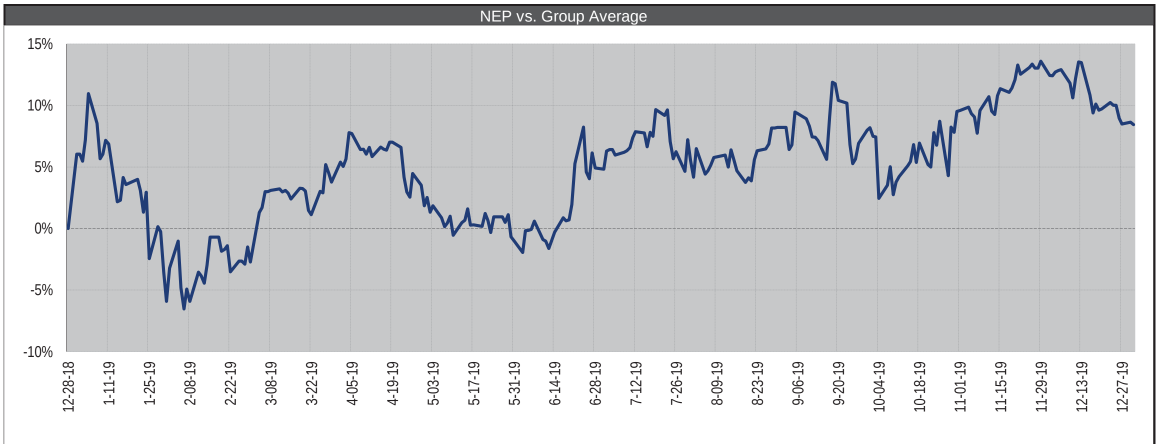


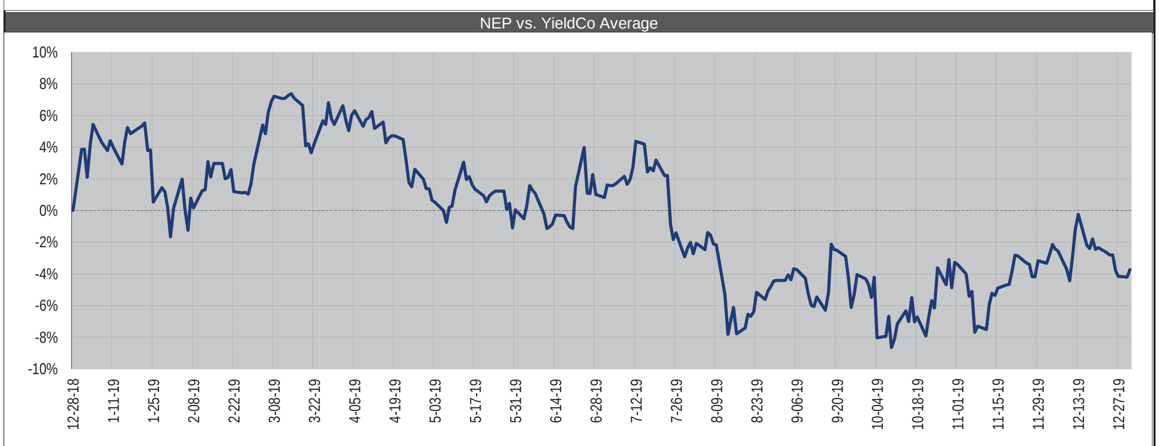


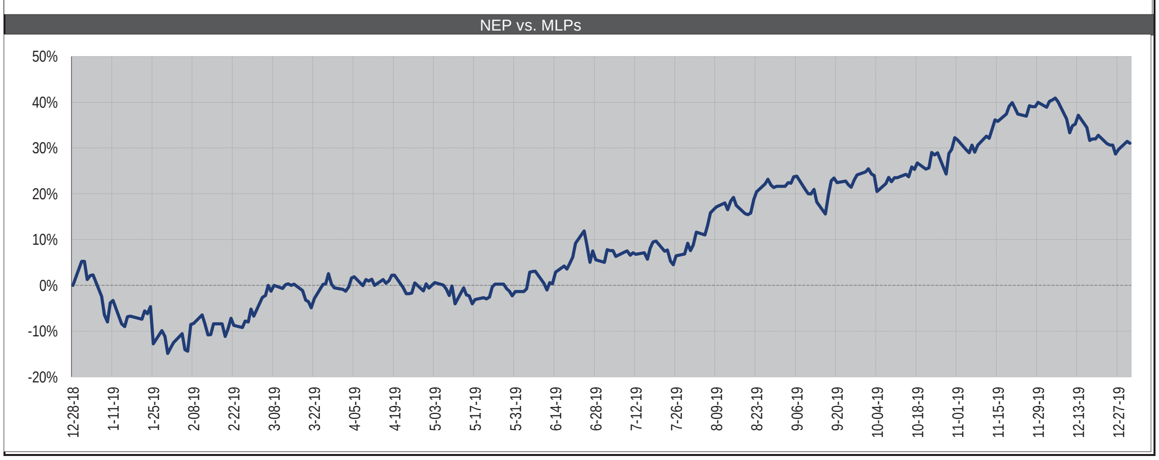
WOLFE RESEARCH

NextEra Energy Partners (NEP) $52.65, Outperform, $61 PT

- NEP underperformed in December on little news, while also trailing most YieldCo peers in 2019. NEP continues to benefit from premier sponsor NEE, but the latest pipeline deal and portfolio financings may have given some investors pause.



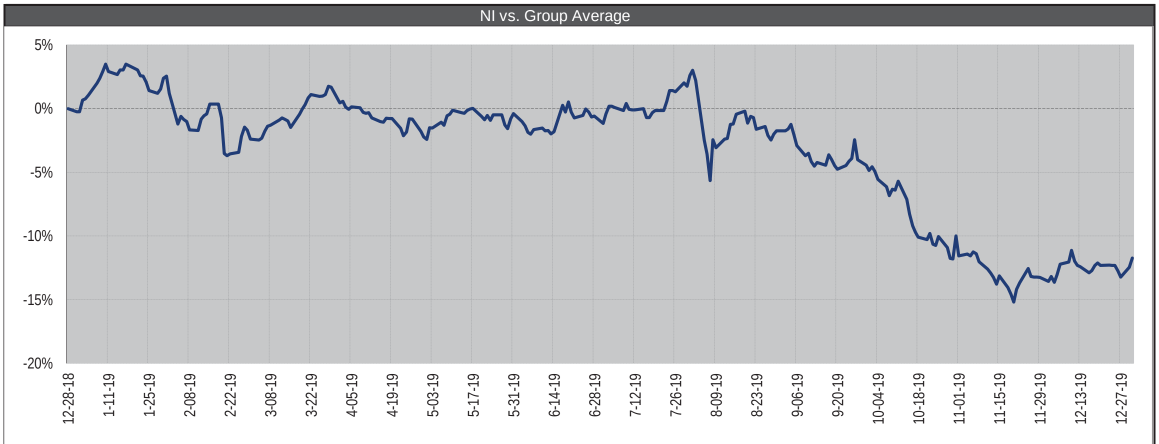


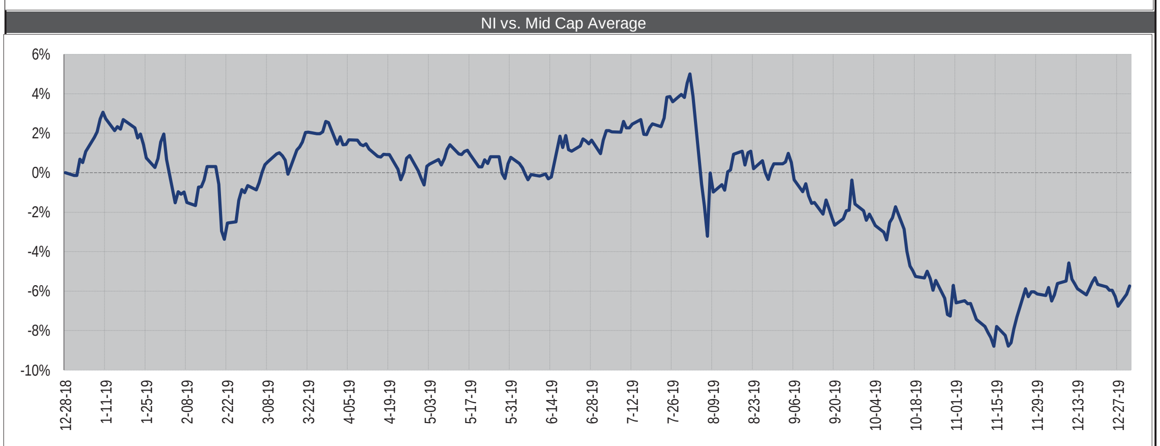


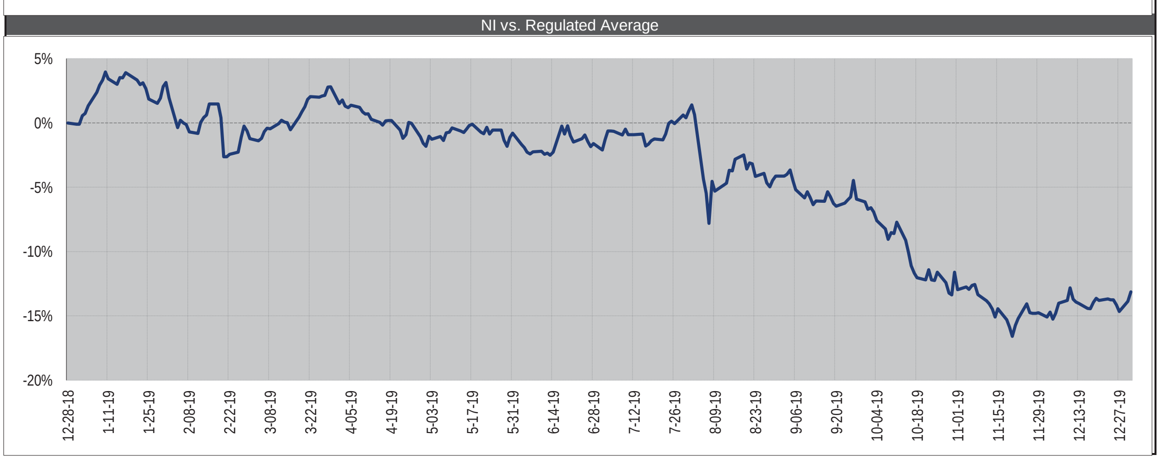
WOLFE RESEARCH

NiSource (NI) $27.84, Peer Perform, $29 PT

NI was one of the worst performing utilities in 2019. The stock traded up and down in the 1H of the year due to a couple surprise cost estimate increases in MA. The stock then fell apart in August after the company experienced another gas explosion, this time in PA. Additional issues related to MA led to continued pressure on the stock through November until the stock saw a bit of a bounce in December.





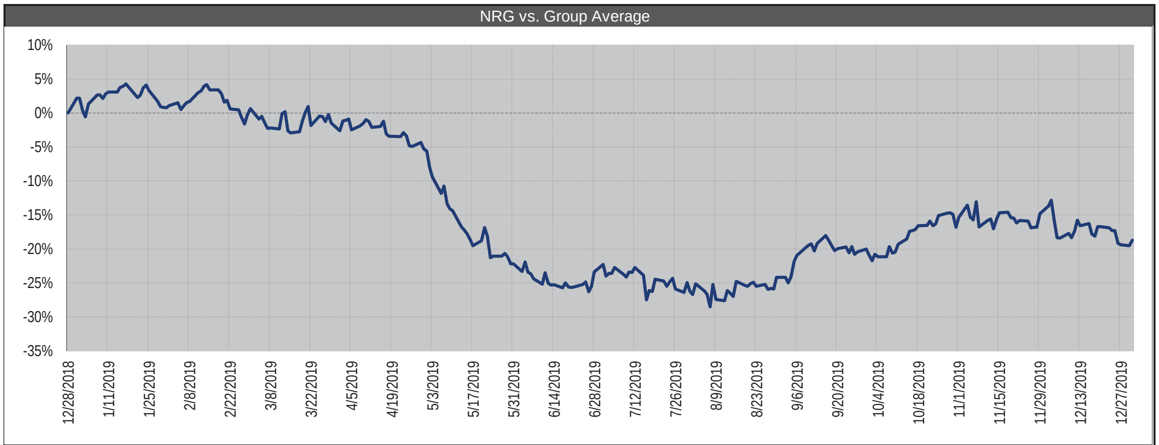


WOLFE RESEARCH

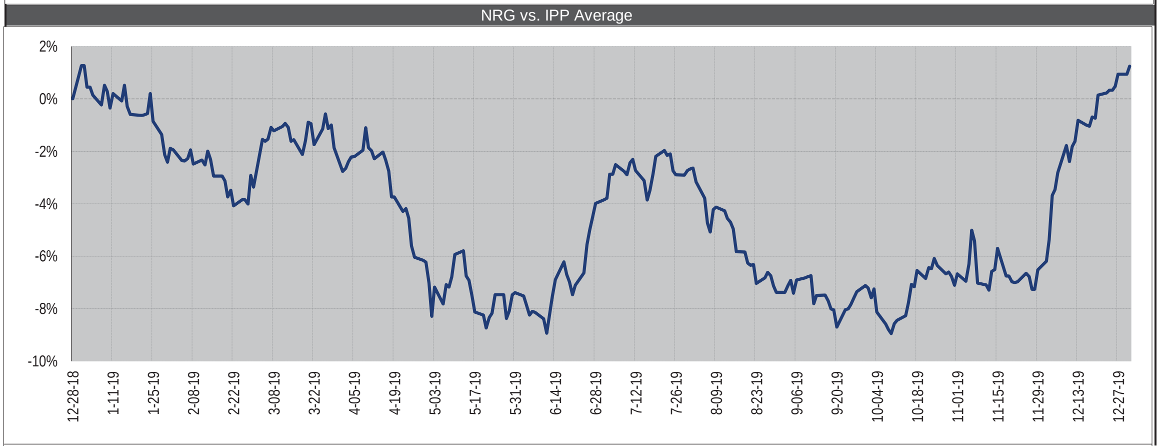
NRG Energy (NRG) $39.75, Outperform, $44 PT

NRG was flattish in December and underperformed the market, although it significantly outperformed VST which had a terrible month. It was another big year for NRG as the company repurchased $1.5B of stock and jacked up its dividend to a 3% yield plus 7-9%/yr growth. Nonetheless, the stock was flattish for the year and greatly underperformed the market in 2019 after more than 200% outperformance over the 2017-18 period.

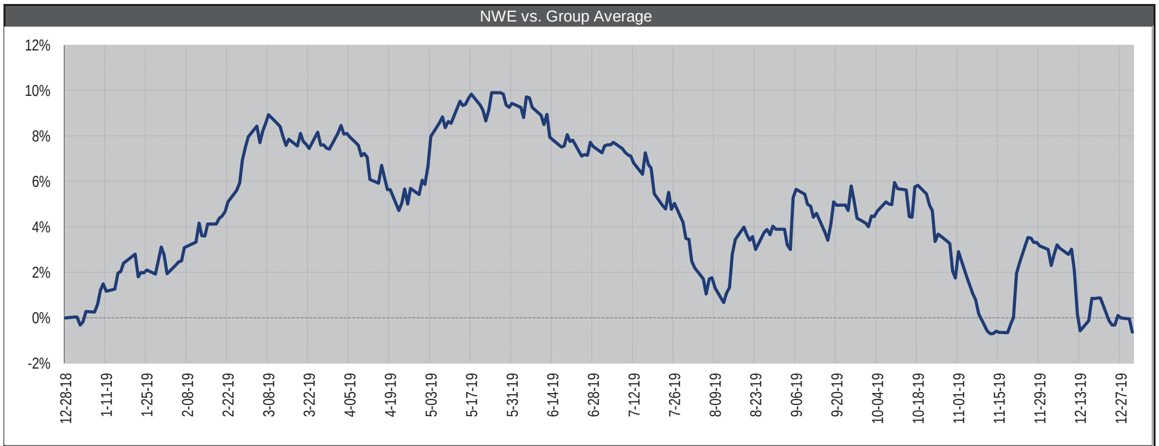
NRG vs. Group Average

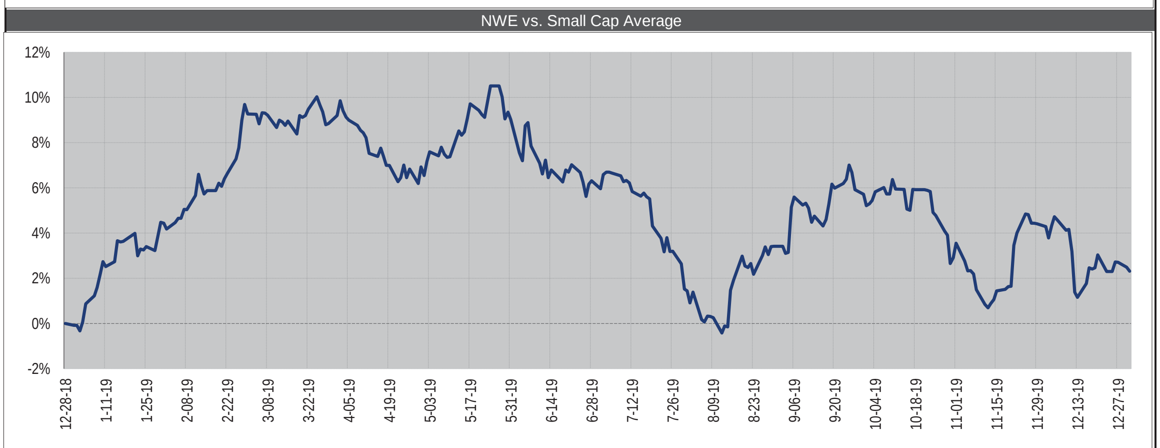


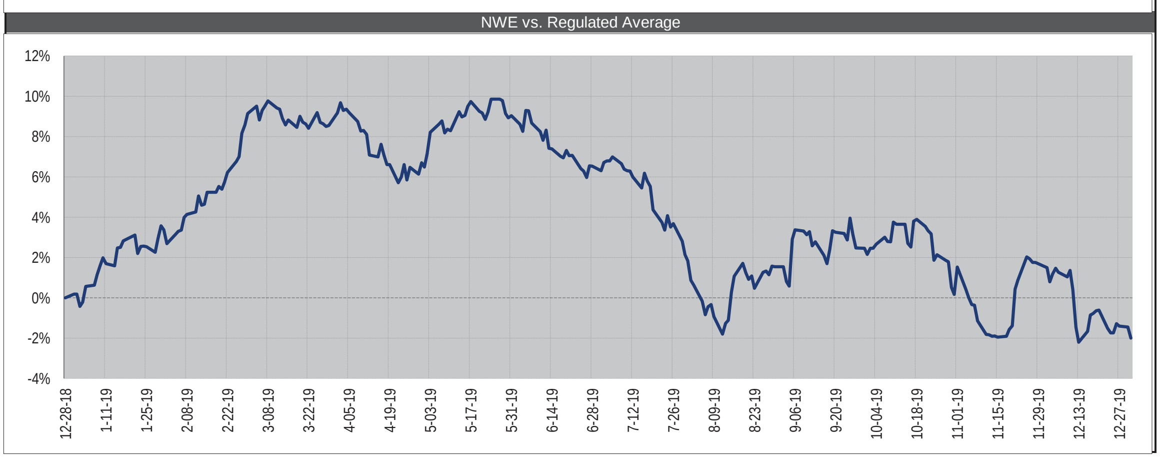
NRG vs. IPP Average



NorthWestern Corp (NWE) $71.67, NR



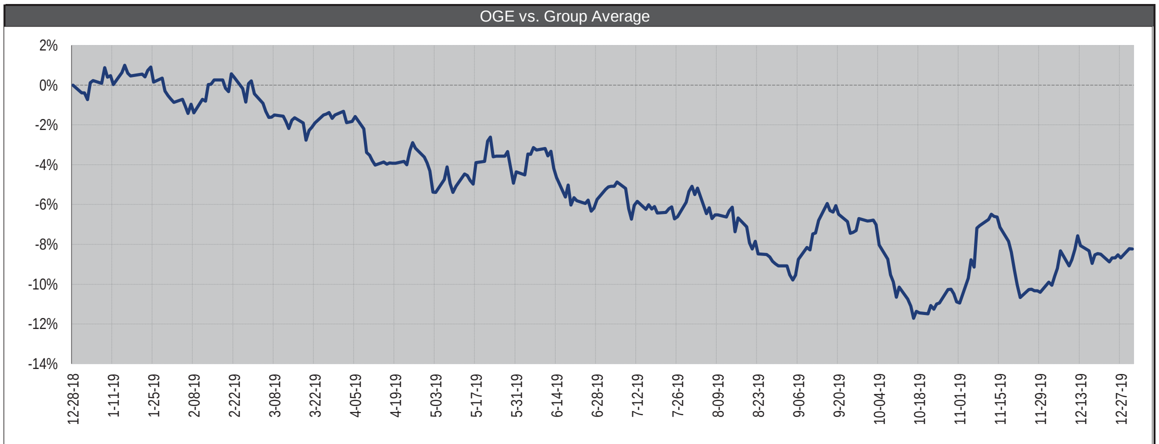


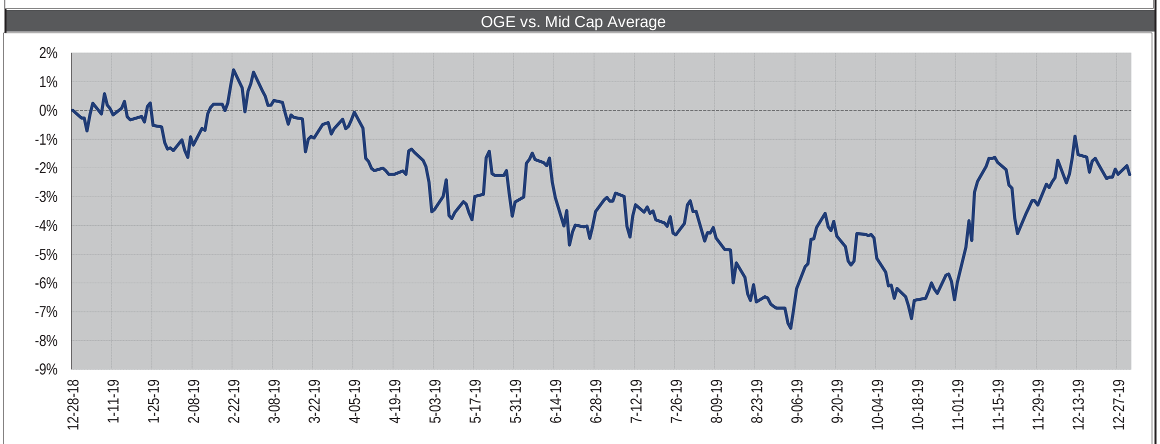


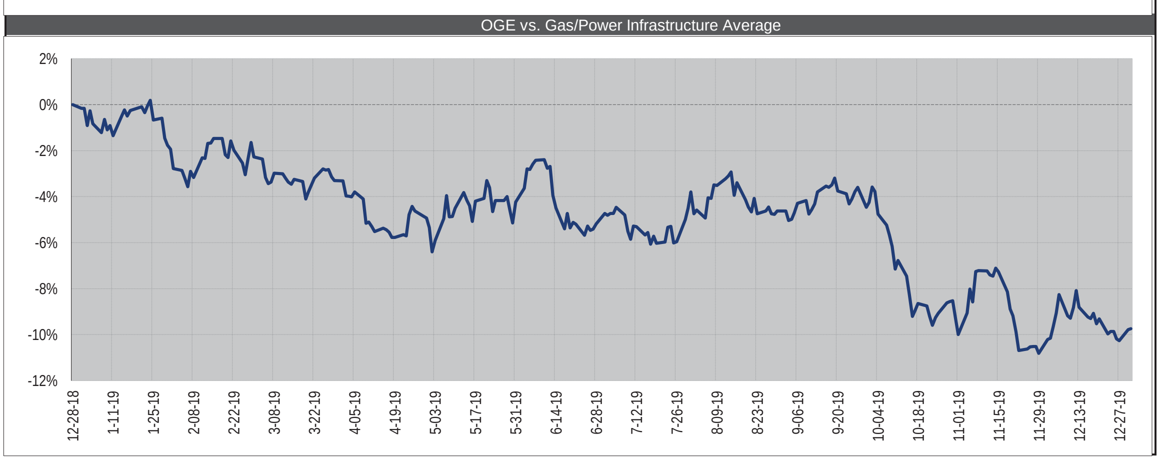
WOLFE RESEARCH

OGE Energy (OGE) $44.47, Peer Perform, $42 PT

After a strong 2018, OGE underperformed the utility average by a decent margin in 2019. OG&E's Oklahoma rate case acted as a bit of an overhang in the 1H of the year. However, parties were able to reach a settlement which was approved without modifications – another supportive data point for an improving regulatory construct in OK. We believe that most of the OGE's weakness was due to the company's business mix and exposure to ENBL, which finished the year down 25%.



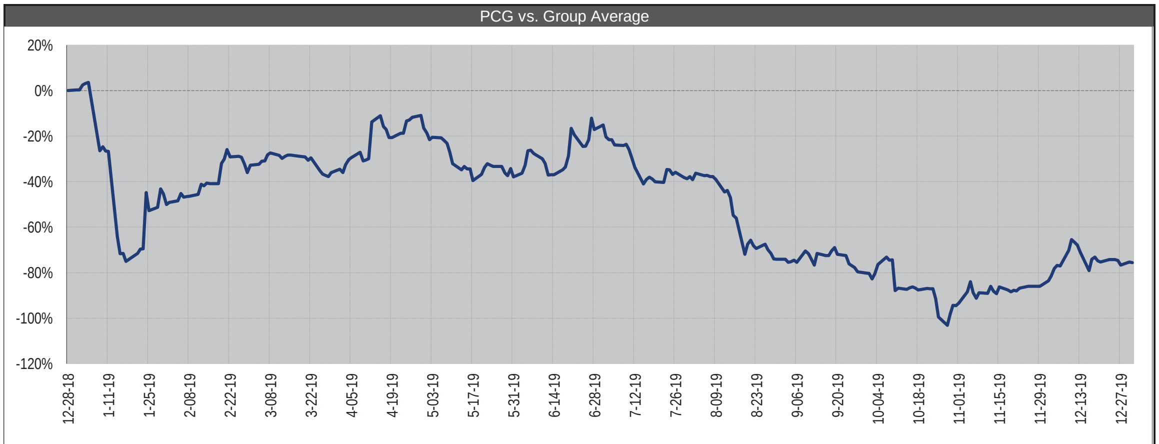


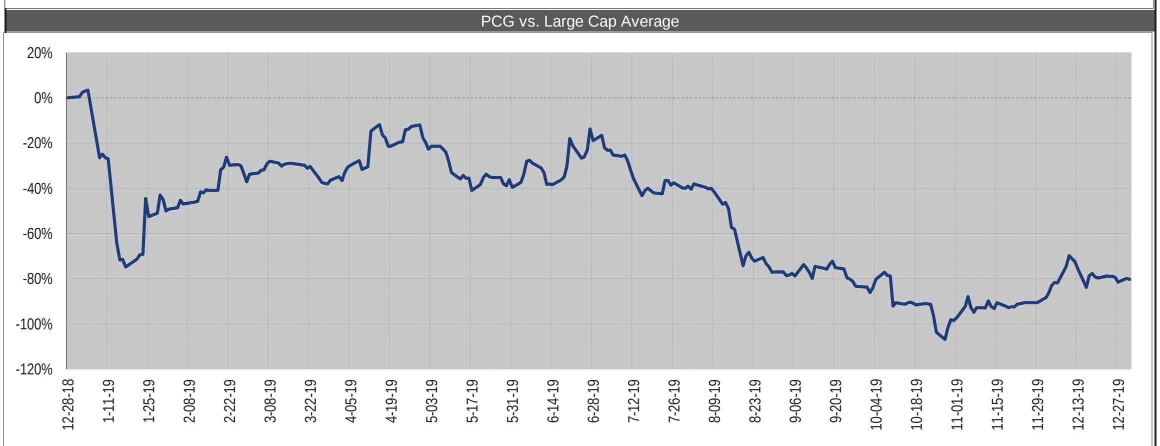


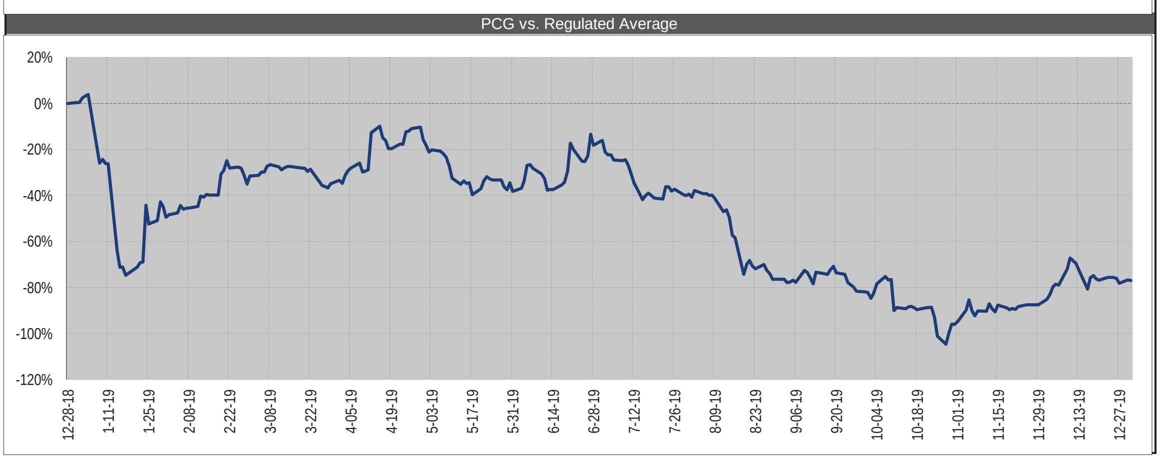
WOLFE RESEARCH

PG&E Corporation (PCG) $10.87, Peer Perform, $12 PT

PCG was the best performing utility stock in Dec on favorable court rulings, and an end to 2019 fire season; but for the year, the stock was the worst performer given its Jan bankruptcy filing.



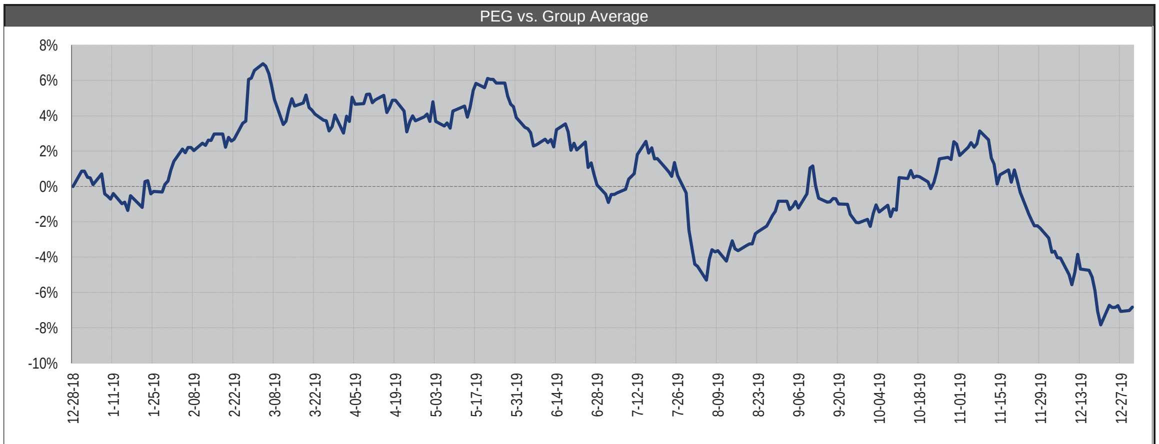


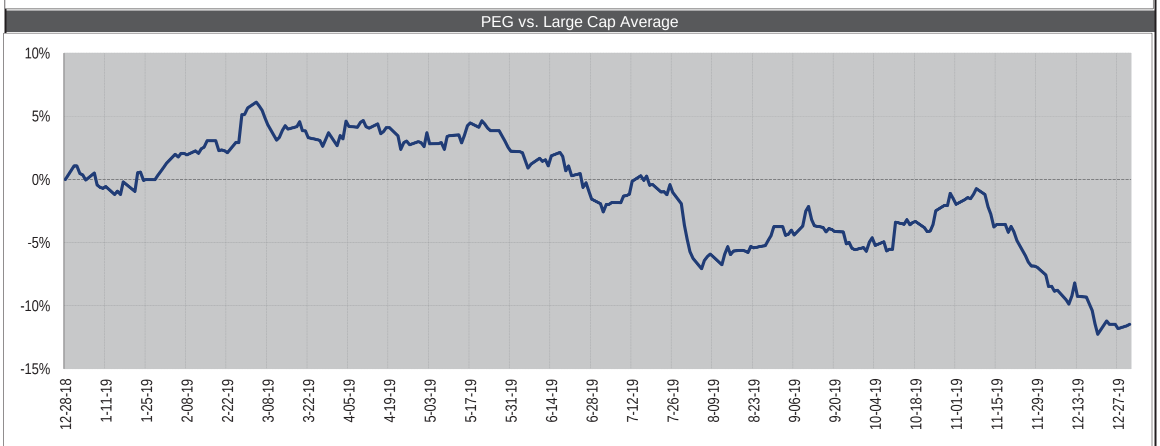


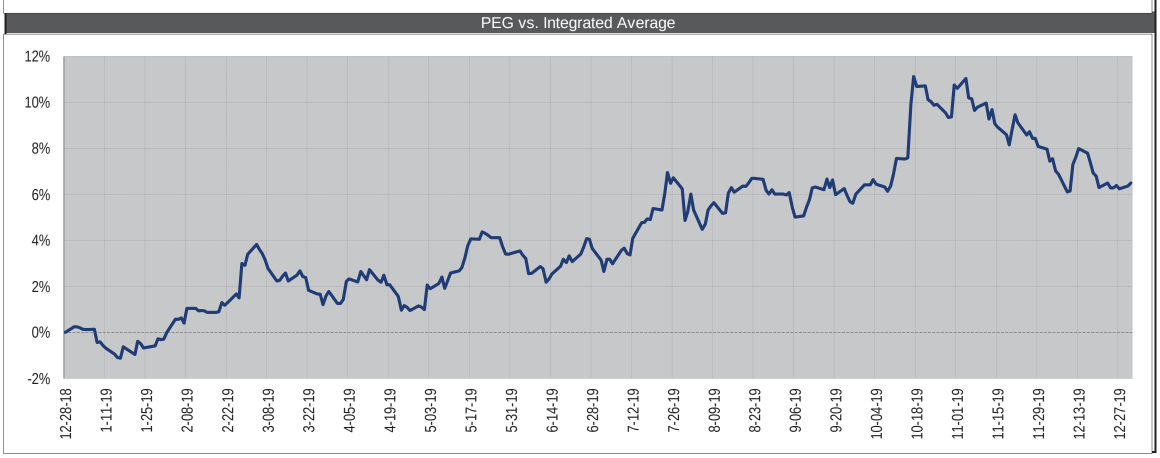
WOLFE RESEARCH

Public Service Enterprise Group (PEG) $59.05, Peer Perform, $64 PT

PEG underperformed nearly the entire sector in December in what turned out to be a disappointing year. The utility business continued to perform well and New Jersey BPU passed ZECs, but investor sentiment on PEG Power continued to sour. There were some concerns on FERC's recent PJM auction order and its implications for PEG's fleet, but the company seems confident its nukes can get a unit-specific exemption.

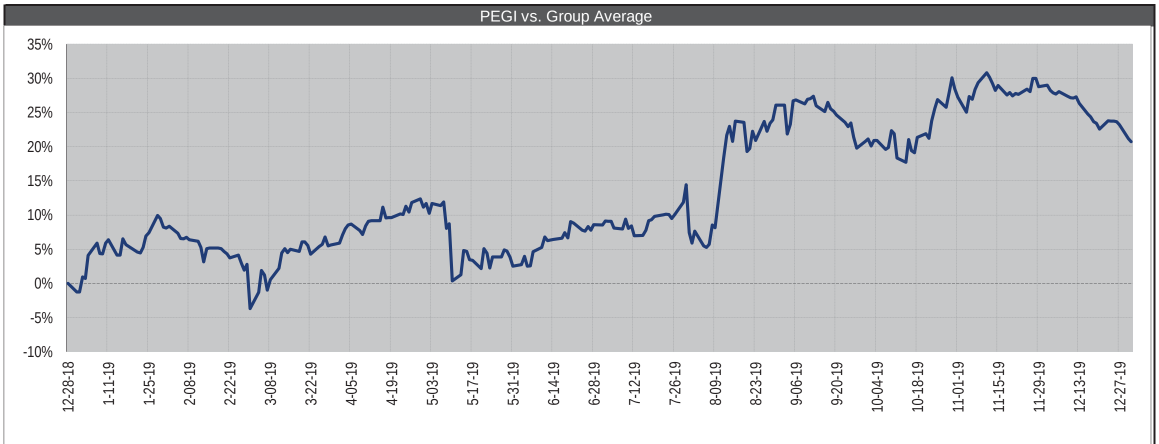


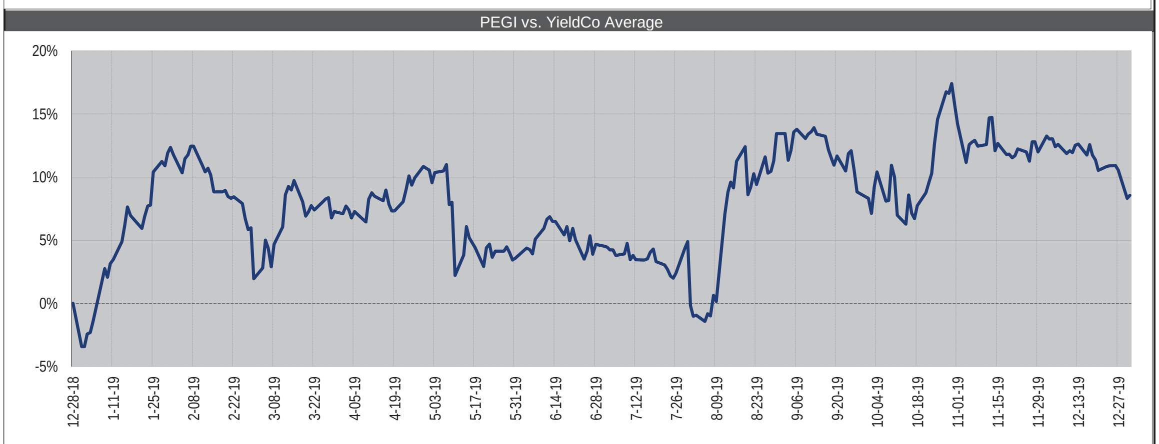


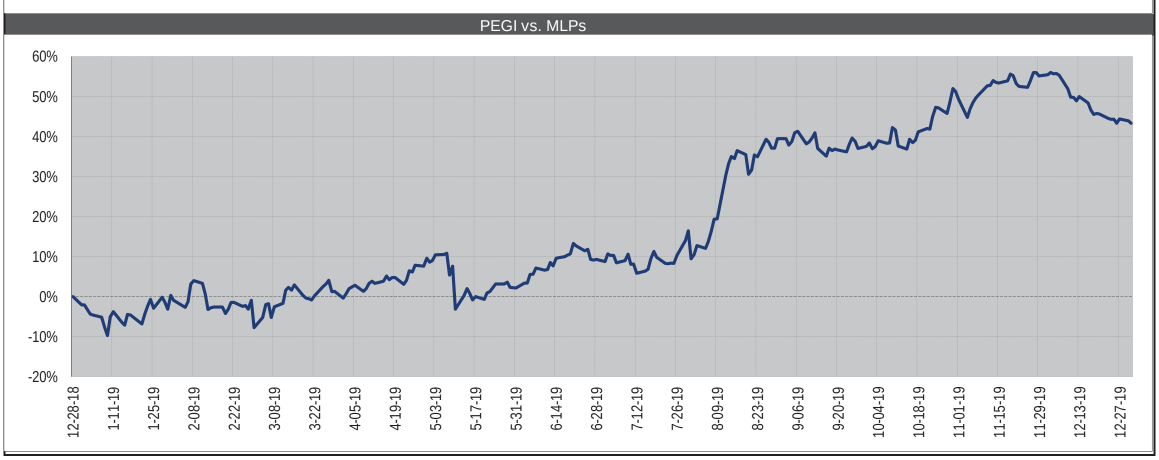


Pattern Energy (PEGI) $26.76, NR

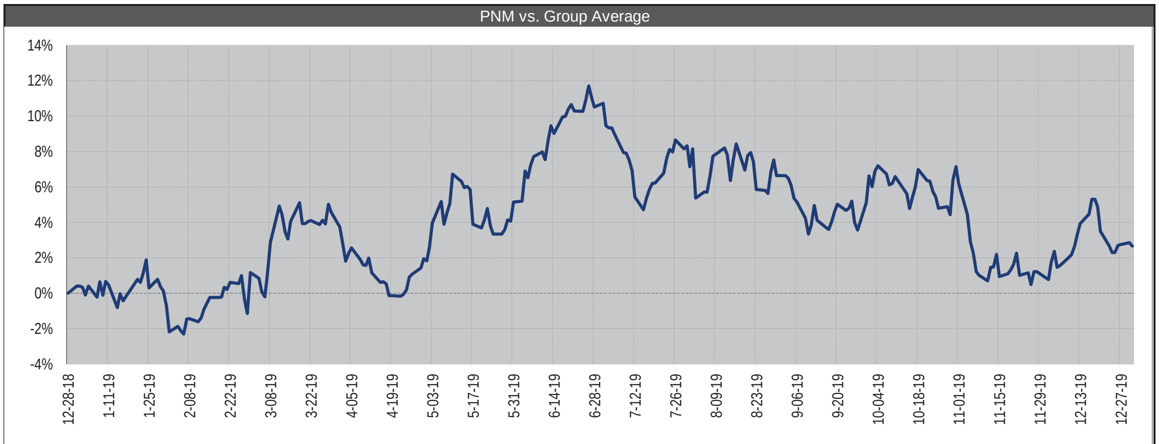
Pattern had a weak December but still closed out 2019 as the top performing YieldCo, rising by 44%. The year culminated with the announced sale of the company in November to the Canada Pension Plan Investment Board.

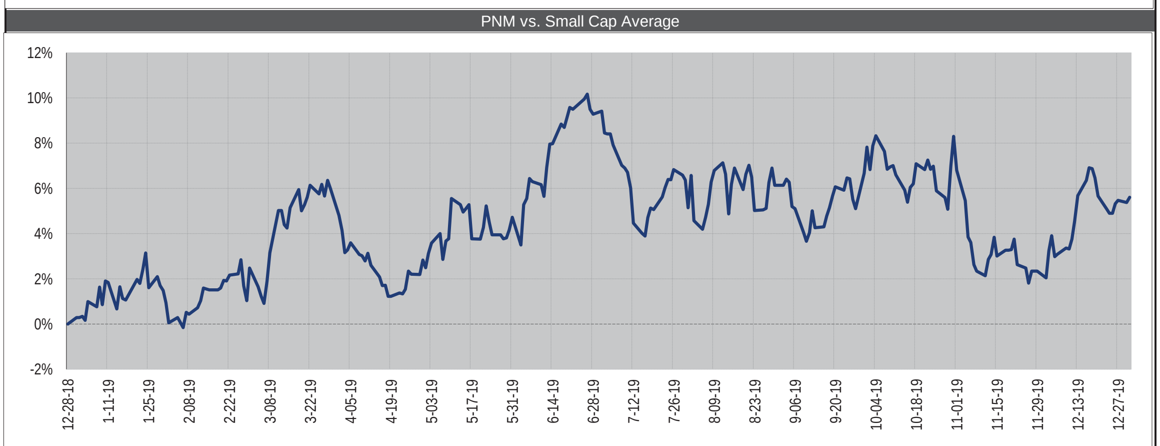


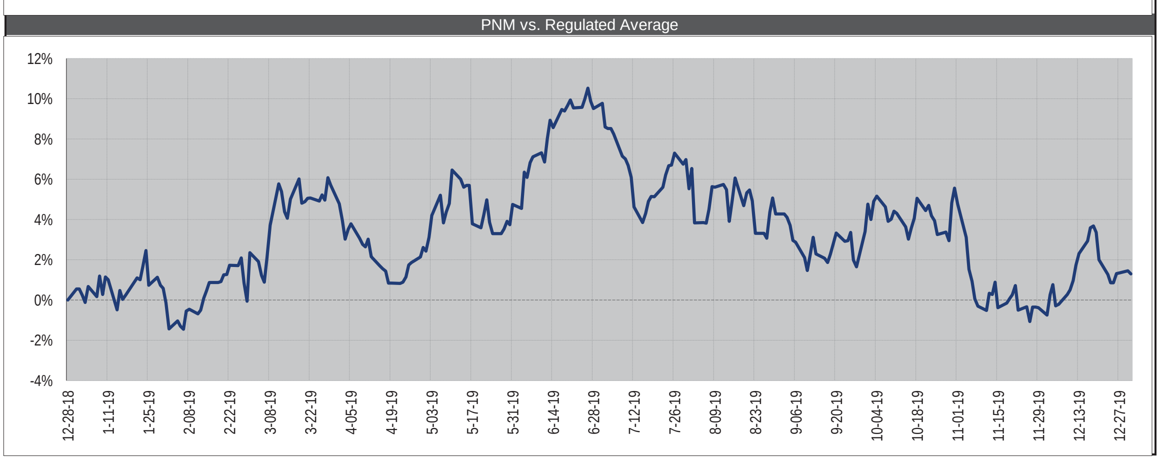




PNM Resources (PNM) $50.71, NR



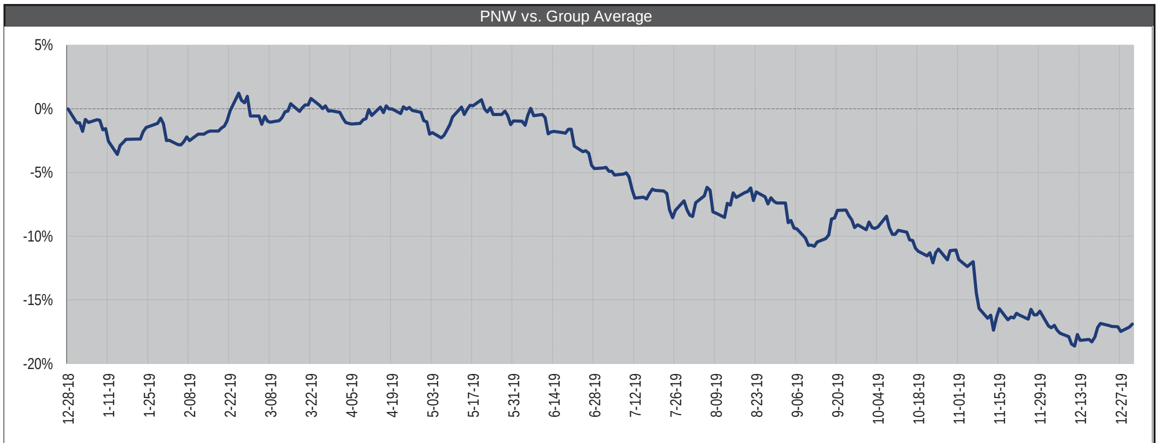


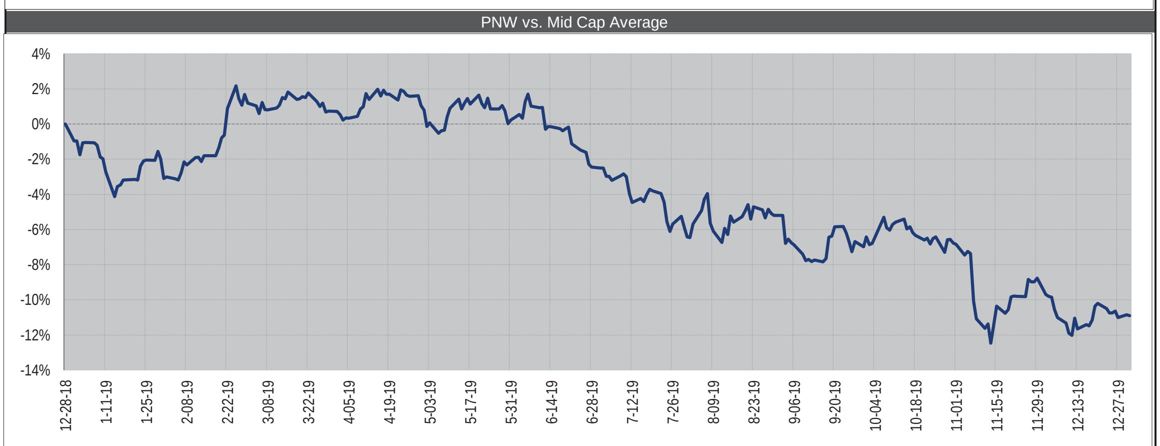


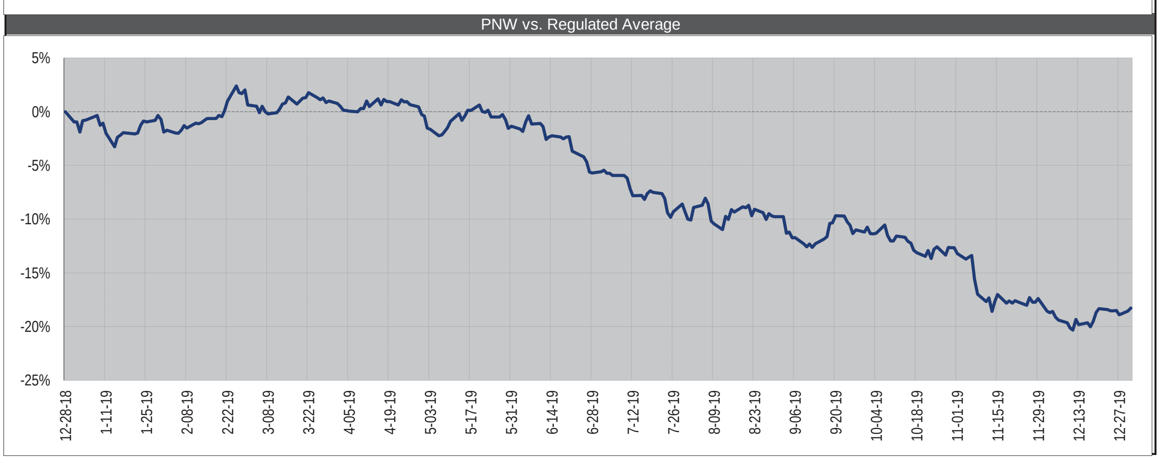
WOLFE RESEARCH

Pinnacle West Capital (PNW) $89.93, Underperform, $87 PT

PNW was one of the worst performing regulated utilities in 2019. The year was marked by a deterioration of the regulatory environment in Arizona, which ultimately led to the company being called in for a rate case; PNW also dealt with various other issues at the ACC throughout the course of the year. From a financial perspective, the company disclosed on its 3Q call that it did not anticipate meeting its 2019 guidance range, largely due to weather.



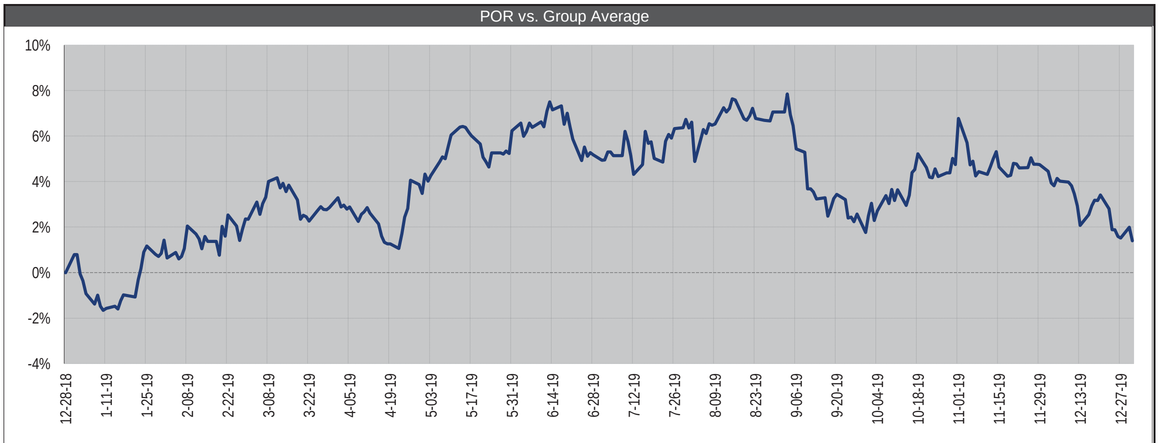


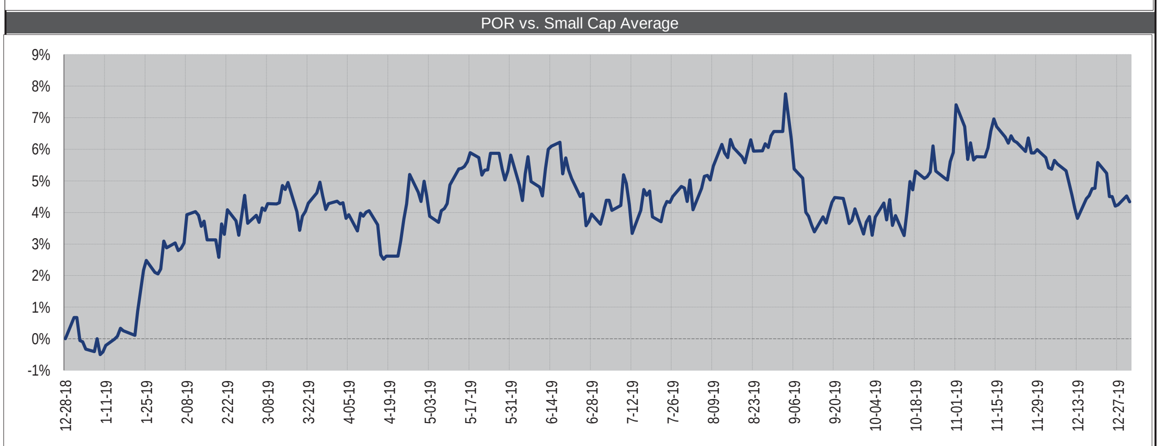


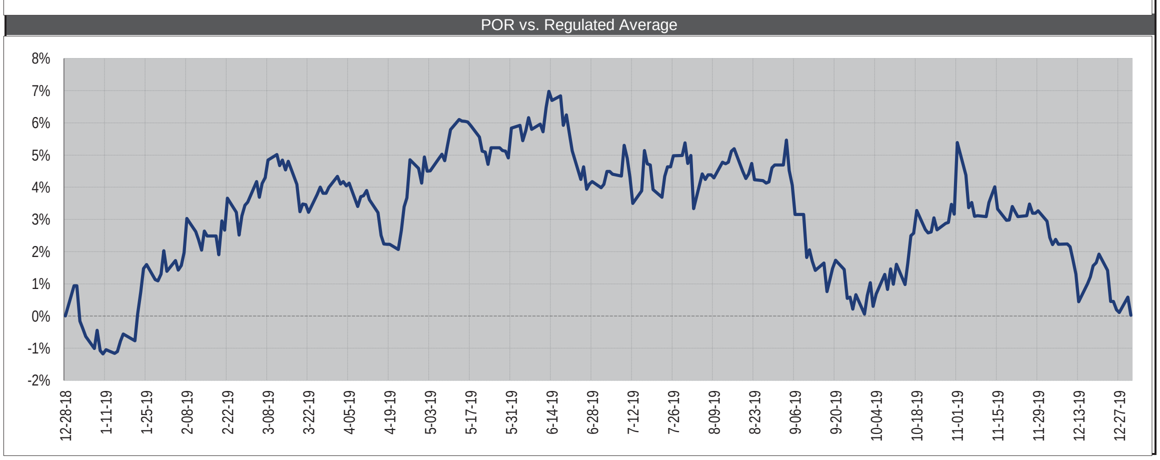
WOLFE RESEARCH

Portland General (POR) $55.79, Underperform, $55 PT

POR underperformed the utility average and its small-cap peers in December. During the month, OPUC Staff filed final comments on the company's 2019 IRP and found that the proposed renewable/capacity actions were not justified by the company's analysis. For the year, POR finished nearly identical to the utility average.



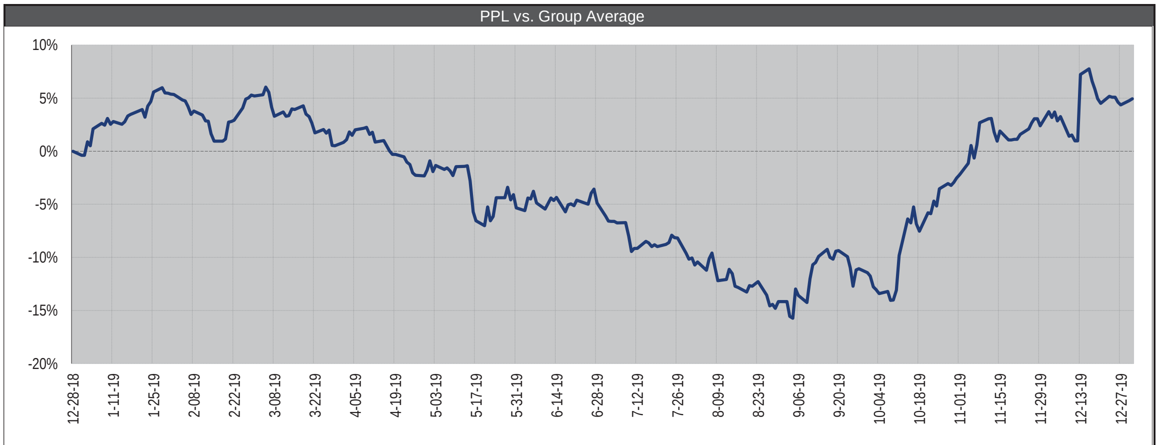


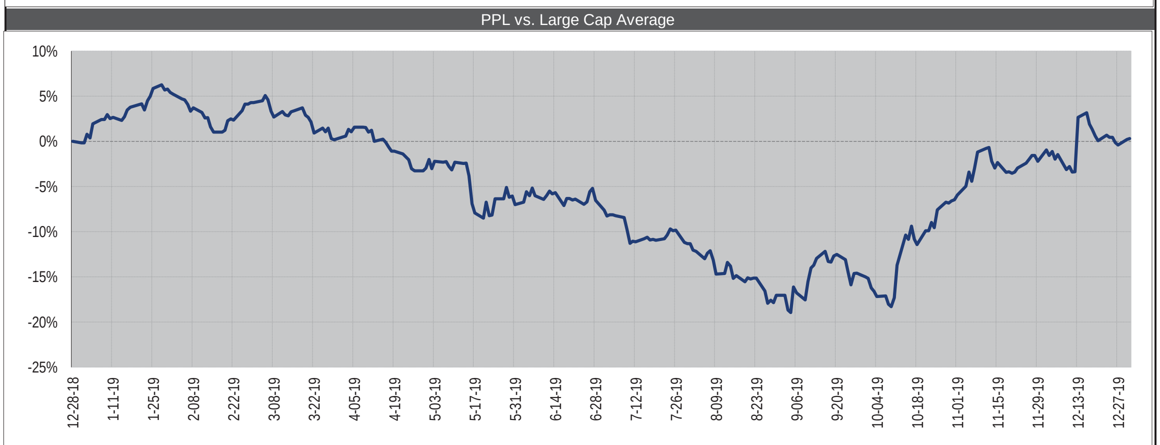


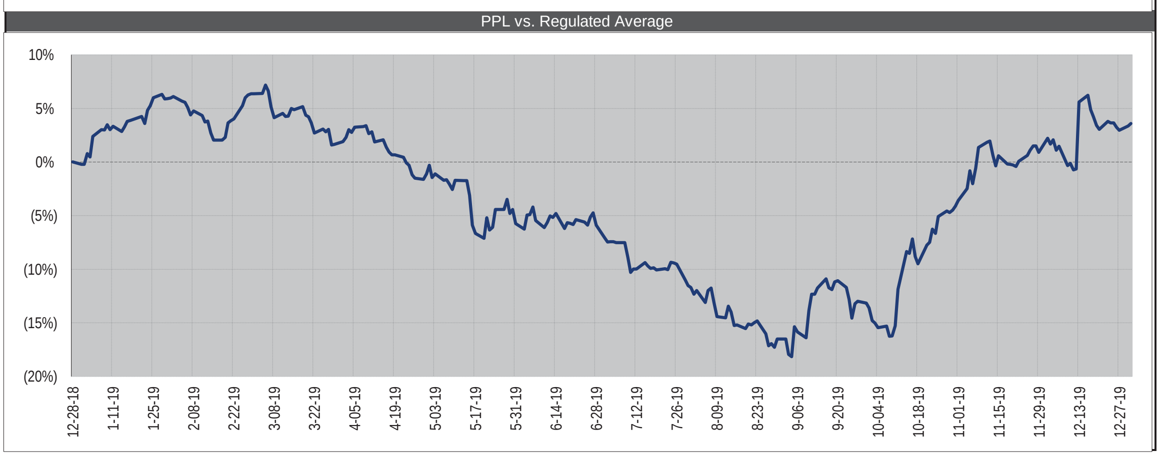
WOLFE RESEARCH

PPL Corporation (PPL) $35.88, Outperform, $37 PT

PPL continued to strongly outperform peers, likely on the Conservatives victory over Labour (the latter threatened to renationalize utilities). And in what seems like the first year in sometime, PPL relatively outperformed (albeit modestly) regulated peers in 2019.



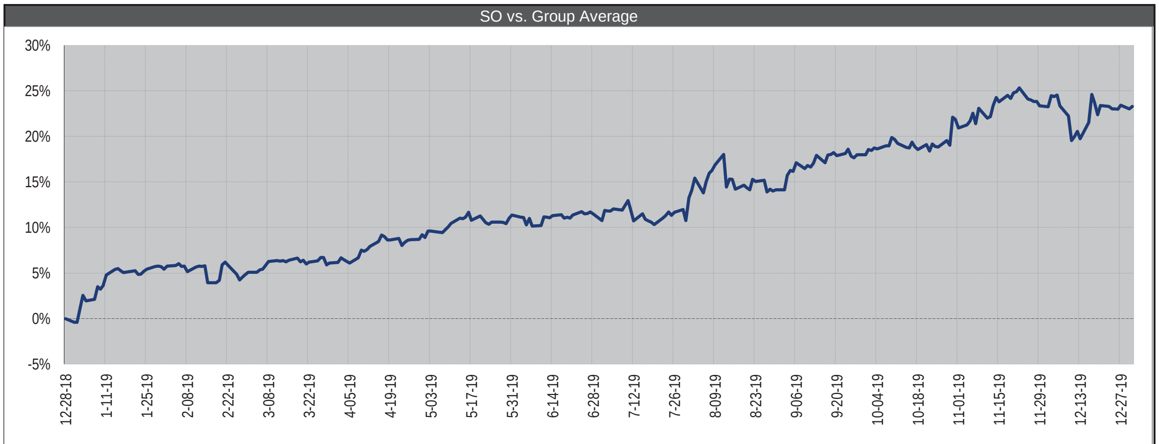


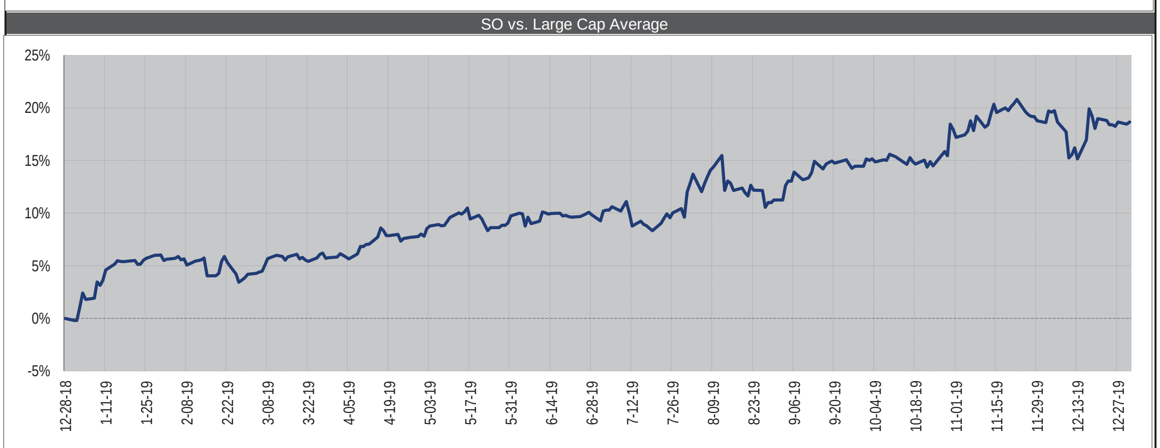


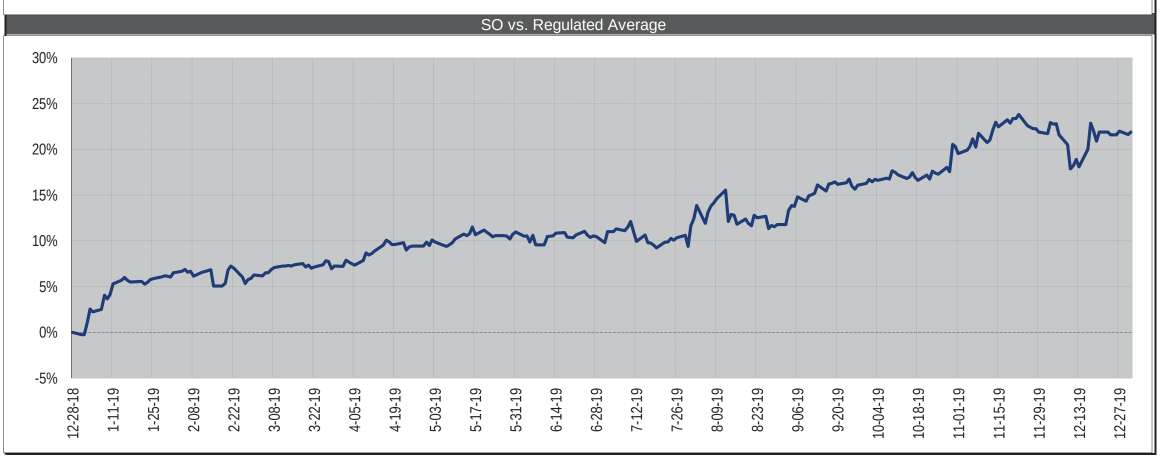
WOLFE RESEARCH

Southern Company (SO) $63.70, Underperform, $62 PT

Even with a middling Dec, SO had the best calendar year performance among regulateds, rising 45% and besting peers by about 22 percentage points, as progress was made on Vogtle and GA rate case outcome was constructive.



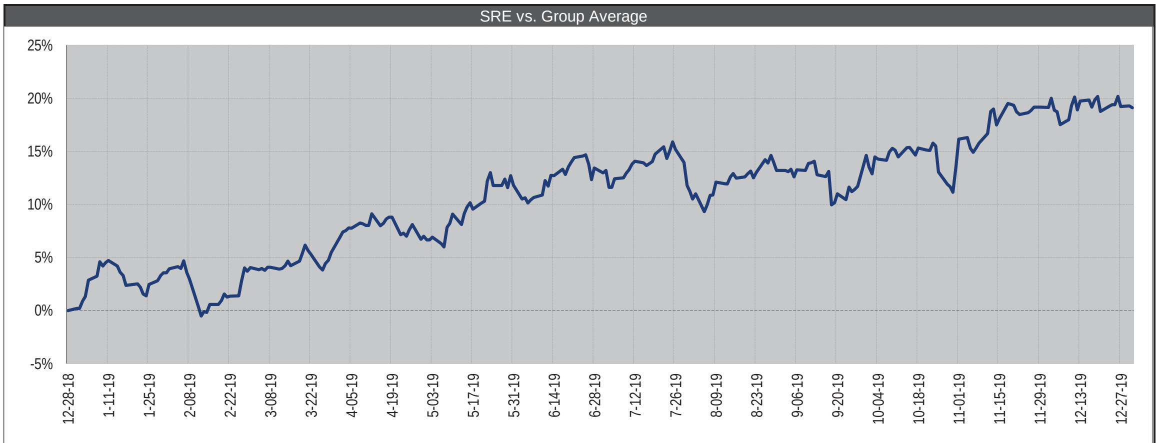


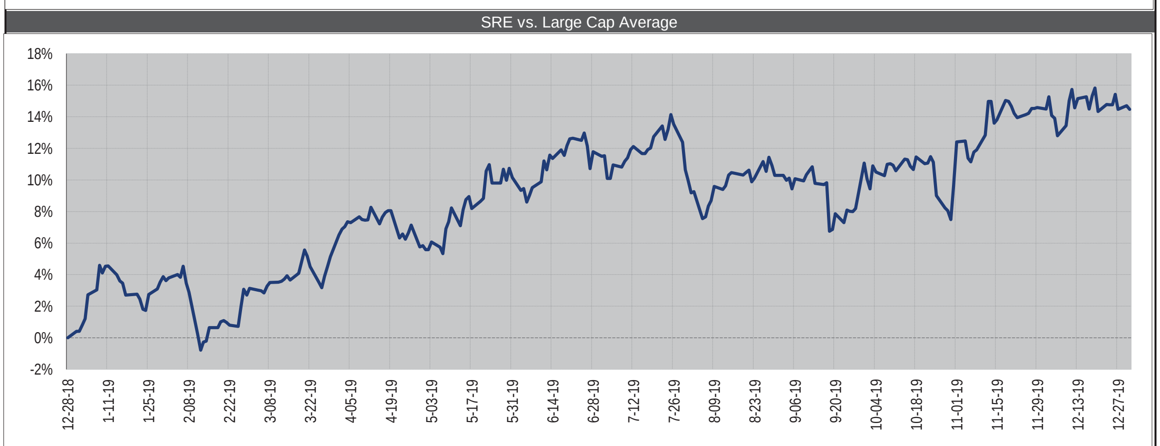


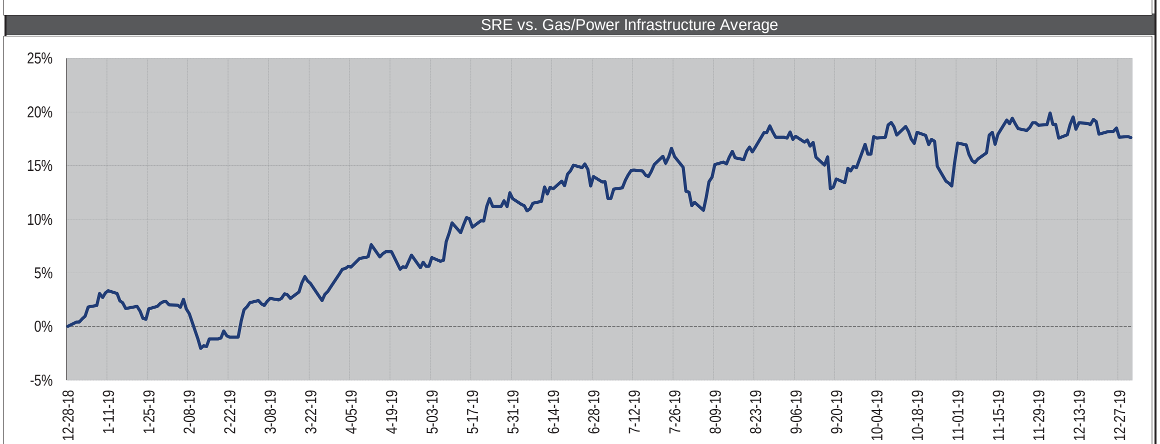
WOLFE RESEARCH

Sempra Energy (SRE) $151.48, Outperform, $164 PT

SRE rose nearly 3% in December, the second worst performer in the month in the gas/power infrastructure group. However for the year it rose just under 40% and was the group's best performer for the year. This was mainly on the solid execution on the strategy in 2019 including a constructive California rate case outcome, better than expected prices on the South American asset sales, continued upside on rate base growth in Texas, and the startup of Cameron 1.



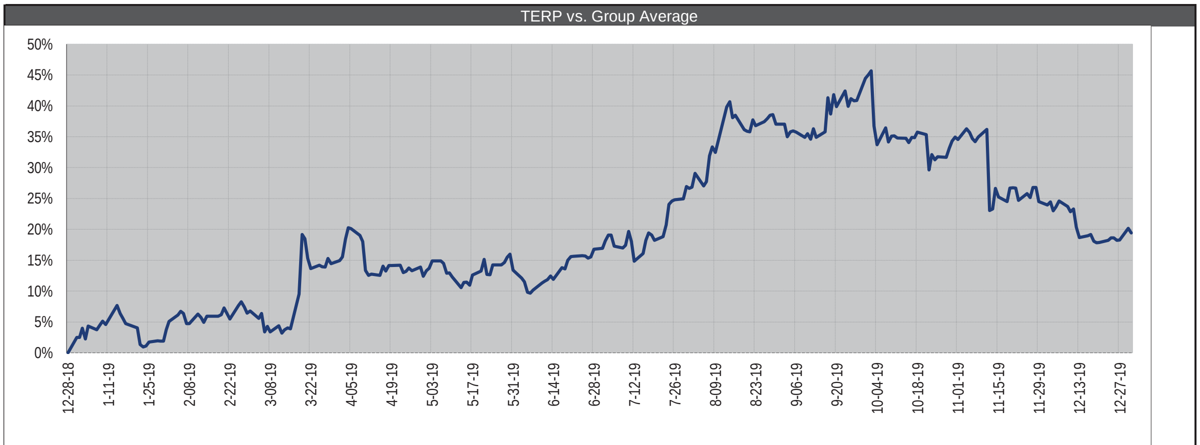


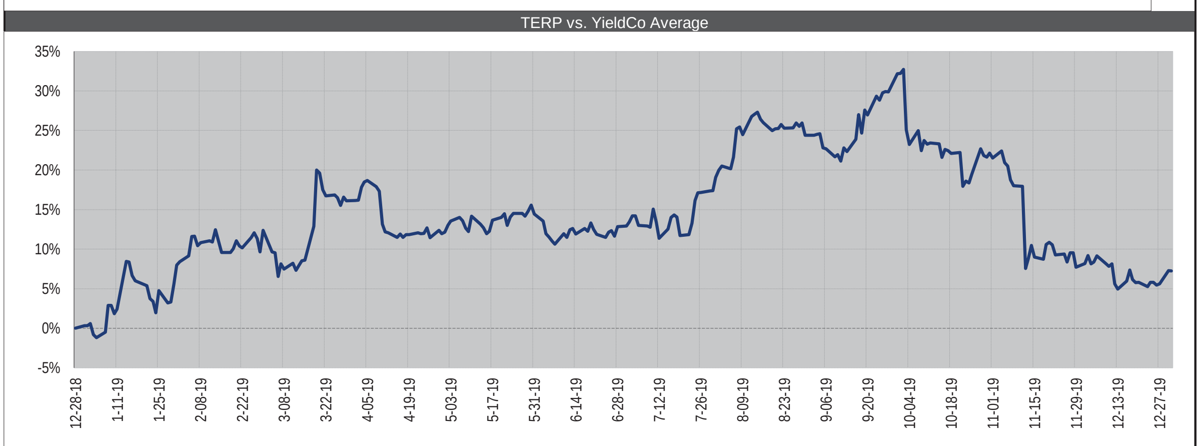


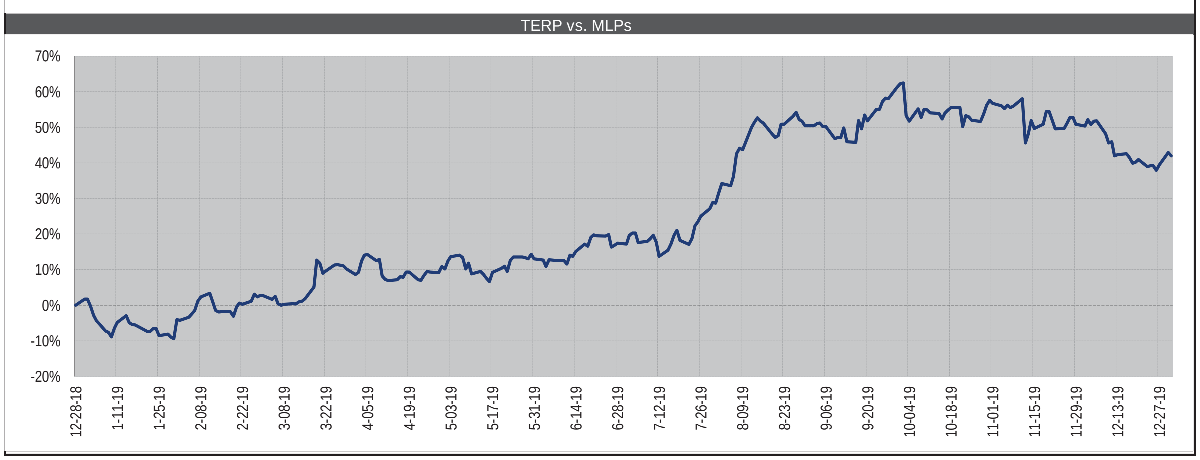
WOLFE RESEARCH

TerraForm Power (TERP) $15.39, NR

TerraForm Power underperformed in December but still had a very strong 2019 in which the stock nicely outperformed the market. During the year there were news reports that TERP's sponsor Brookfield was interested in acquiring TERP's competitor PEGI and merging the companies.



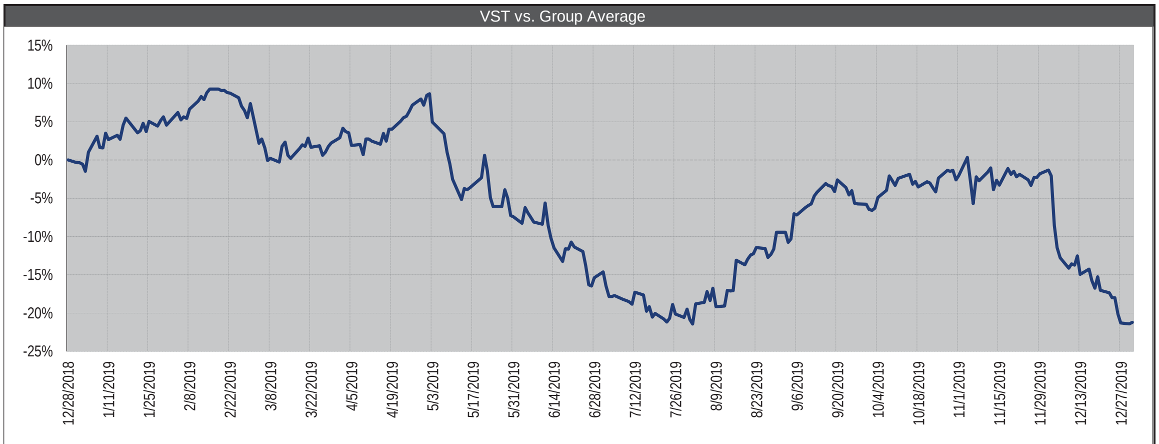


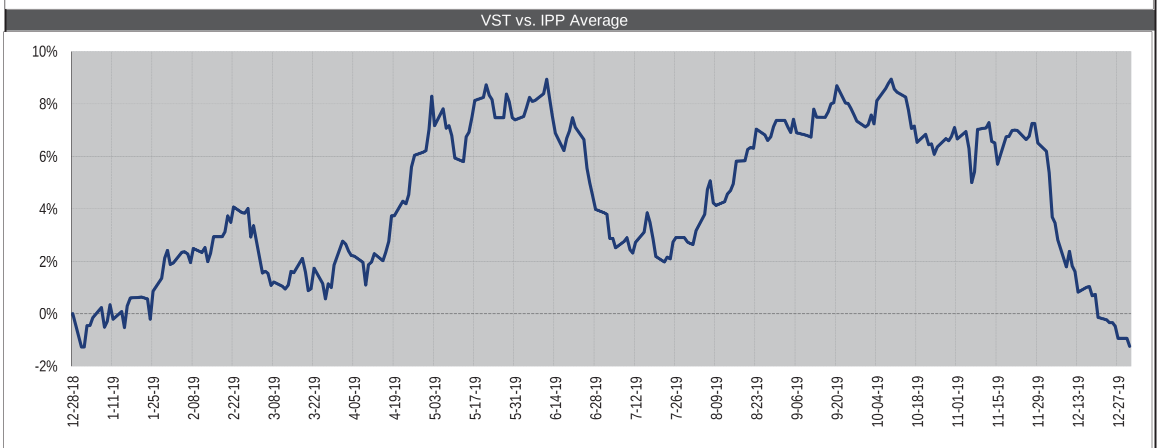


WOLFE RESEARCH

Vistra Energy (VST) $22.99, Outperform, $34 PT

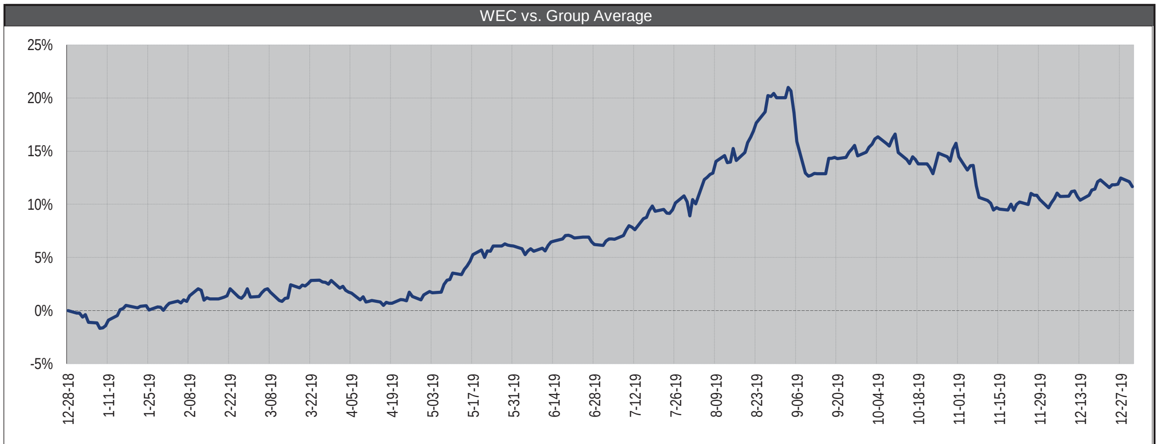
- VST closed the year with a whimper – significantly underperforming the entire sector and lagging the majority of the group for 2019. The company's top-holder dumped one-third of its position (~21M shares) in early December and the stock traded poorly thereafter. Despite hitting numbers, improving its balance sheet, and seeing tight supply/demand conditions play out in Texas – overcoming exiting shareholders (first Apollo and Oaktree, then Brookfield) ultimately proved to be too much.

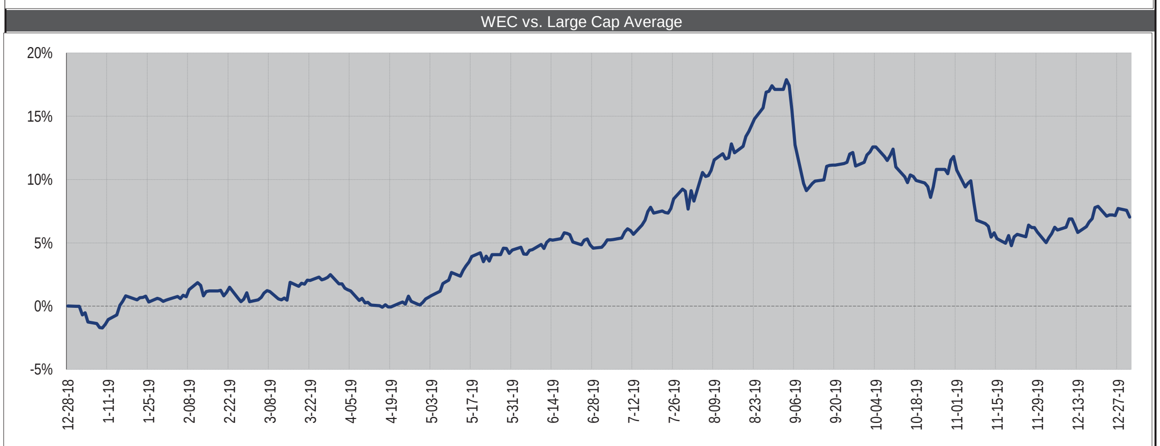


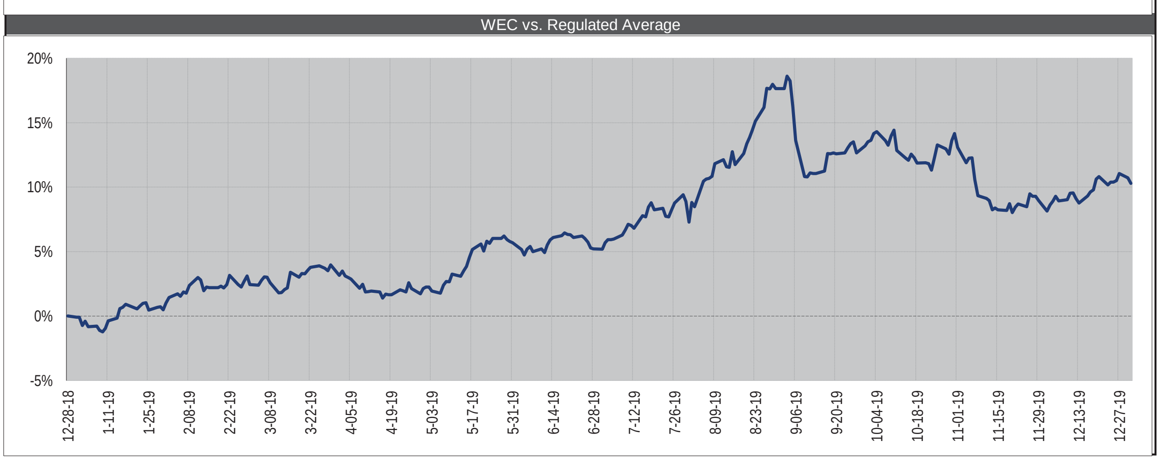


WEC Energy Group (WEC) $92.23, Underperform, $90 PT

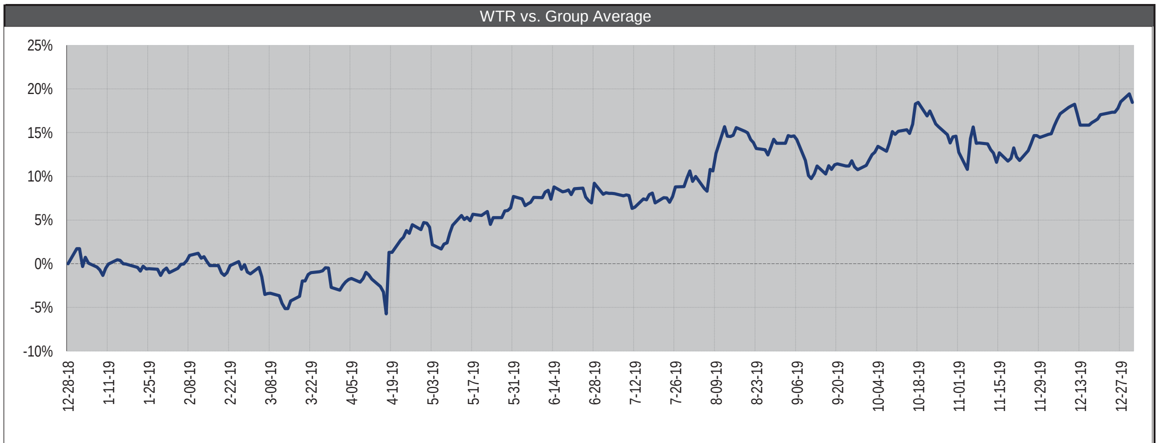
- WEC outperformed in December to finish off a strong 2019. The company beat numbers as always, while also achieved a constructive settlement in its important Wisconsin rate cases.

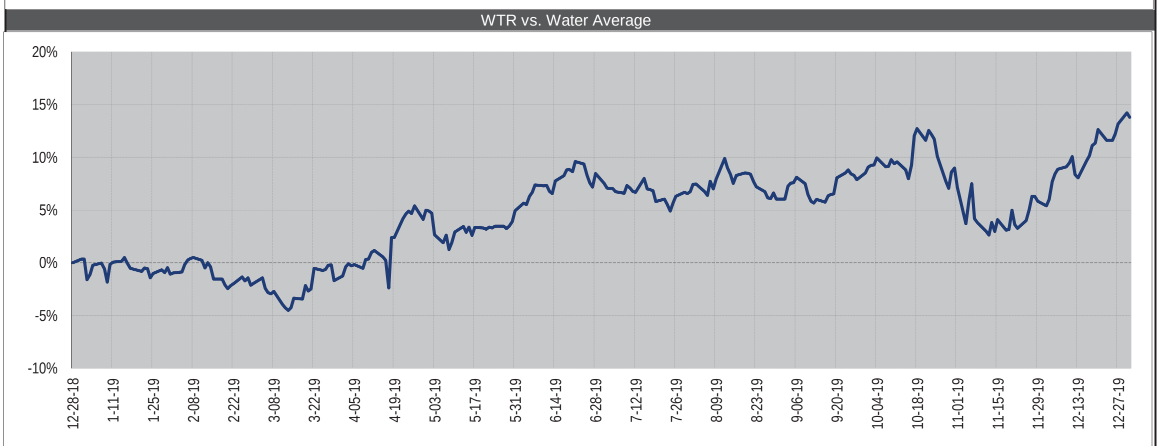


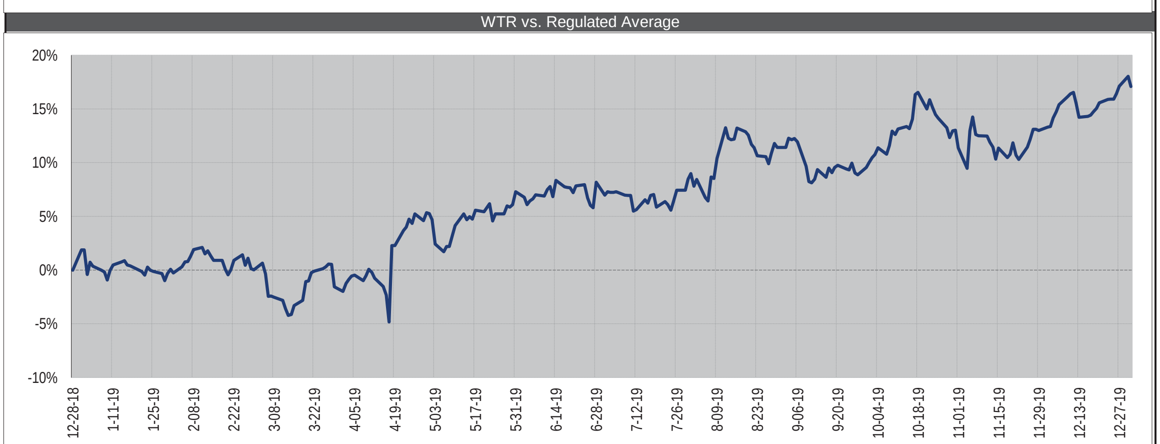




Aqua America (WTR) $46.94, NR



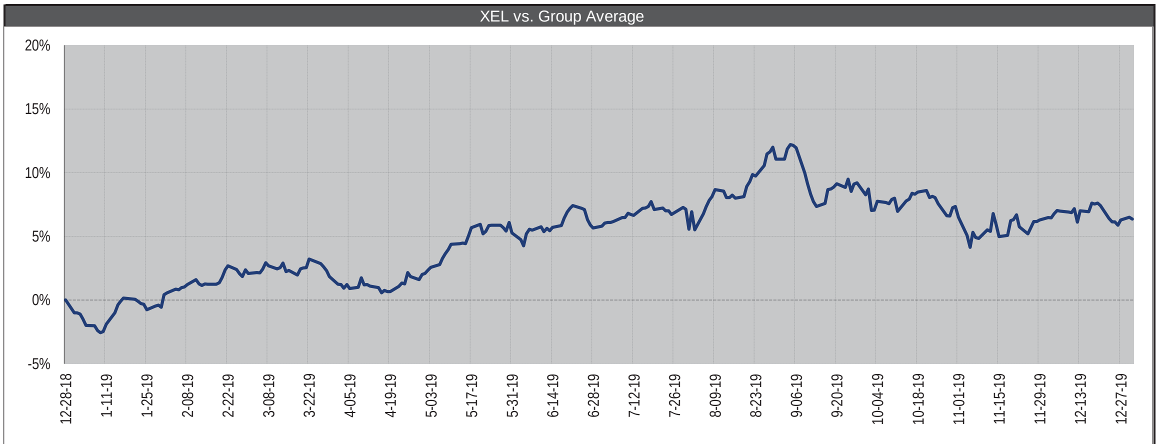


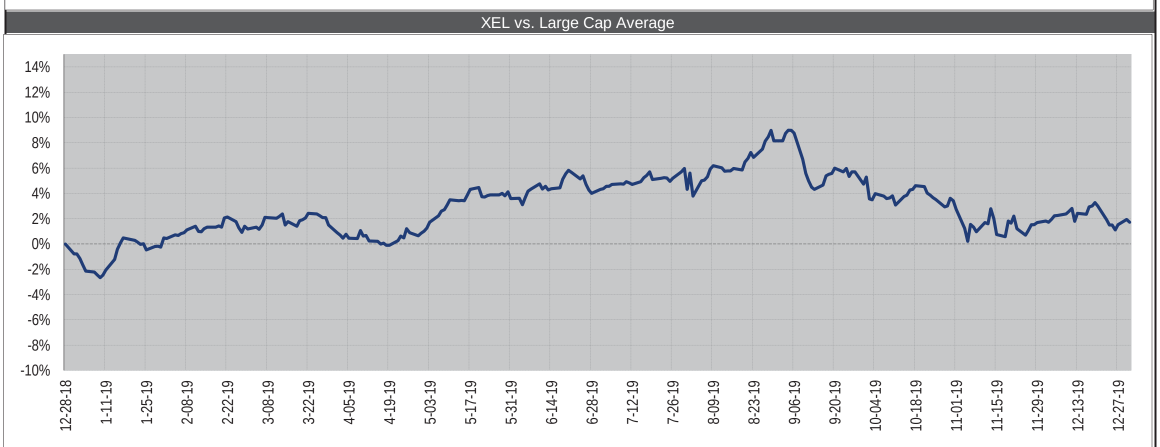


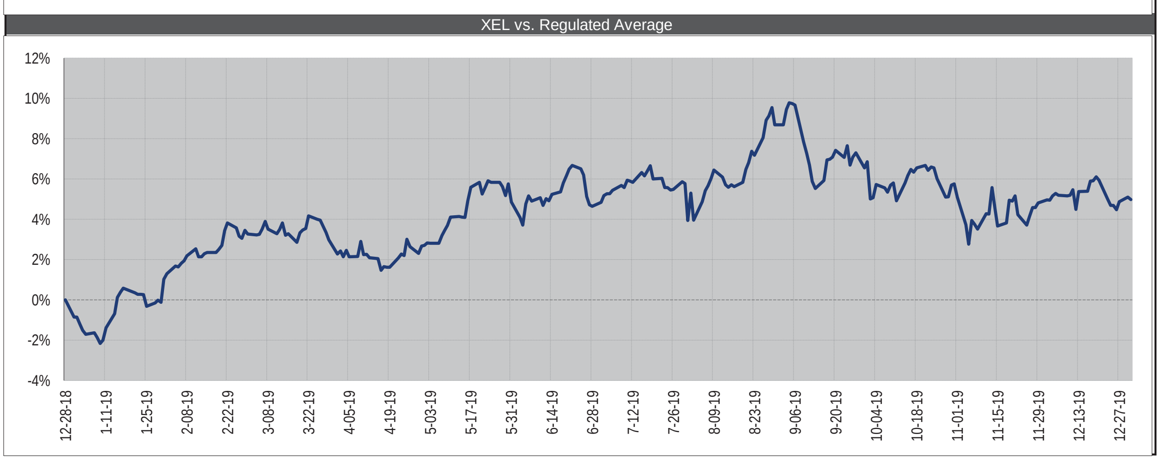
WOLFE RESEARCH

Xcel Energy (XEL) $63.49, Peer Perform, $65 PT

XEL finished in-line with the regulated average and its large-cap peers in December. XEL received somewhat of a disappointing final order in its CO rate case – the 50bps decrease in ROE was more than expected, but the test-year was an improvement from what historically had been awarded. On the year, XEL outperformed most of its regulated peers largely due to the high-quality trade seen across the sector.







Comparable Tables

Exhibit 3: Regulated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2019E	P/E 2020E	P/E 2021E	P/E 2022E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Alliant Energy	LNT	$54.72	245	$13,386	23.8x	22.8x	21.4x	20.4x	2.6%	6.0%	59%	2.8x	44%
Ameren	AEE	76.80	246	18,895	23.6x	22.3x	20.6x	19.4x	2.6%	4.0%	57%	2.4x	46%
American Electric	AEP	94.51	494	46,683	22.5x	21.4x	20.2x	19.0x	3.0%	6.0%	63%	2.4x	41%
Avangrid	AGR	51.16	309	15,809	22.6x	20.5x	19.0x	17.7x	3.4%	2.5%	70%	1.0x	67%
CMS Energy	CMS	62.84	284	17,837	25.1x	23.5x	22.0x	20.5x	2.4%	7.0%	57%	3.7x	27%
Con Edison	ED	90.47	332	30,075	21.0x	20.0x	19.2x	18.6x	3.3%	3.5%	65%	1.7x	47%
Duke Energy	DUK	91.21	733	66,837	18.1x	17.6x	16.9x	16.2x	4.1%	2.5%	73%	1.5x	44%
Edison International	EIX	75.41	359	27,042	15.7x	17.0x	16.0x	15.0x	3.4%	3.0%	58%	2.1x	42%
Entergy	ETR	119.80	199	23,852	22.4x	21.4x	20.1x	19.0x	3.1%	3.0%	66%	2.4x	35%
Evergy	EVRG	65.09	228	14,834	22.9x	21.1x	20.0x	19.2x	3.1%	7.0%	66%	1.7x	47%
Eversource Energy	ES	85.07	324	27,542	24.7x	23.1x	22.1x	20.9x	2.5%	6.0%	58%	2.3x	44%
FirstEnergy	FE	48.60	540	26,259	19.1x	19.6x	18.4x	17.7x	3.1%	6.0%	61%	3.6x	26%
Fortis*	FTS	53.88	458	24,661	21.7x	20.7x	19.1x	17.9x	3.5%	6.0%	73%	1.5x	42%
NiSource	NI	27.84	374	10,399	21.6x	20.3x	19.2x	18.0x	2.9%	2.5%	58%	1.9x	40%
PG&E	PCG	10.87	529	5,753	2.8x	11.8x	11.4x	N/A	0.0%	0.0%	0%	0.3x	84%
Pinnacle West	PNW	89.93	112	10,109	19.2x	18.4x	17.4x	16.6x	3.5%	6.0%	64%	1.8x	50%
Portland General	POR	55.79	89	4,986	23.3x	21.6x	20.1x	19.4x	2.8%	6.5%	59%	1.9x	51%
PPL Corp.	PPL	35.88	723	25,942	14.8x	14.1x	14.4x	N/A	4.6%	1.5%	65%	2.2x	34%
Southern Company	SO	63.70	1,049	66,804	20.5x	19.9x	19.1x	17.7x	3.9%	3.4%	78%	2.4x	39%
WEC Energy Group	WEC	92.23	315	29,093	26.2x	24.7x	23.2x	21.7x	2.6%	7.0%	63%	2.9x	45%
Xcel Energy	XEL	63.49	524	33,293	24.2x	22.8x	21.5x	20.3x	2.6%	6.0%	58%	2.5x	44%
Average					**20.7x**	**20.2x**	**19.1x**	**18.7x**	**3.0%**	**4.5%**	**61%**	**2.1x**	**45%**
Average (ex EIX, PCG, PPL)					**22.4x**	**21.2x**	**20.0x**	**18.9x**	**3.1%**	**5.0%**	**64%**	**2.3x**	**43%**

Source: Wolfe Utilities & Power Research

Exhibit 4: Gas Power Infrastructure Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2019E	P/E 2020E	P/E 2021E	P/E 2022E	Div Yield	Div Growth	Payout Ratio
The AES Corporation	AES	$19.90	664	$13,211	14.8x	14.0x	12.8x	11.8x	2.7%	5.0%	41%
CenterPoint	CNP	27.27	502	13,696	16.1x	16.7x	16.5x	15.5x	4.2%	1.5%	68%
Dominion	D	82.82	823	68,169	19.6x	18.8x	17.9x	17.1x	4.4%	2.5%	87%
DTE Energy	DTE	129.87	192	24,949	20.9x	19.7x	18.6x	17.4x	3.1%	7.0%	65%
NextEra	NEE	242.16	489	118,362	28.9x	26.8x	24.7x	23.1x	2.1%	13.0%	60%
OGE Energy	OGE	44.47	200	8,902	19.8x	19.5x	18.6x	17.9x	3.5%	6.0%	69%
Sempra	SRE	151.48	282	42,702	23.7x	21.1x	19.3x	18.2x	2.6%	8.0%	61%
Average					**21.5x**	**20.4x**	**19.3x**	**18.2x**	**3.3%**	**7.8%**	**68%**

Source: Wolfe Utilities & Power Research

Exhibit 5: YieldCo Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2019E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBITDA 2022E	Div Yield
Clearway Energy	CWEN	19.95	193	3,846	10.7x	9.5x	8.7x	N/A	4.0%
NextEra Energy Partners	NEP	52.65	156	8,213	9.9x	8.5x	9.3x	9.2x	3.9%
Atlantica Yield*	AY	26.39	102	2,681	8.9x	7.8x	7.4x	N/A	6.2%
Pattern Energy*	PEGI	26.76	98	2,628	13.8x	11.3x	11.0x	N/A	6.3%
TerraForm Power*	TERP	15.39	227	3,494	12.4x	11.3x	11.1x	N/A	5.2%
Average					**10.9x**	**8.5x**	**9.3x**	**9.2x**	**5.4%**

Source: Wolfe Utilities & Power Research
*Not covered by Wolfe Research, estimates based on consensus

Exhibit 6: Integrated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2019E	P/E 2020E	P/E 2021E	P/E 2022E	Implied Genco EV / EBITDA 2019E	Implied Genco EV / EBITDA 2020E	Implied Genco EV / EBITDA 2021E	Implied Genco EV / EBITDA 2022E	Div Yield	Div Growth	Payout Ratio
Exelon	EXC	45.59	972	44,318	14.6x	14.8x	15.2x	14.6x	5.2x	5.5x	5.1x	5.0x	3.2%	5.0%	46%
PSEG	PEG	59.05	506	29,863	18.2x	17.1x	16.9x	17.0x	6.1x	5.9x	5.9x	6.5x	3.2%	4.2%	58%
Average					**16.4x**	**15.9x**	**16.1x**	**15.8x**	**5.6x**	**5.7x**	**5.5x**	**5.8x**	**3.2%**	**4.5%**	**52%**

Source: Wolfe Utilities & Power Research

Exhibit 7: IPP Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2019E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBITDA 2022E	Free Cash Flow Yield 2019E	Free Cash Flow Yield 2020E	Free Cash Flow Yield 2021E	Free Cash Flow Yield 2022E
NRG Energy	NRG	39.75	252	10,001	8.0x	7.6x	7.7x	7.1x	11.8%	14.7%	16.3%	17.6%
Vistra Energy	VST	22.99	487	11,205	6.9x	5.8x	5.7x	5.5x	18.3%	19.6%	20.0%	21.2%
Average					**7.4x**	**6.7x**	**6.7x**	**6.3x**	**15.1%**	**17.2%**	**18.1%**	**19.4%**

Source: Wolfe Utilities & Power Research

Group Classifications

Group:

AEE	AEP	AES	ALE	AVA	CMS	CNP	CWEN	D	DTE	DUK	ED	EIX	
ES	ETR	EVRG	EXC	FE	FTS	HE	IDA	LNT	NEE	NI	NRG	NWE	OGE
PCG	PEG	PNM	PNW	POR	PPL	SO	SRE	WEC	XEL				

Large Cap:

AEP	D	DTE	DUK	ED	EIX	ES	ETR	EXC	FE	NEE	PCG	PEG	PPL	SO	SRE
WEC	XEL														

Mid Cap:

AEE	CMS	CNP	EVRG	LNT	NI	PNW	SCG	OGE

Small Cap:

ALE	AVA	EE	HE	IDA	NWE	PNM	POR

Regulated:

AEE	AEP	ALE	AVA	CMS	DUK	ED	EIX	ES	ETR	EVRG	FE	FTS	HE	IDA
LNT	NI	NWE	PCG	PNM	PNW	POR	PPL	SCG	SO	WEC	XEL			

Gas/Power Infrastructure:

AES	D	DTE	NEE	OGE	SRE

Integrated:

EXC	PEG

IPPs:

NRG	VST

YieldCos:

AY	NEP	CWEN	PEGI	TERP

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Peer Perform (PP):	The security is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.
Underperform (UP):	The security is projected to underperform analyst's industry coverage universe over the next 12 months.

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Market Underweight (MU):	Expect the industry to underperform the primary market index for the region (S&P 500 in the U.S.) by at least 10% over the next 12 months.

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Outperform:	44%	2% Investment Banking Clients
Peer Perform:	43%	2% Investment Banking Clients
Underperform:	13%	0% Investment Banking Clients

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6 May 2020

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NiSource, Inc.

NI: Too Soon To Tell

Stock Rating/Industry View: Equal Weight/Neutral
Price Target: USD 28.00
Price (05-May-2020): USD 24.53
Potential Upside/Downside: 14%
Tickers: NI

NI reported Q1 earnings and did not reinstate 2020 or 2021 guidance that was pulled at the time of the Columbia Gas of Massachusetts sale announcement. We reiterate our Equal Weight position and $28 price target given the magnitude of the uncertainty that lies ahead.

- NI reported Q1 adj EPS of $0.76, slightly below consensus of $0.81.
- NI expects to initiate 2021 guidance and restate the 5-7% LT growth rate for EPS and dividend growth at the close of the Columbia Gas of MA sale. The sale is expected to be complete by the end of Q3, but some delays are possible due to COVID-19 working arrangements. To date, management sees no risk to LT growth drivers, but noted that given COVID-19 impact, it is too

early to restate the expectation that 2021 will be flat or above original 2020 guidance.

- Management states that Q1 results do not reflect a meaningful COVID-19 impact on load, and April trends are still being calculated. Management does expect to see some impact to load and bad debt, but notes that Q2 is a shoulder period. Historically, ~85% of annual EPS comes from Q1 and Q4 (~60% in Q1).

- NI reduced the 2020 capex plan by $100 million (now $1.7-$1.8 billion) in order to shore up cash flow due to the near term impact of COVID-19. The $100 million will be deferred, but it is too soon to tell in what year that will come back into plans.

- On ESG, NI sets a target of 90% GHG emission reduction (below 2005 levels) by 2030. As of 2020, NI emissions are 48% below 2005 levels. Further emissions reduction will come from the complete retirement of the coal generation portfolio by 2028. About 50% of replacement power will be owned through JV structures, with the rest through PPAs. Replacement power for the 2023 RM Schahfer Generating Station retirement could provide incremental capex opportunities in 2022 and 2023. NIPSCO will begin replacement power filings in 2020 and 2021.

- Currently, VA and MD have orders to defer COVID-19 related expenses, including bad debt, for later recovery.

- Negotiations with bidders in the IN RFP are expected to wrap up in late summer or around the date of Q2 earnings. There will be a mix of PPAs and JV tax equity structures.

- Management believes current $1.3 billion liquidity position will be sufficient for the next 12-24 months with limited additional capital market needs.

6 May 2020
Equity Research
Americas | United States

CREDIT SUISSE

NiSource Inc.

1Q20 In-line, Capex Reduced

Natural Gas | Research Bulletin

NI

Target price (12M, US$)
27.00
Outperform

Price (5 May 20, US$)	24.53
52-week price range	30.56 - 20.86
Market cap (US$ m)	9,387.22
Enterprise value (US$ m)	18,381

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- **Reported 1Q20 in-Line at $0.76 vs CS** $0.77, below cons $0.81, (below 1Q19 $0.82), due mostly to unfavorable mild weather. Minimal impact from COVID19 in Q1. Recall that 2020 guidance of $1.36-$1.40 was pulled in 4Q19 given the pending sale of Columbia Gas of Mass. We estimate that the Mass utility earns ~$0.08 EPS and view the sale as slightly EPS accretive to prior 2021 expectations (including a few pennies improvement in Mass) when including the elimination of a planned block equity sale this year.
- **Capex Reduced.** The company **lowered its capital investment plan by $100M** to **$1.7-$1.8B** for 2020 to conserve cash in order to maintain liquidity.
- **COVID-19 impact to Load**. Management expects lower sales volumes from commercial and industrial customers, partially offset by a potential increase in residential sales volume. Increased bad debt expenses (although recent orders in MD, VA allow for deferring the COVID-related expenses and bad debt), and sustained customer attrition. The company's sensitivity analysis projects that a +/- 1% change in annual sales volumes will affect pre-tax operating earnings from electric residential and commercial customer classes by $3.9M each and industrial by $2.3M and gas residential customer class by $3.8M, commercial by $2.4M and industrial by $1.2M.
- **We previously reduced our 2020 estimate $0.02 to $1.32 vs consensus $1.34 for lower commercial/industrial load from COVID19 pandemic response**. Our 2021 and 2022 estimates are unchanged. Mostly a gas utility system, NI should be less affected from COVID19 load reduction in 2/3Q than its more electric peers.
- **Equity needs: No block equity needed in 2020, nor any going forward,** with unchanged plans for $200-$300M annual ATM and $35-$60M employee plan equity (no plans for use of convertible or hybrid financing). NI is targeting FFO/Debt ~14%-15%. Recall that on the 4Q19 call, prior guidance for $500-$700M block equity guidance for 2020 was pulled out after the announced sale of Columbia Gas of Mass to Eversource (ES). Incremental LT debt for 2020 is estimated to be $1,000M.
- **Current Debt Level is now $9.9B** (as of March 31st). Long term debt is unchanged at ~$7.7B. Weighted average maturity ~17 years and weighted average interest rate is 4.4% as of 3/31. **Net Available Liquidity unchanged at ~$1.3B** as of Mar 31st. Total debt/capitalization is now 63.2% vs 61.7% in 2019
- **NI is in a rare period now with no significant rate activity.** The next major rate filing will probably be in Pennsylvania as there was none in 2019 and this is typically an annual affair. The company received a final order in the Indiana electric ratecase with a 9.75% (vs prior 9.9%) and a new rate structure for industrial customers that allows the utility to manage market purchases in order to keep track of capacity requirements (reduces risk of stranded assets).
- **See our recent reports:** 5/5 1Q20 Earnings Preview, 2/28 Raise to Outperform on Sale of Mass, Elimination of Block Equity Plan, 1/17 2020 Earnings Preview, 2020 Outlook –

Companies Mentioned *(Price as of 04-May-2020)*
NiSource Inc. (NI.N, $24.4, OUTPERFORM, TP $27.0)

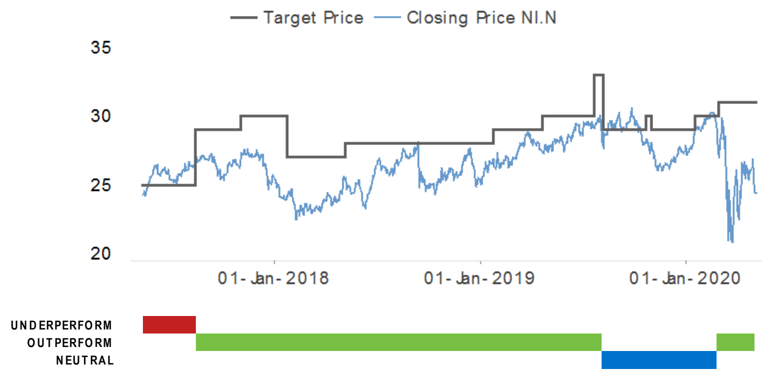
Disclosure Appendix

Analyst Certification

Michael Weinstein, ERP, Maheep Mandloi and Andres Sheppard each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
12-May-17	24.30	25.00	U
27-Jun-17	25.88		*
14-Aug-17	26.64	29.00	O
02-Nov-17	26.94	30.00	
23-Jan-18	24.17	27.00	
06-May-18	25.41	28.00	
23-Jan-19	26.83	29.00	
21-Apr-19	27.56	30.00	
22-Jul-19	29.14	33.00	
07-Aug-19	27.63	29.00	N
21-Oct-19	28.05	30.00	
01-Nov-19	27.65	29.00	
17-Jan-20	29.04	30.00	
28-Feb-20	27.02	31.00	O



** Asterisk signifies initiation or assumption of coverage.*

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European (excluding Turkey) ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin America, Turkey and Asia (excluding Japan and Australia), stock ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

Restricted (R) : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.
Not Rated (NR) : Credit Suisse Equity Research does not have an investment rating or view on the stock or any other securities related to the company at this time.
Not Covered (NC) : Credit Suisse Equity Research does not provide ongoing coverage of the company or offer an investment rating or investment view on the equity security of the company or related products.

Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:
Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.
Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.
Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Goldman Sachs | Equity Research

6 May 2020 | 8:19AM EDT

NiSource Inc. (NI): First Take: NI misses GS/consensus largely on weather, lowers 2020 capex due to COVID-19

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NiSource (NI, Buy) reported 1Q20 operating EPS of $0.76 below both GS/FactSet consensus at $0.84/$0.81. We attribute the bulk of the miss versus our estimate to unfavorable weather (16% warmer than normal). NI did not provide any update on 2020 EPS expectation; we note NI withdrew its 2020 guidance of $1.36-$1.40 last quarter given the pending MA gas utility sale to Eversource (ES). Our estimate of $1.30 compares to consensus of $1.34. Finally, the company lowered its 2020 capital investment plan by $100mn to increase liquidity in light of COVID-19. Per our recent note, we see potential near-term earnings pressure for NI given its commercial/industrial exposure for its electric utilities business.

Key takeaways from NI's release include:

- **1Q20 performance miss driven largely by weather-** NI's gas segment reported operating income of $391.6mn vs GS at $414.7mn while electric segment reported operating income of $80.0mn vs GS at $84.2mn. NI's Corp/Other segment reported operating income of ($8.9)mn vs GS at $6.7mn driven by unfavorable insurance reserve adjustments and unrealized losses on the cash surrender value of corporate owned life insurance investments.
- **The company lowered its capital investment plan by $100mn in the light of COVID-19** and now expects to make investments of $1.7 to $1.8 billion in 2020 compared to $1.8-$1.9bn previously disclosed in 4Q2019.
- **Equity issuance plan remains unchanged at $200-$300mn of ATM equity in 2020**. Our model currently assumes $1bn of block/ATM equity issuance in 2020. The company plans to issue around $1bn of long-term debt in 2020 compared to $500mn previously disclosed.
- **NI continues to expect its pending MA gas utility sale to close in Q3 2020** with proceeds anticipated to be used to pay down debt. We note the estimated range for third-party claims, fines, penalties, and settlements remain unchanged at ~$1.04bn-$1.07bn, as well as current insurance recoveries of $800mn through March 2020.
- **Recent orders in MD, VA allow for deferral of COVID-related expenses and bad debt.** Columbia Gas of Maryland and Columbia Gas of Virginia each received orders from their respective state regulatory commissions allowing the utilities to defer incremental COVID-related expenses and bad debt for recovery at a later

date.

- **The 1Q20 presentation also mentions a possible delay in the Rosewater wind project (100MW)**, currently 2020 COD; we note this build-transfer joint venture is not expected to contribute to earnings for NI until the later years of the asset life, given terms of the ownership structure.

Key topics to monitor on NI's earnings call include (1) additional details on the potential magnitude of electric demand impact by customer class, (2) updates on the MA commission investigation regarding 2018 gas incident, (3) O&M growth expectations in 2020 and beyond, including the portion related to gas safety and COVID-10, and (4) updated view on incremental regulated investment opportunities, including potential upside from replacement generation opportunities in Indiana.

We derive our 12-month target price of $28 using a 20.0x blended P/E multiple on 2021E EPS. Key risks include (1) legal and regulatory risks, (2) system damages related to the 2018 MA natural gas incident, (3) higher than expected O&M, (4) electricity demand and customer growth, and (5) financing.

NI	12m Price Target: **$28.00**	Price: **$24.53**	Upside: **14.1%**

Buy

Market cap: $8.0bn
Enterprise value: $18.5bn
3m ADTV: $104.9mn
United States
America-Regulated Utilities
M&A Rank: 3

GS Forecast

	12/19	12/20E	12/21E	12/22E
Revenue ($ mn)	5,208.9	5,312.7	5,590.0	5,823.4
EBITDA ($ mn)	1,608.1	1,848.6	2,017.3	2,178.0
EBIT ($ mn)	890.7	1,084.3	1,191.0	1,289.6
EPS ($)	1.32	1.30	1.39	1.50
P/E (X)	21.3	18.9	17.7	16.4
EV/EBITDA (X)	13.0	10.8	10.7	10.3
FCF yield (%)	(2.1)	(7.7)	(5.0)	(3.6)
Dividend yield (%)	2.9	3.4	3.7	3.9
Net debt/EBITDA (X)	5.9	5.2	5.1	5.0

	12/19	3/20E	6/20E	9/20E
EPS ($)	0.45	0.84	0.04	0.03

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 5 May 2020 close.

Jefferies

EQUITY RESEARCH
NiSource Inc. (NI)

NiSource Inc.
Financial Flexibility Fortified Following Feeble 1Q

May 6, 2020

Key Takeaway

NI adj 1Q EPS of 76¢ missed our 82¢ forecast & the 80¢ Street mean est.; the miss was driven by weakness in all divisions as Gas posted below-forecast Op Margin, Electric encountered higher than expected costs, and Corp. faced unrealized COLI value decline (unquantified). NI trimmed 2020 capex $100mm, to $1.7B, and expects COVID-19 to result in lower sales, higher bad debt, and sustained customer attrition; the sale of Bay State Gas remains on-track for 3Q.

1Q results. Respective 1Q Adj. EPS & EBITDA of 76¢ and $652mm missed our 82¢ and $699mm forecasts due to a combination of weaker margins (Gas), higher operating costs (Electric) and unfavorable insurance reserves & COLI value declines (Corp.). OCF of $370mm was ~$100mm short of our projection due entirely to a larger WC draw and, with higher period capex ($452mm vs. $370mm JEFe), 1Q net debt was ~$200mm above our forecast. Gas & Electric customer counts grew 0.8% & 0.9% y/y, respectively, though warmer weather and early COVID impacts prompted ~8.3% & 3.5% y/y declines in sales volumes; NI's non-GAAP results adjust for non-normal weather.

Financing & Liquidity. To bolster its financial flexibility, NI announced a $100mm reduction in 2020 capex, to $1.7-$1.8B, and, in April issued $1.0B of 3.6% senior notes due 2030; net proceeds from the debt raise will be used for capital investments, additions to working capital, and to repay existing debt. In addition, NI refinanced its $850mm term loan agreement with a new maturity date of March 31st, 2021; proceeds from the sale of CG of MA later this year are expected to repay the term loan. NI remains committed to its IG credit rating, had ~$1.3B of liquidity at period-end ($1.1B in available capacity & $200mm in cash) and exited 1Q with total debt/capital of 63.2%; currently just ~$64mm of long-term debt maturities exist in 2020-21. Mgmt still anticipates $235-$360mm of 2020 equity through its ATM, ESPP, and 401K programs and continues to target long-term AFFO/Debt of 14-15%.

Regulatory update. In April, CPA filed a base rate increase requesting a $100.4mm annual revenue increase to modernize & fortify the safety of its system; new rates are expected in Jan. 2021. Also in April, the PUCO approved COH's annual IRP tracker adjustment, allowing the company to begin recovery of ~$234mm of infrastructure investments made in 2019; rates are effective this month. COH also filed its latest annual adjustment to its CEP rider which seeks to begin recovery of ~$185mm in capital invested in 2019; an order is expected in Aug. 2020. Separately, construction is underway on both the Rosewater and Jordan Creek wind projects, which are expected to be in-service by YE, however, mgmt flagged that Rosewater could experience delays due to COVID-19.

COVID-19 impacts. NI anticipates lower sales volumes (commercial & industrial), higher bad debt expense, and sustained customer attrition due to COVID-19. Bad debt is primarily covered in base rates and additional mechanisms exist in several states on gas/fuel recovery; recent orders in MD & VA allow deferral of COVID-related expenses & bad debt.

Exhibit 1 offers greater detail on 1Q performance.

FLASH NOTE

USA | Utilities

RATING	HOLD
TICKER	NI
PRICE	$24.53^
PRICE TARGET (PT)	$28.00
MARKET CAP	$9.4B

^Prior trading day's closing price unless otherwise noted.

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Exhibit 1 - NI 1Q20 Results Review

Operating Income by Division	Actual 1Q20A	Jefferies Expectations 1Q20E		Year-over-Year 1Q19A	
Gas Distribution	$391.6	$416.1	-5.9%	$394.4	-0.7%
Electric Operations	$80.0	$94.8	-15.6%	$95.2	-16.0%
Corporate, Other, and Eliminations	($8.9)	$0.9	NM	$7.5	NM
Total Operating Income	**$462.7**	**$511.7**	**-9.6%**	**$497.1**	**-6.9%**
Depreciation	($184.3)	($184.1)	0.1%	($175.1)	5.3%
Other Income / (Expenses)	$5.4	$3.5	52.8%	($0.7)	-871.4%
Interest Expense	($92.9)	($98.1)	-5.3%	($95.6)	-2.8%
Income Tax Benefit (Expense)	($70.5)	($87.2)	-19.1%	($79.3)	-11.1%
Preferred Dividend	($13.8)	($13.8)	0.2%	$0.0	NM
Recurring Net Income	**$290.9**	**$316.2**	**-8.0%**	**$307.7**	**-5.5%**
Avg Diluted Shares Outstanding	384.1	383.5	0.2%	374.7	2.5%
EPS (Non-GAAP, Diluted)	**$0.76**	**$0.82**	**-8.2%**	**$0.82**	**-7.8%**
EBITDA ($MM)	**$652**	**$699**	**-6.7%**	**$672**	**-2.8%**
Capex & Affiliate Investments ($MM)	**$452**	**$370**	**22.3%**	**$354**	**27.8%**

Source: NI reports, Jefferies estimates; Note: Non-GAAP results normalize for weather and exclude Greater Lawrence Incident costs and asset sale gains/losses.

Company Description

NiSource Inc.

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4mm US customers. The Company operates two business segments: Gas Distribution and Electric. The Gas Distribution operations provide natural gas service and transportation to ~3.5mm residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. The Electric Operations segment provides electric service to ~472,000 customers across 20 counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

Company Valuation/Risks

NiSource Inc.

Our $28 PT and Hold recommendation are derived via Target P/E, Target Yield, DCF, and DDM approaches. Unexpected regulatory outcomes, deviations in customer growth, and project execution present risks to our estimates & PT.

Analyst Certification:

I, Christopher Sighinolfi, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Vikram Bagri, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Ryan Conlin, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published	May 6, 2020 , 09:27 ET.
Recommendation Distributed	May 6, 2020 , 09:27 ET.

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Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

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J.P.Morgan

North America Equity Research
06 May 2020

NiSource Inc.

1Q20 Earnings Miss Estimates; Early COVID-19 Impacts in Focus with Lower Capex

Overweight

NI, NI US

Price: $24.53

05 May 2020

Utilities and Power

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J.P. Morgan Securities LLC

- **1Q20 EPS misses JPMe/Street.** NiSource's 1Q20 operating EPS of $0.76 missed the $0.83/$0.81 JPM/Street median estimates. Gas Distribution Operation operating earnings remained approximately flat YoY while Electric Operation declined due to lower industrial revenue from a new service structure and lower industrial use. Corporate and Other Operations earnings also declined YoY due to unfavorable insurance reserve adjustments and unrealized losses on the cash surrender value of corporate-owned life insurance investments.

- **2020 capex lowered $100MM in early response to COVID-19.** NI now anticipates 2020 capital investments to total $1.7-1.8Bn, down $100MM from the company's prior plan, as part of initial steps taken in response to COVID-19 impacts. While decreased C&I sales, increased bad debt expense, and customer attrition are all expected to impact 2020 results, we note that NI withdrew its 2020 guidance on 4Q following the announcement of its Columbia Gas of Massachusetts sale. NI's 2021+ outlook remains in focus, and we expect particular attention on management commentary around changes to expectations due to COVID-19, including from capital plan revisions. 2020 planned equity financing since 4Q is unchanged, with expected incremental LT debt revised +$500MM to $1Bn.

- **Conference call details.** NiSource will host a conference call to discuss 1Q20 earnings on Wednesday, May 6, at 9:00 AM EDT. Dial-in: 833-714-0869; PIN: 6268986.

Table 1: NI 1Q20 Results

Income Statement:	Actual 1Q19	Actual 1Q20	JPM 1Q20E	% Chg Y/Y	% Chg vs JPMe
Operating Earnings	497	463	528	-7%	-12%
Net Income	308	291	318	-5%	-8%
Share Count	373	383	384	3%	0%
Operating EPS	**$0.82**	**$0.76**	**$0.83**	**-8%**	**-8%**

Source: Company reports and J.P. Morgan estimates.

See page 2 for analyst certification and important disclosures.

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Analyst Certification: The research analyst(s) denoted by an "AC" on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an "AC" on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. For all Korea-based research analysts listed on the front cover, if applicable, they also certify, as per KOFIA requirements, that their analysis was made in good faith and that the views reflect their own opinion, without undue influence or intervention.

All authors named within this report are research analysts unless otherwise specified. In Europe, Sector Specialists may be shown on this report as contacts but are not authors of the report or part of the Research Department.

Important Disclosures

- **Market Maker:** J.P. Morgan Securities LLC makes a market in the securities of NiSource Inc..
- **Market Maker/ Liquidity Provider:** J.P. Morgan is a market maker and/or liquidity provider in the financial instruments of/related to NiSource Inc..
- **Manager or Co-manager:** J.P. Morgan acted as manager or co-manager in a public offering of securities or financial instruments (as such term is defined in Directive 2014/65/EU) for NiSource Inc. within the past 12 months.
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- **Client/Investment Banking:** J.P. Morgan currently has, or had within the past 12 months, the following entity(ies) as investment banking clients: NiSource Inc..
- **Client/Non-Investment Banking, Securities-Related:** J.P. Morgan currently has, or had within the past 12 months, the following entity(ies) as clients, and the services provided were non-investment-banking, securities-related: NiSource Inc..
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- **Investment Banking (past 12 months):** J.P. Morgan received in the past 12 months compensation for investment banking services from NiSource Inc..
- **Investment Banking (next 3 months):** J.P. Morgan expects to receive, or intends to seek, compensation for investment banking services in the next three months from NiSource Inc..
- **Non-Investment Banking Compensation:** J.P. Morgan has received compensation in the past 12 months for products or services other than investment banking from NiSource Inc..
- **Debt Position:** J.P. Morgan may hold a position in the debt securities of NiSource Inc., if any.

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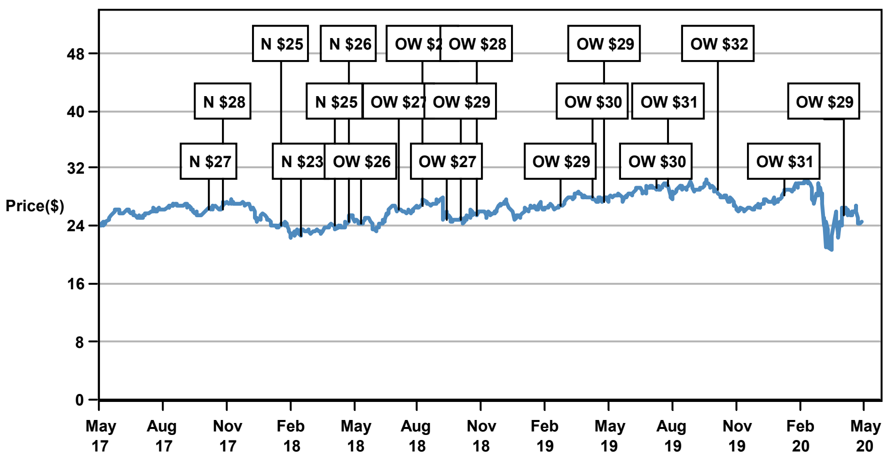
NiSource Inc. (NI, NI US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
12-Oct-17	N	26.42	27
01-Nov-17	N	26.37	28
24-Jan-18	N	24.17	25
22-Feb-18	N	22.80	23
10-Apr-18	N	24.15	25
02-May-18	N	24.52	26
17-May-18	OW	24.40	26
11-Jul-18	OW	26.24	27
15-Aug-18	OW	26.96	28
17-Sep-18	OW	24.79	27
09-Oct-18	OW	25.05	29
01-Nov-18	OW	25.36	28
01-Mar-19	OW	26.98	29
15-Apr-19	OW	28.07	30
02-May-19	OW	27.40	29
15-Jul-19	OW	29.34	30
01-Aug-19	OW	29.69	31
13-Oct-19	OW	29.14	32
15-Jan-20	OW	28.18	31
09-Apr-20	OW	25.47	29

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

Explanation of Equity Research Ratings, Designations and Analyst(s) Coverage Universe:
J.P. Morgan uses the following rating system: Overweight [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Neutral [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Underweight [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Not Rated (NR): J.P. Morgan has removed the rating and, if applicable, the price target, for this stock because of either a lack of a sufficient fundamental basis or for legal, regulatory or policy reasons. The previous rating and, if applicable, the price target, no longer should be relied upon. An NR designation is not a recommendation or a rating. In our Asia (ex-Australia and ex-India) and U.K. small- and mid-cap equity research, each stock's expected total return is compared to the expected total return of a benchmark country market index, not to those analysts' coverage universe. If it does not appear in the Important Disclosures section of this report, the certifying analyst's coverage universe can be found on J.P. Morgan's research website, www.jpmorganmarkets.com.

Coverage Universe: Sunderland III, Richard W: AES Corp. (AES), Algonquin Power & Utilities Corp. (AQN.TO), Allete Inc. (ALE), American Water Works Company, Inc. (AWK), Avangrid, Inc (AGR), Emera Inc. (EMA.TO), Fortis Inc. (FTS.TO), NiSource Inc. (NI), PG&E Corp. (PCG), SJW Group (SJW), South Jersey Industries (SJI), Southwest Gas Holdings Inc. (SWX), Spire Inc (SR)

J.P. Morgan Equity Research Ratings Distribution, as of April 04, 2020

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	46%	40%	14%
IB clients*	52%	49%	37%
JPMS Equity Research Coverage	44%	42%	14%
IB clients*	75%	68%	57%

*Percentage of subject companies within each of the "buy," "hold" and "sell" categories for which J.P. Morgan has provided investment banking services within the previous 12 months. Please note that the percentages might not add to 100% because of rounding.
For purposes only of FINRA ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category. Please note that stocks with an NR designation are not included in the table above. This information is current as of the end of the most recent calendar quarter.

Equity Valuation and Risks: For valuation methodology and risks associated with covered companies or price targets for covered companies, please see the most recent company-specific research report at http://www.jpmorganmarkets.com, contact the primary analyst

UBS | Global Research | 6 May 2020

First Read

NiSource Inc.

1Q20 EPS Miss; Capex Reduced by $100MM

Sensitivity to Changes in Sales Volumes; Liquidity for the Next 12-24 Months

NI reported 1Q20 EPS miss and noted only minimal impact from COVID-19 on 1Q. Notably, NI reduced its 2020 capex guidance by $100MM to $1.7-$1.8B, with the new midpoint of $1.75B below UBSe of $1.8B. NI hasn't provided 2020 EPS guidance but noted that due to COVID-19, management expects lower sales volumes to C&I customers (potential for an increase in residential sales), increase in bad debt expenses and sustained customer attrition. On slide 14, NI provided detailed analysis of the sensitivity to changes in sales volumes by customer type and highlighted fixed % of rates for both gas and electric customers. We see limited impact to gas utility earnings; however, if the COVID-19 lockdown continues into summer months it could impact electric utility as C&I customers represent ~60% of the customer mix. +/-1% change in annual sales to residential/commercial/industrial customers could drive change in op earnings of $3.9MM/$3.9MM/$2.3MM. Roughly 55% of large industrial customer margin is based on fixed rate which we view as a positive. At the end of 1Q20 NI had $1.3B of liquidity and on April 1st NI issued $1B of notes maturing in 2030 and refinanced $850MM of term loan maturing in 2021 which added incremental liquidity. NI estimates that it has liquidity for 12-24 months of operations with limited capital market needs which we view as a positive. Additionally, the sale of Columbia Gas of MA is on track for closing in 3Q20. Overall, we expect investors will remain cautious ahead of summer due to the risk of impact from COVID-19 on 2Q-3Q20.

Results: 1Q20 EPS Below UBSe/Consensus

NI reported 1Q20 EPS of $0.76 below UBSe of $0.82 and Consensus of $0.81. Gas distribution segment op. income was 3.4% below UBSe and Electric Operations segment op. income was 15% below UBSe due to the $12.5MM revenue decline related to the new industrial service structure approved in the last rate case.

Lowering Estimates

To reflect 1Q20 results and lower 2020 capex, we are lowering our 2020/2021 EPS estimates by 3%/2% to $1.27/$1.35, respectively.

Valuation:

We maintain Neutral rating and $27 PT.

Equities

Americas
Gas Utilities

12-month rating	**Neutral**
12m price target	**US$27.00**
Price (05 May 2020)	**US$24.53**

RIC: NI.N **BBG:** NI US

Trading data and key metrics

52-wk range	US$30.56-20.86
Market cap.	US$9.25bn
Shares o/s	377m (COM)
Free float	99%
Avg. daily volume ('000)	1,202
Avg. daily value (m)	US$31.5
Common s/h equity (12/20E)	US$5.09bn
P/BV (12/20E)	1.9x
Net debt / EBITDA (12/20E)	5.6x

EPS (UBS, diluted) (US$)

	12/20E			
	From	To	% ch	Cons.
Q1E	0.82	0.76	-8	0.80
Q2E	0.06	0.08	34	0.14
Q3E	0.01	0.03	NM	0.04
Q4E	0.41	0.40	-1	0.37
12/20E	1.31	1.27	-3	1.33
12/21E	1.38	1.35	-2	1.41
12/22E	1.45	1.43	-2	1.51

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Highlights (US$m)	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
Revenues	4,905	5,095	5,184	5,084	5,295	5,487	5,685	5,901
EBIT (UBS)	964	942	1,047	1,054	1,099	1,179	1,262	1,356
Net earnings (UBS)	398	463	495	493	538	583	629	685
EPS (UBS, diluted) (US$)	1.21	1.30	1.32	1.27	1.35	1.43	1.51	1.62
DPS (US$)	0.72	0.79	0.84	0.89	0.95	1.01	1.07	1.13
Net (debt) / cash	(8,973)	(9,891)	(10,374)	(9,955)	(10,581)	(11,262)	(11,945)	(12,571)

Profitability/valuation	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
EBIT margin %	19.7	18.5	20.2	20.7	20.8	21.5	22.2	23.0
ROIC (EBIT) %	8.6	7.7	7.9	7.8	7.9	7.9	7.8	7.8
EV/EBITDA (core) x	9.8	10.6	10.6	9.9	9.6	9.4	8.8	8.3
P/E (UBS, diluted) x	20.9	19.4	21.2	19.2	18.2	17.2	16.2	15.2
Equity FCF (UBS) yield %	(11.6)	(14.5)	(1.6)	(5.7)	(10.7)	(149.5)	(3833.9)	(101883.5)
Net dividend yield %	2.9	3.1	3.0	3.6	3.9	4.1	4.3	4.6

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$24.53 on 05 May 2020 19:34 EDT

www.ubs.com/investmentresearch

Figure 1: 1Q20 Results vs UBS estimates

$ in millions	Actual 1Q20	UBSe 1Q20e	% variance	Actual 1Q19	YoY % change
Financial Data					
Revenues	$1,631.8	$1,887.7	*(13.6%)*	$1,858.9	*(12.2%)*
Cost of Sales	($462.4)	($678.7)	*(31.9%)*	($680.3)	*(32.0%)*
Operating & Maintenance Expenses	($436.5)	($432.6)	*0.9%*	($418.8)	*4.2%*
Depreciation & Amortization	($184.3)	($185.5)	*(0.7%)*	($175.1)	*5.3%*
Total Expenses	($706.7)	($707.4)	*(0.1%)*	($681.5)	*3.7%*
Interest Expense	($92.9)	($96.0)	*(3.2%)*	($95.6)	*(2.8%)*
Net Income	$290.9	$312.7	*(7.0%)*	$307.7	*(5.5%)*
EPS	$0.76	$0.82	*(8.1%)*	$0.82	*(7.8%)*
Diluted Shares Outstanding	$383.1	$379.3	*1.0%*	$373.4	*2.6%*
Dividend Per Share	$0.220	$0.220	*0.0%*	$0.205	*7.3%*
Segment Operating Income					
Gas Distribution	$391.6	$405.4	*(3.4%)*	$397.7	*(1.5%)*
Electric Operations	$80.0	$94.5	*(15.3%)*	$95.4	*(16.1%)*
Total	$462.7	$501.6	*(7.8%)*	$497.1	*(6.9%)*
Operating Data					
Customers (000)					
Gas Utilities Customers	3,522.8	3,526.7	*(0.1%)*	3,494.7	*0.8%*
Electric Customers	476.5	474.8	*0.4%*	472.5	*0.9%*

Source: UBS estimates, Company Reports

Figure 2: NI Summary Model

NiSource Inc (NI) ($ in Millions)	2017	2018	2019	1Q20e	2Q20e	3Q20e	4Q20e	2020e	2021e	2022e	2023e	2024e
Operating Data												
Customers (000)												
Gas Utilities Customers	3,455	3,482	3,510	3,523	3,498	3,483	3,542	3,542	3,575	3,608	3,641	3,674
Electric Customers	469	472	476	477	475	476	478	478	480	483	485	488
Income Statement												
Revenues	**$ 4,904.8**	**$ 5,095.1**	**$ 5,184.1**	**$ 1,631.8**	**$ 1,062.4**	**$ 971.3**	**$ 1,418.5**	**$ 5,084.1**	**$ 5,294.9**	**$ 5,487.2**	**$ 5,685.5**	**$ 5,901.4**
Operating costs & expenses												
(Cost of Sales)	$ (1,518.7)	$ (1,759.5)	$ (1,534.8)	$ (462.4)	$ (280.4)	$ (213.9)	$ (414.1)	$ (1,370.8)	$ (1,443.9)	$ (1,493.9)	$ (1,545.3)	$ (1,601.3)
(Operating & Maintenance Expenses)	$ (1,589.2)	$ (1,963.4)	$ (1,588.3)	$ (436.5)	$ (383.6)	$ (374.3)	$ (412.7)	$ (1,607.1)	$ (1,618.1)	$ (1,637.4)	$ (1,656.3)	$ (1,674.9)
(Depreciation & Amortization)	$ (570.3)	$ (596.6)	$ (717.4)	$ (184.3)	$ (182.3)	$ (183.9)	$ (183.8)	$ (734.3)	$ (758.2)	$ (791.0)	$ (825.2)	$ (861.0)
Gain on the Sale of Assets	$ (5.5)	$ (0.7)	$ -	$ -	$ -	$ -	$ (17.8)	$ (17.8)	$ (65.7)	$ (65.7)	$ (65.7)	$ (65.7)
(Other Taxes)	$ (257.2)	$ (275.0)	$ (296.8)	$ (85.9)	$ (67.9)	$ (69.7)	$ (77.0)	$ (300.5)	$ (310.2)	$ (320.7)	$ (331.2)	$ (342.7)
Equity Earnings in Unconsolidated Affilates	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	**$ (2,422.2)**	**$ (2,835.7)**	**$ (2,602.5)**	**$ (706.7)**	**$ (633.8)**	**$ (627.9)**	**$ (691.3)**	**$ (2,659.7)**	**$ (2,752.2)**	**$ (2,814.7)**	**$ (2,878.3)**	**$ (2,944.2)**
Operating Income By Division												
Gas Distribution	$ 586.9	$ 564.6	$ 632.0	$ 391.6	$ 64.0	$ (5.7)	$ 219.4	$ 669.4	$ 690.9	$ 750.4	$ 809.0	$ 875.3
Transmission & Storage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Electric Operations	$ 376.6	$ 381.2	$ 401.5	$ 80.0	$ 87.0	$ 138.1	$ 84.9	$ 390.0	$ 420.2	$ 446.5	$ 476.5	$ 509.4
Corporate & Eliminations	$ 0.4	$ (3.9)	$ 13.3	$ (8.9)	$ (2.8)	$ (3.0)	$ 8.9	$ (5.8)	$ (12.3)	$ (18.2)	$ (23.7)	$ (28.7)
Total Operating Income	**$ 963.9**	**$ 941.9**	**$ 1,046.8**	**$ 462.7**	**$ 148.2**	**$ 129.4**	**$ 313.2**	**$ 1,053.6**	**$ 1,098.8**	**$ 1,178.6**	**$ 1,261.8**	**$ 1,356.0**
EBITDA	**$ 1,534.2**	**$ 1,538.5**	**$ 1,764.2**	**$ 647.0**	**$ 330.6**	**$ 313.4**	**$ 497.0**	**$ 1,787.9**	**$ 1,857.0**	**$ 1,969.6**	**$ 2,087.0**	**$ 2,216.9**
Other expenses												
Interest Expense	$ (353.2)	$ (353.3)	$ (378.9)	$ (92.9)	$ (94.1)	$ (101.5)	$ (99.0)	$ (387.4)	$ (361.2)	$ (384.1)	$ (410.0)	$ (435.1)
Other Expense (Income)	$ (2.8)	$ (96.5)	$ (5.2)	$ 5.4	$ -	$ -	$ (3.0)	$ 2.4	$ (10.0)	$ (10.0)	$ (10.0)	$ (10.0)
Total Other Expenses	**$ (356.0)**	**$ (449.8)**	**$ (384.1)**	**$ (87.5)**	**$ (94.1)**	**$ (101.5)**	**$ (102.0)**	**$ (385.0)**	**$ (371.2)**	**$ (394.1)**	**$ (420.0)**	**$ (445.1)**
Income from Before Income Taxes	**$ 607.9**	**$ 477.1**	**$ 607.6**	**$ 361.4**	**$ 40.4**	**$ 14.2**	**$ 197.4**	**$ 613.4**	**$ 672.5**	**$ 729.4**	**$ 786.7**	**$ 855.7**
Income Taxes	$ (210.4)	$ (13.8)	$ (112.9)	$ (70.5)	$ (8.1)	$ (2.8)	$ (39.5)	$ (120.9)	$ (134.5)	$ (145.9)	$ (157.3)	$ (171.1)
Effective Tax Rate	34.6%	2.9%	18.6%	19.5%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Net income	**$ 397.5**	**$ 463.3**	**$ 494.7**	**$ 290.9**	**$ 32.3**	**$ 11.4**	**$ 157.9**	**$ 492.5**	**$ 538.0**	**$ 583.5**	**$ 629.4**	**$ 684.6**
Diluted Weighted Avg Number of Common U	$ 329.4	$ 356.4	$ 374.7	$ 383.1	$ 383.1	$ 383.1	$ 392.5	$ 385.5	$ 398.5	$ 407.2	$ 415.1	$ 422.6
EPS	**$ 1.21**	**$ 1.30**	**$ 1.32**	**$ 0.76**	**$ 0.08**	**$ 0.03**	**$ 0.40**	**$ 1.27**	**$ 1.35**	**$ 1.43**	**$ 1.51**	**$ 1.62**
Balance Sheet Summary												
Assets												
Cash and Cash Equivalents	$ 29.0	$ 121.1	$ 148.4	$ 213.0	$ 766.9	$ 178.2	$ 191.9	$ 191.9	$ 156.7	$ 211.8	$ 266.9	$ 322.0
Property, Plant and Equipment	$ 14,359.5	$ 15,542.5	$ 16,912.2	$ 15,587.2	$ 15,837.5	$ 16,086.2	$ 15,235.1	$ 15,235.1	$ 16,326.9	$ 17,485.9	$ 18,660.8	$ 19,799.8
Investment in affiliates	$ 82.0	$ 86.5	$ 163.7	$ 160.2	$ 160.2	$ 160.2	$ 160.2	$ 160.2	$ 160.2	$ 160.2	$ 160.2	$ 160.2
Total Assets	**$ 19,961.7**	**$ 21,804.0**	**$ 22,659.8**	**$ 22,592.7**	**$ 23,396.9**	**$ 23,056.9**	**$ 22,219.5**	**$ 22,219.5**	**$ 23,276.1**	**$ 24,490.2**	**$ 25,720.1**	**$ 26,914.3**
Liabilities & Partners' Capital												
Long Term Debt	$ 7,512.2	$ 7,105.4	$ 7,856.2	$ 7,817.9	$ 9,685.1	$ 9,443.5	$ 8,394.7	$ 8,394.7	$ 8,987.7	$ 9,712.4	$ 10,439.7	$ 11,114.5
Partners' Equity	$ 4,320.1	$ 5,750.9	$ 5,986.7	$ 5,741.4	$ 5,689.2	$ 5,616.1	$ 5,932.5	$ 5,932.5	$ 6,342.9	$ 6,766.1	$ 7,202.3	$ 7,660.2
Total Liabilities & Partners' Capital	**$ 19,961.7**	**$ 21,804.0**	**$ 22,659.8**	**$ 22,592.7**	**$ 23,396.9**	**$ 23,056.9**	**$ 22,219.5**	**$ 22,219.5**	**$ 23,276.1**	**$ 24,490.2**	**$ 25,720.1**	**$ 26,914.3**
Cash Flow Summary												
Changes in Working Capital	$ (56.5)	$ 110.2	$ (75.1)	$ (158.2)	$ -	$ -	$ -	$ (158.2)	$ -	$ -	$ -	$ -
Net cash provided by operating activities	$ 742.2	$ 540.1	$ 1,583.3	$ 369.9	$ 228.4	$ 209.1	$ 355.5	$ 1,162.9	$ 1,351.3	$ 1,429.6	$ 1,509.7	$ 1,600.6
Capital Expendituces	$ (1,695.8)	$ (1,818.2)	$ (1,802.4)	$ (452.1)	$ (432.6)	$ (432.6)	$ (432.6)	$ (1,750.0)	$ (1,850.0)	$ (1,950.0)	$ (2,000.0)	$ (2,000.0)
Net cash provided by investing activities	$ (1,808.5)	$ (1,926.1)	$ (1,922.4)	$ (484.6)	$ (432.6)	$ (432.6)	$ 667.4	$ (682.5)	$ (1,850.0)	$ (1,950.0)	$ (2,000.0)	$ (2,000.0)
Net cash provided by financing activities	$ 1,068.7	$ 1,468.7	$ 366.4	$ 179.3	$ 758.1	$ (365.1)	$ (1,009.1)	$ (436.8)	$ 463.5	$ 575.5	$ 545.4	$ 454.5
Net change in cash	**$ 2.4**	**$ 82.7**	**$ 27.3**	**$ 64.6**	**$ 553.9**	**$ (588.7)**	**$ 13.8**	**$ 43.5**	**$ (35.3)**	**$ 55.1**	**$ 55.1**	**$ 55.1**
Dividend												
Dividend Per Share	**$ 0.72**	**$ 0.79**	**$ 0.84**	**$ 0.22**	**$ 0.22**	**$ 0.22**	**$ 0.23**	**$ 0.89**	**$ 0.95**	**$ 1.01**	**$ 1.07**	**$ 1.13**
Payout Ratio	59.7%	60.9%	63.3%	29.0%	261.6%	743.0%	57.9%	70.0%	70.2%	70.3%	70.4%	69.6%

Source: UBS estimates, Company Reports

Forecast returns

Forecast price appreciation	+10.1%
Forecast dividend yield	3.7%
Forecast stock return	+13.8%
Market return assumption	5.2%
Forecast excess return	+8.6%

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. We use comparable company multiples in our sum-of-the-parts EV/EBITDA and P/E valuations. Our price target is derived using an average of sum-of-the-parts EV/EBITDA and P/E valuations and DDM.

May 6, 2020 | Equity Research

WELLS FARGO SECURITIES

NiSource Inc.

NI: Shares Falter On COVID-19 Uncertainty – Buy On Weakness

Overweight/$27

Natural Gas LDCs

Price Target Change

- **Summary.** There were more questions than answers on NI's Q1 call as mgmt. looks to get a better handle on COVID-19 impacts. Mgmt. did not reiterate comments from the YE call that 2021 EPS guidance would be "at or above" the previously withdrawn 2020 range of $1.36-1.40. Mgmt. also noted Q1 weakness in electric load including a 6.5% decline in industrial sales. Lastly, NI lowered 2020 capex by $100mm to conserve cash. In response, shares fell 5.7% (intraday 5/6) vs. the S&P utilities down 2.0%. Despite the lack of near-term visibility, mgmt. is not seeing anything that would impact the long-term outlook. We lower our '20-22E EPS to/from $1.26/1.32, $1.37/1.40 & $1.48/1.50 reflecting near-term sales pressure and lingering regulatory lag. We reiterate our Overweight rating as we continue to view the core utility franchise favorably given constructive regulatory treatment and a long capex runway. Further, valuation appears very reasonable with shares trading at discounts to blended Gas/Electric Utility peers of 1% on '21E and 5% on '22E. We lower our forward price target to $27/sh (19.4X our '21E EPS) from $30/sh primarily based on lower peer group multiples.
- **Grappling with COVID-19.** Mgmt. is working to get a better understanding of the financial implications of the pandemic and economic fallout. The company should have more insight as they close the books on April this week, though mgmt. noted that it is a shoulder month, which may not translate to the full year; for context, Q2 has represented ~5% of NI's full-year EPS over the past five years. As the company grapples with the financial impact, mgmt. acknowledged that there could be some slippage in 2020 and possibly into 2021. As such, NI did not back prior comments regarding 2021 EPS guidance, but did affirm the 5-7% EPS growth target off the 21E base. The company also took $100mm (5%) out of the 2020 capex plan to manage the cash flow impacts of COVID-19, noting that the capital would likely be deployed in future years.
- **Looking Ahead.** On the positive side, there could be upside to 2022 & 2023 capex related to generation resources needed to replace retiring coal capacity in IN including 1,600 MW in 2023. NI is in discussions with bidders for the pending all resource RFP with regulatory filings on new projects expected throughout 2020 and 2021 – roughly half of the capacity is targeted to be owned by NI (JV structure with tax equity). Previously approved projects (400 MW Jordan Creek + 100 MW Rosewater) are underway, though Rosewater could be subject to COVID-related delays. Other events on the horizon include (1) closing the sale of Columbia Gas of MA – on track for Q3'20, (2) regulatory discussions regarding COVID-related costs – deferral orders approved in MD and VA, (3) PA rate case – $100.4mm rate request with order expected January 2021, and (4) ongoing property insurance claims – no update.

$ EPS	2019A	2020E Curr.	2020E Prior	2021E Curr.	2021E Prior
Q1 (Mar.)	0.82	**0.76 A**	**0.82**	NE	
Q2 (June)	0.05	**0.04**	**0.08**	NE	
Q3 (Sep.)	0.00	**0.06**	**0.02**	NE	
Q4 (Dec.)	0.45	0.40	NC	NE	
FY	1.32	**1.26**	**1.32**	**1.37**	**1.40**
CY	1.32	1.26		1.37	
FY P/EPS	17.5x	18.3x		16.8x	
Rev.(MM)	5,184	5,305		5,459	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile
non gaap

Ticker	NI
Price Target/Prior:	**$27/$30**
Price (05/06/2020)	**$23.07**
52-Week Range:	$19-31
Shares Outstanding: (MM)	382.2
Market Cap.: (MM)	$8,817.7
S&P 500:	2,875.41
Avg. Daily Vol.:	2,964,970
Dividend/Yield:	$0.84/3.6%
LT Debt: (MM)	$7,817.9
LT Debt/Total Cap.:	47.4%
ROE:	9.0%
3-5 Yr. Est. Growth Rate:	5.0%
CY 2020 Est. P/EPS-to-Growth:	3.7x
Last Reporting Date:	05/06/2020 Before Open

NC = No Change
Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Please see page 3 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 05/06/20 unless otherwise stated. 05/06/20 14:28:13 ET

Acronyms-
JV – Joint Venture
MW – Megawatt
RFP – Request for Proposal

Price Target

Price Target: $27 from $30

Our price target is based on a P/E multiple analysis (apply a 5% premium to the blended gas/electric peer group multiple of ~18.5X on our '21E EPS) in concert with EV/EBITDA, residual income and dividend discount methodologies. Risks include lower than expected sales growth, unfavorable regulatory developments, and unexpected cost pressures.

Investment Thesis

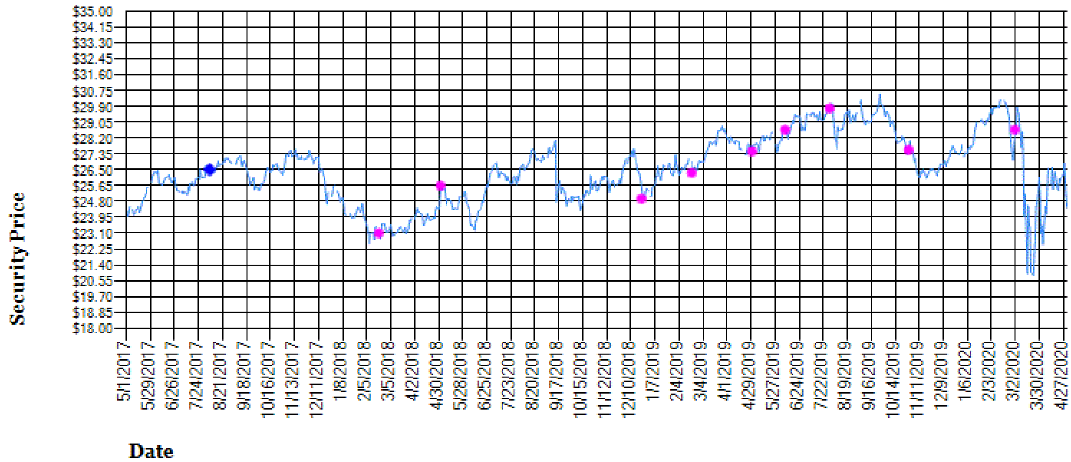
We rate shares Overweight. We are attracted to NI's robust long-term infrastructure growth opportunities and supportive regulatory treatment.

Company Description

Based in Merrillville, Indiana, NiSource, Inc. is a holding company with regulated gas (64%) and electric (36%) utility operations across seven states. The company's Gas Distribution Operations serve 3.5 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. The Electric Operations consist of a vertically-integrated utility serving approximately 500 thousand customers in northern Indiana. On July 1, 2015, NiSource completed the separation of Columbia Pipeline Group (CPG) from NiSource via the distribution of one share of CPG common stock for every share of NI common stock.

Required Disclosures

NiSource Inc. (NI) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
	8/9/2017		Akers				
◆	8/9/2017	26.32	1	30	NE	NE	26.38
●	2/20/2018	22.99	1	26	NE	NE	23.02
●	5/3/2018	25.38	1	28	NE	NE	25.57
●	12/24/2018	26.05	1	29	NE	NE	24.89
●	2/20/2019	26.28	1	30	NE	NE	26.28
●	5/1/2019	27.41	1	31	NE	NE	27.40
●	6/9/2019	28.54	1	32	NE	NE	28.54
●	7/31/2019	29.79	1	33	NE	NE	29.69
●	10/30/2019	27.29	1	31	NE	NE	27.51
●	3/2/2020	27.02	1	30	NE	NE	28.56

*Effective December 7, 2019, Wells Fargo Securities' Equity Research modified its ratings definitions. Complete definitions of current ratings can be found below. For information related to prior ratings definitions, please contact equityresearch1@wellsfargo.com.

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ☐ Split Adjustment

Rating Code Key

1	Overweight/Buy	SR	Suspended
2	Equal Weight/Hold	NR	Not Rated
3	Underweight/Sell	NE	No Estimate

Additional Information Available Upon Request

I certify that:
1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

- NiSource Inc. currently is, or during the 12 month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided investment banking services to NiSource Inc..
- Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from NiSource Inc. in the past 12 months.
- Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from an affiliate of NiSource Inc. in the past 12 months.

May 06, 2020 | 20:50 ET | 20:50 ET~

NiSource

NI-NYSE	Rating	Price: May-6	Target	Total Rtn
	Outperform	$22.92	$31.00	39%

You Can't Always Get What You Want

Bottom Line: NI shares trailed the sector by 3.2% today as investors didn't find the additional clarity they were looking for regarding the current demand and cost trends impacting the company and its forward earnings outlook. With data still coming in, Management felt it was too early to back a 2021 outlook given the potential impact of the COVID-19. Without guidance for 2021 as an anchor for valuation and forward EPS growth we would expect NI shares could struggle until the company rolls out its revised 2021 EPS in Late 3Q20.

Key Points

We do not get the sense that anything material has changed in managements previous view for its earning power beyond 2020. In fact management continues to be very confident in their 5-7% growth outlook. Instead we believe management is taking an conservative approach to its projections given the uncertain duration and evolving impacts of COVID-19 and a more limited OVERALL contingency buffer post the Greater Merrimack Incident (GMI).

Although management deferred $100M of capital spending for 2020 ($1,700-1,800M) to bolster credit and help mitigate cash flows impacts from COVID-19, the company's forward capital program and associated earnings power remains in place. With the renewable RFPs in hand, management confirmed it's plan to own ~50% of the renewable assets replacing NIPSCOs remaining coal fleet and adding visibility beyond 2022. We believe this will be an important driver behind their 5-7% objective and should allow the company to roll their outlook to 2024 at the same time they re-initiate 2021 guidance which will be the new base year for their LT CAGR.

While the company did not provide detailed assumptions for load trends, like most utilities they do expect a decrease in commercial and industrial sales partially offset with higher residential load. We do not see material exposure for NI's gas operations which has peak demand in 1Q/4Q and a 1c impact for each 1% annualized for resi and other. NI's electric operations however have minimal smoothing mechanisms and C&I represents ~75% of the volumes with an average impact of 1c for each 1% vs residential at 1C but only 25% of volumes.

We reiterate our Buy rating and $31 target price. With the recent pull back in the stock, NI now trades at an attractive 5%/10% discount to the electric and gas LDC group, respectively.

Please refer to pages 4 to 7 for Important Disclosures, including Analyst's Certification.

BMO Capital Markets

IN Fact

Utilities, Power & Renewables

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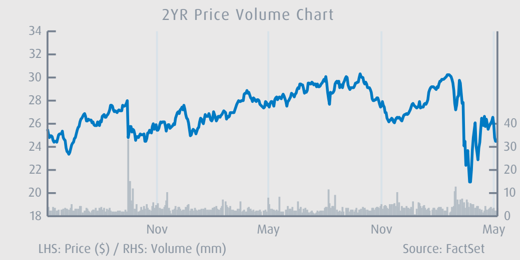


Company Data			in $
Dividend	$0.84	Shares O/S (mm)	382.7
Yield	3.7%	Market Cap (mm)	$8,771
P/BV	1.4x	Net Debt (mm)	$9,606

BMO Estimates (FY- Dec .)	2019A	2020E	2021E
EPS	$1.32	$1.35	$1.42
DPS	$0.80	$0.84	$0.89
EBIT	$1,042	$1,113	$1,197
EBITDA	1,759	1,860	1,970

Consensus Estimates	2019A	2020E	2021E
EPS		$1.34	$1.41

Valuation	2019A	2020E	2021E
P/E	17.4x	16.9x	16.1x
Div. Yield (%)	3.5%	3.7%	3.9%

QTR. EPS	Q1	Q2	Q3	Q4
2019A	$0.82	$0.05	$0.00	$0.45
2020E	$0.76a	$0.06	$0.05	$0.48
2021E	$0.86	$0.07	$0.05	$0.44

Our Thesis

We like several aspects of the NI following the sale of Columbia Gas of Massachusetts and removal of previously guided $500-700mn equity issuance overhang which we believe meaningfully derisked the story.

BMO Capital Markets

NiSource - Block Summary Model

Income Statement	2019A	2020E	2021E
Electric Operations	402	429	469
Gas Distribution	632	676	720
Parent & Other	13	13	13
Consolidated EBIT	1,042	1,113	1,197
Depreciation & Amortization	717	747	772
EBITDA	1,759	1,860	1,970
Interest Expense	379	399	396
Income Tax	113	125	139
Income from continuing operations	495	524	567
Weighted Average Shares Outstanding	376	388	399
Diluted Operating EPS	$1.32	$1.35	$1.42
Dividends per Share	$0.80	$0.84	$0.89
Cash Flow Statement	**2019A**	**2020E**	**2021E**
Operating Cash Flow	1,750	1,438	1,400
Investing Cash Flow	(1,988)	(630)	(1,770)
Financing Cash Flow	154	(106)	(99)
Net Change in Cash Flow	(84)	702	(469)
EOP Cash on Balance Sheet	37	739	270
Common stock (net)	34	335	335
Net debt issued/(repaid)	494	500	(64)
Dividends paid	(301)	(326)	(355)
Balance Sheet	**2019A**	**2020E**	**2021E**
Common Equity	5,327	6,040	6,667
Preferred Equity	880	880	880
Total Debt	9,643	10,143	10,079
Enterprise Value	$20,207	$20,892	$21,625
Common equity %	33.6%	35.4%	37.8%
Preferred equity %	5.6%	5.2%	5.0%
Total Debt %	60.8%	59.4%	57.2%
Book Value per Share	$16.51	$17.85	$18.92

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

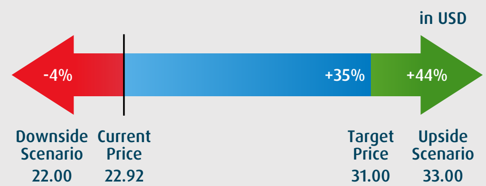
Our $31 target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2022E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook. For NI, we have removed EPS for its MA gas business from our P/E valuation and instead include only the asset value (1x equity rate base) in our SOTP framework.

Upside Scenario 33.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile.

Downside Scenario 22.00

Our downside scenario reflects a tightening monetary policy and a deceleration of the company's rate base growth.



Key Catalysts

Initial indicative pricing in its second renewable RFP in IN. Completing the sale of Columbia Gas of Massachusetts to Eversource. Potentially, capital spending and growth rate update in 2H20 given clarity in the aforementioned RFP and recent rate orders in MA and IN.

Company Description

NiSource, Inc. is a regulated utility holding company, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states. Through its Columbia Gas and NIPSCO brands, it provides natural gas, electricity, and other products and services. The company was founded in 1987 and is headquartered in Merrillville, Indiana.

NI-NYSE Research

Glossary

Company Models

BMO Capital Markets

Exhibit 1: NI Model Summary

NI Model Summary	2018	2019	2020	2021	2022	2023	5-Year
EPS By Segment							
Electric Operations	$0.72	$0.78	$0.81	$0.88	$0.91	$0.96	*5.3%*
Gas Distribution	$0.99	$1.12	$1.15	$1.14	$1.19	$1.25	*2.8%*
Corporate & Other	($0.41)	($0.58)	($0.61)	($0.59)	($0.57)	($0.59)	*0.4%*
Consolidated E.P.S.	**$1.30**	**$1.32**	**$1.35**	**$1.42**	**$1.53**	**$1.61**	***5.2%***
Dividend per share	**$0.78**	**$0.80**	**$0.84**	**$0.89**	**$0.94**	**$1.00**	
Payout Ratio total	60.0%	60.8%	62.1%	62.6%	61.5%	62.0%	
Dividend Yield	3.1%	2.9%	2.9%	3.0%	3.2%	3.4%	
Valuation Metrics							
Price to Earnings	19.5x	21.2x	21.7x	20.6x	19.1x	18.2x	
Price to Book Value	1.6x	1.7x	1.6x	1.5x	1.5x	1.4x	
Funding Sources							
Cash Flow from Operations	$540	$1,750	$1,438	$1,400	$1,500	$1,564	*23.7%*
Total Debt Financings	$350	$750	$500	$0	$550	$950	
Total Equity Financings	$1,724	$34	$335	$335	$335	$335	
Credit Metrics							
Total Debt/Capitlization	61%	61%	59%	57%	55%	54%	
FFO/Total Debt	12%	14%	14%	14%	15%	15%	

Source: BMO Capital Markets, Company Filings

Exhibit 2: NI Key Model Assumptions

Key Model Assumptions	2018	2019	2020	2021	2022	2023	5-Year
Total Capital Expenditures by Segment							
Electric Operations	$499	$469	$460	$470	$480	$490	**$2,369**
Gas Distribution	$1,315	$1,380	$1,270	$1,300	$1,300	$1,310	**$6,560**
Consolidated Capital Expenditures	**$1,815**	**$1,849**	**$1,730**	**$1,770**	**$1,780**	**$1,800**	**$8,929**
YE Rate Base Estimates							
NIPSCO Electric	$4,401	$4,866	$5,317	$5,682	$5,871	$6,065	*6.6%*
Columbia Gas of Ohio	$2,800	$3,106	$3,401	$3,743	$4,073	$4,403	*9.5%*
Columbia Gas of Pennsylvania	$1,698	$1,883	$2,062	$2,270	$2,470	$2,670	*9.5%*
NIPSCO Gas	$1,497	$1,660	$1,818	$2,001	$2,178	$2,354	*9.5%*
Columbia Gas of Massachusetts	$990	$1,098	$1,203	$0	$0	$0	
Columbia Gas of Virginia	$712	$789	$864	$951	$1,035	$1,119	*9.5%*
Columbia Gas of Kentucky	$305	$338	$369	$407	$442	$478	*9.4%*
Columbia Gas of Maryland	$122	$136	$150	$165	$179	$194	*9.6%*
Total Rate Base	**$12,525**	**$13,876**	**$15,185**	**$15,218**	**$16,248**	**$17,282**	***6.7%***

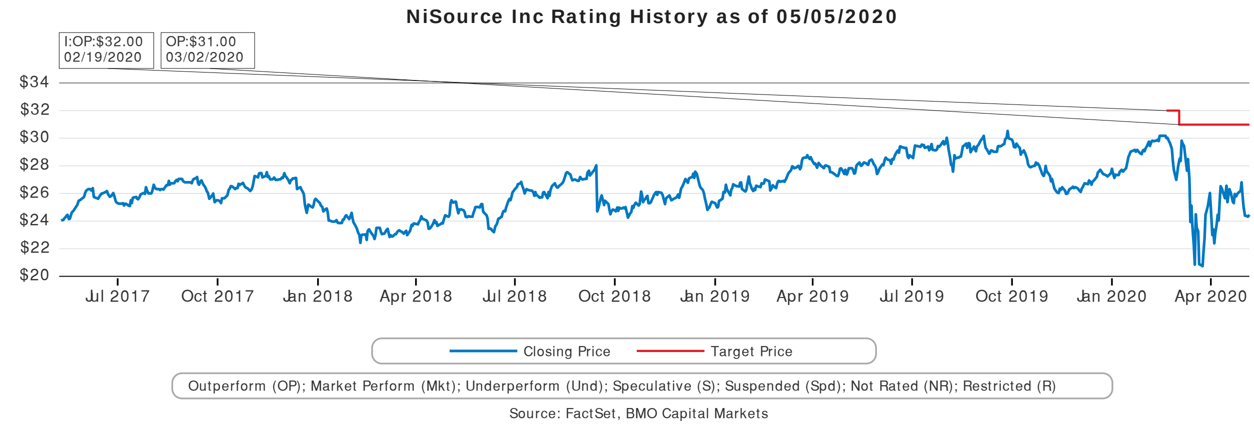
Source: BMO Capital Markets, Company Filings

Exhibit 3: NI Valuation

							BMO Low Case		BMO Base Case		BMO High Case	
Regulated, Corporate & Other	Valuation Metric	2022E EPS	Sector Comp	Sector Multiple	Prem/ (Discount)	Base Multiple	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)
Electric Operations	EPS	$0.91	Electric	17.4x	+7.5%	18.7x	14.4x	$13	18.7x	$17	20.0x	$18
Gas Distribution	EPS	$1.19	Natural Gas	17.5x	+12.5%	19.7x	14.5x	$17	19.7x	$23	20.9x	$25
Coporate & Other	EPS	($0.57)	Blend	17.5x	+10.3%	19.3x	16.3x	($9)	19.3x	($11)	20.5x	($12)
Utility & Parent Value		**$1.53**					13.8x	**$21**	19.3x	**$30**	20.5x	**$31**
		'19 Rate Bas	Equity %	Equity								
Columbia Gas of Massachusetts		$1,100	47%	$517		1.0x	1.0x	$1.26	1.0x	$1.26	1.0x	$1.26
Total NiSource Inc.								**$22**		**$31**		**$33**
Upside/(Downside)								-2.2%		34.4%		42.8%
Current Yield								2.9%		2.9%		2.9%
Total Return								**0.6%**		**37.3%**		**45.6%**

Source: BMO Capital Markets, Company Filings

BMO Capital Markets



IMPORTANT DISCLOSURES

Analyst's Certification

I, James M. Thalacker, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosures

Disclosure 9B: BMO Capital Markets makes a market in NiSource Inc in United States.

Methodology and Risks to Target Price/Valuation for NiSource Inc (NI-NYSE)

Methodology: Our $31 target price is the product of a P/E-based sum-of-the-parts (SOTP) analysis of the company's primary regulated operating companies. We utilize a regulated group-average multiple based on 2022E EPS as our initial basis for valuation and then make adjustments specific to each jurisdiction to reflect our current view of the fundamental outlook.

Risks: NI's regulated profile exposes the company to business risk including but not limited to federal and state regulatory risk, federal and state political risk, environmental policy, interest rate risk, access to capital markets, construction risk, changes in customer demand trends, changes in customer affordability, extreme weather, natural disaster, and equipment failure.

Distribution of Ratings (May 05, 2020)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	42.3 %	25.7 %	50.4 %	45.1 %	54.6 %	57.7%
Hold	Market Perform	54.9 %	18.4 %	47.0 %	52.2 %	43.9 %	37.5%
Sell	Underperform	2.8 %	20.0 %	2.6 %	2.7 %	1.5 %	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

EVERCORE ISI

Energy | Power & Utilities

May 06, 2020

NiSource Inc

NI | $24.53

Outperform | TARGET PRICE: $28.00 (from $29.00)

Earnings Report

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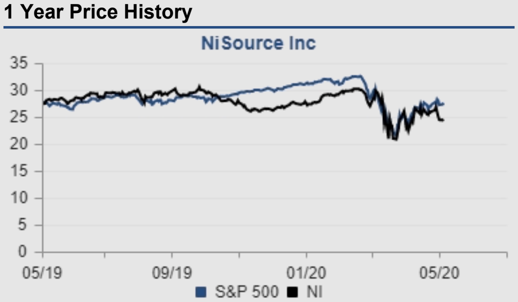
Company Statistics

Market Capitalization (M)	$11,128
Shares Outstanding (M)	383
Dividend	0.80
Dividend Yield	2.8%
Payout Ratio	60.4%
Expected Total Return	(1.0)%
Fiscal Year End	Dec

Earnings Summary

	2020E	2021E	2022E
EPS	$1.33	$1.42	$1.51
P/E	21.9	20.4	19.2
EPS vs Consensus	(0.9)%	0.7%	0.4%
Consensus EPS	$1.34	$1.41	$1.51
Consensus P/E	21.7	20.6	19.3

1 Year Price History



Source: FactSet

Stock Slips, Trips and Falls on Q1 Results

Lowering target to $28 from $29/sh. Rating remains Outperform.

NiSource reported a Q1'20 EPS miss and lowered '20 capex. NI posted $0.76 in Q1'20 operating EPS vs. consensus of $0.80 and Q1'19 of $0.82. All segments (gas, electric, corporate) reported lower YoY operating earnings for the quarter even though NI saw minimal COVID impacts in the results. NiSource reduced its '20 capex guidance by $100mm to $1.7-1.8Bn to mitigate cash impacts in this environment and did not comment on capex in '21-'22, which was previously expected to be $1.7-2.0Bn per year. NI did say that it expects incremental capex in '22-'23 in electric generation, given its plan to own half of the generation portfolio needed to replace its retiring coal plants. NiSource still did not issue '20 EPS guidance. The company still expects to issue $200-300mm of ATM equity this year plus $35-65mm of employee equity.

NI did not restate its expectation for '21 EPS given COVID uncertainty, raising questions if growth will not return until at least '22. Recall that following the announced sale of Mass., NiSource rescinded its '20 EPS guidance of $1.36-1.40. When the deal closes (still expected in Q3), NI still expects to issue '21 EPS guidance but did not restate its original expectation for '21 EPS to be at or above the withdrawn '20 outlook. The company said it was too early to restate this level of expected EPS amid COVID uncertainty. Off of an uncertain '21 base, NiSource still said it then expects to return to 5-7% EPS growth per year over the long term. NI has struggled with EPS growth since the Massachusetts incident, and on our and consensus estimates, this year could be the second consecutive year of very little growth (1.5% CAGR in '18-'20). Now, '21 EPS remains a question mark. With that said we view the risk reward as relatively attractive here and continue to view NI as a re rate story post asset sales and COVID with an above average long-term growth rate bolstered by capital needs from replacing coal based generation.

We are maintaining our '20-'22 EPS estimates for now. Our '20-'22 forecast remains $1.33 / $1.42 / $1.51. At NIPSCO electric, we assume the company earns its allowed 9.75% ROE over the forecast period. In the gas businesses, we assume NI earns a blended allowed ROE of 10.2% absent Massachusetts over the same time period.

COVID positioning OK: NiSource's sensitivity to load is partly mitigated by fixed rate designs and revenue decoupling/normalization mechanisms but would rank average to above-average sensitivity in our coverage. NI's pension plan is well-funded and benefits from trackers in MA and deferrals in OH and PA. Its bad debt is primarily recovered in base rates, and Columbia Gas of MD and VA each received orders in April to defer incremental COVID expenses and bad debt for later recovery. The $1.1Bn of MA sale proceeds is expected to come in Q3'20. NI says its liquidity is sufficient for 12-24 months. It has no large debt maturities this year.

COVID-19 Exposure

Sales: NiSource's sensitivity to load is partly mitigated by fixed rate designs and revenue decoupling/normalization mechanisms.

In electric, a 1% change in load results in a total of $10.1mm impact to earnings, which rounds to $0.03 in EPS. Specifically, in residential electric, a 1% change in load impacts earnings by $3.9mm, which rounds to $0.01 in EPS. In commercial electric, a 1% change in load also impacts earnings by $3.9mm, which rounds to $0.01 in EPS. In industrial electric, a 1% change in load impacts earnings by $2.3mm, which rounds to $0.01 in EPS.

In gas, a 1% change in load results in a $7.4mm impact to earnings. Specifically, in residential gas, a 1% change in load impacts earnings by $3.8mm, which rounds to $0.01 in EPS. In commercial gas, a 1% change in load impacts earnings by $2.4mm, which rounds to $0.01 in EPS. In industrial gas, a 1% change in load impacts earnings by $1.2mm, which rounds to $0.00 in EPS.

Note that these sensitivities are not linear for large or prolonged volume changes.

Pension: NI's pension plan was 98% funded as of year-end 2019 with expected $3 mm in contributions this year. The company's pension expense is not impacted until the pension plans are re-measured, which is not expected until year-end 2020. Every 50 basis point change in the discount rate is expected to impact the expense by $1mm. Every $100 mm change in asset valuation is expected to impact expense by $7mm. NiSource benefits from pension trackers in Massachusetts and deferrals in Ohio and Pennsylvania.

Bad debt expense: NiSource bad debt is primarily recovered in base rates. The company has additional tracker mechanisms (quarterly, semi-annual or annual) across its gas jurisdictions but not in electric.

Liquidity and financing: NiSource still expects to issue $200-300mm of ATM equity this year and $35-65mm of employee equity programs. The company does not anticipate any changes to its dividend. As of March 31st, the company had $1.3Bn of net liquidity, including $237mm of commercial paper outstanding. On April 1st, NI refinanced an $850mm term loan. On April 13th, NiSource issued $1.0Bn of 10-year notes that is expected to satisfy long-term debt needs for 2020 and 2021. In both years, NiSource does not have significant debt maturities. Lastly, the $1.1Bn of cash proceeds from the sale of Columbia Gas of Massachusetts is expected to come in Q3'20.

COVID-specific regulatory items: Columbia Gas of Maryland and Columbia Gas of Virginia each received orders from their respective state regulatory commissions in April granting the companies authority to defer incremental COVID-related expenses and bad debt for recovery at a later date. NiSource said it is currently working with regulators in other states to address COVID-related financial impacts.

Estimates and Price Target Derivation

We are maintaining our '20-'22 EPS estimates for now. Our '20-'22 forecast is $1.33 / $1.42 / $1.51. We assume the Columbia Gas of Massachusetts (~$25mm in net income) sale closes the end of Q3'20, as the company expects it to. We model '20 capex at the midpoint of lowered guidance of $1.7-1.8mm and '21-'22 capex of $1.85bn per year. We expect annual issuances of $250mm of ATM equity, $47.5m of employee program equity, and zero block equity. This is the amount of equity that should enable NiSource to achieve its adjusted FFO/debt target of 14-15% over the long term. At NIPSCO Electric, we assume the company earns its allowed 9.75% ROE over the forecast period. In the gas segment, we assume NI earns a blended allowed ROE of 10.2% absent Massachusetts over the same timeframe.

Lowering our price target to $28 from $29/share. To arrive at our $28/share price target, we use a Sum-of-the-Part analysis. On NI's electric EPS we assign a 5% premium to our anchor '22 P/E target multiple of 17.5x. For the gas segment, we apply a 18.1x P/E multiple, a 5% discount to current LDC trading multiples. Gas utilities warrant a premium given a more attractive L-T rate base growth outlook. But the discount for NI's gas utilities reflects its recent operating problems and an adjustment out of an M&A premium that we think inflates the valuation of the gas peer group. Our NI target price derives a consolidated multiple of 18.2x.

Exhibit 2: SOTP Valuation

Valuation using 5% Discount on Gas and 5% premium on Electric	'22 EPS	P/E	Val/Shr
Gas EPS	$1.19	18.1x	$21.53
Electric EPS	$0.62	18.4x	$11.45
Parent/Other	($0.30)	18.2x	($5.41)
Consolidated 2020 EPS	**$1.51**	18.2x	**$27.56**

Source: EVRISI Research

Recent Developments

Gas Distribution Operations

- **Columbia Gas of Massachusetts asset sale is still expected to close in Q3'20.** In February, NiSource announced the sale of Columbia Gas of Massachusetts to ES for $1.1bn and subsequently withdrew '20 EPS guidance ($1.36-1.40/share) and says it no longer expects to need to issue $500-700mm of common equity block this year. The transaction is expected to close by the end of Q3'20.

- **On April 24th, NiSource filed a base rate case in its Columbia Gas of Pennsylvania jurisdiction,** requesting a $100 mm revenue increase with a 10.95% ROE and 54.19% equity ratio on a rate base of $2.4 billion with a 12/31/21 test year. Columbia Gas of Pennsylvania is currently NI's third largest jurisdiction at $1.9 billion of year-end 2019 rate base, behind Northern Indiana electric ($4.7 billion) and Columbia Gas of Ohio ($3.2 billion). We expect Columbia Gas of PA contribute ~$0.27 of EPS this year, or roughly 20% of our consolidated $1.33 EPS estimate. We believe utilities in rate cases could be more at risk right now for a negative outcome than would otherwise be expected. It is possible that with the 10-year yield now well below 1%, it could be increasingly difficult for utilities to justify maintaining ROEs. Further, regulators could face pressure from consumers to keep bills as low as possible amid COVID-19, which could also pressure ROEs and result in more O&M or rate base disallowances. While this is a risk to consider, we do not view this as a major one given our expectations that the regulators will look for a balanced outcome for both the utility companies and customers during the economic downturn. We note that Pennsylvania is generally considered a constructive regulatory environment. A final decision is expected by year-end 2020. The docket number is D-R-2020-3018835.

- **On April 24th, also in Pennsylvania, NI filed a petition with the PUC requesting authority to implement a temporary program that would make grants to residential customers who are experiencing a loss of income due to COVID, but are not eligible to participate in the company's existing assistance programs.** The company proposed to use a portion of pipeline penalty credits that the PUC has previously approved for hardship funds, matched by a contribution from the NiSource Charitable Foundation, to fund the grants.

- **On April 22nd, the PUC of Ohio approved NiSource's annual IRP tracker adjustment**, and new rates went into effect this month. This order allows the company to begin recovery of $234mm in safety and infrastructure investments made in 2019. This pipeline replacement program, authorized through 2022, covers replacement of priority mainline pipe and targeted customer service lines.

- **On February 28th, also in Ohio, NiSource its latest annual application for adjustment to its Capital Expenditure Program (CEP) rider**. The CEP rider, which was first approved by the PUCO in 2018, allows the company to recover capital investments and related deferred expenses that are not recovered through its IRP. The adjustment application seeks to begin recovery of $185mn in capex in 2019. A final order is expected in August 2020.

- **NIPSCO's application for a six-year extension of its long-term gas infrastructure modernization program remains pending before the Indiana commission**. The proposal includes nearly $950 mm in capital investments through 2025, to be recovered through semi-annual adjustments to the existing gas Transmission, Distribution and Storage Improvement Charge (TDSIC) tracker. The existing gas TDSIC program has been in place since 2014. An final order is expected in July 2020.

- **Columbia Gas of Maryland and Columbia Gas of Virginia each received orders from their respective state regulatory commissions in April granting the companies authority to defer incremental COVID-related expenses and bad debt for recovery at a later date**.

Electric Operations

- **NIPSCO continues to have discussions with a number of commercial bidders who responded to its latest all-source RFP to consider potential resources to meet future electric needs**. The RFP results were consistent with NIPSCO's 2018 IRP, which outlines plans to retire nearly 80% of its remaining coal generation by 2023, and retire all coal by 2028. The plan is expected to drive a 90% reduction in NiSource's greenhouse gas emissions by 2030, and is expected to save NIPSCO electric customers more than $4 billion over 30 years. NIPSCO is considering all sources in the RFP process and is expecting to obtain adequate resources to facilitate the retirement of the R.M. Schahfer Generating Station in 2023. Currently, half of the capacity in the replacement plan is targeted to be owned by joint ventures that will include NIPSCO and unrelated financial investors as the members. The remaining new capacity is expected to be primarily in the form of purchase power agreements. NIPSCO expects to begin regulatory compliance filings related to the new capacity as agreements are finalized with counterparties in 2020 and 2021. The planned replacement in 2023 of 1,600 MW of retiring coal could provide incremental NiSource capex opportunities for 2022 and 2023.

- **Construction is underway on both the Rosewater and Jordan Creek wind projects, which are expected to be in service by the end of this year. The company is monitoring any potential impact that COVID may have on the expected completion dates of these projects**. The Rosewater project could experience a construction delay due to COVID. The IURC on February 19th approved NIPSCO's application for another wind project, Indiana Crossroads, a joint venture with EDP Renewables North America LLC. Indiana Crossroads will have an aggregate nameplate capacity of 302 MW, and is expected to be in operation in Q4'21.

GUGGENHEIM

May 6, 2020

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NI BUY

NiSource Inc.
Sector: Power, Utilities & Alternative Energy

Earnings Release

Share Price	$22.92
Price Target	$27.00
Prior	*$29.00*

EPS ($) (FY DEC)	1Q	2Q	3Q	4Q	FY
2020	0.76E	0.12E	0.10E	0.39E	1.36E
Prior	*0.80E*	—	—	—	*1.40E*
P/E					16.9x
2021	0.78E	0.11E	0.10E	0.39E	1.37E
Prior	*0.84E*	*0.12E*	*0.11E*	*0.41E*	*1.48E*
P/E					16.7x
2022	0.83E	0.12E	0.11E	0.41E	1.47E
Prior	*0.88E*	*0.14E*	*0.12E*	*0.44E*	*1.56E*
P/E					15.6x

Market Data

52-Week Range	$19.56 - $30.67
Dividend	$0.86
Dividend Yield	3.8%
Market Cap (M)	$8,774
Enterprise Value (M)	$21,092
Shares Out (M)	382.8
ADV (3 mo; 000)	3,986

NI – 1Q20 Miss, Conservative Bend Taken on 2021 Messaging; No Restatement Despite Noncommitment

Key Message: NiSource reported 1Q20 earnings, missing our and consensus estimates. Due to the COVID-19 crisis, mgmt. is pulling back expected capital spend for 2020 to conserve cash. While mgmt.'s noncommitment around 2021 expectations was disconcerting to us, especially after providing some guidance and visibility into next year on the prior YE call, we believe NI was taking a conservative bend towards messaging given past events in MA and COVID-19 (discussed in-depth below). Assuming COVID-19 is not a protracted macro event, we believe management would still be on pace to guide closer to a flattish ’21 EPS range vs. the prior ‘20 guide w/5-7% growth off the ‘21 base — our updated estimates reflect this scenario and it is supported by our call with NI. Therefore, we do not view mgmt. as walking back prior disclosed expectations despite today’s optics. We are lowering our PT to $27 (from $29) given lower EPS estimates; remain BUY on value and muted expectations.

2021: Noncommittal? Yes. Restatement? No. We had a chance to catch up with NI following its earnings call. While it is disappointing that mgmt. deferred and was somewhat noncommittal around 2021 guidance/early outlook, we believe there are other factors at play that may not be structural in nature. As background, on the 4Q call, mgmt. removed 2020 guidance given the pending sale of Columbia Gas of MA, which introduced several moving parts (i.e. interplay with removal of equity needs, sale of an earnings-generating utility, dis-synergies, cost-cutting opportunities, among other moving parts). However, despite the MA asset sale, mgmt. highlighted that 2021 expectations should be flat (or hopefully better) w/the prior removed 2020 EPS guidance range of $1.36-$1.40 on the YE earnings call. But, on today’s earnings call, management balked at supporting or even committing to their prior ’21 early outlook presented at the YE call, which appears to be the key reason why shares materially underperformed today (by ~300bps vs. UTY). While some may believe that something more structural in nature is at play for their reluctance around discussing 2021 fundamentals, following our call with NI, we attribute mgmt.’s more tempered messaging as taking a more conservative and sensitive tone while COVID-19 plays out. In other words, in a scenario where COVID impact on the macro backdrop is not protracted, we would expect management to guide around 2021 still being flattish to the prior removed 2020 EPS guidance range of 1.36-1.40 in a base case — consistent to what was discussed on the February YE earnings call. That said, in a more protracted COVID scenario, 2021 fundamentals could become impacted until NI could file rate cases and get reprieve from lower sales volumes with various customer classes. At this juncture, nothing leads us to believe the latter scenario will be the case. We will need to monitor the COVID situation as we will with most utilities under our coverage. Mgmt. stated it remains committed to providing 2021 EPS guidance, capex updates and growth through 2022 and beyond at the 3Q call.

NI reported earnings that missed our and Street estimates and lowered its expected 2020 capital spend by $100M. NI reported 1Q20 NOEPS of $0.76 vs. our estimate at $0.80 and Consensus at $0.80. Updating our model for 1Q20 actuals, we are lowering our FY20 EPS estimate to $1.36 from $1.40. We are also lowering our 2021-2023 EPS estimates to $1.37/$1.47/$1.57 from $1.48/$1.56/$1.67. Our estimates now reflect slightly lower O&M levers in the outer years as mgmt. recognizes more in the NT to mitigate a weaker-than-expected macro backdrop as a result of COVID-19. As a reminder, O&M levers were already expected to be used to offset dis-synergies related to the sale of Columbia Gas of MA – i.e., our estimated O&M levers and contingencies are more front-end loaded given NT drags including the COVID-19 macro backdrop and MA asset sale. Mgmt. reaffirmed LT EPS growth of 5-7% off a 2021 base given increased electric generation spend — consistent with our updated estimates.

See pages 4 - 5 for analyst certification and important disclosures.

In consideration of the COVID-19 crisis, management is lowering FY20 expected capital spend by $100M to $1.7B-$1.8B. The decision to pull back on spending is to help mitigate cash flow impacts from an expected increase in bad debt expense and lower C&I load. A majority of the deferred spend is likely longer-term maintenance/other, which is recovered through periodic rate cases. For 2020, focus will be on spending that is recovered through trackers, etc., and is recoverable within 18 months. **Mgmt. provided earnings sensitivities around a 1% change in annual sales volume for each segment.** For the residential, commercial, and industrial electric segments, a 1% change in annual sales volume would impact earnings by $3.9M, $3.9M, and $2.3M, respectively. For the residential, commercial, and industrial gas segments, a 1% change in annual sales volume would impact earnings by $3.8M, $2.4M, and $1.2M, respectively. Mgmt. expects lower demand from C&I customers but noted the potential for residential demand to increase (**we have seen a similar dynamic with other utilities under our coverage — see our note HERE**). Mgmt. also expects higher bad debt expense, which is, for the most part, recovered in base rates. MD and VA Commissions have recently allowed for deferral of COVID-related expenses and bad debt.

Negotiations with bidders in the IN RFP is ongoing – continue to target 50% ownership. NI is working through negotiations with developers and potential tax equity partners for generation build consistent with the 2018 IRP. Mgmt. continues to target a 50/50 mix of build-transfer and PPA. Tax equity partners would allow for incremental rate base as those partners would divest after recapture period. Mgmt. expects to get through that phase in the coming months and could provide an update as early as the 2Q call followed by the longer-term capex and growth profile that will likely be addressed on the 3Q call.

Liquidity shored up for 12-24 months — limited capital market needs. As of March 31, NI had ~$1.3B in net available liquidity, ~$1.9B in revolving credit facility, and ~$0.5B in accounts receivable securitization facilities. On April 1, NI refinanced their $850M 364-term loan, and on April 13, issued $1B of notes due in 2030 (an increase from the ~$500M in LT debt NI expected to issue at YE). NI LT debt stands at ~$7.7B with no meaningful maturities until 2022. NI still expects to issue $200M-$300M in ATM equity in 2020. Mgmt. reiterated its commitment to an IG credit rating.

EPS($)	1Q	2Q	3Q	4Q	FY
2020E	0.76A	0.12E	0.10E	0.39E	**1.36E**
Prior	*0.80E*	*0.12E*	*0.10E*	*0.39E*	*1.40E*
2021E	0.78E	0.11E	0.10E	0.39E	**1.37E**
Prior	*0.84E*	*0.12E*	*0.11E*	*0.41E*	*1.48E*
2022E	0.83E	0.12E	0.11E	0.41E	**1.47E**
Prior	*0.88E*	*0.14E*	*0.12E*	*0.44E*	*1.56E*
2023E	0.89E	0.14E	0.12E	0.42E	**1.57E**
Prior	*0.93E*	*0.16E*	*0.14E*	*0.45E*	*1.67E*

Source: Guggenheim Securities, LLC

WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Overweight
Gas/Power Infrastructure – Market Overweight

May 6, 2020

NISOURCE

(NI US Equity – $22.92 – Outperform)

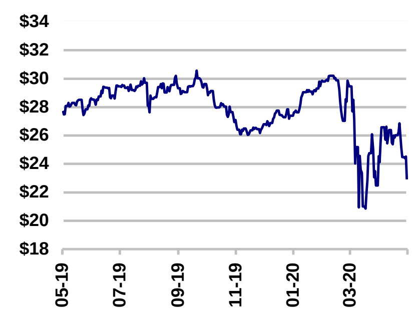
A Cinco de Mayo hangover

- **Noncommittal on 2021, vague on COVID-19 impacts**. NI reported Q1 EPS of $0.76, missing consensus at $0.80 (WRe $0.78). The stock underperformed the utility average by 300bps on the day, primarily due to management's messaging on 2021 EPS – declining to reaffirm the expectation to be at or above prior 2020 guidance of $1.36-1.40 which was pulled on CMA sale announcement. NI also refrained from providing color on sales trends during April, making it tough to handicap an expectation for the full year. Comments about long-term customer attrition likely point to sales pressures spilling over from this year into next as well. NI does have levers to pull on O&M to help offset some sales degradation, but to what degree is a bit unclear.
- **Cutting estimates; remain Outperform.** We are reducing our estimates across the board (see table). We take a more conservative tack on 2021 and now estimate NI to be in the lower half of the prior 2020 guidance. Our new 2021E of $1.36 reflects a spillover of some COVID pressures that we expect are partially offset by cost cuts as well as the $100M capex reduction from 2020. On the capex reduction, we assume this is layered back in over time. Beyond 2021, we see EPS growing toward the top end of NI's 5-7% target. We lower our PT to by $3 to $26 on our lower estimates and lower group multiples. We remain Outperform on the view that the L-T fundamentals remain solid, with big capex upside at NIPSCO electric as opportunities become clearer throughout the year.
- **Meaningful capex upside potential from renewables.** Discussions with bidders from the recent RFP are still ongoing. NI noted that is targeting ownership of about half of the generation needed to replace its retiring Schahfer coal units, most of which is likely renewables. This presents a total opportunity set that could be north of 3 GW of renewable additions by 2023 given the capacity credits (~20% for wind, ~40% for solar). The dramatic shift in generation mix and fact that NI will be coal-free by 2028 is helpful from an ESG perspective. A full capex rollforward / refresh is targeted for the Q3 call.
- **CMA sale on track.** NI still expects the sale of Columbia Gas MA to close in Q3. We still view NI's transition out of MA as an important turning point for the company that meaningfully de-risks the overall business.

Estimates / Valuation				
(US$)	**2020E**	**2021E**	**2022E**	**2023E**
EPS	$1.30	$1.36	$1.46	$1.57
Consensus	$1.33	$1.41	$1.51	$1.61
P/E	17.6x	16.8x	15.7x	14.6x
Dividend Yield	3.7%	3.9%	4.2%	4.4%

Trading and Fundamental Data	
Price Target	**$ 26**
Current Price	22.92
52-Week Range	$20-$31
Market Cap. (MM)	8,770
Enterprise Value (MM)	19,210
Shares Out. (MM)	382.7
Dividend Yield	3.7%
Dividend Payout Ratio	63.4%
ROE	6.6%
Debt to Cap	61.9%
Avg. Daily Vol. (000)	2,872

Price Performance	YTD	LTM
NI US Equity	-18%	-18%
Utility Index	-14%	-5%
S&P 500	-12%	-3%



Source: FactSet/Wolfe Research

Key Changes		
Year	**New**	**Old**
PT	$26	$29
2020E	$1.30	$1.32
2021E	$1.36	$1.42
2022E	$1.46	$1.52
2023E	$1.57	N/A

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NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2020E	2021E	2022E	2023E
EPS	$1.30	$1.36	$1.46	$1.57
Diluted Shares Outstanding	$387	399	409	420
Dividends Per Share	$0.85	$0.90	$0.95	$1.01
Dividend Yield	3.7%	3.9%	4.2%	4.4%
Dividend Payout Ratio	65%	66%	65%	64%
Equity Ratio	39%	39%	40%	40%
FFO/Net Debt	13%	13%	14%	14%
Valuation Metrics				
P/E	17.6x	16.8x	15.7x	14.6x
Price/Book	1.6x	1.5x	1.4x	1.4x
Segment EPS				
Gas Distribution	$1.06	$1.12	$1.20	$1.27
NIPSCO Electric	0.56	0.56	0.57	0.60
Parent & Other	(0.32)	(0.32)	(0.31)	(0.30)
Total EPS	**$1.30**	**$1.36**	**$1.46**	**$1.57**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2020E	2021E	2022E	2023E
Capital Spending by Segment ($M)				
Gas Distribution	$1,261	$1,446	$1,446	$1,396
Electric	472	487	487	847
Parent	25	25	25	25
Total Capex	**$1,758**	**$1,958**	**$1,958**	**$2,268**
Financings ($M)				
Total Equity Issued/(Repurchased)	$298	$298	$298	$298
Total Debt Issued/(Repurchased)	$150	$500	$550	$750

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland and Massachusetts.

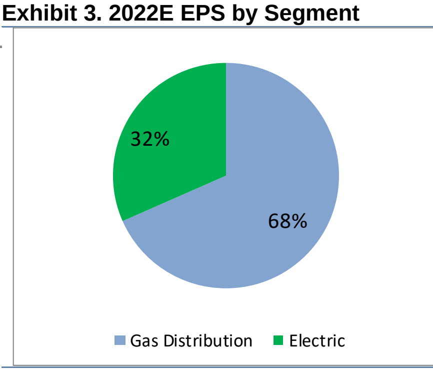
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of capital investment with recovery largely through trackers in mostly constructive regulatory environments. We see NI as a de-risking story in 2020 with an upward bias on rate base / EPS growth due to renewable investment opportunities at NIPSCO electric.

Valuation

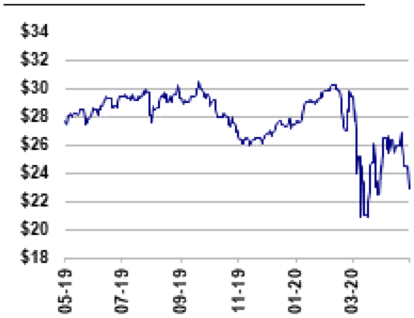
Our $26 price target is derived using a P/E multiple of 17.5x on our 2022E. This reflects a full-turn premium for NI's electric utility and an average for its gas LDCs. Risks for NiSource are 1) bad regulatory outcomes and 2) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer growth

Exhibit 3. 2022E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: FactSet

WOLFE RESEARCH

NiSource

May 6, 2020

Investment Conclusion

We are Outperform rated on NiSource. The company's $30B capital investment backlog should drive its 5-7% annual earnings target over the long term. Most of the company's annual capex (~80%) is recovered with minimal lag via tracking mechanisms and the company has built a constructive track record with most of its state regulators. We see exiting from Massachusetts as an inflection point for the stock that should allow NI to re-rate closer to its historic 5-10% premium over time. Further, we see an upward bias on NI's 5-7 EPS growth rate long-term due to renewable opportunities at NIPSCO electric which should come into view later this year.

Exhibit 5: Regulated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2020E	P/E 2021E	P/E 2022E	P/E 2023E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Alliant Energy	LNT	$46.34	245	$11,364	19.1x	18.1x	17.2x	16.3x	3.2%	6.0%	62%	2.2x	45%
Ameren	AEE	70.10	247	17,295	20.1x	18.6x	17.4x	16.5x	2.9%	4.0%	59%	2.1x	45%
American Electric	AEP	78.84	495	39,013	18.1x	17.0x	15.9x	15.1x	3.6%	4.5%	64%	2.0x	39%
Avangrid	AGR	41.64	309	12,887	18.5x	16.7x	15.4x	N/A	4.3%	2.5%	80%	0.8x	65%
CMS Energy	CMS	54.79	286	15,682	21.1x	19.3x	17.9x	16.7x	3.0%	6.5%	63%	3.0x	27%
Con Edison	ED	74.55	334	24,898	17.2x	16.3x	15.7x	15.1x	4.1%	3.5%	71%	1.4x	44%
Duke Energy	DUK	80.22	734	58,880	15.5x	14.7x	14.1x	13.4x	4.8%	2.0%	74%	1.3x	43%
Edison International	EIX	54.18	364	19,698	12.1x	11.7x	11.0x	10.3x	4.6%	0.2%	56%	1.5x	38%
Entergy	ETR	92.77	201	18,630	16.5x	15.6x	14.7x	N/A	4.1%	2.2%	68%	1.8x	34%
Evergy	EVRG	54.86	227	12,435	17.8x	16.9x	16.3x	15.5x	3.7%	6.2%	66%	1.5x	46%
Eversource Energy	ES	76.79	330	25,366	20.9x	19.7x	18.6x	17.7x	3.0%	6.1%	62%	2.0x	45%
FirstEnergy	FE	40.12	542	21,732	16.2x	15.2x	14.6x	13.8x	3.9%	2.6%	63%	3.2x	24%
Fortis*	FTS	54.29	464	25,201	21.2x	19.1x	18.0x	17.1x	3.6%	6.0%	75%	1.5x	44%
NiSource	NI	22.92	383	8,771	17.6x	16.8x	15.7x	14.6x	3.7%	6.0%	65%	1.9x	40%
PG&E	PCG	11.56	530	6,122	7.3x	11.2x	9.6x	N/A	0.0%	N/A	0%	1.1x	57%
Pinnacle West	PNW	72.13	112	8,114	14.8x	13.9x	13.2x	12.6x	4.4%	6.0%	65%	1.5x	48%
Portland General	POR	43.50	89	3,893	18.2x	16.7x	15.7x	15.4x	3.5%	1.5%	64%	1.5x	49%
PPL Corp.	PPL	24.36	768	18,709	10.4x	9.9x	9.1x	N/A	6.8%	0.6%	71%	1.4x	36%
Southern Company	SO	53.75	1,056	56,752	17.0x	16.3x	15.0x	13.9x	4.8%	3.2%	81%	2.0x	36%
WEC Energy Group	WEC	85.22	315	26,880	22.8x	21.4x	20.0x	18.8x	3.0%	7.2%	68%	2.6x	45%
Xcel Energy	XEL	61.39	525	32,229	22.1x	20.8x	19.5x	18.4x	2.8%	6.0%	62%	2.4x	39%
Average					**17.4x**	**16.5x**	**15.5x**	**15.3x**	**3.7%**	**4.1%**	**64%**	**1.8x**	**42%**
Average (ex EIX, PCG, PPL)					**18.6x**	**17.4x**	**16.4x**	**15.7x**	**3.7%**	**4.6%**	**67%**	**1.9x**	**42%**

Source: Wolfe Research, FactSet

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BofA SECURITIES

NiSource Inc

Cautiously weighing Covid impact amid cost reduction drive

Maintain Rating: NEUTRAL | PO: 27.00 USD | Price: 22.92 USD

Too soon to tell how sales impacted, *even April unclear*

NI mgmt. offered a decidedly cautious update with its Q1 report, notably *not reaffirming its previous 2021 earnings floor of $1.36-1.40/sh*, while maintaining an expectation of 5-7% growth over the long term off unknown 2021 serving as base year. The company acknowledges that sales will be affected by Covid stay-at-home orders, but declined to quantify expectations citing limited data (even Apr was not disclosed) and different re-opening trajectories across the six states that make up its territory. Mgmt. cautioned against using 2008-09 declines as a read-through given different factors in place in the current situation (e.g. shifts in customer mix & industrial rate structure particularly after Rate 831; recovery may be uneven across sectors & geographies). Recall in our recent downgrade of NI we reduced '21 to the bottom end of the earnings floor, see more here.

Cost cuts – how much extra latitude to offset sales?

Mgmt. still expects to close the CMA sale in Q3, on track with previous guidance. As cost cutting was already included in the plan to adjust for dis-synergies of the transaction, Covid thus has potential to create a further headwind on 2020 results. Accordingly we see NI as having relatively less room to make further O&M cuts to offset lost sales and higher expenses including bad debt (both acknowledged on the call but not quantified) – a contrast to utility peers such as WEC who included confident cost cutting outlooks as part of their quarterly update. While specific targets were not included, the company asserts that reducing costs in response to Covid is an additional (& available) short-term lever under review – in contrast to asset sale-related cost reductions which are envisioned as more permanent in nature, cuts in response to lost sales would entail altering the timing of scheduled maintenance and related items. While mgmt. remained light on specifics we perceive latitude here for mitigating short-term impacts.

Lack of disclosure is unique among peers

We see lack of sales details & specifics on cost cuts as concerning given more specific programs from peers already (despite admittedly less exposure given ~half gas LDC). We also voice concern on PA rate case filing against current economic backdrop. Our ests (prev reduced to reflect Covid) and $27 PO remain unchanged. Maintain Neutral rating given discount vs peers.

Estimates (Dec)

(US$)	2018A	2019A	2020E	2021E	2022E
EPS	1.30	1.32	1.29	1.36	1.47
GAAP EPS	1.30	1.32	1.29	1.36	1.47
EPS Change (YoY)	7.4%	1.5%	-2.3%	5.4%	8.1%
Consensus EPS (Bloomberg)			1.33	1.41	1.51
DPS	0.79	0.83	0.88	0.94	0.99

Valuation (Dec)

	2018A	2019A	2020E	2021E	2022E
P/E	17.6x	17.4x	17.8x	16.9x	15.6x
GAAP P/E	17.6x	17.4x	17.8x	16.9x	15.6x
Dividend Yield	3.4%	3.6%	3.9%	4.1%	4.3%
EV / EBITDA*	15.5x	13.4x	13.1x	12.2x	11.5x
Free Cash Flow Yield*	-14.6%	-2.5%	-7.8%	-6.8%	-5.8%

* For full definitions of *iQmethod* SM measures, see page 6.

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4. 12138251

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07 May 2020

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Stock Data

Price	22.92 USD
Price Objective	27.00 USD
Date Established	30-Apr-2020
Investment Opinion	B-2-7
52-Week Range	19.56 USD - 30.67 USD
Mrkt Val (mn) / Shares Out (mn)	8,771 USD / 382.7
Average Daily Value (mn)	73.52 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2020E)	9.2%
Net Dbt to Eqty (Dec-2019A)	158.6%

C&I: Commercial and Industrial

CMA: Columbia Gas of Mass.

iQprofile℠ NiSource Inc

iQmethod ℠ – Bus Performance*					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Return on Capital Employed	3.9%	4.3%	4.1%	4.2%	4.3%
Return on Equity	10.1%	9.9%	9.2%	9.2%	9.5%
Operating Margin	18.3%	20.2%	20.0%	20.8%	21.6%
Free Cash Flow	(1,278)	(219)	(685)	(593)	(510)

iQmethod ℠ – Quality of Earnings*					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Cash Realization Ratio	1.2x	3.2x	2.4x	2.4x	2.3x
Asset Replacement Ratio	3.0x	2.5x	2.5x	2.4x	2.2x
Tax Rate	19.7%	17.1%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	156.7%	158.6%	143.1%	143.1%	142.0%
Interest Cover	2.6x	2.8x	2.8x	2.8x	3.0x

Income Statement Data (Dec)					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Sales	5,084	5,184	5,369	5,547	5,731
% Change	4.3%	2.0%	3.6%	3.3%	3.3%
Gross Profit	3,325	3,649	3,780	3,935	4,094
% Change	-0.9%	9.8%	3.6%	4.1%	4.1%
EBITDA	1,531	1,764	1,813	1,936	2,064
% Change	3.4%	15.2%	2.8%	6.8%	6.6%
Net Interest & Other Income	(335)	(384)	(379)	(408)	(415)
Net Income (Adjusted)	463	495	493	535	595
% Change	16.6%	6.8%	-0.3%	8.4%	11.3%

Free Cash Flow Data (Dec)					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Net Income from Cont Operations (GAAP)	463	495	493	535	595
Depreciation & Amortization	600	717	742	783	827
Change in Working Capital	110	(75)	(186)	(186)	(186)
Deferred Taxation Charge	(188)	118	116	125	104
Other Adjustments, Net	(445)	328	0	0	0
Capital Expenditure	(1,818)	(1,802)	(1,850)	(1,850)	(1,850)
Free Cash Flow	-1,278	-219	-685	-593	-510
% Change	-34.0%	82.9%	-212.5%	13.4%	14.0%

Balance Sheet Data (Dec)					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Cash & Equivalents	121	148	165	181	197
Trade Receivables	1,147	905	1,092	1,278	1,464
Other Current Assets	787	800	800	800	800
Property, Plant & Equipment	15,543	16,912	17,020	18,087	19,109
Other Non-Current Assets	4,206	3,894	3,894	3,894	3,894
Total Assets	21,804	22,660	22,970	24,239	25,464
Short-Term Debt	2,027	1,787	2,203	2,363	2,511
Other Current Liabilities	2,010	1,959	1,959	1,959	1,959
Long-Term Debt	7,105	7,856	7,180	7,700	8,183
Other Non-Current Liabilities	4,911	5,071	5,187	5,313	5,416
Total Liabilities	16,053	16,673	16,530	17,334	18,070
Total Equity	5,751	5,987	6,440	6,905	7,394
Total Equity & Liabilities	21,804	22,660	22,970	24,239	25,464

* For full definitions of *iQmethod*℠ measures, see page 6.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

NI's positives include 5-7% earnings/dividend growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries. We have factored in resolution of overhang from the MA incident as the company will likely sell 3Q. However, NI has C&I demand risk from COVID, which will be difficult to offset with O&M cuts due to promises already around cost cuts to balance CMA sale. We see shares valued appropriately and rate Neutral.

Stock Data

Average Daily Volume	3,189,679

Quarterly Earnings Estimates

	2019	2020
Q1	0.82A	0.75E
Q2	0.05A	0.79E
Q3	0A	0.02E
Q4	0.45A	-0.11E

More unknowns in the near term than most

With shares underperforming the XLU by several percentage points following the Q1 call, we perceive investor anxiety around quantifying several known unknowns in the 2020-21 timeframe as NI balances its CMA disposition, Covid response, and preparing to set a baseline for its long-term outlook. Below we summarize the key debates emerging from the Q1 call:

- **April sales trends remain unclear.** We stress that NI is an outlier among utilities in our coverage that have reported so far in that mgmt. did not provide a specific update on sales in the month of April. Electric sales have broadly shown residential sales up mid-to-high single digits with commercial and industrial sales down by double digits – albeit individual utilities' results vary by specific geography and composition of the customer base. As such, we perceive investors were surprised by a lack of an update on this front. With April historically a shoulder month for natural gas sales this is admittedly less of an area of focus. Mgmt. highlighted that Q1 sales (largely unaffected by Covid) were down 6.5% y/y for industrial customers largely because of a rate structure change whereby energy intensive customers purchase directly via the wholesale market.

- **Will 2021 base remain at $1.36-1.40?** In lieu of 2020 earnings guidance resulting from the pending CMA sale, mgmt. had established an "earnings floor" of $1.36-1.40 for 2021 which would serve as the baseline for the long-term 5-7% earnings forecast**.** Mgmt. asserted that it remains early days in terms of measuring the Covid impact on its sales in 2020 and the company continues to assess the earnings and cash flow fallout. Given the ongoing uncertainties mgmt. did not reaffirm the 2021 floor, targeting Q3 for a long-term update including its capex plan beyond 2022.

- **Can capex inflect post-2020?** Mgmt. framed the $100m capex reduction in 2020 as a cash flow management effort in light of the unfolding Covid situation. While long-term spending plans are still being developed and are not expected to be released until Q3 at the earliest, mgmt. stopped short of affirming that the $100m will be delayed into subsequent years. o Given lack of clarity on future years' capex, we keep the prior guidance from 3Q19 in our numbers ($1.7bn - $2.0bn annually for '21-'22 that we extend for future years as well). Recall our FFO/debt reconciliation for '20 and years beyond is in the 13-15% range, slightly lower than the previously targeted 14-15% in the next few years. We see this as a potential sensitivity the company will have to address in future calls as well.

Bottom line: NI mgmt. indicated less clarity into its 2020 earnings (and 2021 guidance) than many utility peers. We don't see this as particularly surprising given the additional consideration of an asset sale and ongoing litigation – though we sense investors are clamoring for sales disclosures covering the first weeks of the Covid shut down at a minimum, in line with those provided by peers. We maintain our Neutral rating.

See our recent research below:

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
NiSource Inc: Downgrade to Neutral: Tapped out on savings at the wrong time?	Julien Dumoulin-Smith	30 April 2020
NiSource Inc: Beantown update: Tweaking ests to better reflect dis-synergies & LT uptick	Julien Dumoulin-Smith	06 March 2020
NiSource Inc: Adjusting earnings to reflect Bay State Sale: Reiterate Buy	Julien Dumoulin-Smith	28 February 2020
NiSource Inc: Results Delayed Amid Boston Official Press Conf: Co. to Sell Columbia Gas	Julien Dumoulin-Smith	26 February 2020

Price objective basis & risk

NiSource Inc (NI)

Our $27 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2022 forward P/E multiples of 17.8x for gas utilities and 17.2x for electric utilities with an inline mult for gas utilities with just weather normalization, a 0.5x prem for gas utes with revenue normalization (prev 0x), and a 1.0x premium for the electric utility's strong growth rates (we factor in BOT in '24 EPS) but acknowledgement of industrial risk (prev 2x). We note that electric / gas peer P/E multiples are grossed up by 5% / 5.1% to reflect capital appreciation across the sector. We strip value from Columbia Gas of MA given the pending sale to close in 3Q20. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

NiSource Inc NI (XNYS)

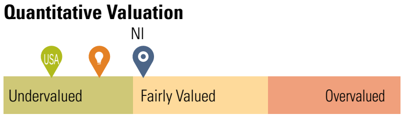
Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	22.92 USD	26.00 USD	0.88	3.58	3.66	8.77	Utilities - Regulated Gas	Standard
06 May 2020 21:49, UTC	06 May 2020	07 May 2020 13:19, UTC		06 May 2020	06 May 2020	06 May 2020		

Morningstar Pillars

	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★★★	Fairly Valued
Uncertainty	Low	High
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.96	1.05	0.89	0.83
Price/Earnings	26.3	34.0	14.8	20.1
Forward P/E	17.4	—	13.7	13.9
Price/Cash Flow	5.4	9.8	6.5	13.1
Price/Free Cash Flow	—	75.8	13.1	19.5
Trailing Dividend Yield%	3.58	3.16	3.68	2.35

Source: Morningstar

Bulls Say

- We expect annual dividend growth to average near 5% from 2022 to 2024 after the impact of COVID-19 fades.
- We believe the separation of the Columbia Pipeline Group from NiSource was good shareholder stewardship, as the market valued the individual businesses more highly at the time of the separation.
- New legislation has improved the regulatory framework in Indiana for NiSource's electric and natural gas distribution utilities.

Bears Say

- Industrial customers account for over half of NiSource's electric sales, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- NiSource's electric and natural gas distribution businesses have substantial commercial and industrial customer exposure, increasing the impact of the COVID-19 pandemic.
- NiSource issued almost $2 billion of common and preferred shares in 2018 and 2019. The additional shares will be a headwind to EPS growth.

Important Disclosure:
The conduct of Morningstar's analysts is governed by Code of Ethics/Code of Conduct Policy, Personal Security Trading Policy (or an equivalent of), and Investment Research Policy. For information regarding conflicts of interest, please visit http://global.morningstar.com/equitydisclosures

Safety-Related O&M, COVID-19, and Weak Industrial Demand Pressure NiSource's Earnings Growth

Business Strategy and Outlook

Charles Fishman, CFA, Eq. Analyst, 07 May 2020

NiSource completed its separation from Columbia Pipeline Group in 2015 and now derives all of its operating revenue from its regulated electric and natural gas distribution utilities. About 60% of operating income comes from its six natural gas distribution utilities. The remaining 40% comes from its electric utility business in Indiana.

NiSource's utilities have regulatory frameworks that include the automatic rate tracker mechanisms, with almost 80% of planned capital expenditures, providing recovery of investments in less than 18 months. As a result of the favorable regulation, we expect NiSource to step up its capital expenditures to almost $2 billion per year over the next five years. This is an investment level almost double the previous five years.

Over the next 20 years, NiSource plans to invest about $30 billion in infrastructure improvements. Over 50% of these investments are modernization programs for replacing steel and cast-iron pipe with plastic at its natural gas distribution utilities. Almost all of these investments receive rate tracker treatment. This allows NiSource to earn returns on these investments near allowed returns and consistently above its cost of capital.

In September 2018, a natural gas explosion killed one person north of Boston on NiSource's Columbia Gas of Massachusetts system. Insurance should cover roughly one half of the almost $2 billion of claims, penalties and other expenses, but the event was a public relations nightmare. On Feb. 27, 2020, NiSource announced the sale of the Massachusetts utility for $1.1 billion. The transaciton will avoid a planned $500 million block equity issuances.

Although the economic impact from the COVID-19 pandemic will pressure earnings in 2020 and 2021 due in part to NiSource's high share of commercial and industrial customers, we expect a rebound in EPS to near the midpoint of management's 5%-7% target from 2022 to 2024. We estimate 5% dividend growth from 2022-24 after the impact of COVID-19 and higher saftey-related O&M costs are incorporated in rates.

Analyst Note

Charles Fishman, CFA, Eq. Analyst, 07 May 2020

We are reducing our fair value estimate to $26 per share from $27 after NiSource reported 2020 first-quarter operating EPS of $0.76 versus $0.82 last year, reduced its 2020 capital expenditure forecast by $100 million, and made comments less supportive of future earnings growth.

The weak results were due in large part to higher safety-related operating and maintenance costs, mild weather, and weaker industrial electricity demand. COVID-19-related costs were not material in the recently ended quarter.

In March, we reduced our five-year capital expenditure estimate by $500 million, approximately 5%, to $9.5 billion due to our assumption of the impact of COVID-19 on investment. Driven by the lower 2020 guidance and our assumption of the continuing impact of COVID-19, we reduced our five-year investment forecast by another $250 million, to approximately $9.25 billion.

Although NiSource had previously indicated earnings guidance would not be provided until after the closing of the Columbia of Massachusetts transaction later this year, it was disappointing that management declined to support previous comments that 2021 operating earnings would be at least equal to the lower end of the previous range for 2020, or $1.36 per share.

Driven by lower capital investment and our assumption that higher O&M and weak industrial electricity demand will drag into next year, we reduced our 2021 EPS estimate to $1.30 from $1.35. Management did reaffirm that when 2021 guidance is established later this year, it will be the base for long-term annual EPS growth of 5%-7%. We estimate annual EPS growth of 6% from our new 2021 estimate, in line with this guidance.

However, starting from a lower 2021 earnings base

NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	22.92 USD	26.00 USD	0.88	3.58	3.66	8.77	Utilities - Regulated Gas	Standard
06 May 2020 21:49, UTC	06 May 2020	07 May 2020 13:19, UTC		06 May 2020	06 May 2020	06 May 2020		

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
WEC Energy Group Inc WEC	USD	26,793	7,523	20.36	23.09
CMS Energy Corp CMS	USD	15,645	6,650	18.77	21.93
Alliant Energy Corp LNT	USD	11,322	3,648	21.32	19.80

reduces our annual earnings growth for 2019-24 to 3.3% from our previous estimate of 4.8%. This lower earnings growth was the primary driver for our lower fair value estimate.

Economic Moat

Charles Fishman, CFA, Eq. Analyst, 07 May 2020

Service territory monopolies and efficient scale advantages are the primary moat sources for NiSource's regulated utilities. State and federal regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their infrastructure. In exchange for regulated utilities' service territory monopolies, state and federal regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow NiSource's regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing.

NiSource derives roughly 60% of its operating earnings from the regulated distribution of natural gas. For natural gas distribution service, regulators set distribution rates and the commodity price for customers purchasing natural gas from NiSource. NiSource recovers its costs for natural gas that it sells with a pass-through charge to customers. Thus, NiSource has no commodity price risk that could weaken its moat. Customers may elect to purchase natural gas from independent retail energy suppliers and use and pay for distribution services only. NiSource exited the no-moat retail energy supply business in 2010.

Electricity generation, which contributes about 40% of operating earnings, is from operations in Indiana and is also regulated. The rates for this service are combined with regulated customer rates for transmission and distribution service. In exchange for its monopoly position, state and federal regulators set NiSource's electric rates.

Fair Value & Profit Drivers

Charles Fishman, CFA, Eq. Analyst, 07 May 2020

We are reducing our fair value estimate to $26 per share from $27 after NiSource reported 2020 first-quarter operating EPS of $0.76 versus $0.82 last year, reduced its 2020 capital expenditure forecast by $100 million, and made comments less supportive of future earnings growth.

In March, we reduced our five-year capital expenditure estimate by $500 million, approximately 5%, to $9.5 billion due to our assumption of the impact of COVID-19 on investment. Driven by the lower 2020 guidance and our assumption of the continuing impact of COVID-19, we reduced our five-year forecast by another $250 million, to approximately $9.25 billion.

Although NiSource had previously indicated earnings guidance would not be provided until after the closing of the CMA transaction later this year, it was disappointing that management declined to support previous comments that 2021 operating earnings would be at least equal to the lower end of the previous range for 2020, or $1.36 per share.

Driven by lower capital investment and our assumption that higher O&M and weak industrial electricity demand will drag into next year, we reduced our 2021 EPS estimate to $1.30 from $1.35. Management did reaffirm that when 2021 guidance is established later this year, it will be the base for long-term annual EPS growth of 5%-7%. We estimate annual EPS growth of 6% from our new 2021 estimate, in line with this guidance.

However, starting from a lower 2021 earnings base reduces our annual earnings growth for 2019-24 to 3.3% from our previous estimate of 4.8%. This lower earnings growth was the primary driver for our lower fair value estimate.

We use a 5.9% cost of capital in our discounted cash flow valuation, which incorporates a 7.5% cost of equity. Our cost of equity is lower than the 9% rate of return we expect investors will demand of a diversified equity portfolio. We believe our cost of equity reflects the risk associated with regulated electric and natural gas distribution utilities operating in states that have average to above-average

NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 06 May 2020 21:49, UTC	22.92 USD 06 May 2020	26.00 USD 07 May 2020 13:19, UTC	0.88	3.58 06 May 2020	3.66 06 May 2020	8.77 06 May 2020	Utilities - Regulated Gas	Standard

regulatory frameworks.

Our pretax cost of debt assumption is 5.8%, as we incorporate a normalized long-term real rate environment and normalized credit spreads. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Our fair value estimate implies a 20 times multiple on 2021 earnings. This is in line with market valuations for peer combination electric and gas distribution utilities in early May.

Risk & Uncertainty

Charles Fishman, CFA, Eq. Analyst, 07 May 2020

Regulatory risk remains the key uncertainty; however, NiSource's regulatory exposure is diversified, owing to operations in seven states and its federal-regulated electric transmission system. NiSource has reduced some of the regulatory uncertainty related to its planned natural gas distribution and electric utilities investments by securing preapprovals and favorable rate mechanisms that provide for automatic rate increases as infrastructure investments are made.

In 2018, NiSource announced it would eliminate all coal-fired generation from its power plant fleet within 10 years. This transition will require signing power purchase agreements for renewable energy; building new gas-fired power plants and solar and wind farms; and making modifications to its electric grid. There is a modest amount of execution risk to this dramatic transition from coal.

Stewardship

Charles Fishman, CFA, Eq. Analyst, 07 May 2020

We assign NiSource a Standard stewardship rating. We think management's decision to form Columbia Pipeline Partners and execute CPG's tax-free separation exhibited exemplary stewardship of shareholder capital. However, the CEO who probably drove those decisions left NiSource to go with CPG before he retired.

The National Transportation Safety Board found NiSource responsible for the tragic gas explosion north of Boston. The incident had a negative effect on shareholder value and has been a public relations nightmare. The good news is that management found a buyer for the utility at an attractive purchase price for NiSource shareholders. We expect the transaction to close in late 2020.

Joe Hamrock became CEO following the separation. He has been with NiSource since 2012 and previously ran the natural gas distribution business. Before joining NiSource, he was with American Electric Power. CFO Donald Brown joined NiSource in April 2015. Previously, he was with UGI Utilities and Constellation Energy. These individuals have significant utility experience, and we believe they will not stray from the strategy that has benefited shareholders.

Most of the members of NiSource's board of directors were involved in the separation of CPG and oversight of investment decisions. Given this, we are confident that the solid stewardship of shareholder capital is likely to continue.

NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
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06 May 2020 21:49, UTC	06 May 2020	07 May 2020 13:19, UTC		06 May 2020	06 May 2020	06 May 2020		

Analyst Notes Archive

We Like NiSource's Decision to Sell Columbia Gas of Massachusetts

Charles Fishman, CFA, Eq. Analyst, 28 February 2020

We are reaffirming our $27.50 per share fair value estimate after narrow-moat NiSource reported solid 2019 operating EPS, announced the sale of Columbia Gas of Massachusetts, and pulled its 2020 earnings guidance. Eversource Energy is acquiring the Massachusetts gas distribution utility for $1.1 billion, a price we estimate is roughly 24 times normalized earnings and in line with recent natural gas distribution transactions.

However, we doubt the utility has come anywhere near this level of earnings contribution following the tragic natural gas explosion that killed one person north of Boston in September 2018. The incident has resulted in close to $2 billion of claims, penalties and other expenses (roughly one-half of the costs should be covered by insurance) and has been a significant distraction for management and a public relations nightmare.

In our opinion, the decision to sell the Massachusetts utility was good stewardship of shareholder capital as regulatory, political and customer relationships would likely be strained for years. The roughly $1 billion of proceeds will allow NiSource to forgo a $500 million block equity issuance that had been planned for later this year.

Although pulling earnings guidance, management was confident that the company could return to its long-term target of 5%-7% EPS growth, off a new 2021 earnings base, following the completion of the transaction. Our revised earnings estimates result in approximately 6% EPS growth from 2021-2024.

On January 31, NiSource increased its dividend by 5% and we expect increases in line with EPS growth for the foreseeable future. In our opinion, the dividend is secure and provides a yield of approximately 3% at the February 27 market closing price.

COVID-19 Could Slow Utilities' Near-Term Growth but Long-Term Outlook Still Bright

Travis Miller, Strategist, 26 March 2020

After assessing COVID-19 data and commentary from utilities this week, we still believe the sector offers buying opportunities for defensive, income-seeking investors. U.S. utilities trade at a median 10% discount to our fair value estimates and 3.5% yield even after rallying 23% on March 24-26.

Although some utilities reaffirmed their outlooks this week, we think 2020 earnings for many utilities will be at the low end or below management guidance ranges due to COVID-19 issues. We expect near-term lower commercial and industrial energy demand, tighter financing, growth project delays, and higher expenses. We are reaffirming our moat and moat trend ratings.

Utilities with a large share of C&I customers, usage-based rates, and less-adaptive ratemaking have the most near-term risk. Among these are Southern Company, Entergy, American Electric Power, Duke Energy, Evergy, and Ameren. Utilities with non-utility businesses such as DTE Energy, CenterPoint, and OGE also could face weaker near-term earnings. Our updates led to 2%-5% fair value estimate cuts.

Utilities with more residential customers, usage-decoupled rates, and forward-looking rate structures are less at risk. These include Edison International, Eversource Energy, NextEra Energy, and American Water Works.

We expect most utilities to shift 5%-10% of their 2020 growth investments into 2021-22 due to tight capital and labor markets. In general, this shift has little or no impact on our fair value estimates or long-term outlooks. We don't believe COVID-19 will impact utilities' policy-based investments in safety, clean energy, and grid modernization that support our long-term growth outlooks.

COVID-19 shutdowns might reduce U.S. C&I electricity demand more than the record 5.5% drop in mid-2009. In China, government data suggests electricity demand is down more than 8% year to date. European countries reported 2%-7% drops in electricity use last week. C&I demand is about 60% of total U.S. electricity use.

Trouble For U.S. Gas Utilities Has Been Simmering; New York Just Made it Worse

Travis Miller, Strategist, 29 March 2020

Policymakers--not COVID-19 or global energy markets--are becoming the biggest threat for gas distribution utilities.

Earlier this month, New York regulators asked the state's

NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	22.92 USD	26.00 USD	0.88	3.58	3.66	8.77	Utilities - Regulated Gas	Standard
06 May 2020 21:49, UTC	06 May 2020	07 May 2020 13:19, UTC		06 May 2020	06 May 2020	06 May 2020		

utilities to review ways to reduce or eliminate gas infrastructure. Areas of California have banned new gas service. If anti-gas policies like these spread, it could hurt the industry's long-term growth.

Total returns for U.S. utilities with sizable gas operations are down 19% during the last six months, compared with 14% down for the Morningstar U.S. utilities index. New Jersey Resources, CenterPoint Energy, Atmos Energy, NiSource, and DTE Energy recently traded well below our fair value estimates.

We think states with aggressive clean energy policies are most likely to push customers away from gas. Sixteen states have 100% clean energy targets. We expect renewable energy to grow 8% annually during the next decade.

We believe New Jersey Resources faces the most risk since the bulk of its earnings come from residential gas service in a state with aggressive clean energy policy. New Jersey policymakers support gas use for now, but we anticipate that could change in the next decade. We recently cut our long-term growth rate assumption for NJR to 3% from 4%, lowering our fair value estimate to $37 per share from $39.

New York City's Consolidated Edison and California utilities Sempra Energy and PG&E also face risk but have larger electric distribution businesses that could benefit from electric growth. We think there is less risk for gas utilities in the Southeast and Midwest where Republicans in five states have proposed legislation that would prohibit gas bans.

Acquisition premiums that had inflated gas utilities' valuations also have faded. Eversource Energy recently paid 24 times earnings for Columbia Gas. This is still rich but below deal values for Piedmont (30 P/E), Peoples Gas (30 P/E), and WGL (26 P/E). M&A premiums don't affect our fair value estimates.

NiSource's Heavy C&I Customer Exposure Increases Impact Of COVID-19

Charles Fishman, CFA, Eq. Analyst, 30 March 2020

We are reducing our fair value estimate to $27 per share from $27.50 for NiSource due to the impact of COVID-19 on earnings and capital investment. On Feb. 28, NiSource pulled earnings guidance following the agreement to sell its troubled Columbia Gas of Massachusetts unit. However, management expressed confidence it could achieve 5%-7% EPS growth off a new 2021 base when guidance was reestablished.

We expect earnings growth to rebound to near the top end of guidance from 2022-2024. However, COVID-19 changes our estimate of the 2021 EPS base, which we lowered by $0.08, to $1.35.

Supply chain disruptions and staffing issues will make it difficult for NiSource to fully execute our five-year, $10 billion capital expenditures estimate and we reduced it by 5%, or $500 million. Less investment translates into lower-rate base growth and earnings.

Northern Indiana Public Service Company, contributing about 40% of earnings and heavily dependent on commercial and industrial, or C&I, customers, will experience significantly reduced sales following Indiana's stay-at-home order. In 2019, C&I customers represented about 78% of retail electric sales.

NiSource's gas utilities, about 60% of earnings, will also be affected by stay-at-home orders in Ohio, Pennsylvania, and Indiana. In 2019, C&I sales represented about 70% of sales and transportation volumes.

Bad debt/uncollectible expense will also pressure near-term earnings. On March 19, the Edison Electric Institute announced that all members have suspended electricity disconnections. NiSource is a member of EEI.

Operating expenses will increase as safety measures are instituted. Maintaining minimum staffing levels could be challenging and the increase in overtime costs. We expect most, but not necessarily all, expenses related to COVID-19 to eventually be recovered in rates. If COVID-19 costs become significant, regulators might allow cost-recovery deferrals or securitization, similar to large weather-related expenses.

Coronavirus and Utilities: Listening For Answers

Andrew Bischof, Sr. Eq. Analyst, 22 April 2020

Utilities' first-quarter earnings rarely offer much excitement, but this year will be different. We expect lively coronavirus commentary from utilities starting this week. We are maintaining our fair value estimates, moats, and moat trends.

NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	22.92 USD	26.00 USD	0.88	3.58	3.66	8.77	Utilities - Regulated Gas	Standard
06 May 2020 21:49, UTC	06 May 2020	07 May 2020 13:19, UTC		06 May 2020	06 May 2020	06 May 2020		

We expect to hear commentary from management teams on numerous COVID-19 concerns. Utilities with large commercial-industrial customers could see record-breaking demand drops. Rate structures are critical, and we expect earnings cuts for utilities with usage-based rates. Utilities have issued a surge of debt in March, providing plenty of near-term liquidity, but investors will look to see if it is enough to get them through the year. Dividends appear secure throughout the sector and offer good income value relative to fixed-income alternatives. Capital programs are key drivers for utility growth amid stalled supply chains, workforce shortages, or financing. Renewable energy programs are the least at risk in our view. Finally, higher operating costs will likely affect utilities. The key will be which regulators adapt their natural disaster recovery programs for COVID-19 costs.

We highlight two lists of utilities that investors should watch this earnings season, value and quality. Atypical volatility among utilities stocks during the last month has created a wide spread between the overloved and the underloved. Value stocks could get an outsize lift if management commentary pushes the market toward our more positive outlook. We highlight AES, Edison International, Duke Energy, Vistra Energy, and First Solar as value stocks to watch.

We expect the most consistency from high-quality utilities; if the market were to turn down, like in mid-March, investors should be ready to pounce. We think high-quality Dominion Energy, NextEra Energy, Southern Co., and WEC Energy Group are the best positioned to weather COVID-19.

Safety-Related O&M, COVID-19, and Weak Industrial Demand Pressure NiSource's Earnings Growth

Charles Fishman, CFA, Eq. Analyst, 07 May 2020

We are reducing our fair value estimate to $26 per share from $27 after NiSource reported 2020 first-quarter operating EPS of $0.76 versus $0.82 last year, reduced its 2020 capital expenditure forecast by $100 million, and made comments less supportive of future earnings growth.

The weak results were due in large part to higher safety-related operating and maintenance costs, mild weather, and weaker industrial electricity demand. COVID-19-related costs were not material in the recently ended quarter.

In March, we reduced our five-year capital expenditure estimate by $500 million, approximately 5%, to $9.5 billion due to our assumption of the impact of COVID-19 on investment. Driven by the lower 2020 guidance and our assumption of the continuing impact of COVID-19, we reduced our five-year investment forecast by another $250 million, to approximately $9.25 billion.

Although NiSource had previously indicated earnings guidance would not be provided until after the closing of the Columbia of Massachusetts transaction later this year, it was disappointing that management declined to support previous comments that 2021 operating earnings would be at least equal to the lower end of the previous range for 2020, or $1.36 per share.

Driven by lower capital investment and our assumption that higher O&M and weak industrial electricity demand will drag into next year, we reduced our 2021 EPS estimate to $1.30 from $1.35. Management did reaffirm that when 2021 guidance is established later this year, it will be the base for long-term annual EPS growth of 5%-7%. We estimate annual EPS growth of 6% from our new 2021 estimate, in line with this guidance.

However, starting from a lower 2021 earnings base reduces our annual earnings growth for 2019-24 to 3.3% from our previous estimate of 4.8%. This lower earnings growth was the primary driver for our lower fair value estimate.

Quantitative Equity Report | Release: 07 May 2020, 08:24 UTC | Reporting Currency: USD | Trading Currency: USD | Exchange:XNYS

NiSource Inc NI ★★★Q

07 May 2020 02:00 UTC

Last Close	Fair Value Q	Market Cap	Sector	Industry	Country of Domicile
06 May 2020	07 May 2020 02:00 UTC	06 May 2020			
22.92	23.86	8,771.1 Mil	Utilities	Utilities - Regulated Gas	USA United States

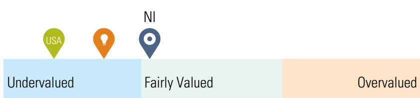
There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewables.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	94	92	89
Valuation	Fairly Valued	9	21	11
Quantitative Uncertainty	High	99	94	98
Financial Health	Moderate	59	26	59



Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.96	1.05	0.89	0.83
Price/Earnings	26.3	34.0	14.8	20.1
Forward P/E	17.4	—	13.7	13.9
Price/Cash Flow	5.4	9.8	6.5	13.1
Price/Free Cash Flow	—	75.8	13.1	19.5
Trailing Dividend Yield %	3.58	3.16	3.68	2.35
Price/Book	1.7	1.9	1.4	2.4
Price/Sales	1.7	1.7	1.4	2.4

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	6.6	4.5	9.8	12.9
Return on Assets %	1.5	1.0	3.3	5.2
Revenue/Employee (K)	622.9	605.0	1,274.9	325.9

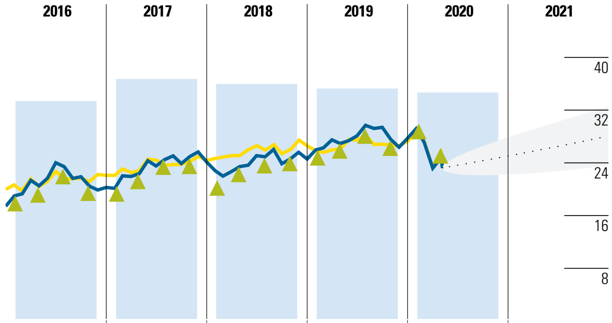
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.5	0.6	0.6	0.5
Solvency Score	762.5	—	584.9	552.4
Assets/Equity	3.8	4.3	2.6	1.7
Long-Term Debt/Equity	1.3	1.5	0.7	0.4

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	1.9	5.1	-0.2	-2.4
Operating Income %	936.7	14.7	10.5	5.0
Earnings %	—	-5.2	1.4	0.4
Dividends %	2.6	7.7	-4.7	-1.4
Book Value %	2.2	2.0	-7.3	-2.7
Stock Total Return %	-14.8	1.0	5.1	14.4

Price vs. Quantitative Fair Value

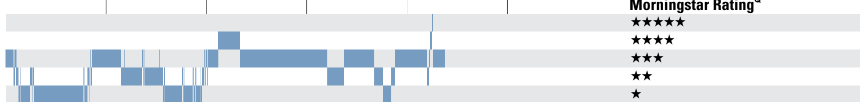


Momentum:	Negative
Standard Deviation:	16.01
Liquidity:	High

	52-Wk	
19.56	52-Wk	30.67
16.04	5-Yr	30.67

2016	2017	2018	2019	2020	2021	
16.8	19.1	1.8	13.0	-16.2		Total Return %
4.3	-2.4	6.8	-18.2	-4.2		+/– Market (Morningstar US Index)
2.89	2.73	3.08	2.87	3.58		Trailing Dividend Yield %
2.87	2.73	3.08	2.87	3.66		Forward Dividend Yield %
23.3	31.3	-87.7	22.6	26.3		Price/Earnings
1.7	1.7	1.8	2.0	1.7		Price/Revenue

Morningstar Rating Q

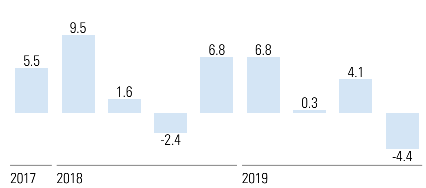


2015	2016	2017	2018	2019	TTM	Financials (Fiscal Year in Mil)
4,652	4,492	4,875	5,114	5,209	5,209	Revenue
-28.1	-3.4	8.5	4.9	1.8	0.0	% Change
802	857	916	126	1,305	1,305	Operating Income
-32.3	6.9	6.9	-86.3	936.7	0.0	% Change
287	332	129	-51	383	383	Net Income
1,457	803	742	540	1,583	1,583	Operating Cash Flow
-1,361	-1,475	-1,696	-1,818	-1,802	-1,802	Capital Spending
96	-672	-954	-1,278	-219	-219	Free Cash Flow
2.1	-15.0	-19.6	-25.0	-4.2	-4.2	% Sales
0.90	1.02	0.39	-0.18	0.87	0.87	EPS
-46.1	13.3	-61.8	-146.2	—	0.0	% Change
-1.28	-2.26	-2.47	-1.82	-2.64	-0.58	Free Cash Flow/Share
0.83	0.64	0.70	0.78	0.80	0.80	Dividends/Share
11.91	11.79	12.95	12.57	13.00	13.34	Book Value/Share
319,110	323,160	337,016	372,364	382,136	382,683	Shares Outstanding (K)
						Profitability
5.7	8.4	3.1	-1.4	6.6	6.6	Return on Equity %
1.4	1.8	0.7	-0.3	1.5	1.5	Return on Assets %
6.2	7.4	2.6	-1.3	6.3	6.3	Net Margin %
0.22	0.25	0.25	0.24	0.23	0.23	Asset Turnover
4.6	4.6	4.6	4.5	4.4	4.4	Financial Leverage
34.0	36.7	35.8	19.6	44.5	44.5	Gross Margin %
17.2	19.1	18.8	2.5	25.1	25.1	Operating Margin %
5,903	6,058	7,512	7,105	7,856	7,856	Long-Term Debt
3,844	4,071	4,320	5,751	5,987	5,987	Total Equity
0.3	0.4	0.4	0.3	0.3	0.3	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2019	1,869.8	1,010.4	931.5	1,397.2	5,208.9
2018	1,750.8	1,007.0	895.0	1,461.7	5,114.5
2017	1,598.6	990.7	917.0	1,368.3	4,874.6
2016	1,436.6	897.6	861.3	1,297.0	4,492.5
Earnings Per Share ()					
2019	0.55	0.75	-0.02	-0.41	0.87
2018	0.81	0.07	-0.95	-0.05	-0.18
2017	0.65	-0.14	0.04	-0.16	0.39
2016	0.56	0.09	0.08	0.27	1.02

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group (“we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

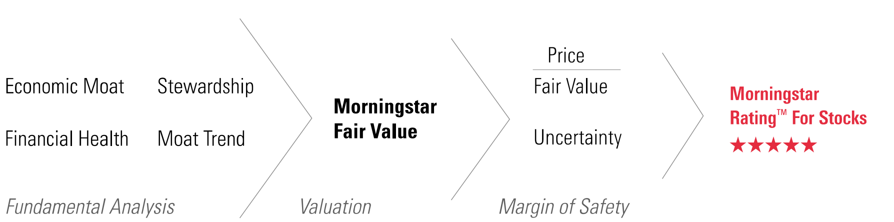
To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies



Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

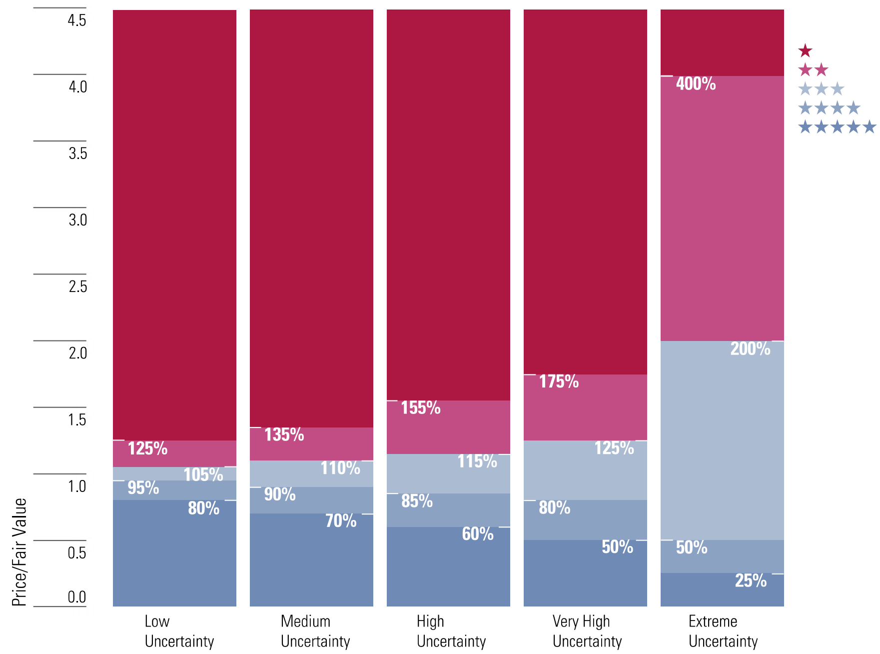
- ► Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ► Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ► High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ► Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ► Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.
Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ► Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- ► Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- ► Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview

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Quantitative Equity Ratings

Morningstar's quantitative equity ratings consist of:
(i) Quantitative Fair Value Estimate
(ii) Quantitative Star Rating
(iii) Quantitative Uncertainty
(iv) Quantitative Economic Moat
(v) Quantitative Financial Health
(collectively the "Quantitative Ratings").

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. (""Morningstar," "we," "our") calculates Quantitative Ratings for companies whether it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the quantitative fair value estimate using a statistical model derived from the fair value estimate Morningstar's equity analysts assign to companies. Please go to https://shareholders.morningstar.com for information about fair value estimates Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- ► Narrow: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- ► Wide: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- ► None: assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as 1-Star, 2-Star, 3-Star, 4-Star, and 5-Star.

★: the stock is overvalued with a reasonable margin of safety.
Log (Quant FVE/Price)<–1*Quantitative Uncertainty

★★: the stock is somewhat overvalued.
Log (Quant FVE/Price) between (–1*Quantitative Uncertainty, –0.5*Quantitative Uncertainty)

★★★: the stock is approximately fairly valued.
Log (Quant FVE/Price) between (–0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)

★★★★: the stock is somewhat undervalued.
Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)

★★★★★: the stock is undervalued with a reasonable margin of safety. Log (Quant FVE/Price) >1*Quantitative Uncertainty

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the quantitative fair value estimate. Generally, the lower the quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

- ► Low: the interquartile range for possible fair values is less than 10%.
- ► Medium: the interquartile range for possible fair values is less than 15% but greater than 10%.
- ► High: the interquartile range for possible fair values is less than 35% but greater than 15%.
- ► Very High: the interquartile range for possible fair values is less than 80% but greater than 35%.
- ► Extreme: the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- ► Weak: assigned when Quantitative Financial Health <0.2
- ► Moderate: assigned when Quantitative Financial Health is between 0.2 and 0.7
- ► Strong: assigned when Quantitative Financial Health >0.7

Research Methodology for Valuing Companies

Other Definitions

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This Report has not been made available to the issuer of the security prior to publication.

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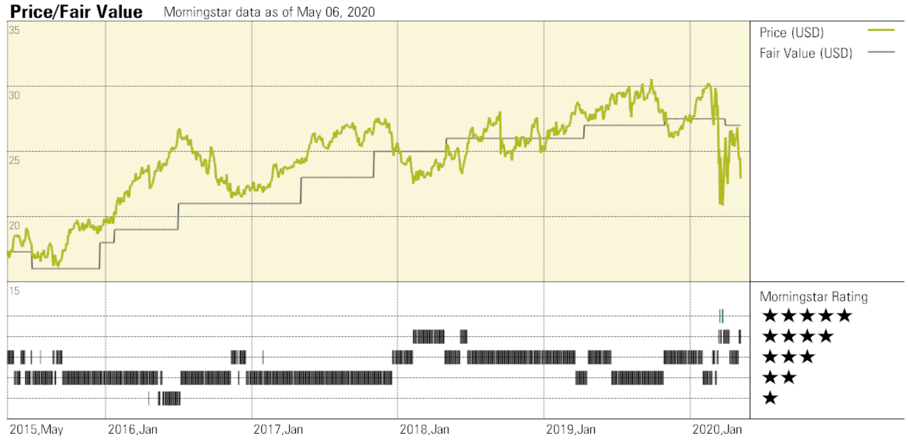
NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	22.92 USD	26.00 USD	0.88	3.58	3.66	8.77	Utilities - Regulated Gas	Standard
06 May 2020 21:49, UTC	06 May 2020	07 May 2020 13:19, UTC		06 May 2020	06 May 2020	06 May 2020		

Price/Fair Value Morningstar data as of May 06, 2020



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NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	22.92 USD	26.00 USD	0.88	3.58	3.66	8.77	Utilities - Regulated Gas	Standard
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Goldman Sachs | Equity Research

7 May 2020 | 1:15PM EDT

NiSource Inc. (NI): Favorable LT growth profile despite near-term electric demand pressure; remain Buy

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We reiterate our Buy rating on NiSource (NI) as we view favorably the companies' majority gas utility profile (~65% of consolidated operating income) with constructive regulatory mechanisms, which could help mitigate further demand impacts as we head into low gas/high electric usage months. While we recognize the potential near-term earnings pressure from its electric operations, we expect the company's robust investment pipeline to support largely unchanged 2022 earnings power versus prior to the current COVID-19 environment.

Indiana renewable projects could bolster LT growth. Beyond 2022, we see higher growth potential at NIPSCO Electric from potential ownership of replacement generation — largely renewables — that could bolster NI's 5-7% EPS growth rate. Management forecasts up to 50% ownership of 1.6 GW of capacity required by 2023, which could contribute over $0.10 (or ~8% based on 2022E) of incremental EPS assuming $1,000/kW construction cost. We expect additional clarity on potential ownership levels later this year.

We revise our 2020-2022 EPS estimates to $1.27/$1.38/$1.49 from $1.30/$1.39/$1.50. Our changes reflect 1) 1Q20 actuals, 2) lower capex in 2020 (~$1.8bn), and 3) timing of O&M management, but reflecting ~1% CAGR through 2022. We continue to embed our estimated electric demand impacts from 2020-2022 while not assuming any meaningful changes to gas demand. Finally, our model includes the MA gas utility operations coupled with $1bn of equity in 2020 (including $300mn of ATM), resulting in 14.1%/14.5% FFO/debt in 2021/2022, respectively (versus Moody's stated Baa2 threshold of 14%). Note that the company has recently announced the sale of its MA gas utility operations to Eversource.

Our $28 12-month price target (unchanged) embeds 20x our revised 2021 EPS estimate of $1.38. Our target reflects a 26% total return, with the stock currently trading at a 1.5x P/E discount to smid-cap peers, which we believe is unwarranted. Key risks include (1) legal and regulatory risks, (2) earnings/cash impact due to COVID-19, (3) higher than expected O&M, (4) electricity demand and customer growth, and (5) financing.

NI in charts

Exhibit 1: We lower our 2020-2022 estimates modestly, reflecting 4.3% CAGR from 2019A-2022E...

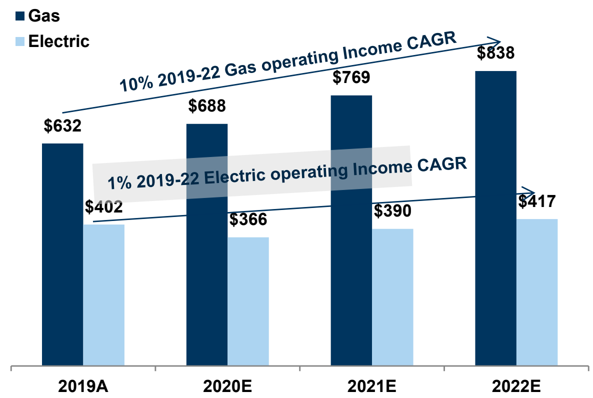
EPS New vs Old vs Consensus

	EPS Estimates			% Difference	
	GS-New	GS-Old	Cons.	vs. Old	vs. Cons.
2020E	$1.27	$1.30	$1.34	(2%)	(5%)
2021E	$1.38	$1.39	$1.41	(0%)	(2%)
2022E	$1.49	$1.50	$1.51	(0%)	(1%)
CAGR	4.3%	4.4%	4.8%	N/A	(0%)

Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 2: ...with strong growth driven by the regulated gas businesses

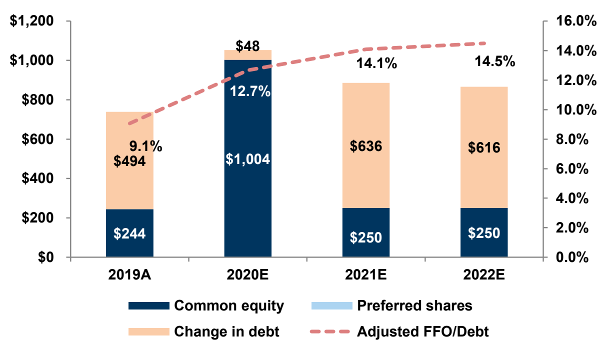
Operating income by segment ($mn)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 3: Our financing assumptions embed bulk equity in 2020, and our model incorporates the MA utility in estimates

Financing by type ($mn) and adjusted FFO/debt



2020 FFO/debt assumes certain one-time adjustments related to the Merrimack incident

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: Our target reflects a 26% total return, and we view the current 1.5x P/E discount to smid-cap peers as unwarranted

NI blended P/E valuation

NI valuation			
Deriving Blended Multiple			
	Gas	Electric	Total
2021 EBIT	768.5	389.5	1,158.1
% 2021 EBIT	66.4%	33.6%	
Target Multiple	20.00x	20.00x	20.0x
Price Target			
2021 EPS			$1.38
Target Multiple			20.0x
Price Target			**$28**
Total Return			**26%**
Regulated Utilities Total Return			**28%**

Source: Goldman Sachs Global Investment Research

NI	12m Price Target: **$28.00**	Price: **$22.92**	Upside: **22.2%**

Buy

Market cap: $7.5bn
Enterprise value: $17.9bn
3m ADTV: $105.2mn
United States
America-Regulated Utilities
M&A Rank: 3

GS Forecast

	12/19	12/20E	12/21E	12/22E
Revenue ($ mn) New	**5,208.9**	**5,015.9**	**5,257.5**	**5,471.7**
Revenue ($ mn) Old	5,208.9	5,312.7	5,590.0	5,823.4
EBITDA ($ mn)	1,608.1	1,794.2	1,999.1	2,161.2
EBIT ($ mn)	890.7	1,035.7	1,184.0	1,285.1
EPS ($) New	**1.32**	**1.27**	**1.38**	**1.49**
EPS ($) Old	1.32	1.30	1.39	1.50
P/E (X)	21.3	18.0	16.6	15.3
Dividend yield (%)	2.9	3.7	3.9	4.1
Net debt/EBITDA (X)	5.9	5.3	5.1	5.0

	3/20	6/20E	9/20E	12/20E
EPS ($)	0.76	0.06	0.04	0.40

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 6 May 2020 close.

ARGUS®

NYSE: NI

NISOURCE INC

Report created Jun 1, 2020 **Page 1 OF 5**

NiSource Inc. is an energy holding company whose subsidiaries are fully regulated natural gas and electric utility companies serving approximately 4.0 million customers in seven states. NiSource is one of the nation's largest natural gas distribution companies, as measured by number of customers. NiSource's principal subsidiaries include NiSource Gas Distribution Group Inc., a natural gas distribution holding company, and NIPSCO, a regulated gas and electric company. NiSource derives substantially all of its revenues and earnings from the operating results of these rate-regulated utilities.

Analyst's Notes

Analysis by Gary Hovis, May 29, 2020

ARGUS RATING: BUY

- Sharply discounted NI shares offer value
- On March 27, NiSource agreed to sell its Columbia Gas of Massachusetts assets to Eversource for $1.1 billion in a transaction expected to close by the end of 3Q20. With the transaction pending, NiSource withdrew its 2020 operating EPS guidance of $1.36-$1.40.
- After the completion of the transaction, the company expects to issue 2021 operating EPS guidance and establish a 5%-7% long-term growth rate with 2021 as the base year.
- On May 6, NiSource posted 1Q20 operating earnings (non-GAAP) of $290.9 million, or $0.76 per share, compared to $307.7 million, or $0.82 per share, for the same period in 2019.
- Our EPS estimates are $1.42 for 2020 and $1.50 for 2021. The company will report 2Q20 EPS on July 29.

INVESTMENT THESIS

Our rating on NiSource Inc. (NYSE: NI) is BUY based on valuation and historical performance. Focusing on its regulated electric and gas utilities, NiSource recently completed a corporate restructuring that resulted in the spinoff of its nonregulated pipeline group. The company keeps a tight rein on expenses as well as capital spending. The shares trade near the midpoint of their historical range on P/E, price/book and price/cash flow. The balance sheet appears stable and, in our view, able to support the current dividend, which yields 3.6%. We think the yield would be attractive to income-oriented investors and are reiterating our BUY rating on NI with a 12-month target price of $32.

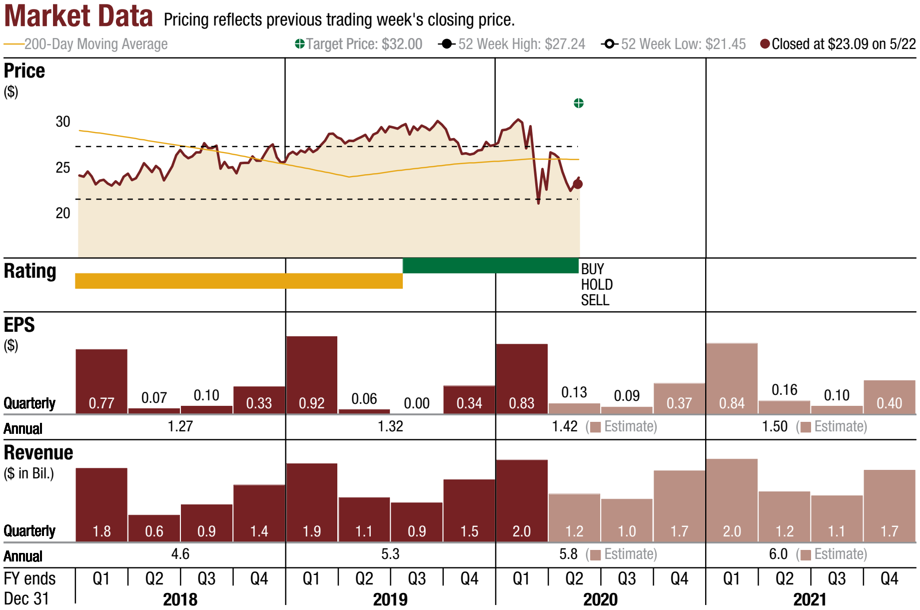
Our long-term rating is also BUY.

RECENT DEVELOPMENTS

On May 6, NiSource Inc. (NYSE: NI) announced, on a GAAP basis, net income for 1Q20 of $61.8 million or $0.16 per share, compared with $205.1 million or $0.55 per share in 1Q19. NiSource also posted net operating earnings (non-GAAP) of $290.9 million

Market Data

Pricing reflects previous trading week's closing price.



Argus Recommendations

Twelve Month Rating	SELL	HOLD	**BUY**
Five Year Rating	SELL	HOLD	**BUY**
Sector Rating	Under Weight	**Market Weight**	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 65% Buy, 35% Hold, 1% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview	
Price	$23.83
Target Price	$32.00
52 Week Price Range	$19.56 to $30.67
Shares Outstanding	382.80 Million
Dividend	$0.84
Sector Overview	
Sector	Utility
Sector Rating	MARKET WEIGHT
Total % of S&P 500 Market Cap.	3.00%
Financial Strength	
Financial Strength Rating	MEDIUM
Debt/Capital Ratio	61.9%
Return on Equity	11.2%
Net Margin	4.8%
Payout Ratio	0.59
Current Ratio	0.49
Revenue	$4.94 Billion
After-Tax Income	$239.80 Million
Valuation	
Current FY P/E	16.78
Prior FY P/E	18.05
Price/Sales	1.84
Price/Book	1.88
Book Value/Share	$12.70
Market Capitalization	$9.12 Billion
Forecasted Growth	
1 Year EPS Growth Forecast	7.58%
5 Year EPS Growth Forecast	4.00%
1 Year Dividend Growth Forecast	5.00%
Risk	
Beta	0.96
Institutional Ownership	90.78%

Please see important information about this report on page 5

Analyst's Notes...Continued

or $0.76 per share in 1Q20, compared to $307.7 million or $0.82 per share in 1Q19.

NiSource's 1Q20 GAAP results include a $280.2 million loss due to the re-classification of Columbia Gas of Massachusetts' assets as held for sale resulting from the previously announced sale to Eversource Energy. This pending sales transaction remains on track to close by the end of 3Q20. Note that much of the 1Q20 played out prior to COVID-19 reaching crisis proportions in the U.S. Since then, additional steps have been taken which should position NiSource to manage through the pandemic.

The continued spread of COVID-19 has resulted in impacts on the company' service territory economy and could lead to reduced kilowatt hour sales to commercial and industrial customers. In any case, the company continues to evaluate the range of potential impacts of the pandemic on its natural gas and electric businesses and on its future operating results and liquidity.

After the completion of the transaction, the company expects to issue 2021 operating EPS guidance and establish a 5%-7% long-term growth rate with 2021 as the base year. This new guidance is expected to include significant investments in electric generation and natural gas distribution.

EARNINGS & GROWTH ANALYSIS

Our EPS estimates are $1.42 for 2020 and $1.50 for 2021. The company will report 2Q20 EPS on July 29.

NiSource continues to rely on its utility infrastructure programs for earnings and dividend growth. The company's regulated gas and electric segments will primarily invest in pipelines and in electric transmission projects as well as distribution modernization programs, and we believe the company will benefit from favorable regulation. In all, management expects the company to post operating earnings growth of 5%-7% annually from 2020 through 2023, resulting in total annual returns for shareholders of 6%-7%.

NiSource could also become a buyout target, as larger utilities and private equity firms have purchased smaller utilities because of their stable earnings growth and above-average dividend yields.

FINANCIAL STRENGTH & DIVIDENDS

We believe that NiSource has improved its balance sheet by selling noncore assets, recalibrating capital expenditures, and carefully managing operating expenses and working capital.

NiSource remains committed to maintaining its current investment-grade credit ratings. The company has investment-grade ratings with Fitch Ratings (BBB), Moody's (Baa2) and Standard & Poor's (BBB+). As of March 31, 2020, NiSource had approximately $1.3 billion in net available liquidity, consisting of cash and available capacity under its credit facility and accounts receivable securitization programs.

NiSource recently took a pair of actions to reduce financing risk and increase liquidity. On April 13, the company issued $1 billion of 3.6% notes due 2030, with the net proceeds to be used for general corporate purposes, including financing capital investments, additions to working capital and to repay existing

Growth & Valuation Analysis

GROWTH ANALYSIS					
($ in Millions, except per share data)	2015	2016	2017	2018	2019
Revenue	4,652	4,493	4,875	5,115	5,209
COGS	3,070	2,836	3,120	4,114	2,890
Gross Profit	1,582	1,657	1,754	1,000	2,319
SG&A	—	—	—	—	—
R&D	—	—	—	—	—
Operating Income	802	865	927	126	1,305
Interest Expense	379	346	349	347	371
Pretax Income	340	514	443	-231	507
Income Taxes	141	182	315	-180	124
Tax Rate (%)	42	35	71	—	24
Net Income	287	332	129	-51	383
Diluted Shares Outstanding	320	324	331	357	376
EPS	0.90	1.02	0.39	-0.18	0.87
Dividend	0.83	0.64	0.70	0.78	0.80
GROWTH RATES (%)					
Revenue	-12.0	-5.0	7.7	5.5	1.2
Operating Income	1.2	7.9	7.1	-86.4	936.7
Net Income	-45.9	15.7	-61.2	—	—
EPS	-22.2	61.9	-61.8	—	—
Dividend	-18.6	-22.9	9.4	11.4	2.6
Sustainable Growth Rate	3.0	2.7	1.1		3.4
VALUATION ANALYSIS					
Price: High	$49.16	$26.94	$27.76	$28.11	$30.67
Price: Low	$16.04	$19.05	$21.65	$22.44	$24.69
Price/Sales: High-Low	3.4 - 1.1	1.9 - 1.4	1.9 - 1.5	2.0 - 1.6	2.2 - 1.8
P/E: High-Low	54.6 - 17.8	26.4 - 18.7	71.2 - 55.5	— - —	35.3 - 28.4
Price/Cash Flow: High-Low	9.7 - 3.2	10.9 - 7.7	11.3 - 8.8	8.6 - 6.9	13.6 - 10.9

Financial & Risk Analysis

FINANCIAL STRENGTH	2017	2018	2019
Cash ($ in Millions)	29	113	139
Working Capital ($ in Millions)	-1,415	-1,981	-1,892
Current Ratio	0.55	0.51	0.49
LT Debt/Equity Ratio (%)	173.9	145.9	153.8
Total Debt/Equity Ratio (%)	208.4	187.5	188.8
RATIOS (%)			
Gross Profit Margin	36.0	19.6	44.5
Operating Margin	19.0	2.5	25.1
Net Margin	2.6	-1.3	6.3
Return On Assets	0.7	-0.3	1.5
Return On Equity	3.1	-1.4	6.6
RISK ANALYSIS			
Cash Cycle (days)	53.7	42.5	22.7
Cash Flow/Cap Ex	0.4	0.3	0.9
Oper. Income/Int. Exp. (ratio)	2.3	0.3	2.4
Payout Ratio	66.3	84.2	303.9

Please see important information about this report on page 5

Analyst's Notes...Continued

debt.

On April 1, NiSource refinanced its $850 million term loan agreement with a new maturity date of March 31, 2021. Debt associated with the term loan is anticipated to be repaid with proceeds of the Columbia Gas of Massachusetts asset sale.

NiSource pays an annualized dividend of $0.84 per share, for a yield of about 3.6%. Our dividend estimates are $0.84 for 2020 and $0.88 for 2021.

MANAGEMENT & RISKS

The CEO of NiSource is Joseph Hamrock, 53, who assumed the position in July 2015. Mr. Hamrock, who joined NiSource in 2012, previously served as EVP and Group CEO for NiSource's Gas Distribution segment. He also has experience as an executive with American Electric Power. Donald E. Brown is the CFO.

Management is committed to electric and gas service expansion strategies in the company's regulated service territories, and to the expansion of its gas transmission and storage business. We think the company's platform for a return to growth is solid, and we are confident in management's ability to provide shareholders with increased value over the long term.

Key risks for stocks in our electric utility universe include fluctuations in interest rates and commodity prices, the effect of adverse weather on revenue, regulatory issues (especially involving construction cost recovery), and potential environmental and safety liabilities. In addition, the capital-intensive nature of the utility industry creates ongoing liquidity risk that must be actively managed by each company.

COMPANY DESCRIPTION

NiSource Inc. is an energy holding company whose subsidiaries are fully regulated natural gas and electric utility companies serving approximately 4.0 million customers in seven states. NiSource is one of the nation's largest natural gas distribution companies, as measured by number of customers. NiSource's principal subsidiaries include NiSource Gas Distribution Group Inc., a natural gas distribution holding company, and NIPSCO, a regulated gas and electric company. NiSource derives substantially all of its revenues and earnings from the operating results of these rate-regulated utilities.

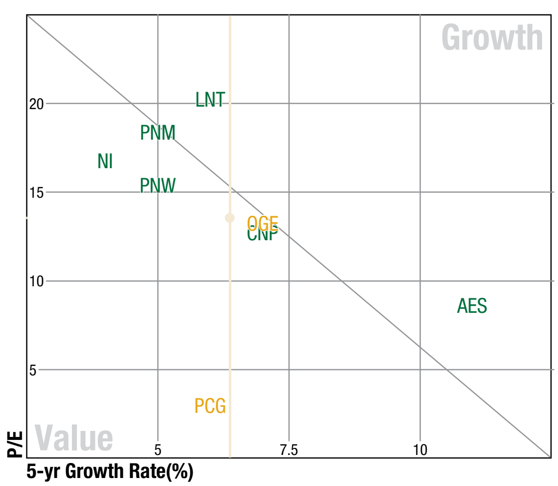
VALUATION

We think that NI shares are favorably valued at current prices near $23-$24, toward the low end of their 52-week range of $20-$31. The shares trade at 16-times our 2021 EPS estimate, below the average P/E of 21.4 for comparable electric and gas utilities. They are also trading at a price/book multiple of 2.2, close to the peer average of 2.3. The price/cash flow ratio is 16.2, below the peer average of 19.5. The shares trade near the midpoint of their historical range on P/E, price/book and price/cash flow. The dividend yield of 3.6% is above the industry average of 2.8%. We are reiterating our BUY rating on NI with a 12-month target price of $32.

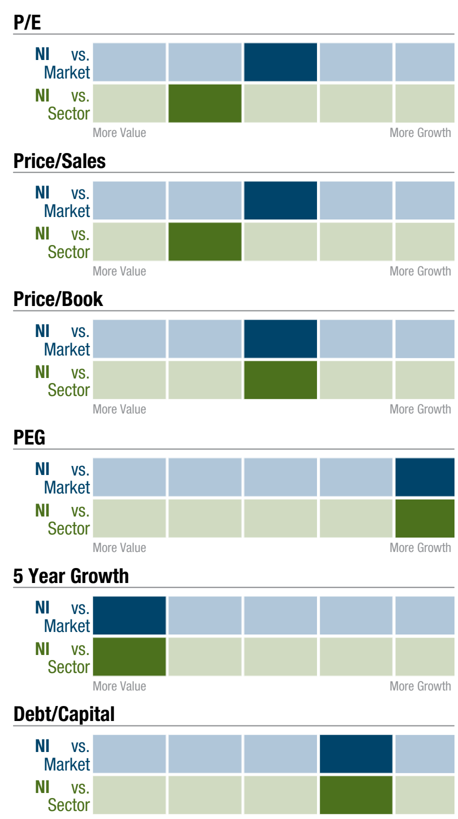
Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare NI versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how NI stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how NI might fit into or modify a diversified portfolio.**



Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
LNT	Alliant Energy Corp.	12,316	6.0	20.2	17.1	6.1	BUY
NI	Nisource Inc. (Holding Co.)	9,122	4.0	16.8	4.8	5.6	BUY
CNP	Centerpoint Energy Inc.	8,936	7.0	12.7	-5.3	3.6	BUY
PNW	Pinnacle West Capital Corp.	8,763	5.0	15.4	16.2	1.8	BUY
AES	AES Corp.	8,305	11.0	8.6	3.0	4.8	BUY
PCG	PG&E Corp.	6,283	6.0	3.0	-42.5	3.5	HOLD
OGE	Oge Energy Corp.	6,269	7.0	13.3	-4.8	3.4	HOLD
PNM	PNM Resources Inc	3,251	5.0	18.4	3.0	3.6	BUY
Peer Average		**7,906**	**6.4**	**13.5**	**-1.1**	**4.1**	



Analyst's Notes...Continued

On May 29, BUY-rated NI closed at $23.25, up $0.08.

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

Argus Research Disclaimer

Morningstar Disclaimer

BofA GLOBAL RESEARCH

BofA SECURITIES

North American Utilities & IPPs

Power Points: ERCOT & PJM, NiSource, LNT Solar, Longview, NEE in FL

Industry Overview

27 May 2020

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North America
Utilities & IPPs

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Power & COVID impact: ERCOT recovery & PJM markets

We had previously highlighted signs of a gradual turnaround in U.S. load, with total load bottoming out at -10% vs. pre-COVID expectations and then gradually improving to -8% vs. expectations, with ERCOT in particular showing meaningful growth from its lows after reversal of lockdowns in the state. In recent days, we have seen even further improvement, specifically in ERCOT with a 30% rally in the Jul-Aug '20 contract over the last two days. While this may have been partially driven by shifts in market sentiment around load trends, we *also* highlight weather as driving some of this upward movement. Separately, PJM recently stated it has over 187 GW of installed generation capacity available, relative to its forecast summer peak demand of 148 GW. This forecast compares to PJM's peak demand in 2019 of over 151 GW (i.e. '20 forecast is ~2% lower v. last year). PJM has seen load decline by ~10% as of mid-March due to COVID-related restrictions. We see the trends in ERCOT as only further affirming underlying positive load trends, especially in this the Central region which have proven consistently more resilient.

NI: '21 outlook updated: we see this implying ~$1.35

Seeing mgmt had already announced mitigation efforts to offset the loss of the MA biz largely (and seemingly affirmed), we effectively see the full impact. These are the variances from the last plan – and when at that time it was roughly ~$1.40 in '21 (higher end of $1.36-1.40 range was achievable in '21). Now, you have up to 10c Covid-related impacts off this $1.40, offset by *incremental* cost savings suggest $1.35. The NI load recovery is well under way and seemingly ahead of earlier plan. The 10c impact of Covid impacts appear *half from load degradation* (permanent/long ramp in C&I) as well as incremental expenses (reconnection fees, Covid-related mitigation costs). We see the mitigation efforts as *not entirely* different from the existing mitigation efforts already under way to offset loss of earnings from MA biz sale (principally dis-synergies from allocated SG&A). We note the wide range of expectations may prove offputting to investors upon initial look (albeit the wide range is perhaps the caution, *we* see this as roughly implying $1.35 likely *in-line with the reduced EPS expectations already and close our reduced $1.36 estimate already)*. The critical point is that Covid pressures are entirely under-earning related and should normalize out over time with future rate cases (this is not any reduction in '21 capex for instance after a slight earlier tweak to '20). We note this is the first update across the sector to provide an update on load expectations and cost reductions. <u>We also expect this load update on '21 to kickstart further moderation of EPS ests into next year across the sector.</u> We expect companies to continue to talk *up* the ongoing recovery in load in forthcoming meetings given numerous sellside meetings hosted in coming days (including our own mini-conference tomorrow).

Refer to important disclosures on page 7 to 10. Analyst Certification on page 5. Price Objective Basis/Risk on page 4. **12146539**

Timestamp: 27 May 2020 08:38AM EDT

LNT: acquired 675MW solar portfolio: executing against the expected buildout.. now it's time to watch WI approval

LNT announced to acquire 675MW solar portfolio at a purchase consideration of $900m of which tax equity partner would sponsor 35-40% of the investment outlay with the rest being financed by LNT's Wisconsin subsidiary. The company indicated to purchase tax equity's ownership in the projects within 10 years of operation. LNT expects to file an application with the PUC on the acquisition and anticipates a decision by 1H21. We note that LNT already signed purchase and sale agreements with the developers, subject to pending approval from the regulators, however, none of the projects are currently under construction. The company anticipates 425MW to be placed in service by 2022 and 250MW in 2023. Notably, last week the company announced early retirement of its Edgewater coal facility in Sheboygan in 2022. The latest development is no real surprise to us, given it is part of LNT's stated Clean Energy Blueprint plant for 1GW of solar in Wisconsin and in-line with its previous commentary on accelerating coal retirement with renewables installation to avoid hundreds of millions in long-term costs. Maintain Buy on LNT. *We note positive early indications from stakeholders in the state on regulatory approval prospects.*

Overall, the portfolio is comprised of six solar projects that include 200MW project developed by NEE sub NEER, a 150MW and 75MW facilities in Sheboygan County and Jefferson County, respectively, and developed by Ranger Power, a 150MW and a 50MW solar projects developed by Savion, owned by Macquarie Group Ltd.'s Green Investment Group and located in Wood County and Richland County, respectively, and a 50-MW facility in Rock County developed by National Grid's Geronimo Energy.

NI: rolled out details on COVID impact on EPS; No 20/21 EPS guidance still

NI rolled out supplementary details on COVID impact. While the slides include granular details on COVID 19 impact on operating EPS as well as mitigation measures to offset some of the pandemic impact, however, neither did the company provide 2020 EPS guidance (Recall they pulled it when MASS Sale to ES Was announced) nor did they reiterate 2021 EPS guidance. Specifically, the company quantified the impact to be ($0.15) – ($0.20) for 2020 and ($0.00)-($0.10) for 2021on NI's base case assumptions. However, the company expects mitigation measures initiated in April would likely offset $0.10-$0.15 and $0.05-$0.10 for 2020 and 2021, respectively.

Table 1: COVID 19 impact on net Operating EPS ($) for 2020/2021

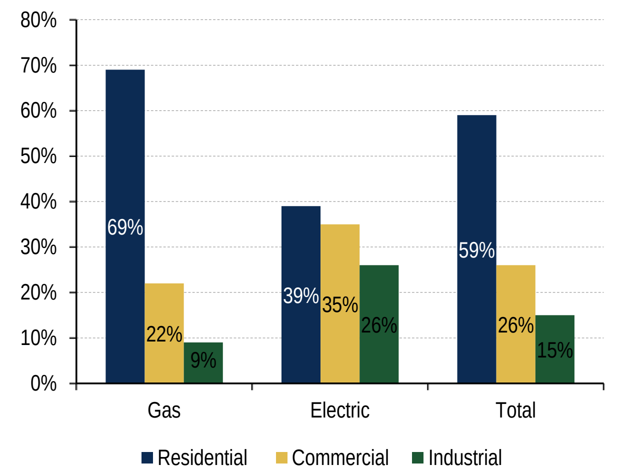
$	2020E	2021E
COVID-19 Impact on EPS Base Case	($0.15)-($0.20)	($0.00)-($0.10)
Mitigation Efforts - Initiated in April	$0.10-$0.15	$0.05-$0.10
Estimated Net NOEPS Impact	($0.00)-($0.10)	($0.00)-($0.10)

Source: BofA Global Research, Company report

While the company stressed on non-safety related savings in O&M, recovery for COVID related impacts and improving organization efficiencies by addressing dis-synergies, however, they did not quantify anticipated O&M savings to combat the COVID losses.

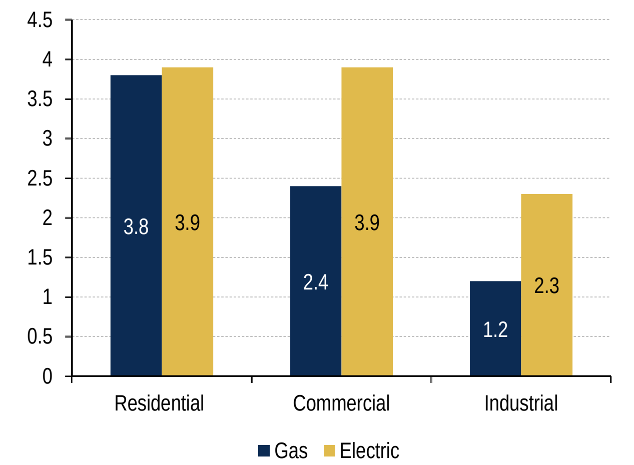
Meanwhile, NI outlined the detail on retail margins by customer class, in-addition to providing pre-tax operating earnings sensitivity to 1% change in annual sales volume both by customer class and by segment, besides noting out the COVID 19 impact on weather normalized April 2020 sales volumes as compared to April 2019 (4%/26% decline in Gas Distribution and Electric Operations). $8.1m margin loss booked in April 2020 reflecting the mitigation efforts initiated by the company.

Chart 1: Retail Margins by customer class and by segment



Source: BofA Global Research, Company report

Chart 2: Pre-tax operating income sensitivity to +/- 1% change in sales volumes ($M)



Source: BofA Global Research, Company report

However, the company did mention mid to late May trend in volumes indicated a recovery from April lows. While the company expects a rise in bad debt expense, however, reiterated rate design and availability of bad debt recovery mechanisms in certain states. The company requested IN IURC to create a bad debt tracker, besides deferring bad debt expenses much in-line with the states like MD, VA, and PA, which already allowed deferral of COVID related expenses and bad debt.

Critically, where many co's can use O&M savings to balance impacts, we see this as a greater challenge to NI as it promised it would pursue a program of cost savings to mitigate NT impacts of the CMA sale to ES this 3Q. With 2020 guidance having already been pulled related to the CMA sale, we only have an adj 2021 guide of a $1.36-1.40/sh 'earnings floor' (see this as risk). We previously downgraded NiSource to Neutral from Buy due to our concerns around absorbing lower demand from COVID.

Delaware BK court approved Longview's prepackaged reorganization plan

The U.S. Bankruptcy Court for the District of Delaware has confirmed Longview Power's prepackaged reorganization plan filed in April, effectively transferring company's equity ownership to its senior secured debt holders offsetting its $350m existing debt. The company would receive $40m as term loan to fund its working capital and capex program for next five years upon emergence from bankruptcy. We note the reorganization plan has no impact on the creditors as well as its employees.

NEE: Gulf Power requested FL PSC to allow deferral of bad debt/safety costs

Given anticipation of continuous rise in bad debt expense and safety costs associated with COVID, NEE subsidiary Gulf Power Co. requested Florida PSC (Florida PSC Docket No. 20200151-EI) to allow the company to defer bad debt expenses and safety costs associated with COVID as regulated asset that can be recovered later or to provide any other relief much in-line with states that have already ordered to create some sort of recovery mechanisms either through deferral of bad debt, creation of a regulatory asset, or by recording and tracking costs related to COVID-19. The utility proposed regulators to determine eligibility for bad debt to be deferred as regulated asset by taking the difference between the bad debt expense for a month in 2020 and the average bad debt expense for last three years, besides deferring safety costs by taking actual spending on safety measures related to COVID and as guided by the U.S. Centers for Disease Control and Prevention and the Florida Department of Health.

Stocks mentioned

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
LNT	LNT US	Alliant Energy Corp	US$ 46.91	A-1-7
NEE	NEE US	NextEra Energy	US$ 234.31	A-1-7
NI	NI US	NiSource Inc	US$ 23.39	B-2-7

Source: BofA Global Research

Price objective basis & risk

Alliant Energy Corporation (LNT)

Our $52 PO is based on a sum of the parts analysis employing relative premium and discounts to the large cap regulated peer multiple of 16.3x 2022E P/E. While our PO is on a 1 year basis we note the 2022 P/E multiple reflects a discount back to 2019. We note that electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector.

We apply a 2.0x P/E premium on IPL as we see the ratecase overhang being resolved. We apply a 3.0x P/E premium on Eastern Wisconsin Electric Company reflecting 1) low risk investment nature of the state, 2) above average ROEs, 3) higher than average growth runway for investments, and 4) bad debt deferral. At ATC, we reflect a 2.0 x P/E premium on LNT's 16% share in the transmission company. Growth expectations for this segment are high, paired with above average ROEs that we believe face less downward pressure vs. regulated state distribution ROEs. We apply an in line multiple at the parent to account for the blend of numerous businesses some which benefit from long term stable PPAs via intercompany generation.

Risks to our price objective are: 1) adverse rate case outcomes, 2) further equity dilution beyond our estimates, 3) interest rate risk, 4) natural disasters, and 5) lower allowed ROE's

NextEra Energy (NEE)

Our $258 PO is derived using a SOTP approach, with the utilities and parent segment valued on a 2022E P/E basis, and the generation segment valued on a 2022E EV/EBITDA basis. In addition, we include NEE's ownership stake in NextEra Energy Partners (NEP) as well as the value of IDRs (DCF, at 7% disc rate). We assign peer multiple of 17.0x (and gross this up by 5% to reflect capital appreciation across the sector) with disc/prem to the assets that reflect the growth/risk profile of the businesses. We provide value for possible regulated M&A announced as one strategy of capital redeployment, albeit weighted at 50% to reflect execution risk. Our valuation reflects the drag from the $5.1bn in new debt. For NEER, we apply a peer EV/EBITDA multiple of 8x, which we adjust depending on asset type. Give contracted renewables 6x prem given fuel type and contracted nature. We apply 2x discount to merchant nuclear (aside from Seabrook), and value contracted nuclear on a DCF approach using a 10% discount rate. We apply a 3x prem multiple to pipelines (2x for MVP), 1x discount to gas infrastructure and 2x discount for supply and trading given lower asset quality, line multiple for contracted gas peakers and 1x discount for merchant peakers (other), again based on asset quality. Downside risks: 1) unfavorable regulatory outcomes in Florida which could negatively affect ability to earn authorized ROE or lower authorized ROE, 2) higher interest rates, 3) changes in commodity prices.

NiSource Inc (NI)

Our $27 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2022 forward P/E multiples of 17.8x for gas utilities and 17.2x for electric utilities with an inline mult for gas utilities with just weather normalization, a 0.5x prem for gas utes with revenue normalization (prev 0x), and a 1.0x premium for the electric utility's strong growth rates (we factor in BOT in '24 EPS) but acknowledgement of industrial risk (prev 2x). We note that electric / gas peer P/E multiples are grossed up by 5% / 5.1% to reflect capital appreciation across the sector. We strip value from Columbia Gas of MA given the pending sale to close in 3Q20. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

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I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
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	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
NEUTRAL				
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA

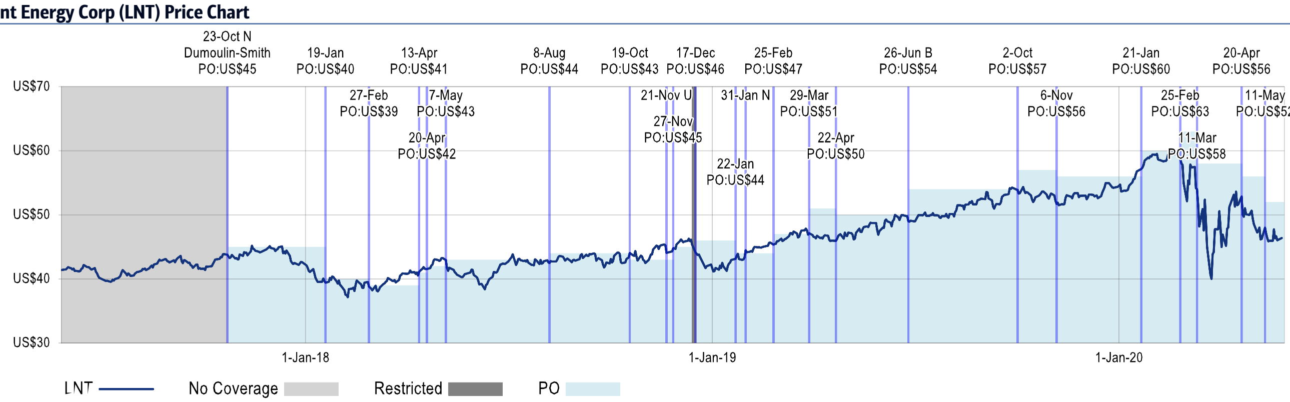
North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Alliant Energy Corp (LNT) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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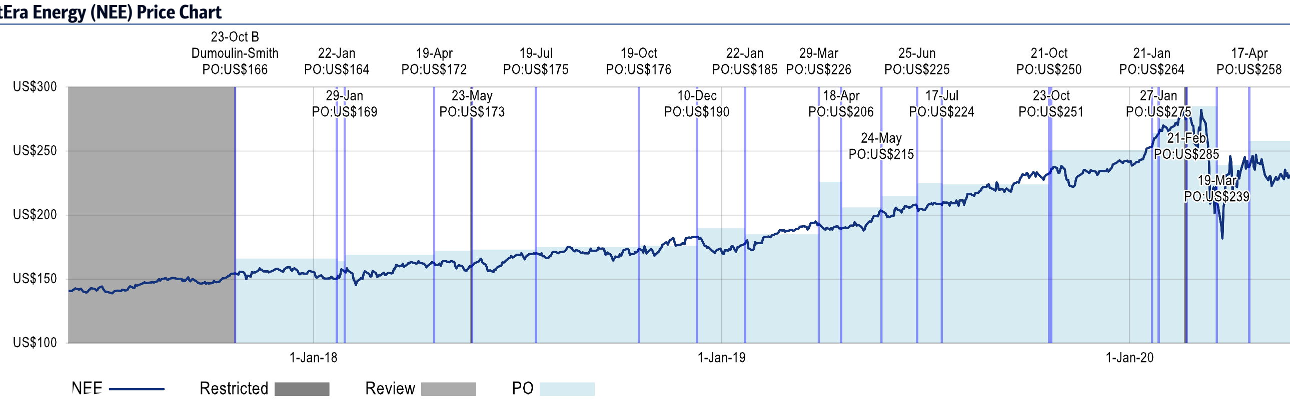
NextEra Energy (NEE) Price Chart



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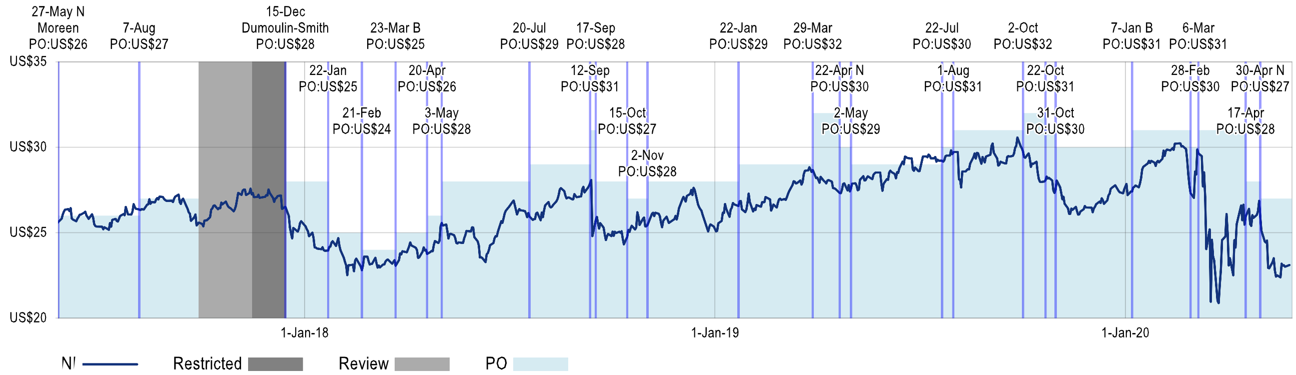
NiSource Inc (NI) Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	63	39.13%	Buy	51	80.95%
Hold	51	31.68%	Hold	35	68.63%
Sell	47	29.19%	Sell	26	55.32%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	72	50.35%	Buy	51	70.83%
Hold	38	26.57%	Hold	28	73.68%
Sell	33	23.08%	Sell	24	72.73%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1602	52.15%	Buy	1005	62.73%
Hold	713	23.21%	Hold	463	64.94%
Sell	757	24.64%	Sell	382	50.46%

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Underperform	N/A	≥ 20%

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5 May 2020
Equity Research
Americas | United States

CREDIT SUISSE

NiSource Inc.

1Q20 Earnings Preview

Natural Gas | Decrease Target Price

NI

Target price (12M, US$)
27.00
Outperform

- **We are expecting a modest 1Q20 miss** at $0.77 vs cons $0.81 due mostly to unfavorably mild weather.
- **We are reducing our 2020 estimate $0.02 to $1.32 vs consensus $1.34 for lower commercial/industrial load from COVID19 pandemic response**. Our 2021 and 2022 estimates are unchanged. Mostly a gas utility system, NI should be less affected from COVID19 load reduction in 2/3Q than its more electric peers. Recall that 2020 guidance of $1.36-$1.40 was pulled in 4Q19 given the pending sale of Columbia Gas of Mass. We estimate that the Mass utility earns ~$0.08 EPS and view the sale as slightly EPS accretive to prior 2021 expectations (including a few pennies improvement in Mass) when including the elimination of a planned block equity sale this year. However, roughly -$0.05 of corporate disynergies are still expected to hit EPS in 2021 that make the full set of planned actions this year overall dilutive to prior expectations (we previously reduced our earlier estimate of $1.46 to $1.42), although management intends to work to reduce or eliminate these costs over time.
- **Equity needs: No block equity needed in 2020, nor any going forward,** with unchanged plans for $200-$300M annual ATM and $35-$60M employee plan equity (no plans for use of convertible or hybrid financing). NI is targeting FFO/Debt ~14%-15%.
- **Valuation:** We are reducing our TP $4 to $27, primarily for lower peer 2021 electric and gas utility P/Es within a SoTP valuation. We continue to apply a 1.5x premium to the gas utilities for favorable regulatory jurisdictions and lower operational risk since the explosive incident in Lawrence Mass in 2018. We continue to value the electric operation in Indiana at a 1.5x premium for excellent operations and supportive regulation. Risks include 1) ROE risk related to the ongoing ratecases, 2) continued approvals relating to infrastructure replacement/grid modernization programs, 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particularly in the non-decoupled jurisdictions, 7) weather risk, 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety, 11) COVID19 pandemic response load reduction, particularly at the electric utility.

Previous target price (12M, US$)	31.00
Price (4 May 20, US$)	24.40
52-week price range	30.56 - 20.86
Market cap (US$ m)	9,337.48
Enterprise value (US$ m)	18,331

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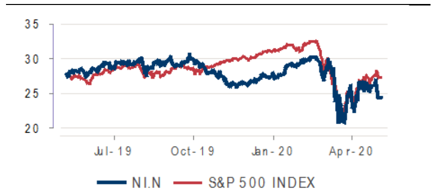
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
EPS (CS adj.) (US$)	1.32	1.32	1.42	1.52
Prev. EPS (US$)	-	1.34	-	-
Revenue (US$ m)	5,184.1	5,993.7	6,193.6	6,464.1
EBITDA (US$ m)	1,764.2	1,769.7	1,849.6	1,968.5
P/OCF (x)	4.6	5.3	5.2	5.0
EV/EBITDA (current)	10.7	10.6	10.2	9.6
Net debt (US$ m)	9,504	8,994	9,486	9,906
ROIC (%)	5.50	5.22	5.13	5.25

Number of shares (m)	382.68	IC (current, US$ m)	15,490.20
Net debt (Next Qtr., US$ m)	9,485.3	Dividend (current, US$)	0.76
Net debt/tot eq (Next Qtr.,%)	151.0		

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 04-May-2020 the S&P 500 INDEX closed at 2842.74Daily May06, 2019 - May04, 2020, 05/06/19 = US$27.88

Quarterly EPS	Q1	Q2	Q3	Q4
2019A	0.82	0.05	-0.00	0.45
2020E	0.77	0.07	0.05	0.44
2021E	0.81	0.10	0.07	0.44

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, LEGAL ENTITY DISCLOSURE AND THE STATUS OF NON-US ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

CREDIT SUISSE

NiSource Inc. (NI)

Analyst: **Michael Weinstein**

Price (04 May 2020): **US$24.4** Target Price: **(from 31.00) 27.00** Rating: **Outperform**

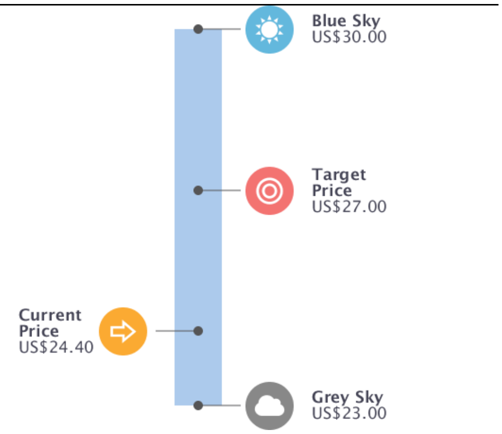
Income Statement	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Revenue (US$ m)	**5,184.1**	**5,993.7**	**6,193.6**	**6,464.1**
EBITDA (US$ m)	**1,764**	**1,770**	**1,850**	**1,968**
Depr. & amort.	(717)	(747)	(775)	(801)
EBIT (US$)	**1,047**	**1,023**	**1,075**	**1,167**
Net interest exp	(377)	(418)	(415)	(444)
PBT (US$)	**608**	**646**	**713**	**779**
Income taxes	(113)	(136)	(150)	(164)
Profit after tax	**495**	**511**	**563**	**615**
Minorities	-0	-0	-0	-0
Net profit (US$)	**495**	**511**	**563**	**615**
Reported net income (US$)	**495**	**511**	**563**	**615**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**495**	**511**	**563**	**615**
Cash Flow	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EBIT	1,047	1,023	1,075	1,167
Net interest	(377)	(418)	(415)	(444)
Change in working capital	(75)	0	0	0
Cash flow from operations	**2,247**	**1,770**	**1,850**	**1,968**
CAPEX	(2,167)	(1,850)	(1,825)	(1,825)
Free cashflow to the firm	**80**	**(80)**	**25**	**143**
Acquisitions	-	-	-	-
Divestments	0	1,100	0	0
Cash flow from investments	**(1,922)**	**(750)**	**(1,825)**	**(1,825)**
Net share issue(/repurchase)	244	295	295	295
Dividends paid	(355)	(292)	(300)	(307)
Changes in Net Cash/Debt	**(484)**	**510**	**(492)**	**(420)**
Balance Sheet (US$)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Assets				
Cash & cash equivalents	139	139	139	139
Account receivables	857	857	857	857
Other current assets	607	607	607	607
Total current assets	**1,854**	**1,854**	**1,854**	**1,854**
Total fixed assets	16,912	16,915	17,966	18,989
Investment securities	-	-	-	-
Total assets	**22,660**	**22,663**	**23,713**	**24,737**
Liabilities				
Total current liabilities	**3,746**	**4,336**	**4,828**	**5,248**
Total liabilities	**16,673**	**16,163**	**16,655**	**17,076**
Shareholder equity	5,987	6,500	7,058	7,661
Total liabilities and equity	**22,660**	**22,663**	**23,713**	**24,737**
Net debt	9,504	8,994	9,486	9,906
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
No. of shares (wtd avg)	375	386	396	406
CS adj. EPS	1.32	1.32	1.42	1.52
Prev. EPS (US$)	-	1.34	-	-
Dividend (US$)	0.76	0.80	0.85	0.90
Free cash flow per share	0.21	(0.21)	0.06	0.35
Earnings	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Sales growth (%)	(6.4)	15.6	3.3	4.4
EBIT growth (%)	12.4	(2.3)	5.1	8.5
Net profit growth (%)	6.8	3.2	10.3	9.3
EPS growth (%)	1.6	0.0	7.6	6.8
EBITDA margin (%)	34.0	29.5	29.9	30.5
EBIT margin (%)	20.2	17.1	17.4	18.1
Pretax margin (%)	11.7	10.8	11.5	12.0
Net margin (%)	9.5	8.5	9.1	9.5
Valuation	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EV/Sales (x)	3.63	3.06	3.04	2.98
EV/EBITDA (x)	10.7	10.6	10.2	9.6
EV/EBIT (x)	18.0	17.9	17.5	16.5
P/E (x)	18.5	18.5	17.2	16.1
Price to book (x)	1.7	1.6	1.5	1.4
Asset turnover	0.2	0.3	0.3	0.3
Returns	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE stated-return on (%)	9.6	9.2	9.3	9.2
ROIC (%)	5.5	5.2	5.1	5.2
Gearing	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net debt/equity (%)	158.7	138.4	134.4	129.3
Interest coverage ratio (X)	2.8	2.4	2.6	2.6
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2019A	0.82	0.05	-0.00	0.45
2020E	0.77	0.07	0.05	0.44
2021E	0.81	0.10	0.07	0.44

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

NiSource Inc. is energy holding company whose subsidiaries provide natural gas, electricity & other products & services. It operates in 3 segments: Gas Distribution Operations; Gas Transmission & Storage Operations, & Electric Operations.

Blue/Grey Sky Scenario



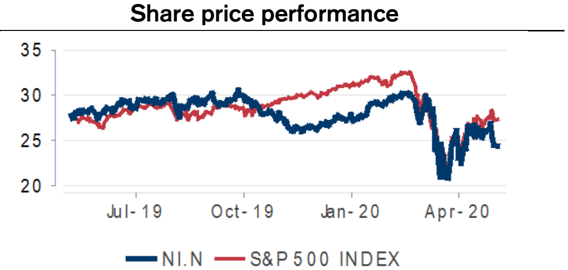
Our Blue Sky Scenario (US$) **(from 34.00) 30.00**

In our blue sky scenario we assume favorable regulatory outcomes across NI's jurisdictions, successful execution of their capital plan, and growth of infrastructure replacement program backlog. We assume that capex is at the high end of the $1.8-$1.9B and that NI is able to grow ratebase at the high end of their 8-10% range and grow earnings at the high end of their 5-7% range. We assume a 3.0x premium to the average peer 2021 P/E multiples.

Our Grey Sky Scenario (US$) **(from 26.00) 23.00**

In our grey sky scenario we assume unfavorable regulatory outcomes across NI's jurisdictions, only partial execution of their capital plan, and a decline in the infrastructure replacement program backlog. We assume that capex is at the low end of the $1.8-$1.9B and that NI is able to grow ratebase at the low end of their 8-10% range and grow earnings at the low end of their 5-7% range. We assume a -1.5x discount to the average peer 2021 P/E mult.

Share price performance



On 04-May-2020 the S&P 500 INDEX closed at 2842.74
Daily May06, 2019 - May04, 2020, 05/06/19 = US$27.88

Figure 1: NI Earnings Walk 1Q20 vs 1Q19

NI	2018Q4	2019Q1
Prior-year adjusted diluted EPS	**0.38**	**0.82**
Incremental year-over-year		
Gas utilities		
Net Revenues		
Base rates and infrastructure replacement rates - CEP Ohio is fixed and largely ratable per qtr. Also have TDSIC & FMCA trackers in IN, GSEP in MA, SAVE in VA, AMRP in KY, STRIDE in MD. Base rates in IN, PA, VA, MD in flux with volumes	0.05	0.04
Customer growth and usage	-	(0.02)
TCJA adjustments	-	-
Other net revenues (weather norm)	(0.02)	
O&M (non-tracked)	0.02	(0.04)
D&A (non-tracked)	(0.04)	(0.02)
Other taxes (non-tracked)	(0.01)	(0.02)
Charity (left in non-GAAP)	0.04	
Interest expense	(0.01)	(0.01)
Gas utilities - other	0.01	-
Electric utility		
Net Revenues		
Rates - IN TDSC & FMCA and NIPSCO Elec	0.02	0.01
Customer growth and usage	0.01	(0.01)
Other net revenues (weather norm)	(0.00)	-
O&M		
Fuel handling costs	0.01	
Employee and admin costs	0.01	
Gen maintenance	(0.02)	
Outside service costs from retirement of Bailly 7&8 5/31/18	-	
O&M (non-tracked)	(0.02)	
D&A (non-tracked) - running higher since because of IN gas ratecase (Oct 20	(0.00)	
Other taxes (non-tracked)	0.00	
Interest expense - did $750M @2.95% in Aug 2018	(0.00)	
Electric utility - other	0.02	-
Corporate & other		
Preferred dividends	(0.02)	0.00
Corporate & other - other	0.03	0.03
Dilution	(0.01)	(0.01)
YoY Period	**2019Q4**	**2020Q1**
Current-year adjusted EPS/CS Ests	**0.45**	**0.77**
Consensus (prior & current)	**0.45**	**0.81**
TTM	**1.32**	**1.27**
CS Est FY		**1.32**
Consensus FY		**1.34**
Prior Guidance FY 2020 (withdrawn in Feb 2020)		**1.36-1.40**

Source: Company data, Credit Suisse estimates

Additional Commentary

- **See our recent reports:** 2/28 Raise to Outperform on Sale of Mass, Elimination of Block Equity Plan, 1/17 2020 Earnings Preview, 2020 Outlook – Getting Meaner and Less Defensive, 11/14 EEI 2019 Financial Conference: Full Takeaways, 11/1 New Growth Trajectory after Equitizing, 10/30 3Q Miss with 2020 Guidance a Bit Light, 8/7 Downgrade to Neutral on Gas Operations Risk
- **Equity needs: No block equity needed in 2020, nor any going forward,** with unchanged plans for $200-$300M annual ATM and $35-$60M employee plan equity (no plans for use of convertible or hybrid financing) with management targeting FFO/Debt ~14%-15%. Recall that on the 4Q19 call, prior guidance for $500-$700M block equity guidance for 2020 was pulled out after the announced sale of Columbia Gas of Mass to Eversource (ES). This is in addition to the annual $200-$300M through its ATM program to help fund Lawrence, MA incident expense. ATM for 2019 was $229M. This comes on top of ongoing and unchanged plans for $200-$300M annual ATM and $35-$60M employee plan equity (no plans for use of convertible or hybrid financing) with management targeting FFO/Debt ~14%-15%. Recall also that management had previously stated that they do not need to issue equity in early 2020 to hit their metrics, choosing first to wait for recovery of insurance policies which have a combined limit of $1.1B (Casualty/Property $800m/$300M). Company still expects to make capital investments of $1.8B-$1.9N in 2020.
- **Pension & OPEB. ~98% funded as of yearend 2019, with 52% of pension plan assets in equities (45% of OPEB assets).** A 50 bps decline in the discount rate is expected to result in a $97.7M increase in projected pension obligation and a $31.8M increase in OPEB obligation, as well as a $2.6M increase in net plan expense. For a 50 bps decline in expected long-term rate of return on pension and OPEB plan assets, net expenses are expected to increase $10.1M
- **Decoupling.** Full decoupling in OH, MA, MD, VA. Weather normalization in KY, MD, VA, PA.
- **Bad debt handling.** Clauses for bad debt in KY, OH, MD, PA, VA, MA & IN.
- **Stimulus bill impacts:** management is still evaluating the potential benefits from NOLs and AMT credits.
- **A federal guilty plea and the sale of Columbia Gas of Mass.** On Wednesday, 2/26, the US Department of Justice announced that NI will plead guilty to a criminal violation of the federal Natural Gas Pipeline Safety Act and pay a $53M fine in connection with the Sept 2018 gas explosion incident in Merrimack Valley, Massachusetts. NI has also agreed to sell its operations in Massachusetts to ES for $1.1B and will forfeit any profit earned from the sale (none expected, so retaining the whole $1.1B). A plea hearing has not yet been scheduled. The plea is on a corporate level; no individual officers or employees of the company were charged.
- **Sale of Columbia Gas of Massachusetts to Eversource for $1.1B - with no gains allowed (or expected).** NI has also agreed to sell its operations in Massachusetts to ES and will forfeit any profit earned from the sale. We calculate that ES is purchasing at a 1.0x multiple of ratebase, or 19.7x 2021 P/E at the allowed 9.55% ROE – in line with the group average. However, the elimination of a planned $500-$700M block equity issuance this year brings the combined effect to about breakeven to a modest $0.01 accretion to 2021 expectations before accounting for -$0.05 corporate dissynergies. Among our assumptions illustrated in the figure above: Value for the $1,100M ratebase utility of ~$1,074M at 19.2x 2021 EPS is below ~$1,400 book value. We expect speedier regulatory approvals than is normally the case given the demonstrated desire of state and federal officials for a transfer of ownership. The transaction will require approval from the Massachusetts Department of Public Utilities and the U.S. Justice Department under the Hart-Scott-Rodino Act. "ES and

Columbia Gas intend to engage with key regulatory stakeholders and consumer advocates over the next 30 days to review the investments needed to operate the system, to minimize rate impacts and review key benefits for customers." Expect the transaction to close by the end of 3Q20.

- **Additional potential penalties – we assume ~$50M later this year in our valuation.** In addition to this latest action, the NTSB issued its final report on the incident in Oct 2019 and two additional investigations are ongoing at the Mass Department of Public Utilities (DPU). Specifically, the DPU is authorized to assess civil penalties up to $219k for a violation of federal pipeline safety regulations up to a maximum $2.2M for a series of violations, as well as $250k per day for violations of its emergency response plan up to a maximum $20M. Furthermore, as a result of the Governor's declaration of emergency, the DPU may also assess a penalty of $1M per violation of the regulator's operational directives during restoration efforts – without any maximum.

- **Higher capex for gas and electric transmission.** Management now guides to annual infrastructure investment $1.8B-$1.9B for 2020 vs prior 2020 update of $1.7B-$1.8B provided in Q3. Capex for 2019 was ~$1.9B vs guided $1.7-$1.8B. Spending categories include gas pipeline transmission capital (Ohio) and higher spending for electric transmission in Indiana to support future renewables. Information Technology upgrades for grid modernization are also included. >75% of capex begins earnings in under 18 months.

- **Current Debt Level is now $9.643B** vs 9.480B in Q3. Long term debt is unchanged at ~$7.7B. Weighted average maturity ~17 years and weighted average interest rate is 4.4% as of 12/31. **Net Available Liquidity unchanged at ~$1.4B** as of Dec 31st. ~$0.4B in accounts receivable securitization facilities as of 12/31 vs ~$0.3B in Q3. **Financing Targets for Adj. FFO/Total Debt still at ~14-15%.**

- **NI is in a rare period now with no significant rate activity.** The next major rate filing will probably be in Pennsylvania as there was none in 2019 and this is typically an annual affair. The company received a final order in the Indiana electric ratecase with a 9.75% (vs prior 9.9%) and a new rate structure for industrial customers that allows the utility to manage market purchases in order to keep track of capacity requirements (reduces risk of stranded assets). Accelerated coal retirement and book value recovery to 2032 was also approved. Orders were also recently issued in MD and KY. We do not expect a filing in Mass until 2021 at the earliest, after two remaining Greater Lawrence investigations at the Department of Public Utilities (DPU) wrap up.

- **Valuation.** We are reducing our TP $4 to $27, primarily for lower peer 2021 electric and gas utility P/Es within a SoTP valuation. We continue to apply a 1.5x premium to the gas utilities for favorable regulatory jurisdictions and lower operational risk since the explosive incident in Lawrence Mass in 2018. We continue to value the electric operation in Indiana at a 1.5x premium for excellent operations and supportive regulation. Risks include 1) ROE risk related to the ongoing ratecases, 2) continued approvals relating to infrastructure replacement/grid modernization programs, 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particularly in the non-decoupled jurisdictions, 7) weather risk, 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety, 11) COVID19 pandemic response load reduction, particularly at the electric utility.

Figure 2: NI Valuation

	2021 EPS	Prem / Disc	Effective P/E	Equity	Equity / Sh
		BASE CASE			
Electric	$0.59	1.5x	19.2x	$4,337	$11.22
Gas	$0.98	1.5x	19.2x	$7,307	$18.91
Potential DPU penalties				-$50	($0.13)
Other	($0.14)		19.2x	($1,071)	($2.77)
Total EPS	**$1.43**			**$10,523**	**$27.00**
Diluted Shares Outstanding					386.4
Dividend					$0.80
Implied Yield					3.0%
Current Yield					3.3%
Implied P/E					18.9x
Prem / (Disc) To Group					6.7%
Upside/ (Dow nside) to Current Price					10.3%

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 05-May-2020)*
Eversource Energy (ES.N, $80.8)
NiSource Inc. (NI.N, $24.4, OUTPERFORM, TP $27.0)

Disclosure Appendix

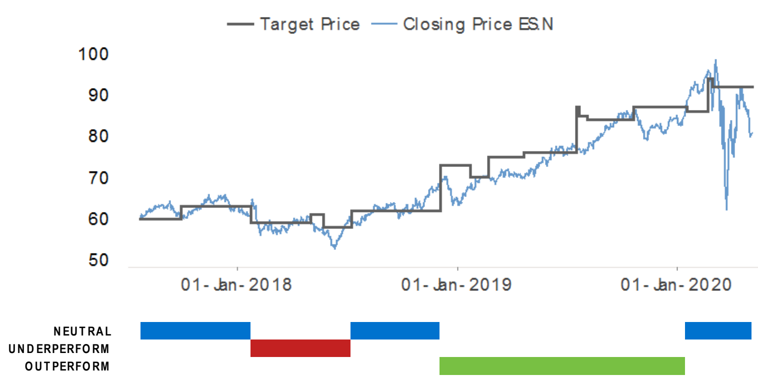
Analyst Certification

Michael Weinstein, ERP, Maheep Mandloi and Andres Sheppard each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Eversource Energy (ES.N)

ES.N Date	Closing Price (US$)	Target Price (US$)	Rating
05-May-17	59.55	59.00	N
24-Jul-17	60.74	60.00	
29-Sep-17	60.44	63.00	
23-Jan-18	61.12	59.00	U
03-May-18	58.87	61.00	
23-May-18	56.54	58.00	
09-Jul-18	58.46	62.00	N
04-Dec-18	68.95	73.00	O
23-Jan-19	68.30	70.00	
22-Feb-19	70.30	75.00	
21-Apr-19	69.96	76.00	
18-Jul-19	78.40	87.00	
22-Jul-19	76.91	85.00	
05-Aug-19	76.55	84.00	
21-Oct-19	86.14	87.00	
17-Jan-20	88.73	86.00	N
21-Feb-20	95.96	94.00	
28-Feb-20	86.46	92.00	

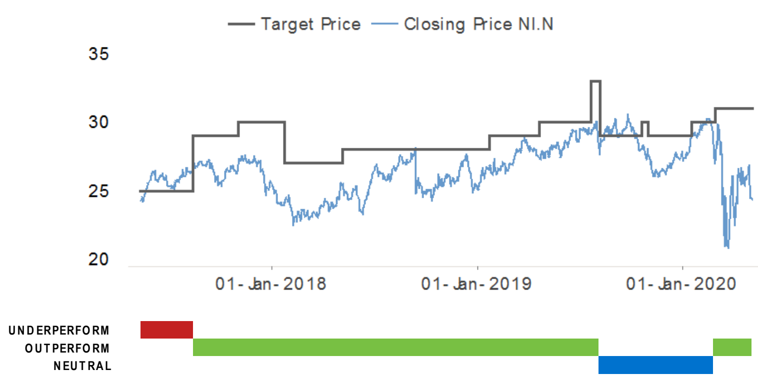
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
12-May-17	24.30	25.00	U
27-Jun-17	25.88		*
14-Aug-17	26.64	29.00	O
02-Nov-17	26.94	30.00	
23-Jan-18	24.17	27.00	
06-May-18	25.41	28.00	
23-Jan-19	26.83	29.00	
21-Apr-19	27.56	30.00	
22-Jul-19	29.14	33.00	
07-Aug-19	27.63	29.00	N
21-Oct-19	28.05	30.00	
01-Nov-19	27.65	29.00	
17-Jan-20	29.04	30.00	
28-Feb-20	27.02	31.00	O

** Asterisk signifies initiation or assumption of coverage.*



As of December 10, 2012 Analysts' stock rating are defined as follows:
Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European (excluding Turkey) ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin America, Turkey and Asia (excluding Japan and Australia), stock ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

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Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

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Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
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Neutral/Hold*	38%	(26% banking clients)
Underperform/Sell*	12%	(22% banking clients)
Restricted	1%	

**For purposes of the NYSE and FINRA ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: We arrive at our $27 target price for NI by applying a 1.5x premium to the gas segment peer 2021 P/E to reflect the constructive regulatory environments with capex trackers in place in the jurisdictions that NI operates. We also apply a 1.5x premium to the average peer electric utility 2021 P/E multiple for NIPSCO Electric utility in Indiana to reflect the favorable ratebase growth profile and regulatory environment in the state. Our OUTPERFORM rating reflects a forecasted total return that is equal the group average.

Risk: Risks to our $27 target price and OUTPERFORM rating are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particulary in the non-decoupled jurisdictions, 7) weather risk, and 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety after the 2018 explosion incident in Mass. 11) COVID19 load reductions

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This research report is authored by:
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BofA GLOBAL RESEARCH

BofA SECURITIES

NiSource Inc

Downgrade to Neutral: Tapped out on savings at the wrong time?

Rating Change: NEUTRAL | PO: 27.00 USD | Price: 25.93 USD

30 April 2020

Equity

Key Changes

(US$)	Previous	Current
Inv. Opinion	B-1-7	B-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	28.00	27.00
2020E EPS	1.33	1.29
2021E EPS	1.40	1.36
2022E EPS	1.50	1.47
2020E EBITDA (m)	1,829.8	1,813.2
2021E EBITDA (m)	1,954.7	1,936.3
2022E EBITDA (m)	2,082.4	2,064.2

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Quantifying sensitivities: Reduce EPS -4c and downgrade

We downgrade NiSource to Neutral from Buy due to our concerns around absorbing lower demand from COVID and lower our PO to $27 from $28. With peers starting to report neg impacts from at-home data and NI's -3%/-10% drop in commercial/industrial gas sales from '08 to '09 (-2%/-17% for electric), we see impacts as understated. *Critically, where many co's can use O&M savings to balance impacts, we see this as a greater challenge to NI as it promised it would pursue a program of cost savings to mitigate NT impacts of the CMA sale* to ES this 3Q. With 2020 guidance having already been pulled related to the CMA sale, we only have an adj 2021 guide of a $1.36-1.40/sh 'earnings floor' (see this as risk). To reflect sales impacts we reduce our ests -4c in '20 to $1.29/sh and '21 to $1.36/sh (*now to the bottom of the '21 floor*). This equates to a modest -2% change in annual sales volumes for electric and gas C&I, +1% change in electric and gas resi and no further O&M cuts. The impact into '21 reflects commercial billing structure (typically 12-month trailing) and our view revenue will likely be impacted in '21 as well. We have the co recovering through '22 and '23, fully back to normal by '24 – when it should have EPS support from NIPSCO renewable BOTs case. We MtM the peer mult (17.8x gas / 17.2x electric) and update premiums: Electric now 1x (from 2x) to reflect C&I exposure but BOT opp, and OH, VA and MD now 0.5x (from 0x) to reflect revenue normalization. At a $27/sh PO, we see balanced risks; downgrade to Neutral.

Recognizing potential COVID impacts on rate structure

Our ests shift factors in NI's sensitivity, which asserts that a 1% change in demand for electric resi/ C&I and for gas resi/ commercial would each result in a 1c EPS impact. We acknowledge that in NI's favor, a number of subs are revenue decoupled or normalized, that all gas subs have bad debt trackers, that peak winter gas use was before COVID, and that NIPSCO Electric already shed itself of largest industrial cust's through Rate 831. However, there are still some key pressure points that cause our concern: NIPSCO gas and electric are not normalized; KY and PA are only weather normalized for resi (KY for commercial); commercial bills have a lower fixed component (25% electric / 45% gas) compared to resi (20% / 75%); tough timing of the PA rate case in the midst of COVID with a 10.95% ROE ask; and Industrial cust's still represent 26% of Electric margins.

Estimates (Dec)

(US$)	2018A	2019A	2020E	2021E	2022E
EPS	1.30	1.32	1.29	1.36	1.47
GAAP EPS	1.30	1.32	1.29	1.36	1.47
EPS Change (YoY)	7.4%	1.5%	-2.3%	5.4%	8.1%
Consensus EPS (Bloomberg)			1.34	1.42	1.51
DPS	0.79	0.83	0.88	0.94	0.99

Valuation (Dec)

	2018A	2019A	2020E	2021E	2022E
P/E	19.9x	19.6x	20.1x	19.1x	17.6x
GAAP P/E	19.9x	19.6x	20.1x	19.1x	17.6x
Dividend Yield	3.0%	3.2%	3.4%	3.6%	3.8%
EV / EBITDA*	16.2x	14.1x	13.7x	12.8x	12.0x
Free Cash Flow Yield*	-12.9%	-2.2%	-6.9%	-6.0%	-5.1%

* For full definitions of *iQmethod*[SM] measures, see page 11.

Stock Data

Price	25.93 USD
Price Objective	27.00 USD
Date Established	29-Apr-2020
Investment Opinion	B-2-7
52-Week Range	19.56 USD - 30.67 USD
Mrkt Val (mn) / Shares Out (mn)	9,923 USD / 382.7
Average Daily Value (mn)	90.57 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2020E)	9.2%
Net Dbt to Eqty (Dec-2019A)	158.6%

Refer to important disclosures on page 12 to 14. Analyst Certification on page 9. Price Objective Basis/Risk on page 9. **12134562**

Timestamp: 30 April 2020 08:30AM EDT

iQprofile SM NiSource Inc

iQmethod SM – Bus Performance*					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Return on Capital Employed	3.9%	4.3%	4.1%	4.2%	4.3%
Return on Equity	10.1%	9.9%	9.2%	9.2%	9.5%
Operating Margin	18.3%	20.2%	20.0%	20.8%	21.6%
Free Cash Flow	(1,278)	(219)	(685)	(593)	(510)

iQmethod SM – Quality of Earnings*					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Cash Realization Ratio	1.2x	3.2x	2.4x	2.4x	2.3x
Asset Replacement Ratio	3.0x	2.5x	2.5x	2.4x	2.2x
Tax Rate	19.7%	17.1%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	156.7%	158.6%	143.1%	143.1%	142.0%
Interest Cover	2.6x	2.8x	2.8x	2.8x	3.0x

Income Statement Data (Dec)					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Sales	5,084	5,184	5,369	5,547	5,731
% Change	4.3%	2.0%	3.6%	3.3%	3.3%
Gross Profit	3,325	3,649	3,780	3,935	4,094
% Change	-0.9%	9.8%	3.6%	4.1%	4.1%
EBITDA	1,531	1,764	1,813	1,936	2,064
% Change	3.4%	15.2%	2.8%	6.8%	6.6%
Net Interest & Other Income	(335)	(384)	(379)	(408)	(415)
Net Income (Adjusted)	463	495	493	535	595
% Change	16.6%	6.8%	-0.3%	8.4%	11.3%

Free Cash Flow Data (Dec)					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Net Income from Cont Operations (GAAP)	463	495	493	535	595
Depreciation & Amortization	600	717	742	783	827
Change in Working Capital	110	(75)	(186)	(186)	(186)
Deferred Taxation Charge	(188)	118	116	125	104
Other Adjustments, Net	(445)	328	0	0	0
Capital Expenditure	(1,818)	(1,802)	(1,850)	(1,850)	(1,850)
Free Cash Flow	-1,278	-219	-685	-593	-510
% Change	-34.0%	82.9%	-212.5%	13.4%	14.0%

Balance Sheet Data (Dec)					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Cash & Equivalents	121	148	165	181	197
Trade Receivables	1,147	905	1,092	1,278	1,464
Other Current Assets	787	800	800	800	800
Property, Plant & Equipment	15,543	16,912	17,020	18,087	19,109
Other Non-Current Assets	4,206	3,894	3,894	3,894	3,894
Total Assets	21,804	22,660	22,970	24,239	25,464
Short-Term Debt	2,027	1,787	2,203	2,363	2,511
Other Current Liabilities	2,010	1,959	1,959	1,959	1,959
Long-Term Debt	7,105	7,856	7,180	7,700	8,183
Other Non-Current Liabilities	4,911	5,071	5,187	5,313	5,416
Total Liabilities	16,053	16,673	16,530	17,334	18,070
Total Equity	5,751	5,987	6,440	6,905	7,394
Total Equity & Liabilities	21,804	22,660	22,970	24,239	25,464

* For full definitions of *iQmethod* SM measures, see page 11.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

NI's positives include 5-7% earnings/dividend growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries. We have factored in resolution of overhang from the MA incident as the company will likely sell 3Q. However, NI has C&I demand risk from COVID, which will be difficult to offset with O&M cuts due to promises already around cost cuts to balance CMA sale. We see shares valued appropriately and rate Neutral.

Stock Data

Average Daily Volume	3,492,787

Quarterly Earnings Estimates

	2019	2020
Q1	0.82A	0.75E
Q2	0.05A	0.79E
Q3	0A	0.02E
Q4	0.45A	-0.11E

How we see the shares

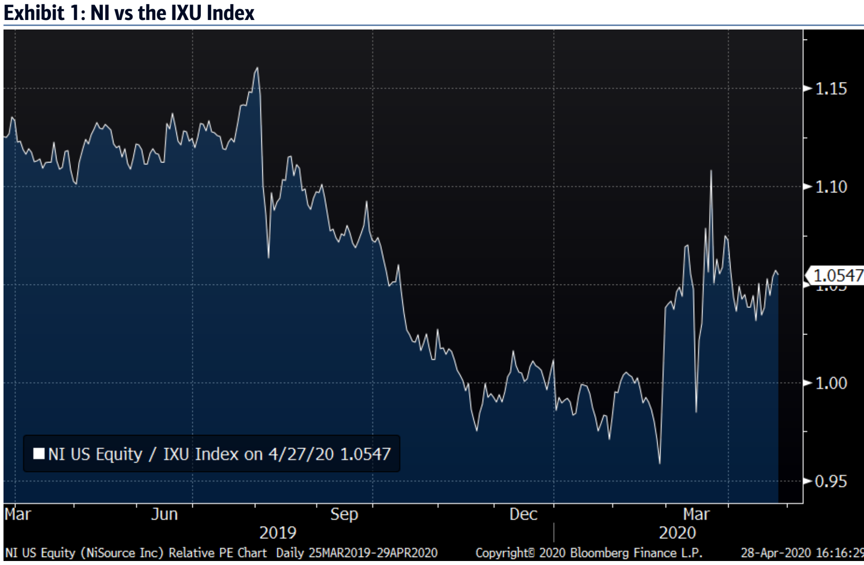
We show NI vs the IXU index below, recognizing that since the end of last year, the company has re-rated ~5%. We stress renewed risks that while split between its gas and electric utility exposure its latest disclosures on rate sensitivity highlight an unusually high gross sensitivity across both businesses vs. peers to changes in load – and more critically – continue to see exposure to the electric side of the business regardless of the heating season closing for its gas businesses. While partially moderated we perceive challenges to finding *additional* cost offsets to the already ambitious cost mitigation efforts (seemingly 8c of SG&A cost allocation need to be overcome with the sale). While management implicitly announced this with the 4Q results recently, we stress the need to find further cuts remains potentially elusive. As such, we could see management shift lower its guidance on '21 (below that it was seeking of a flat guide vs. earlier '20 guide, which was pulled at the time of its sale).

Remember that the SG&A cost allocation issue is one that is trued-up in future rate cases – and should provide more meaningful EPS growth in future years through the subsequent cycle of cases. Further pressures anticipated on the electric side from Covid should conceivably be addressed in the next rate case, but given the already more meaningful hike implemented on (principally residential and commercial) customers in the last case due to re-allocation of customer tariffs we find timeline as likely protracted for recovery: subsequent NIPSCO electric case is still likely tied to future renewable investments. We have seen Indiana as a jurisdiction becoming more difficult in recent periods given outspoken coal interest groups among others and the potential need for further relief to true-up rates could yet add to our concerns (this appears even more painful of a reality for CNP).

While we still see the longer-term story improving, the impact of Covid related costs could not come at a more acute point in time given significant cost cutting effort launched (to be released presumably later this year for NI). The extent of its cautious setup around Covid *only recently* became evident with the disclosure of greater load sensitivities and with further confirmation from adjacent peers (the likes of CMS, DTE, etc) of even more material declines than initial feared (sales have decelerated sharply in the April timeframe overall, in contrast to March).

Net-net, the appeal for a company that remains thoughtful in its approach to both rate cases and broaching renewable rate base additions, we see its premium as adequate.

Exhibit 1: NI vs the IXU Index



Source: Bloomberg

Why we're cautious with the name

- **2008 performance**: In the tables below, we show revenues ($mn), sales and transportation (MMDth), weather, and customers for both gas and electric distribution operations from 2007 to 2010 from NI's 2009 and 2010 10K's – broken down by class. We calculate simple YoY changes to demonstrate that from '08 to '09 in the last financial crisis, NI gas revenues were impacted -32% in total (but largely -23% for resi, commercial and industrial), and gas sales were impacted -10% in total (-5% for resi, -3% for commercial, and -10% for industrial). For electric from '08 into '09, revenues were impacted -10% in total (-2% for resi, +1% for commercial, and -14% for industrial), and electric sales were impacted -11% in total (-3% for resi, -2% for commercial, and -17% for industrial). Customers stayed largely the same (1-2% less for industrial during this time). Also note that there were 3% fewer heating degree days for gas and 27% fewer cooling degree days for electric. We point out this data and argue that our adjustment downward in estimates (-4c in '20 and '21 based on a 1c per 1% sales change and expectation increase in resi balances decrease in C&I) could be considered conservative.

- **EPS sensitivities**: NI has a decently sized EPS sensitivity for the gas and electric commercial and electric industrial classes. In its last slide deck, NI published that each category (the three above, as well as gas and electric resi classes) are subject to a 1% EPS impact if there is a 1% change in sales volumes (annually, although NI noted this is not linear).

- **O&M cost cuts already**: NI already promised O&M cuts to balance the impact of the Massachusetts subsidiary sale (expected this 3Q). We see this as limiting the degree to which *more* cuts are possible. We make this point because some peers were expecting a YoY *increase* in expenses, and we see names with these increases as having more room to make cuts in 2020. We listen closely to this point in the 1Q call.

Table 1: Gas Distribution Operations

	2007	2008	2009	2010	'07 to '08	'08 to '09	'09 to '10
Revenues ($ in Millions)							
Residential	2,752	3,229	2,508	2,135	17%	-22%	-15%
Commercial	948	1,125	865	708	19%	-23%	-18%
Industrial	284	312	240	215	10%	-23%	-10%
Off-System Sales	630	916	254	295	45%	-72%	17%
Other	256	159	36	315	-38%	-77%	765%
Total	4,870	5,741	3,902	3,668	18%	-32%	-6%
Sales and Transportation (MMDth)							
Residential sales	272	278	265	258	2%	-5%	-3%
Commercial sales	169	174	169	167	3%	-3%	-2%
Industrial sales	376	373	336	386	-1%	-10%	15%
Off-System Sales	88	97	60	72	10%	-38%	20%
Other	1	1	1	1	-29%	-20%	25%
Total	907	923	831	884	2%	-10%	6%
Weather							
Heating Degree Days	5,457	5,771	5,624	5,547	6%	-3%	-1%
Normal Heating Degree Days	5,645	5,664	5,633	5,633	0%	-1%	0%
% Colder (Warmer) than Normal	-3%	2%	0%	-2%			
Customers							
Residential	3,041,634	3,037,504	3,032,597	3,039,874	0%	0%	0%
Commercial	279,468	280,195	279,144	281,473	0%	0%	1%
Industrial	8,061	8,003	7,895	7,668	-1%	-1%	-3%
Other	71	76	79	65	7%	4%	-18%
Total	3,329,234	3,325,778	3,319,715	3,329,080	0%	0%	0%

Source: BofA Global Research estimates, company report

Table 2: Electric Operations

	2007	2008	2009	2010	'07 to '08	'08 to '09	'09 to '10
Revenues ($ in millions)							
Residential	389	368	360	393	-6%	-2%	9%
Commercial	371	365	369	373	-2%	1%	1%
Industrial	512	526	453	509	3%	-14%	12%
Wholesale	54	57	19	30	7%	-66%	58%
Other	38	48	20	90	26%	-58%	352%
Total	1,363	1,363	1,221	1,395	0%	-10%	14%
Sales (Gigawatt Hours)							
Residential	3,544	3,346	3,241	3,626	-6%	-3%	12%
Commercial	3,775	3,916	3,834	3,920	4%	-2%	2%
Industrial	9,444	9,305	7,691	8,459	-1%	-17%	10%
Wholesale	909	737	601	817	-19%	-19%	36%
Other	142	138	159	186	-2%	15%	17%
Total	17,813	17,443	15,526	17,008	-2%	-11%	10%
Weather							
Cooling Degree Days	955	705	515	977	-26%	-27%	90%
Normal Cooling Degree Days	814	808	808	808	-1%	0%	0%
% Warmer (Colder) than Normal	17%	-13%	-36%	21%			
Electric Customers							
Residential	400,991	400,640	400,016	400,522	0%	0%	0%
Commercial	52,815	53,438	53,617	53,877	1%	0%	0%
Industrial	2,509	2,484	2,441	2,432	-1%	-2%	0%
Wholesale	6	9	15	15	50%	67%	0%
Other	755	754	746	740			
Total	457,076	457,325	456,835	457,586	0%	0%	0%

Source: BofA Global Research estimates, company report

- **Rate case activity**: NI previously indicated there could be potential rate case filings in PA and MD in 2020, given the 12-18 month tenor of states' rate case filings. As we saw at the end of last week, NI filed a case in Pennsylvania for a $100.4mn annual revenue request at a 10.95% ROE (a 17-18% resi bill increase & 13-16% C&I bill increase) to be effective 2021. We do acknowledge that PA is only weather normalized rather than revenue normalized so could benefit from a rate case, but we see the timing ultimately challenging given it is in the midst of the pandemic. Note we could see a rate case in MD as well; timing has not been conveyed yet here.

- **Electric bad debt recovery**: Unlike the gas subsidiaries, NIPSCO Electric does not have a bad debt tracker. We wonder how this will impact the company particularly as it just received the result of the last rate case, indicating that it might be difficult to go in sooner to recover.

- **Rate 831 good, but still industrial exposure**: Rate 831 approved in NIPSCO electric's last rate case did shed the company of large industrial risk as these cust's are now purchasing directly from MISO. However, not all industrial exposure was shed. As indicated in NI's last slide deck, mid-sized industrial customers still make up 26% of electric margins.

The ways we see NI as overcoming some challenges

- **Gas use in winter *pre-stay-at-home***: As NI is a gas-heavy name, we admit a benefit being that peak-use during the winter was already largely over before COVID caused many states to issue shut downs. Indeed a mild winter, but NI is largely weather normalized, so weather is not a driver for non-GAAP earnings. Further, gas is mostly residential (i.e. 69% of margins), which indicates some resilience for the company as negative demand impacts are largely at the C&I level (although this limits the positive counterbalance as resi gas is 75% fixed).

- **Quarterly bad debt recovery**: We point out that NI subsidiaries generally have more frequent bad debt recovery than peers. Specifically for NIPSCO Gas, PA, VA, MD, and KY, there are quarterly recoveries. Other subs have annual or semi-annual recoveries, which helps reduce tenor of impact instead of waiting like others for recovery through a rate case.

- **Pension**: At year-end 2019, pension was 98% funded and just 31% equity. Compared to peers, we see NI less exposed to pension concerns.

Estimates

In the estimates below, we adjust our expectations around under-earning versus authorized ROEs. We point out that we discount the utilities without decoupling or revenue normalization (PA, NIPSCO, KY) more than those with it (OH, VA, MD) in '20 and '21.

Table 3: Earned vs Authorized ROE expectations

Earned ROEs	Authorized	2020E	2021E	2022E	2023E	2024E	2025E
Gas Utilities							
Columbia Gas of OH	10.39%	9.89%	9.89%	9.89%	10.14%	10.14%	10.14%
Columbia Gas of PA	10.00%	8.75%	8.75%	9.25%	9.50%	9.75%	9.75%
NIPSCO Gas	9.85%	8.60%	8.60%	8.85%	9.35%	9.60%	9.60%
Columbia Gas of MA	9.55%	1.05%					
Columbia Gas of VA	10.00%	9.25%	9.25%	9.50%	9.50%	9.50%	9.50%
Columbia Gas of KY	9.50%	8.25%	8.25%	8.75%	9.00%	9.25%	9.25%
Columbia Gas of MD	9.70%	8.95%	8.95%	9.45%	9.45%	9.45%	9.45%
Electric Utilities							
NIPSCO Electric	9.75%	9.00%	9.00%	9.25%	9.25%	9.75%	9.75%

Source: BofA Global Research estimates, company report

We find that estimates shift -4c for '20 and '21, -3c in '22, and -1c in '23 before returning to normal in '24 and '25. Our '24 estimates include assumptions for BOT build in NIPSCO Electric associated with round 1 and 2 of build-own-transfers, a key reason why we are higher than Consensus in these outer years.

Table 4: NI EPS Estimates

NI EPS Estimates		2020E	2021E	2022E	2023E	2024E	2025E
Gas		0.99	1.03	1.09	1.14	1.17	1.21
Electric		0.63	0.65	0.68	0.74	0.84	0.84
Parent/Other		-0.32	-0.32	-0.30	-0.29	-0.28	-0.27
BofA EPS		1.29	1.36	1.47	1.59	1.73	1.78
Previous EPS		1.33	1.40	1.50	1.60	1.74	1.78
-							
Guidance			Floor: 1.36-1.40				
Consensus		1.34	1.42	1.51	1.60	1.61	
Consensus '19-'23 CAGR	5.4%						
BofA CAGR '19-'23 CAGR	4.8%						
Consensus '20-'24 CAGR	4.6%						
BofA CAGR '20-'24 CAGR	7.6%						
(Prev) 5%-7% CAGR EPS off '19 guidance range	High End	1.42	1.52	1.63	1.74	1.87	2.00
	Mid-Point	1.38	1.46	1.55	1.64	1.74	1.85
	Low End	1.33	1.40	1.47	1.54	1.62	1.70
5%-7% CAGR EPS off '21 guidance range	High End		1.40	1.50	1.60	1.72	1.84
	Mid-Point		1.38	1.46	1.55	1.64	1.74
	Low End		1.36	1.43	1.50	1.57	1.65
BofA DPS		0.88	0.94	0.99	1.05	1.12	1.18
BofA CAGR 2017-2021	6.6%						
Guidance							
5%-7% CAGR DPS guidance	High End	0.86	0.92	0.98	1.05		
	Mid-Point	0.83	0.88	0.94	0.99		
	Low End	0.81	0.85	0.89	0.94		
Share Count		381	392	428	428	445	455

Source: BofA Global Research estimates, company report, Bloomberg

Valuation

Below we MtM the peer multiple to 17.x8 for gas and 17.2x for electric (17.0x / 17.2x prior). We also adjust our premium assumptions. For Electric, we move the premium down from 2x to 1x because of the underlying sensitivities for both commercial and industrial demand and lack of decoupling. We still award the 1x because of the ratebase opportunity for build-own-transfer projects associated with the RFPs that are not yet factored into long-term guidance. We also shift up premiums from 0x to 0.5x for gas utilities in OH, VA, and MD because of the decoupling and revenue normalization the subs have; our other gas subs keep the 0x premium as they are more sensitive to COVID impacts on demand, although note that the hefty demand portion of 1H20 is already behind us (winter).

With these adjustments, we find just a 7.5% return at a $25/sh PO and we downgrade NI to Neutral from Buy.

Table 5: NI SOTP Valuation

NI SOP Valuation	Metric	P/E Multiple						hey		
	2022E EPS	Low	Peer	Prem/ Discount	Base	High		Low	Base	High
Group Peer Multiple - Gas	-	-	17.8x	-	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Gas	-	-	5.10%	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Gas Utilities		- -	18.7x	-	-	-	-	-	-	-
Columbia Gas of OH	$0.51	18.2x	18.7x	0.5x	19.2x	20.2x		$9.22	$9.72	$10.23
Columbia Gas of PA	$0.25	17.7x	18.7x	0.0x	18.7x	19.7x		$4.41	$4.66	$4.90
NIPSCO Gas	$0.20	17.7x	18.7x	0.0x	18.7x	19.7x		$3.53	$3.73	$3.93
Columbia Gas of VA	$0.08	18.2x	18.7x	0.5x	19.2x	20.2x		$1.41	$1.49	$1.56
Columbia Gas of KY	$0.04	17.7x	18.7x	0.0x	18.7x	19.7x		$0.75	$0.79	$0.84
Columbia Gas of MD	$0.02	18.2x	18.7x	0.5x	19.2x	20.2x		$0.32	$0.34	$0.36
Group Peer Multiple - Electric			17.2x							
Group EPS '18-'22 CAGR - Electric			5.00%							
Electric Utilities			18.1x							
NIPSCO Electric	$0.68	18.1x	18.1x	1.0x	19.1x	20.1x		$12.23	$12.90	$13.58
Total Utility	$1.77	*18.0x*			*19.0x*	*20.0x*		$31.87	$33.64	$35.41
-Parent EPS Drag (ex-Interest Expense)	-$0.09	18.0x	0.0x		18.6x	19.6x		-$1.62	-$1.68	-$1.76
Total EPS *(incl. debt drag)*	$1.47									
Midpoint of 5-7% EPS	*$1.46*									
Holdco Debt @ Parent, *not* allocated to Utilities										
(50% Netting out Debt)				-$2,000	50%			-$1,000	-$1,000	-$1,000
(50% P/E multiple on Interest Exp)				5.5%	50%			-$783	-$826	-$870
Grand Total Equity Value								$25.86	$27.47	$29.04
Shares Outstanding 2022E									406	
Total Equity Value								$26.00	$27.00	$29.00
Implied Consolidated P/E										
Current Price									$25.93	
Dividend Yield (2020E)									3.4%	
Total Return Potential									7.5%	

Source: BofA Global Research estimates, company report, Bloomberg

Price objective basis & risk

NiSource Inc (NI)

Our $27 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2022 forward P/E multiples of 17.8x for gas utilities and 17.2x for electric utilities with an inline mult for gas utilities with just weather normalization, a 0.5x prem for gas utes with revenue normalization (prev 0x), and a 1.0x premium for the electric utility's strong growth rates (we factor in BOT in '24 EPS) but acknowledgement of industrial risk (prev 2x). We note that electric / gas peer P/E multiples are grossed up by 5% / 5.1% to reflect capital appreciation across the sector. We strip value from Columbia Gas of MA given the pending sale to close in 3Q20. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
NEUTRAL				
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith

***iQ*method[SM] Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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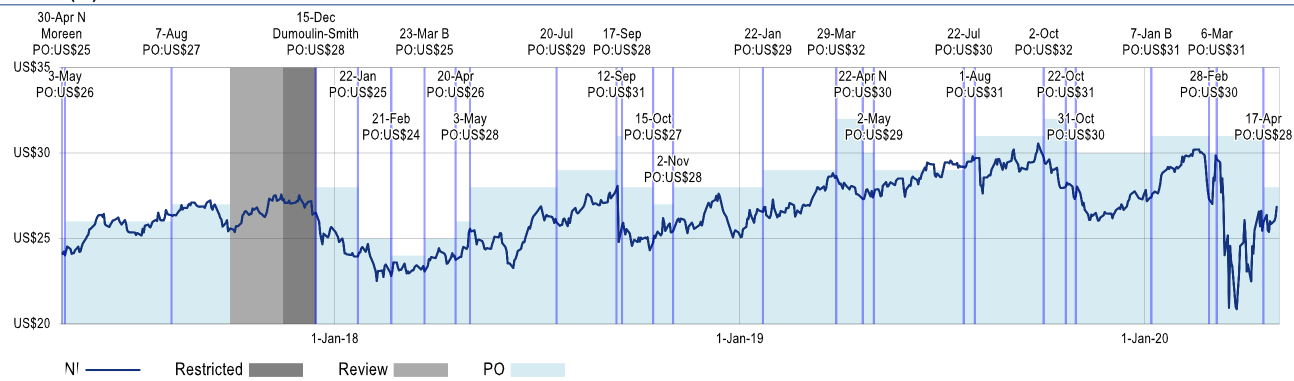
Disclosures

Important Disclosures

NiSource Inc (NI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	63	39.13%	Buy	51	80.95%
Hold	51	31.68%	Hold	35	68.63%
Sell	47	29.19%	Sell	26	55.32%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	72	50.35%	Buy	51	70.83%
Hold	38	26.57%	Hold	28	73.68%
Sell	33	23.08%	Sell	24	72.73%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1602	52.15%	Buy	1005	62.73%
Hold	713	23.21%	Hold	463	64.94%
Sell	757	24.64%	Sell	382	50.46%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Midstream & Refining
Unusual Winter: Heat Stroke & COVID

April 24, 2020

Key Takeaway

Covered utilities came under considerable pressure as COVID-19 fears spread in March, economic repercussions expanded, and indiscriminate selling took hold. We capitalized on that dislocation with select upgrades, but as the group has now sharply recovered, we downgrade NI ($28 PT) & SWX ($72 PT) to Hold, from Buy. We believe the group's rate-regulated model insulates earnings & cash flows from the economic contraction, but it does not provide total immunity.

COVID-19 impacts to be a focus on 1Q calls. Relative to other areas of our coverage (Refining & Midstream), we expect modest impacts to gas & electric distribution operations stemming from the spread of COVID-19 and various self-quarantine responses adopted in response to it. However, we do not anticipate the utilities will be completely unscathed as the economic toll resulting from such actions will hit demand and customer creditworthiness. For example, data indicates weather-adjusted power demand is off 8-9% in some US markets, with harder-hit regions such as NYC down roughly 16%, though the power load has simultaneously seen a sharp shift from coal to gas-fired generation. Should the crisis deepen and/or extend longer than we project, utilities may experience elevated bad debt expense, less favorable regulatory outcomes, and higher pension costs resulting from poor asset performance & lower discount rates; however, across our coverage, balance sheets are strong, liquidity is robust, and maturity schedules are long dated. Moreover, the dramatic decline in crude and product prices should aid fleet vehicle expenses, mild weather eases winter/spring working conditions, and dividend yields are even more attractive in light of the Fed's rate cuts. We look forward to company-specific updates as each company reports results.

1Q US temperatures ~14% warmer y/y. Under normal weather conditions, 1Q accounts for roughly one-half of annual Heating Degree Days (HDDs) and, nationwide, in 1Q20, HDDs were 14% lower y/y and ~10% below long-term 1Q averages, with only the southwest seeing colder conditions y/y (Chart 1). The proliferation of weather normalization clauses mute the impact of weather variations on profits; however, warmer y/y temperatures present a headwind to those operating volumetric businesses delivering energy services to satisfy space heating loads. UGI publishes weather specific to its various businesses and noted warmer than normal conditions everywhere: vs. normal APU -9%; France -15%, Energy Services -19%, and PA utility -20%.

Downgrading NI & SWX to Hold. Amid the market's indiscriminate sell-off last month, we raised our outlook on NI and SWX to Buy; however, each has rallied sharply off its respective mid-month lows and we no longer see the >15% TR required for a JEF Buy rating. We maintain a $28 price target for NI and a $72 target price for SWX; both are achieved via a combination of SOP, DCF, DDM, and Target Yield approaches. We look forward to 1Q calls for more color on how COVID and economic headwinds are affecting their respective operations.

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Summary of Changes										
Company	Ticker	Rating	Price	Price Target	EPS Estimates 2019	2020	2021	P/E 2019	2020	2021
National Fuel Gas Company	**NFG**	**BUY**	**$40.87**	↑ **$50.00**	**$3.45**	↓ **$2.90**	↑ **$3.23**	**11.9x**	**14.1x**	**12.6x**
Previous				*$48.00*	*$3.45*	*$2.94*	*$2.74*			
NiSource Inc.	**NI**	↓ **HOLD**	**$25.85**	**$28.00**	**$1.32**	↓ **$1.33**	↓ **$1.38**	**19.6x**	**19.5x**	**18.7x**
Previous		*BUY*			*$1.32*	*$1.35*	*$1.40*			
ONE Gas Inc.	**OGS**	**HOLD**	**$85.74**	↑ **$82.00**	**$3.51**	↓ **$3.62**	↑ **$3.78**	**24.4x**	**23.7x**	**22.7x**
Previous				*$80.00*	*$3.51*	*$3.63*	*$3.77*			
Southwest Gas	**SWX**	↓ **HOLD**	**$76.96**	**$72.00**	**$3.61**	↑ **$3.68**	↑ **$4.13**	**21.3x**	**20.9x**	**18.6x**
Previous		*BUY*			*$3.61*	*$3.66*	*$4.11*			
UGI Corporation	**UGI**	**BUY**	**$28.05**	**$48.00**	**$2.21**	↓ **$2.18**	↑ **$2.90**	**12.7x**	**12.9x**	**9.7x**
Previous					*$2.21*	*$2.20*	*$2.89*			

Please see important disclosure information on pages 25 - 32 of this report.

Exhibit 1 - Gas Utility 1Q20 Earnings Details

Company Name	Ticker	Earnings Release Date/Time	Adjusted EPS			Projected
			1Q20 JEFe	1Q20E Consensus	1Q19A	Beat / Miss
National Fuel Gas Corp.*	NFG	4.30 -- After Market*	$0.96	$0.97	$1.07	In-Line
NiSource, Inc.	NI	5.06 -- Before Market	$0.82	$0.81	$0.82	In-Line
ONE Gas, Inc.	OGS	4.27-- After Market	$1.84	$1.79	$1.76	In-Line
Southwest Gas Corp.	SWX	5.12 -- After Market*	$1.51	$1.58	$1.63	In-Line
UGI Corp.*	UGI	5.06-- After Market	$1.50	$1.53	$1.43	In-Line

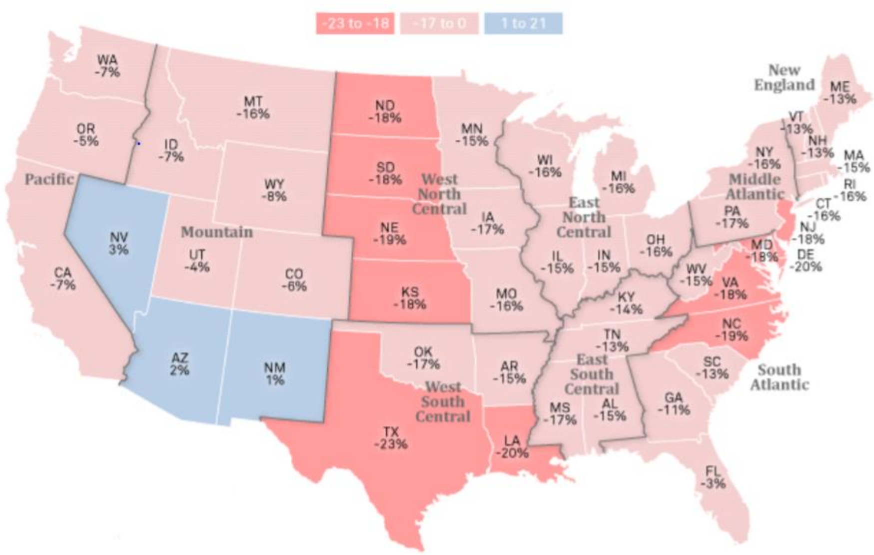
Source: Factset & Jefferies; Note: Jefferies Beat/Miss/In-Line definitions the same as Exhibit 1, *denotes earnings release dates are JEFe or FactSet estimate; NFG & UGI financials represent F2Q20 data

1Q20 HDDs decline ~14% vs. 1Q19

Overall, US heating degree days (HDDs) were down 14% in 1Q20 vs 1Q19 and were ~10% below longer-term 1Q averages. Broadly speaking, warmer y/y weather in 1Q20 was spread throughout the country, with parts of the Midcontinent and mid-Atlantic regions seeing the warmest y/y comparisons (Chart 1). Under normal weather conditions, 1Q accounts for roughly one-half of annual HDDs; while increased use of weather normalization clauses by state utility commissions reduce the impact of weather variations on profits, warmer y/y temperatures should provide a sequential headwind to those operating volumetric businesses delivering energy services to satisfy space heating loads. March HDDs were 22% warmer y/y and 12% below normal, which could exacerbate the load declines stemming from COVID-19 related isolationist responses and the shuttering of regional economies.

According to El Niño Southern Oscillation, or ENSO, reports issued earlier this month, ENSO-neutral conditions remain in place as equatorial sea surface temperatures are near to above average across much of the Pacific. The National Oceanic and Atmospheric Administration (NOAA) looks for ENSO-neutral conditions to continue through the spring and targets a 60% probability that similar conditions will continue through the Northern Hemisphere summer 2020 and likely into the fall.

Chart 1 - Heating Degree Days (HDD) 1Q20 vs. 1Q19



Source: SNL Energy, as of March 31, 2020.

National Fuel Gas Corp. (NFG)

- We expect NFG to report F2Q EPS of 96¢, in-line with the 97¢ Street mean estimate. We also expect F2Q net production of ~61.3 Bcfe, up ~5% q/q and ~26% y/y.
- With F1Q results, NFG lowered its F20 EPS guidance to \$2.95-\$3.15, due almost entirely to changes in natural gas price assumptions; at \$2.90, JEFe is below the low-end the updated range, but incorporates the recent rout in oil prices. Importantly, ~60% of Seneca's expected F20 natural gas production is locked-in physically & financially at a weighted average price of \$2.28/Mcf. Oil patch challenges have prompted a rally in natural gas prices and we lift our PT to \$50, from \$48, to incorporate higher out-year pricing.
- NFG will move to a single rig development program this summer and defer some of its EDA completion activity to F21; activity will remain focused on the WDA Utica, where existing Marcellus-focused infrastructure allows for capital efficient development while helping to grow Gathering revenue. Due to reduced activity levels, NFG now expects F20 E&P capex to be \$375-\$410mm; the 1-rig program is not expected to have a material impact on F20 production and NFG has previously cited \$250-\$300mm in annual capital to maintain flat production.
- On March 11th, NFG's BOD announced the approval of new directors, David Bauer & Barbara Baumann (1-yr term), as well as the election of David Anderson (1-yr term) Jeffrey Shaw (3-yr term), Thomas Skains (3-yr term), and Ron Tanski (3-yr term); Stephen Ewing retired from the board and Jeff Shaw was selected to serve as lead independent director. In addition, a stockholder proposal requesting NFG take steps to declassify the BOD received support from a majority of shares voted.

A Look Back to F1Q20 Results

JEFe F1Q20 EPS: ~\$1.01

Street est. F1Q20 EPS: ~94¢

Actual F1Q20 EPS: ~\$1.01

Exhibit 2 - NFG F2Q20 Results Preview

Comparative Results	JEFe F2Q20E	Quarter-over-Quarter F1Q20A		Year-over-Year F2Q19A	
E&P Operational Data					
Production (Bcfe)	61.3	58.4	4.9%	48.8	25.6%
Average Realized Natural Gas Price (\$/MMBtu)	\$2.12	\$2.32	-8.5%	\$2.58	-17.7%
Average Realized Oil Price (\$/Bbl)	\$56.34	\$62.92	-10.5%	\$61.01	-7.7%
Total Unit Cash Costs (\$/Mcfe)	\$1.26	\$1.26	-0.7%	\$1.42	-11.6%
Total Unit Costs (\$/Mcfe)	\$2.00	\$2.02	-1.1%	\$2.16	-7.3%
Operating Income by Division (\$MM)					
Utility	\$62.4	\$45.8	36.1%	\$65.3	-4.5%
Pipeline & Storage	\$30.4	\$31.3	-2.9%	\$30.0	1.5%
Gathering	\$25.3	\$24.3	4.1%	\$19.9	26.9%
Exploration & Production	\$35.0	\$48.0	-27.0%	\$47.7	-26.6%
Energy Marketing / All Other	\$1.2	\$0.3	NM	\$0.5	NM
Corporate	(\$2.8)	(\$1.7)	NM	(\$3.4)	NM
Total Operating Income	\$151.5	\$148.0	2.4%	\$160.1	-5.4%
Depreciation	\$76.8	\$74.9	2.5%	\$65.7	16.9%
Non-Service Pension & Post-Retirement Costs	(\$14.8)	(\$8.2)	NM	(\$12.4)	-18.9%
Other Income / (Expenses)	\$3.0	\$6.2	-51.1%	\$2.7	-14.1%
Interest Expense	(\$28.6)	(\$27.0)	-6.1%	(\$27.1)	-5.9%
Income Tax Benefit (Expense)	(\$27.8)	(\$31.6)	NM	(\$30.4)	8.6%
Recurring Net Income	\$83.4	\$87.4	-4.6%	\$92.9	-10.3%
Avg Diluted Shares Outstanding	86.9	86.9	0.1%	86.8	0.2%
Earnings Per Diluted Share	\$0.96	\$1.01	-4.7%	\$1.07	-10.4%

Source: NFG reports, Jefferies estimates

NiSource, Inc. (NI)

- We expect NI to report adjusted 1Q EPS and EBITDA of 82¢ & ~$699mm, in-line with the respective 81¢ and ~$694mm Street mean estimates.
- With 4Q results, NI announced a definitive agreement to sell Bay State Gas to Eversource (ES) for $1.1B and, as a result, withdrew its 2020 guidance. NI expects 2021 EPS to be 'at least equal' to its initial $1.36-$1.40 2020 EPS range and sees long-term EPS & DPS growth of 5-7%, with 2021 as the base year. With the sale, NI eliminated its planned 2020 block equity issuance ($500-$700mm), but continues to expect capex of $1.8-$1.9B. On the 4Q call, mgmt noted the loss in Bay State earnings will be mostly offset by the elimination of its block equity issuance with the possibility for some dilution as it de-consolidates the MA franchise.
- In late Feb., NI agreed to pay a $53mm criminal fine as part of a plea agreement with the US Attorney for the District of MA; the MA DPU continues its review of the incident, the company's response, and a Sept. 2019 gas leak while the MA Attorney General's Office continues its investigation of the restoration work. Despite the sale of CG of MA, NI remains liable for any fines imposed as part of criminal proceeding related to the Greater Lawrence incident and/or any civil claims made prior to the close of the transaction; as of YE19, NI cited Pipeline Replacement & Restoration costs of $258mm, 3rd-Party Claims, Fines, Penalties & Settlements of $1.041-$1.065B, and Other Expenses of $450-$460mm.
- We are downgrading NI to Hold, from Buy, as we no longer project >15% total return which is required under the JEF ratings parameters. We maintain our $28 price target, which is derived via P/E, DCF, DDM, and Target Yield approaches.
- On March 17th, NI declared a quarterly cash dividend of 21¢/share (84¢/share annualized), up ~5% y/y, but flat q/q, payable May 20th to shareholders of record on April 30th. We model ~4.8% growth in 2021 and a ~5.7% CAGR for 2021-24 as NI re-establishes its long term 5-7% growth trajectory.

A Look Back to 4Q19 Results

JEFe 4Q19 EPS: 41¢

Street est. 4Q19 EPS: 42¢

Actual 4Q19 EPS: 45¢

Exhibit 3 - NI 1Q20 Results Preview

Operating Income by Division	JEFe 1Q20E	Quarter-over-Quarter 4Q19A		Year-over-Year 1Q19A	
Gas Distribution	$416.1	$213.9	94.5%	$394.4	5.5%
Electric Operations	$94.8	$84.9	11.6%	$95.2	-0.4%
Corporate, Other, and Eliminations	$0.9	$11.8	-92.4%	$7.5	-88.0%
Total Operating Income	**$511.7**	**$310.6**	**64.8%**	**$497.1**	**2.9%**
Depreciation	($184.1)	($182.2)	1.1%	($175.1)	5.2%
Other Income / (Expenses)	$3.5	($5.5)	NM	($0.7)	NM
Interest Expense	($98.1)	($93.3)	5.2%	($95.6)	2.6%
Income Tax Benefit (Expense)	($87.2)	($28.5)	NM	($79.3)	9.9%
Preferred Dividend	($13.8)	($13.7)	0.5%	$0.0	NM
Recurring Net Income	**$316.2**	**$169.6**	**86.4%**	**$307.7**	**2.8%**
Avg Diluted Shares Outstanding	383.5	378.3	1.4%	374.7	2.3%
EPS (Non-GAAP, Diluted)	**$0.82**	**$0.45**	**83.9%**	**$0.82**	**0.4%**
EBITDA ($MM)	**$699**	**$487**	**43.5%**	**$672**	**4.2%**
Capex & Affiliate Investments ($MM)	**$370**	**$492**	**-24.9%**	**$354**	**4.5%**

Source: NI reports, Jefferies estimates

ONE Gas, Inc. (OGS)

- We expect OGS to report 1Q EPS of $1.84, above the $1.79 mean estimate.
- With 4Q results, OGS affirmed its 2020 guidance, consisting of $186-$198mm in net income, EPS of $3.44-$3.68, and capex of $475mm. Forecasts reflect normal weather, the benefit of new rates, and higher depreciation expense from capital investments; 70% of anticipated 2020 spending is targeted toward system integrity & replacement projects. Mgmt also updated its anticipated 5-year annual EPS, rate base, and dividend growth rates of 5-7%, 7%, and 6-8% respectively, down slightly from the previous ranges of 6-8%, 6-7%, and 7-9%. Annual capital expenditures, including asset removal costs, are expected to range $475-$525mm for 2020-24, up from a previous $450-$500mm range.
- To ensure liquidity during the uncertainty created by COVID-19, OGS took the following steps: 1) on Feb. 26th, it entered into an equity distribution agreement via which it can forward sell up to $250mm of common stock. 2) on April 7th, it entered into a $250mm 364-day revolving unsecured credit facility. OGS also has a $700mm commercial paper program, a $700mm existing credit agreement and a $250mm equity ATM program; as of YE19, it had ~$1B available on existing facilities, Net Debt/EBITDA of 3.8x, and its nearest maturity ($300mm) is in 2024.
- KGS had submitted an application to the KCC for a $4.2mm increase related to its GSRS; in Nov, the KCC approved the increase with rates effective in Dec 2019. In Texas, TGS filed a $15.6mm rate case for all customers in the Central TX & Gulf Coast area while also requesting to consolidate the two service areas; if approved, new rates are expected to take effect in 3Q20.
- With 1Q20 results, we expect OGS to declare a 54¢/share quarterly dividend ($2.16 annualized), flat q/q, but up 8% y/y. We model a 5-year DPS CAGR of 7%, squarely in-line with mgmt updated guidance range.

A Look Back to 4Q19 Results

JEFe 4Q19 EPS: ~97¢

Street est. 4Q19 EPS: ~95¢

Actual 4Q19 EPS: ~96¢

Exhibit 4 - OGS 4Q19 Results Preview

Comparison Metrics	JEFe 1Q20E	Quarter-over-Quarter 4Q19A		Year-over-Year 1Q19A	
Total Revenue	$632.0	$452.6	*39.6%*	$661.0	*-4.4%*
Cost of Gas	($322.5)	($190.7)	*69.1%*	($365.1)	*-11.7%*
Net Margin	$309.5	$261.9	*18.2%*	$295.9	*4.6%*
O&M	($109.9)	($118.9)	*-7.6%*	($108.3)	*1.5%*
D&A	($46.9)	($46.1)	*1.8%*	($43.8)	*7.1%*
General Taxes	($17.0)	($14.9)	*14.3%*	($16.2)	*5.3%*
Total Operating Income (EBIT)	**$135.6**	**$82.0**	*65.4%*	**$127.6**	*6.3%*
Other	($1.0)	($1.1)	*-15.3%*	$0.4	*NM*
Interest & Debt Expense	($16.3)	($15.7)	*3.5%*	($15.8)	*3.0%*
Income Tax Expense	($20.0)	($14.0)	*43.6%*	($18.6)	*7.7%*
Net Income	**$98.4**	**$51.2**	*92.2%*	**$93.7**	*5.0%*
EPS	**$1.84**	**$0.96**	*91.9%*	**$1.76**	*4.7%*
Diluted Shares Outstanding	53.4	53.3	*0.2%*	53.2	*0.3%*
Dividend Per Share	**$0.54**	**$0.50**	*8.0%*	**$0.50**	*8.0%*
Capital Expenditures ($MM)	**$99.4**	**$111.5**	*-10.9%*	**$83.3**	*19.3%*

Source: OGS reports, Jefferies estimates

Southwest Gas Holdings (SWX)

- We expect recurring diluted 1Q EPS of $1.51, below the Street's $1.58 mean estimate; of note, our EPS excludes the effects of fluctuations in COLI surrender values, which may be in Street projections and can constitute a delta. We expect a punctuated impact from COLI in 1Q given the ~20% equity market decline.
- With 4Q results, mgmt offered a 2020 financial outlook, including EPS of $3.75-$4.00, Utility capex of $650-$700mm, and Infrastructure Services revenue growth of 5-10% ($1.84-$1.93B) with Op. Income 5.5-6.0% of revenues ($101-$116mm). In addition, SWX anticipates $3-$5mm of annual COLI benefit (5-9¢ EPS impact), which we have excluded as it is driven entirely by investment returns and independent of SWX operating performance, resulting in an apples:apples guidance range of $3.70-$3.91 vs $3.68 JEFe.
- Ahead of 1Q results, we expect SWX to announce a cash dividend of 57¢/share ($2.28/share annualized), falt q/q, but up 4.6% y/y. While SWX has posted a trailing 5-year (2014-19) DPS CAGR of ~8.6% we model decelerating growth and see a forward 5-year CAGR (2019-24) of ~3.7%.
- On April 10th, SWX extended the maturity on two of its three credit facilities, from 2022 to 2025, and noted ~$193mm of available liquidity between them; SWX ended 2019 at 3.9x Net Debt/EBITDA, had ~$29mm of cash on hand, and $125mm of 2020-21 maturities.
- Following a ~50% rally off its March lows, we downgrade SWX shares to Hold as our $72 price target no longer implies the >15% return required for Buy ratings. Our price target is achieved via SOP, DCF, DDM, and Target Yield approaches.

A Look Back to 4Q19 Results

JEFe 4Q19 EPS: ~$1.44

Street est. 4Q19 EPS: ~$1.45

Actual 4Q19 EPS: ~$1.55

Exhibit 5 - SWX 1Q20 Results Preview

Operating Results	JEFe 1Q20E	Quarter-over-Quarter 4Q19A		Year-over-Year 1Q19A	
Natural Gas Utility Segment					
Total Revenues	$532	$380	*40.0%*	$521	*2.1%*
Cost of Gas	(196.6)	(92.3)	*113.0%*	(192.6)	*2.1%*
Gross Profit	$334.9	$287.3	*16.6%*	$328.1	*2.1%*
Utility Infrastructure Segment					
Total Revenues	$309.1	$468.6	*-34.0%*	$312.9	*-1.2%*
Construction Expenses	($294.5)	($419.0)	*-29.7%*	($300.5)	*-2.0%*
Gross Profit	$14.6	$49.6	*-70.6%*	$12.4	*17.5%*
O&M	$109.7	$103.0	*6.5%*	$106.2	*3.2%*
Depreciation & Amortization Expenses	$81.0	$80.0	*1.3%*	$77.5	*4.5%*
Taxes other than income	$16.3	$15.7	*3.7%*	$16.2	*0.3%*
Operating Income	**$142.5**	**$138.2**	*3.1%*	**$140.5**	*1.5%*
Other Income	($2.8)	($5.0)	*-43.8%*	($0.8)	*NM*
Interest Expense	$30.7	$28.6	*7.6%*	$26.4	*16.5%*
Income Taxes	$24.7	$21.0	*17.7%*	$25.5	*-3.2%*
Net Income (Loss)	**$84.3**	**$83.7**	*0.7%*	**$87.7**	*-3.9%*
Average # of Diluted Shares Outstanding	55.5	55.1	*0.8%*	53.4	*3.8%*
Recurring EPS	**$1.51**	**$1.52**	*-0.5%*	**$1.63**	*-7.5%*

Source: SWX reports, Jefferies estimates

UGI Corp. (UGI)

- We forecast UGI to report a F2Q EPS of $1.50, slightly below the Street's $1.53 mean estimate. Warm F2Q US and European weather, combined with costs associated with its LPG business transformation initiative, are expected to weigh on results. We also anticipate UGI will revise its F20 adj. EPS guidance, as is its custom at the mid-year mark; we currently project F20 EPS of $2.18, but we include LPG-related investment costs that mgmt excludes from its guidance.

- UGI publishes weather specific to its various businesses and noted warmer than normal F2Q conditions everywhere. Compared to long-term average HDDs, APU saw conditions ~9% warmer, France was ~15% warmer, Energy Services ~19% warmer, and the PA utility service territory ~20% warmer.

- In March, UGI published a presentation noting steps it is taking to respond to the economic climate and COVID-19 fallout, including 1) boosting liquidity by $210mm (liquidity totalled $1.15B at 2.29) and 2) reducing F20 capex by >$120mm.

- Effective April 20th, UGI elected Mario Longhi to its Board of Directors; Mr. Longhi retired from US Steel Corporation in 2017, where he served in various capacities including as President and CEO from 2013 to 2017.

- On April 22nd, UGI lifted its quarterly cash dividend to 33¢/share ($1.32 annualized), up 1.5% q/q and ~10% y/y. The raise marks UGI's 33rd consecutive annual increase; it has paid dividends uninterrupted since 1885.

A Look Back to F1Q20 Results

JEFe F1Q20 EPS: $1.02

Street est. F1Q20 EPS: $1.04

Actual F1Q20 EPS: $1.11

Exhibit 6 - UGI F2Q20 Results Preview

Recurring Operating Income	JEFe F2Q20E	Quarter-over-Quarter F1Q20A		Year-over-Year F2Q19A	
Operating Income ($MM)					
AmeriGas Propane	$216.1	$176.9	22.1%	$247.4	-12.6%
Utilities	$102.3	$91.8	11.4%	$119.9	-14.7%
Midstream & Marketing	$73.4	$55.8	31.5%	$51.3	43.0%
International Propane	$119.2	$95.8	24.4%	$126.9	-6.1%
Corporate & Other	($17.3)	($26.6)	-35.0%	$9.4	NM
Total Operating Income	**$493.6**	**$393.7**	**25.4%**	**$554.8**	**-11.0%**
Income (Loss) from Equity Investees & Other	$2.3	$6.5	-65.0%	$1.6	42.2%
Interest Expense	($81.7)	($84.1)	-2.9%	($61.0)	33.9%
Minority Interests	$0.3	$0.0	#DIV/0!	($151.3)	NM
Income Tax Benefit (Expense)	($97.3)	($82.1)	18.6%	($90.2)	7.9%
Recurring Net Income	**$317.1**	**$234.0**	**35.5%**	**$253.9**	**24.9%**
Diluted Shares Outstanding	211.1	211.3	-0.1%	177.3	19.0%
Recurring Earnings Per Share (EPS)	**$1.50**	**$1.11**	35.7%	**$1.43**	4.9%
Capital Expenditures	**$173.7**	**$151.8**	14.4%	**$157.3**	10.4%
Dividend Per Share	**$0.325**	**$0.325**	0.0%	**$0.260**	25.0%

Source: UGI reports, Jefferies estimates; Note: Recurring results exclude the impact of one-time and/or unrealized items.

Exhibit 7 - NFG Consolidated Income Statement

Consolidated Income Statement ($MM)	2015	2016	2017	1Q	2Q	3Q	4Q	2018	1Q	2Q	3Q	4Q	2019	1Q	2QE	3QE	4QE	2020E	2021E	2022E	2023E	2024E
Revenues	$1,760.9	$1,452.4	$1,579.9	$419.7	$540.9	$342.9	$289.2	$1,592.7	$490.2	$552.5	$357.2	$293.3	$1,693.3	$444.2	$563.6	$356.0	$297.3	$1,661.1	$1,746.7	$1,804.3	$1,892.1	$1,983.8
OPERATING INCOME by DIVISION																						
Utility	$120.1	$100.1	$98.5	$40.8	$67.3	$17.0	($2.7)	$122.4	$44.3	$65.3	$19.6	($6.9)	$122.3	$45.8	$62.4	$20.1	($8.0)	$120.3	$120.9	$121.7	$123.1	$124.8
Pipeline & Storage	$151.8	$156.2	$139.1	$39.8	$38.9	$35.2	$26.9	$140.9	$36.7	$30.0	$26.2	$24.4	$117.2	$31.3	$30.4	$28.2	$26.2	$116.1	$128.2	$148.8	$149.0	$148.9
Gathering	$58.1	$63.4	$78.2	$16.7	$20.0	$18.6	$19.2	$74.5	$21.3	$19.9	$22.4	$24.7	$88.3	$24.3	$25.3	$24.9	$24.4	$98.9	$101.6	$104.1	$115.2	$122.0
Exploration & Production	$185.2	$223.9	$248.4	$52.4	$47.1	$45.9	$47.0	$192.4	$55.2	$47.7	$48.1	$45.4	$196.4	$48.0	$35.0	$25.1	$35.8	$143.8	$173.6	$181.2	$201.9	$248.1
Energy Marketing / Other	$12.0	$6.4	$1.8	$1.7	$1.0	($0.4)	($1.7)	$0.6	($0.8)	$0.5	($2.1)	($1.5)	($3.9)	$0.3	$1.2	($0.9)	($1.2)	($0.5)	$0.8	$0.8	$2.4	$3.3
Corporate	($12.0)	($10.2)	($13.2)	($2.0)	($2.7)	($2.4)	($4.2)	($11.3)	($1.5)	($3.4)	($2.3)	($3.4)	($10.6)	($1.7)	($2.8)	($2.3)	($3.7)	($10.6)	($10.1)	($9.6)	($10.1)	($9.9)
Total Operating Income	**$515.2**	**$539.7**	**$552.8**	**$149.5**	**$171.6**	**$114.0**	**$84.4**	**$519.5**	**$155.2**	**$160.1**	**$111.8**	**$82.6**	**$509.7**	**$148.0**	**$151.5**	**$95.0**	**$73.4**	**$468.0**	**$514.9**	**$547.1**	**$581.5**	**$637.3**
Depreciation	$336.2	$249.4	$224.2	$55.8	$61.2	$60.8	$63.2	$241.0	$64.3	$65.7	$71.1	$74.7	$275.7	$74.9	$76.8	$76.6	$77.1	$305.4	$315.1	$321.9	$339.9	$351.1
Non-Service Pension & Post-Retirement Costs				($7.5)	($14.9)	($6.2)	($4.0)	($32.6)	($7.4)	($12.4)	($5.7)	($1.8)	($27.3)	($8.2)	($14.8)	($7.1)	($4.1)	($34.2)	($33.3)	($33.6)	($33.4)	($33.5)
Other Income / (Expenses)	$7.9	$11.6	$7.0	$4.0	$1.8	$2.6	$5.2	$13.6	$4.2	$2.7	$2.8	$4.2	$13.8	$6.2	$3.0	$2.8	$2.8	$14.8	$14.3	$14.6	$14.4	$14.5
Interest Expense	($95.4)	($118.6)	($115.7)	($28.6)	($28.4)	($28.2)	($26.5)	($111.7)	($26.5)	($27.1)	($26.5)	($26.7)	($106.8)	($27.0)	($28.6)	($28.2)	($28.7)	($112.6)	($120.2)	($127.7)	($131.7)	($134.5)
Earnings before Taxes	**$427.7**	**$432.7**	**$444.2**	**$117.4**	**$130.1**	**$82.2**	**$59.1**	**$388.8**	**$125.4**	**$123.3**	**$82.4**	**$58.3**	**$389.5**	**$119.0**	**$111.2**	**$62.5**	**$43.5**	**$336.1**	**$375.8**	**$400.3**	**$430.8**	**$483.7**
Income Taxes	($175.2)	($168.7)	($160.7)	($29.7)	($34.3)	($19.2)	($13.1)	($96.2)	($27.9)	($30.4)	($20.6)	($11.3)	($90.2)	($31.6)	($27.8)	($15.0)	($9.6)	($83.9)	($94.0)	($100.1)	($107.7)	($120.9)
Effective Tax Rate	41.0%	39.0%	36.2%	25.3%	26.3%	23.3%	22.1%	24.8%	22.2%	24.7%	25.0%	19.4%	23.2%	26.6%	*25.0%*	*24.0%*	*22.0%*	25.0%	*25.0%*	*25.0%*	*25.0%*	*25.0%*
Net Income	$252.5	$263.9	$283.5	$87.7	$95.8	$63.0	$46.0	$292.5	$97.5	$92.9	$61.8	$47.0	$299.2	$87.4	$83.4	$47.5	$33.9	$252.1	$281.9	$300.2	$323.1	$362.8
Recurring Diluted Earnings Per Share	**$2.97**	**$3.10**	**$3.30**	$1.02	$1.11	$0.73	$0.53	**$3.38**	$1.12	$1.07	$0.71	$0.54	**$3.45**	$1.01	$0.96	$0.55	$0.39	**$2.90**	**$3.23**	**$3.44**	**$3.69**	**$4.13**
Average number of diluted shares outstanding	85,016	85,140	86,027	86,326	86,324	86,501	86,651	86,451	86,709	86,768	86,840	86,808	86,781	86,883	86,932	86,981	87,027	86,956	87,158	87,361	87,556	87,745
Average number of basic shares outstanding	84,388	84,848	85,365	85,630	85,809	85,930	85,953	85,831	86,033	86,290	86,306	86,315	86,236	86,378	86,427	86,476	86,522	86,451	86,653	86,856	87,051	87,240
Dividend	$1.56	$1.60	$1.64	$0.42	$0.42	$0.43	$0.43	$1.68	$0.43	$0.43	$0.44	$0.44	$1.72	$0.44	$0.44	$0.45	$0.45	$1.76	$1.80	$1.84	$1.88	$1.92
Payout Ratio	53%	52%	50%	41%	37%	58%	80%	50%	38%	40%	61%	80%	50%	43%	45%	82%	114%	61%	56%	54%	51%	46%
Payout Ratio of Regulated EPS	77%	88%	92%	64%	52%	102%	151%	79%	57%	56%	100%	154%	77%	62%	56%	96%	177%	80%	78%	75%	74%	74%

Payout ex. E&P	1.04%	1.04%	1.24%					1.05%					1.10%					1.24%	1.21%	1.11%	1.14%	1.16%
Dividend Growth (Y/Y)	2.6%	2.6%	2.5%					2.4%					2.4%					2.3%	2.3%	2.2%	2.2%	2.1%
Utillity EPS	$0.74	$0.60	$0.55	$0.24	$0.39	$0.05	($0.08)	$0.59	$0.30	$0.41	$0.08	($0.09)	$0.70	$0.31	$0.37	$0.09	($0.10)	$0.66	$0.68	$0.68	$0.70	$0.71
Pipeline & Storage EPS	$0.90	$0.86	$0.77	$0.28	$0.26	$0.24	$0.19	$0.98	$0.29	$0.20	$0.18	$0.18	$0.85	$0.21	$0.21	$0.18	$0.17	$0.77	$0.84	$0.98	$0.95	$0.94
Gathering EPS	$0.37	$0.36	$0.47	$0.12	$0.14	$0.13	$0.17	$0.57	$0.16	$0.15	$0.17	$0.19	$0.67	$0.18	$0.20	$0.19	$0.19	$0.76	$0.78	$0.79	$0.88	$0.93
Energy Marketing EPS	$0.09	$0.05	$0.02	$0.02	$0.01	($0.00)	($0.01)	$0.01	($0.00)	$0.01	($0.02)	($0.01)	($0.02)	$0.00	$0.01	($0.01)	($0.01)	$0.00	$0.01	$0.01	$0.03	$0.03
Exploration & Production EPS	$1.10	$1.20	$1.50	$0.34	$0.32	$0.32	$0.23	$1.21	$0.32	$0.31	$0.30	$0.28	$1.21	$0.28	$0.18	$0.10	$0.18	$0.72	$0.97	$0.99	$1.16	$1.55
Other	($0.23)	$0.03	($0.01)	$0.01	($0.01)	($0.01)	$0.03	$0.03	$0.06	($0.01)	($0.00)	($0.01)	$0.03	$0.03	($0.01)	($0.01)	($0.04)	($0.02)	($0.05)	($0.02)	($0.03)	($0.03)
Total	$3.20	$3.07	$3.30	$1.00	$1.12	$0.74	$0.50	$3.36	$1.07	$1.08	$0.71	$0.55	$3.42	$0.98	$0.97	$0.55	$0.43	$2.92	$3.29	$3.45	$3.72	$4.17
Corporate Depreciation	$1.5	$2.0	$1.4	$0.3	$0.7	$0.8	$0.6	$2.4	$0.5	$0.4	$0.8	$0.2	$1.8	$0.2	$0.4	$0.4	$0.3	$1.2	$1.3	$1.3	$1.3	$1.3
Corporate/ All Other Pension Cost				($0.2)	($0.2)	($0.2)	($0.2)	($0.7)	($0.7)	($0.6)	($0.6)	($0.6)	($2.7)	($0.8)	($0.8)	($0.8)	($0.8)	($3.1)	($3.1)	($3.1)	($3.1)	($3.1)

Source: NFG reports, Jefferies estimates

Jefferies

EQUITY RESEARCH
USA | Midstream & Refining

Exhibit 8 - NI Valuation Analysis

Jefferies

NiSource (NI)

Target P/E Analysis	
2021 EPS	$1.38
Average 2021 P/E	19.2x
Implied Price Target	**$26.60**

Target Yield Analysis	
1Q21 Dividend	$0.88
Average 3-Year Yield	2.89%
Target Yield	2.90%
Implied Price Target	**$30.30**

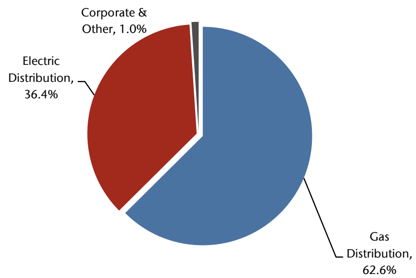
Assumptions	
EPS CAGR 2019-2024	4.1%
Dividend CAGR 2019-2024	5.4%
Terminal Growth Rate	2.25%
Stable Period Payout Ratio	63.9%
Stable Period ROE	8.9%
Implied 2021 EV/EBITDA	10.8x
Implied 2021 P/E	18.6x

WACC Calculations	
Risk Free Rate	2.5%
Beta	0.50
Equity Risk Premium	5.5%
Cost of Equity	5.2%
Cost of New Debt	3.75%
Tax Rate	19.7%
WACC	4.1%

Capital Structure	
Total Debt	$9,629
Market Cap	$9,832
Debt/Cap	49.5%
Equity/Cap	50.5%

Terminal Growth Capex	$525.0
5-Year ROE	8.2%
Implied Contribution	$43.1
2024E EBT + DD&A	$1,836.0
Implied Growth Rate	2.3%

2020E EBIT Composition



Average Price Target	$28.00

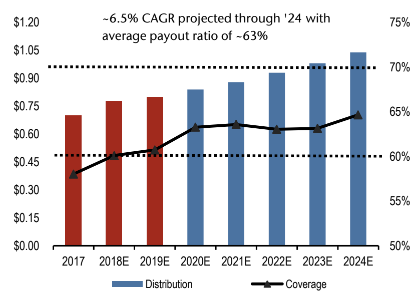
Total Return Expectations	
NI Current Price	**$25.72**
Appreciation to PT	8.9%
Yield over 12-months	3.3%
Total Return Potential	**12.2%**

Dividend Expectations		
2017	$0.70	58%
2018E	$0.78	60%
2019E	$0.80	61%
2020E	$0.84	63%
2021E	$0.88	64%
2022E	$0.93	63%
2023E	$0.98	63%
2024E	$1.04	65%

	Price	PT	3-Yr Avg
2020 P/E	19.4x	21.1x	21.1x
2021 P/E	18.6x	20.2x	
2022 P/E	17.4x	19.0x	

2020 EBIT Contribution		
Gas Distribution	$683.5	62.6%
Electric Distribution	$397.7	36.4%
Corporate & Other	$11.5	1.0%
Total	$1,092.6	100.0%

Terminal WACC Calculations	
Risk Free Rate	3.5%
Adjusted Beta	0.66
Equity Risk Premium	5.5%
Terminal Cost of Equity	7.1%
Terminal Cost of New Debt	5.0%
Terminal WACC	5.6%
Terminal Cash Flow Growth Rate	2.25%
Terminal Dividend Growth Rate	2.50%



DIVIDEND DISCOUNT MODEL	2020E	2021E	2022E	2023E	2024E
Dividend Per Share	$0.84	$0.88	$0.93	$0.98	$1.04
Payout Ratio	*63.3%*	*63.6%*	*63.1%*	*63.1%*	*64.7%*
Terminal Value					$22.93
PV of Dividends	$0.61	$0.82	$0.82	$0.83	$0.83
Sum of PV of Dividends per Share	$3.92				
PV of Terminal Value	$20.39				
Equity Value per Share	$24.31				
Implied Equity Value per Share*	**$24.80**				

Discounted Cash Flow	2020E	2021E	2022E	2023E	2024E
EBIT	$1,093	$1,165	$1,256	$1,358	$1,472
Other	$3	$6	$1	$3	$3
(Cash Taxes on EBIT)	($18)	($39)	($63)	($92)	($160)
NOPAT	**$1,078**	**$1,132**	**$1,195**	**$1,270**	**$1,315**
D&A	$744	$774	$803	$831	$857
(Capex)	($1,850)	($1,900)	($1,900)	($1,850)	($1,382)
Other & Changes in NWC	$63	($10)	($8)	$2	$3
Free Cash Flow to the Firm	**$36**	**($4)**	**$90**	**$253**	**$793**
Terminal Value					$24,236
PV of Cash Flows	$34.9	($4.0)	$80.4	$217.1	$20,655
Implied Enterprise Value	20,983				
(Net Debt. Including Preferred Equity)	(10,360)				
(Pension & Operating Lease)	(245)				
Implied Equity Value	10,378				
Shares Outstanding	374.1				
Implied Equity Value per Share*	**$28.30**				

Source: NI reports, Jefferies estimates

Exhibit 9 - NI Consolidated Income Statement

Consolidated Income Statement	2015	2016	2017	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020E	1QE	2QE	3QE	4QE	2021E	2022E	2023E	2024E
Revenues	$4,593.6	$4,504.9	$4,902.6	$5,084.0	$1,858.9	$1,011.9	$927.9	$1,385.4	$5,184.1	$1,966.8	$1,048.0	$955.3	$1,405.3	$5,375.4	$1,989.5	$1,072.1	$994.3	$1,455.4	$5,511.4	$5,687.3	$5,887.8	$6,099.0
(Cost of Sales)	($1,569.9)	($1,390.2)	($1,518.7)	($1,759.4)	($680.3)	($253.5)	($196.7)	($404.3)	($1,534.8)	($750.4)	($267.4)	($206.6)	($388.1)	($1,612.5)	($750.0)	($265.2)	($209.0)	($394.8)	($1,619.0)	($1,640.9)	($1,677.3)	($1,709.6)
Net Revenue	$3,023.7	$3,114.7	$3,383.9	$3,324.6	$1,178.6	$758.4	$731.2	$981.1	$3,649.3	$1,216.4	$780.6	$748.7	$1,017.3	$3,762.9	$1,239.5	$806.9	$785.3	$1,060.6	$3,892.4	$4,046.4	$4,210.5	$4,389.4
(Operating & Maintenance Expenses)	($1,409.3)	($1,429.1)	($1,589.2)	($1,519.4)	($418.8)	($382.7)	($373.4)	($413.4)	($1,588.3)	($428.2)	($388.1)	($374.0)	($423.9)	($1,614.2)	($432.9)	($392.2)	($378.0)	($428.5)	($1,631.5)	($1,650.3)	($1,670.5)	($1,692.2)
(Depreciation & Amortization)	($524.4)	($547.1)	($570.3)	($599.6)	($175.1)	($177.9)	($182.2)	($182.2)	($717.4)	($184.1)	($184.2)	($186.4)	($189.5)	($744.3)	($191.4)	($191.6)	($193.8)	($196.9)	($773.7)	($802.8)	($830.5)	($857.0)
(Other Taxes)	($256.1)	($244.3)	($257.2)	($274.4)	($87.6)	($66.4)	($67.9)	($74.9)	($296.8)	($92.3)	($72.2)	($69.1)	($78.2)	($311.8)	($93.2)	($73.2)	($73.8)	($81.8)	($322.0)	($337.0)	($351.7)	($368.3)
(Gain on Sale of Assets)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
OPERATING INCOME BY DIVISION																						
Gas Distribution	$567.8	$597.6	$589.7	$561.4	$394.4	$43.5	($26.4)	$213.9	$625.4	$416.1	$54.2	($19.4)	$232.6	$683.5	$423.9	$62.7	($2.6)	$257.7	$741.7	$824.7	$917.5	$1,024.9
Electric Operations		$302.3	$375.3	$369.1	$95.2	$85.6	$135.4	$84.9	$401.1	$94.8	$81.8	$135.5	$85.5	$397.7	$96.5	$86.2	$139.2	$89.2	$411.2	$420.4	$429.1	$436.4
Corporate & Eliminations	($13.4)	($5.7)	$2.2	$0.7	$7.5	$2.3	($1.3)	$11.8	$20.3	$0.9	($0.0)	$3.1	$7.5	$11.5	$1.6	$1.1	$3.0	$6.5	$12.3	$11.3	$11.2	$10.6
Total Recurring Operating Income	**$554.4**	**$894.2**	**$967.2**	**$931.2**	**$497.1**	**$131.4**	**$107.7**	**$310.6**	**$1,046.8**	**$511.7**	**$136.0**	**$119.2**	**$325.7**	**$1,092.6**	**$522.1**	**$150.0**	**$139.7**	**$353.5**	**$1,165.2**	**$1,256.3**	**$1,357.8**	**$1,471.9**
Other Income / (Loss)	$25.2	$1.5	($2.8)	$18.0	($0.7)	$0.0	$1.3	($5.5)	($4.9)	$3.5	$5.5	$4.9	($10.5)	$3.4	$4.3	$6.1	$4.9	($9.8)	$5.5	$1.3	$3.4	$3.4
Interest Expense - Net	($417.3)	($349.5)	($353.2)	($353.3)	($95.6)	($94.1)	($95.9)	($93.3)	($378.9)	($98.1)	($99.0)	($96.9)	($93.5)	($387.6)	($98.0)	($98.0)	($98.0)	($98.0)	($392.1)	($417.1)	($445.8)	($496.4)
Pretax Income	$684.2	$546.2	$611.2	$595.9	$400.8	$37.3	$13.1	$211.8	$663.0	$417.2	$42.5	$27.1	$221.7	$708.5	$428.3	$58.1	$46.6	$245.6	$778.6	$840.6	$915.4	$979.0
(Provision)/Benefit for Income Taxes	($250.3)	($195.0)	($212.3)	($117.6)	($79.3)	($4.4)	($1.0)	($28.5)	($113.2)	($87.2)	($7.0)	($4.0)	($44.1)	($142.3)	($97.0)	($10.5)	($7.4)	($51.9)	($166.8)	($171.0)	($191.8)	($208.8)
Effective Tax Rate	*36.6%*	*35.7%*	*34.7%*	*19.7%*	*19.8%*	*11.8%*	*7.6%*	*13.5%*	*17.1%*	*20.9%*	*16.5%*	*14.6%*	*19.9%*	*20.1%*	*22.6%*	*18.0%*	*15.8%*	*21.1%*	*21.4%*	*20.3%*	*21.0%*	*21.3%*
Net Income	$433.9	$351.2	$398.9	$478.3	$321.5	$32.9	$12.1	$183.3	$549.8	$330.0	$35.5	$23.2	$177.6	$566.2	$331.3	$47.6	$39.2	$193.7	$611.8	$669.5	$723.6	$770.1
Preferred Interest				($15.0)	($13.8)	($13.8)	($13.8)	($13.7)	($55.1)	($13.8)	($13.8)	($13.8)	($13.8)	($55.1)	($13.8)	($13.8)	($13.8)	($13.8)	($55.1)	($55.1)	($55.1)	($55.1)
Net Income (from Continuing Operations)	$298.9	$351.2	$398.9	$463.3	$307.7	$19.1	($1.7)	$169.6	$494.7	$316.2	$21.7	$9.4	$163.8	$511.1	$317.5	$33.8	$25.4	$179.9	$556.7	$614.4	$668.5	$715.0
Recurring Diluted EPS	**$0.94**	**$1.09**	**$1.21**	**$1.30**	$0.82	$0.05	($0.00)	$0.45	**$1.32**	$0.82	$0.06	$0.02	$0.42	**$1.33**	$0.80	$0.08	$0.06	$0.44	**$1.38**	**$1.47**	**$1.55**	**$1.61**
Average # of diluted shares outstanding	319.4	323.3	330.7	357.0	374.7	375.2	374.1	378.3	375.6	383.5	383.6	383.8	389.2	385.0	397.3	400.6	404.0	407.3	402.3	416.7	430.7	444.6
Average # of basic shares outstanding	317.8	321.8	329.4	356.5	373.4	373.9	374.1	377.2	374.7	382.4	382.5	382.7	388.1	383.9	396.2	399.5	402.9	406.2	401.2	415.6	429.6	443.5
Dividends per Share	**$0.83**	**$0.64**	**$0.70**	**$0.78**	$0.20	$0.20	$0.20	$0.20	**$0.80**	$0.21	$0.21	$0.21	$0.21	**$0.84**	$0.22	$0.22	$0.22	$0.22	**$0.88**	**$0.93**	**$0.98**	**$1.04**
Payout Ratio	**89%**	**59%**	**58%**	**60%**	24%	393%	-4401%	45%	**61%**	25%	372%	857%	50%	**63%**	28%	261%	350%	50%	**64%**	**63%**	**63%**	**65%**

Source: NI reports; Jefferies estimates

Jefferies

EQUITY RESEARCH
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Exhibit 10 - NI Consolidated Balance Sheet

Consolidated Balance Sheet ($MM)	2014	2015	2016	2017	1Q	2Q	3Q	4Q	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020E	2021E	2022E	2023E	2024E
Cash & equivalents	25	16	26	29	35	68	42	113	113	151	24	28	139	139	28	25	21	24	24	17	17	17	18
Accounts receivable	1,070	660	847	899	974	585	500	1,059	1,059	1,132	870	539	857	857	1,189	864	519	840	840	906	935	968	992
Inventory	583	537	494	471	245	337	467	423	423	216	319	449	425	425	247	338	449	337	337	333	337	345	350
Other current assets	788	365	394	364	380	326	360	462	462	417	366	362	433	433	433	433	433	433	433	433	433	433	433
Total current assets	**2,467**	**1,577**	**1,762**	**1,763**	**1,634**	**1,316**	**1,369**	**2,055**	**2,055**	**1,916**	**1,578**	**1,378**	**1,854**	**1,854**	**1,897**	**1,659**	**1,422**	**1,635**	**1,635**	**1,688**	**1,722**	**1,763**	**1,793**
Tangible fixed assets	**16,017**	**12,112**	**13,068**	**14,360**	**14,457**	**14,848**	**15,174**	**15,543**	**15,543**	**15,741**	**16,134**	**16,481**	**16,912**	**16,912**	**17,098**	**17,400**	**16,809**	**17,138**	**17,138**	**18,264**	**19,361**	**20,381**	**21,374**
Goodwill	3,666	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486
Other intangible fixed assets	265	254	243	232	229	226	224	221	221	218	215	213	0	0	0	0	0	0	0	0	0	0	0
Investment in affiliates	453	195	200	210	206	204	217	206	206	211	218	220	230	230	230	230	230	230	230	230	230	230	230
Other investments	1,999	1,665	1,729	1,707	1,882	2,024	2,025	2,089	2,089	2,113	2,139	2,150	2,178	2,178	2,203	2,225	2,255	2,286	2,286	2,393	2,501	2,609	2,717
Non-Current Assets	**6,383**	**3,804**	**3,862**	**3,839**	**4,008**	**4,144**	**4,156**	**4,206**	**4,206**	**4,233**	**4,262**	**4,273**	**3,894**	**3,894**	**3,920**	**3,942**	**3,971**	**4,002**	**4,002**	**4,109**	**4,217**	**4,325**	**4,433**
Total assets	**24,866**	**17,493**	**18,692**	**19,962**	**20,099**	**20,308**	**20,699**	**21,804**	**21,804**	**21,890**	**21,974**	**22,132**	**22,660**	**22,660**	**22,915**	**23,001**	**22,202**	**22,775**	**22,775**	**24,061**	**25,301**	**26,469**	**27,600**
Trade payables and other ST liabilities	2,111	1,656	1,601	1,688	1,396	1,363	1,752	2,060	2,060	1,884	1,722	1,714	1,973	1,973	2,061	1,822	1,797	1,856	1,856	1,907	1,933	1,976	2,009
Short term debt	1,844	1,001	1,851	1,490	1,830	1,198	1,660	1,977	1,977	2,131	2,092	1,626	1,773	1,773	1,270	1,270	1,270	1,333	1,333	500	600	0	0
Total current liabilities	**3,955**	**2,658**	**3,452**	**3,178**	**3,226**	**2,560**	**3,411**	**4,037**	**4,037**	**4,015**	**3,814**	**3,340**	**3,746**	**3,746**	**3,331**	**3,092**	**3,066**	**3,189**	**3,189**	**2,407**	**2,533**	**1,976**	**2,009**
Long term debt	8,156	5,949	6,058	7,512	7,287	7,093	7,095	7,105	7,105	7,110	7,110	7,854	7,856	7,856	8,255	8,634	7,789	7,841	7,841	9,203	9,605	10,608	10,990
Debt deemed provisions (e.g. pensions)	676	760	713	337	323	398	383	474	474	462	455	451	455	455	455	455	455	455	455	455	455	455	455
Deferred taxes (Revenue)	3,662	2,365	2,528	1,293	1,397	1,409	1,303	1,342	1,342	1,402	1,483	1,477	1,495	1,495	1,572	1,578	1,581	1,620	1,620	1,747	1,855	1,956	2,042
Other long term liabilities	2,243	1,918	1,869	3,321	3,359	3,386	3,434	3,096	3,096	3,121	3,136	3,163	3,121	3,121	3,068	3,068	3,197	3,197	3,197	3,197	3,197	3,197	3,197
Total liabilities	**18,691**	**13,649**	**14,621**	**15,642**	**15,592**	**14,845**	**15,626**	**16,053**	**16,053**	**16,110**	**15,998**	**16,284**	**16,673**	**16,673**	**16,681**	**16,827**	**16,089**	**16,302**	**16,302**	**17,009**	**17,646**	**18,192**	**18,693**
Common equity	6,175	3,844	4,071	4,320	4,506	5,069	4,680	4,871	4,871	4,900	5,096	4,969	5,107	5,107	5,353	5,294	5,234	5,593	5,593	6,172	6,775	7,398	8,027
Preferred equity	0	0	0	0	0	394	394	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	**6,175**	**3,844**	**4,071**	**4,320**	**4,506**	**5,463**	**5,074**	**5,751**	**5,751**	**5,780**	**5,976**	**5,849**	**5,987**	**5,987**	**6,233**	**6,174**	**6,114**	**6,473**	**6,473**	**7,052**	**7,655**	**8,278**	**8,907**
Total liabilities and equity	**24,866**	**17,493**	**18,692**	**19,962**	**20,099**	**20,308**	**20,699**	**21,804**	**21,804**	**21,890**	**21,974**	**22,132**	**22,660**	**22,660**	**22,915**	**23,001**	**22,202**	**22,775**	**22,775**	**24,061**	**25,301**	**26,469**	**27,600**
Check	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Balance Sheet Assumptions	2014	2015	2016	2017	1Q	2Q	3Q	4Q	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020E	2021E	2022E	2023E	2024E
Accounts receivable (as % of EBIT)	85%	114%	95%	93%	236%	477%	375%	376%	112%	228%	662%	495%	281%	82%	231%	610%	418%	267%	77%	77%	74%	71%	67%
Inventory (as % of operating expenses)	28%	38%	35%	30%	61%	93%	142%	99%	28%	52%	83%	120%	103%	27%	58%	87%	120%	80%	21%	20%	20%	21%	21%
Trade payable & other S.T. liabilities (as % of opg. Exp.)	100%	118%	112%	106%	347%	377%	531%	484%	136%	450%	450%	459%	477%	124%	481%	470%	480%	438%	115%	117%	117%	118%	119%
Working Capital	330	(95)	135	46	202.6	(115.2)	(424.3)	(117.0)	(117)	(119.0)	(167.7)	(363.4)	(258.0)	(258)	(192.4)	(187.4)	(395.3)	(245.4)	(245)	(236)	(228)	(230)	(234)
Changes in Working Capital	**(139.5)**	**146.9**	**(292.1)**	**(416.4)**	(73.8)	203.3	364.1	(383.4)	**110.2**	(53.0)	(29.7)	117.7	(110.1)	**(75.1)**	(65.6)	(5.0)	207.9	(149.9)	**(12.6)**	**(9.8)**	**(7.6)**	**2.4**	**3.3**
Average Collection Period	**60**	**52**	**69**	**67**	50	53	52	67	**76**	55	78	53	57	**60**	55	75	50	55	**57**	**60**	**60**	**60**	**60**
Inventory Days	**96**	**125**	**130**	**113**	30	98	193	78	**88**	29	114	210	97	**101**	30	115	200	80	**77**	**75**	**75**	**75**	**75**
Average Payable Period	**346**	**385**	**422**	**406**	173	396	726	379	**427**	249	618	802	449	**469**	250	620	800	440	**421**	**430**	**430**	**430**	**430**
Cash	25	16	26	29	35	68	42	113	113	151	24	28	139	139	28	25	21	24	24	17	17	17	18
Total Debt	9,999	6,950	7,909	9,002	9,117	8,290	8,754	9,083	9,083	9,242	9,201	9,480	9,629	9,629	9,525	9,904	9,059	9,174	9,174	9,703	10,205	10,608	10,990
Total Net Debt	**9,974**	**6,934**	**7,883**	**8,973**	9,082	8,222	8,712	8,970	**8,970**	9,091	9,178	9,452	9,490	**9,490**	9,497	9,880	9,038	9,150	**9,150**	**9,686**	**10,188**	**10,590**	**10,972**
Preferred Securities	0	0	0	0	0	394	394	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880
Shareholders' Equity	6,175	3,844	4,071	4,320	4,506	5,463	5,074	5,751	5,751	5,780	5,976	5,849	5,987	5,987	6,233	6,174	6,114	6,473	6,473	7,052	7,655	8,278	8,907
Net Debt/Capital	**61.8%**	**64.3%**	**65.9%**	**67.5%**	66.8%	58.4%	61.4%	57.5%	**57.5%**	57.7%	57.2%	58.4%	58.0%	**58.0%**	57.2%	58.3%	56.4%	55.4%	**55.4%**	**55.0%**	**54.4%**	**53.6%**	**52.9%**
Invested capital	16,149	10,778	11,954	13,293	13,588	13,685	13,786	14,721	14,721	14,870	15,154	15,300	15,477	15,477	15,730	16,054	15,152	15,623	15,623	16,738	17,843	18,868	19,879
ROIC	8.1%	8.3%	7.9%	7.6%	4.0%	6.8%	6.9%	6.8%	6.8%	3.8%	7.1%	6.8%	6.9%	6.9%	3.5%	6.8%	7.0%	7.0%	7.0%	7.2%	7.3%	7.4%	7.6%
ROE	8.6%	5.3%	9.0%	9.4%	9.9%	9.1%	12.0%	8.9%	8.9%	9.3%	8.9%	10.7%	8.4%	8.4%	8.4%	8.3%	8.4%	11.1%	8.2%	8.2%	8.4%	8.4%	8.3%
EBITDA	1,864	1,104	1,443	1,535	557	267	282	443	1,549	672	309	291	487	1,759	699	326	311	505	1,840	1,944	2,060	2,192	2,332
Net Debt/EBITDA (50% pref equity treatment)	**5.4x**	**4.1x**	**5.5x**	**5.8x**	6.0x	5.7x	5.9x	6.1x	**6.1x**	5.7x	5.6x	5.8x	5.6x	**5.6x**	5.6x	5.7x	5.2x	5.2x	**5.2x**	**5.2x**	**5.2x**	**5.0x**	**4.9x**

Source: NI reports, Jefferies estimates

Exhibit 11 - NI Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows ($MM)	2014	2015	2016	2017	1Q	2Q	3Q	4Q	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020E	2021E	2022E	2023E	2024E
Operating activities																							
Net income	530	302	332	129	276	25	(340)	(12)	(51)	219	297	7	(139)	383	330	35	23	178	566	612	670	724	770
Depreciation, amortization & decommissioning	606	524	547	570	145	145	149	162	600	175	178	182	182	717	184	184	186	189	744	774	803	831	857
Deferred taxes	299	135	182	307	57	10	(93)	(162)	(188)	52	75	(6)	(2)	118	77	6	3	39	125	128	108	100	86
Net change in working capital	(140)	147	(292)	(416)	(74)	203	364	(383)	110	(53)	(30)	118	(110)	(75)	(66)	(5)	208	(150)	(13)	(10)	(8)	2	3
Other, including changes in provisions and other liabilities	25	348	35	153	(16)	39	37	8	69	7	7	5	421	440	(53)	0	129	0	76	0	0	0	0
Cash from operating activities	**1,320**	**1,457**	**803**	**742**	**388**	**421**	**118**	**(387)**	**540**	**399**	**527**	**306**	**352**	**1,583**	**472**	**221**	**550**	**256**	**1,498**	**1,504**	**1,573**	**1,657**	**1,717**
Investing activities																							
Capital expenditure - tangible fixed assets	(2,029)	(1,361)	(1,475)	(1,696)	(370)	(463)	(464)	(522)	(1,818)	(354)	(490)	(467)	(492)	(1,802)	(370)	(487)	(476)	(518)	(1,850)	(1,900)	(1,900)	(1,850)	(1,850)
Investment in affiliates	(69)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net disposals/(acquisitions)	13	3,803	0	0	0	1	(14)	5	(8)	0	0	0	(8)	(8)	0	0	880	0	880	0	0	0	0
Other investment	(32)	(497)	(108)	(113)	(29)	(10)	(28)	(33)	(100)	(22)	(33)	(29)	(28)	(112)	(26)	(22)	(29)	(31)	(108)	(107)	(109)	(108)	(108)
Cash from investing activities	**(2,117)**	**1,945**	**(1,583)**	**(1,809)**	**(399)**	**(472)**	**(505)**	**(550)**	**(1,926)**	**(375)**	**(523)**	**(496)**	**(529)**	**(1,922)**	**(396)**	**(509)**	**375**	**(549)**	**(1,078)**	**(2,007)**	**(2,009)**	**(1,958)**	**(1,958)**
Financing activities																							
Inc./(dec.) in short term debt	878	(936)	921	(282)	362	(967)	1,011	366	772	103	1	(466)	158	(204)	(503)	0	0	64	(440)	(833)	100	(600)	0
Inc./(dec.) in long term debt	227	(2,092)	65	1,395	(279)	138	(553)	(2)	(696)	(2)	(44)	748	(3)	698	399	379	(845)	51	(16)	1,362	403	1,002	382
Inc./(dec.) in equity	20	2	14	337	4	600	4	241	848	3	4	4	234	244	5	5	5	283	298	375	375	375	375
Common stock dividends paid	(321)	(263)	(206)	(229)	(66)	(66)	(71)	(71)	(273)	(75)	(75)	(75)	(75)	(299)	(80)	(80)	(80)	(81)	(323)	(353)	(386)	(421)	(461)
Other cash from financing	(9)	(122)	(4)	(152)	(4)	(12)	(31)	(16)	(62)	(4)	(0)	(8)	(6)	(18)	0	0	0	0	0	0	0	0	0
Inc./(dec.) in preffered equity	0	0	0	0	0	394	(0)	486	880	(9)	(19)	(8)	(19)	(56)	(8)	(19)	(8)	(19)	(55)	(55)	(55)	(55)	(55)
Cash from financing activities	**795.6**	**(3,412)**	**791**	**1,068.7**	**17**	**87**	**360**	**1,004**	**1,469**	**16**	**(133)**	**195**	**289**	**366**	**(188)**	**284**	**(929)**	**297**	**(535)**	**496**	**436**	**302**	**241**
Cash flow increase/(decrease) in cash	(1)	(10)	11	2.4	6	36	(27)	67	83	40	(128)	5	111	27.3	(111)	(4)	(4)	3	(115)	(7)	0	0	0
Non-cash movements in cash	0	0	0	0	(0.3)	(3.2)	0.9	4	1	(2)	1	(0)	(0)	(1)	0	0	0	0	0	0	0	0	0
Forex Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net change in cash	**(1)**	**(10)**	**11**	**2.6**	6	33	(26)	71	**84**	38	(127)	4	111	**27**	(111)	(4)	(4)	3	**(115)**	**(7)**	**0**	**0**	**0**
Cash at the beginning of the year	**27**	**25**	**16**	**26**	29	35	68	42	**29**	113	151	24	28	**113**	139	28	25	21	**139**	**24**	**17**	**17**	**17**
Cash at the end of the year	**25**	**16**	**26**	**29**	35	68	42	113	**113**	151	24	28	139	**139**	28	25	21	24	**24**	**17**	**17**	**17**	**18**
Cash paid for income taxes	**19**	**21**	**8**	**6**	4	0	0	(1)	**3**	5	0	0	6	**11**	10	1	1	6	**18**	**39**	**63**	**92**	**122**
Cash Interest paid, net of amount capitalized	**429**	**390**	**338**	**340**	146	42	42	124	**354**	162	47	42	99	**350**	148	43	43	87	**322**	**380**	**385**	**390**	**395**
Accounting Free Cash Flow (CFO-CAPEX-Dividend)	(1030)	(167)	(877)	(1183)	(48)	(107)	(417)	(980)	(1551)	(29)	(37)	(236)	(216)	(518)	14	(366)	(14)	(363)	(729)	(804)	(769)	(669)	(649)
Free Cash Flow (NI+D&A-WC-CAPEX-DIV)	(1075)	(945)	(510)	(810)	59	(563)	(1090)	(59)	(1653)	19	(60)	(470)	(414)	(925)	122	(362)	(562)	(102)	(904)	(913)	(861)	(774)	(742)

Source: NI reports, Jefferies estimates

Exhibit 12 - OGS Consolidated Income Statement

Income Statement ($MM)	2014	2015	2016	2017	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020E	1QE	2QE	3QE	4QE	2021E	2022E	2023E	2024E
Gas Sales	$1,680	$1,418	$1,300	$1,409	$1,492	$621.5	$258.6	$216.0	$412.1	$1,508	$588.9	$270.8	$233.4	$450.5	$1,544	$645.6	$286.5	$243.7	$462.3	$1,638	$1,744	$1,833	$1,919
Transportation Revenue	$102	$99	$98	$101	$110	$35.0	$24.0	$23.7	$31.4	$114	$35.8	$24.6	$24.3	$31.9	$117	$36.6	$25.2	$24.9	$32.6	$119	$122	$125	$128
Other revenue	$37	$31	$29	$30	$32	$4.5	$8.0	$8.9	$9.2	$31	$7.2	$8.1	$8.1	$7.6	$31	$6.1	$8.3	$8.7	$8.6	$32	$32	$33	$34
Total Revenue	**$1,819**	**$1,548**	**$1,427**	**$1,540**	**$1,634**	$661.0	$290.6	$248.6	$452.6	**$1,653**	$632.0	$303.5	$265.8	$489.9	**$1,691**	$688.3	$320.0	$277.3	$503.5	**$1,789**	**$1,898**	**$1,991**	**$2,080**
Cost of gas	($992)	($706)	($542)	($615)	($715)	($365.1)	($82.6)	($49.6)	($190.7)	($688)	($322.5)	($86.0)	($58.3)	($219.6)	($686)	($366.4)	($91.2)	($58.4)	($219.7)	($736)	($780)	($821)	($858)
Net Margin	**$827**	**$842**	**$885**	**$925**	**$919**	$295.9	$208.0	$199.0	$261.9	**$965**	$309.5	$217.5	$207.5	$270.3	**$1,005**	$322.0	$228.8	$218.9	$283.9	**$1,053**	**$1,119**	**$1,170**	**$1,223**
(O&M)	($414)	($414)	($417)	($417)	($412)	($108.3)	($101.5)	($100.5)	($118.9)	($429)	($109.9)	($103.0)	($102.0)	($120.7)	($436)	($111.3)	($104.3)	($103.3)	($122.2)	($441)	($448)	($454)	($461)
(D&A)	($133)	($133)	($144)	($152)	($160)	($43.8)	($44.9)	($45.5)	($46.1)	($180)	($46.9)	($47.8)	($48.8)	($49.8)	($193)	($50.7)	($51.6)	($52.7)	($53.7)	($209)	($225)	($241)	($257)
(General Taxes)	($55)	($55)	($55)	($57)	($59)	($16.2)	($14.7)	($14.2)	($14.9)	($60)	($17.0)	($16.5)	($15.1)	($14.5)	($63)	($17.9)	($18.1)	($17.1)	($16.1)	($69)	($76)	($81)	($87)
Operating Income (EBIT)	**$224**	**$239**	**$269**	**$299**	**$288**	$128	$47	$39	$82	**$295**	$136	$50	$42	$85	**$313**	$142	$55	$46	$92	**$335**	**$370**	**$394**	**$417**
Other	($3)	($3)	($0)	$3	($11)	$0.4	($0.9)	($1.4)	($1.1)	($3)	($1.0)	($2.3)	($3.8)	($1.0)	($8)	($1.2)	($2.9)	($4.7)	($1.2)	($10)	($9)	($8)	($7)
(Interest Expense)	($46)	($45)	($44)	($46)	($51)	($15.8)	($15.4)	($15.8)	($15.7)	($63)	($16.3)	($16.1)	($16.3)	($17.0)	($66)	($17.3)	($17.3)	($17.3)	($17.3)	($69)	($74)	($78)	($84)
(Income Taxes)	($68)	($73)	($85)	($93)	($54)	($18.6)	($6.2)	($4.1)	($14.0)	($43)	($20.0)	($6.5)	($4.2)	($14.7)	($45)	($22)	($7)	($5)	($17)	($51)	($59)	($66)	($72)
Net Income	$108	$119	$140	$163	$172	$93.7	$24.5	$17.5	$51.2	$187	$98.4	$25.3	$17.4	$52.7	$194	$101.8	$27.2	$19.0	$56.8	$205	$228	$242	$254
Earnings Per Share (EPS)	**$2.08**	**$2.24**	**$2.65**	**$3.08**	**$3.25**	$1.76	$0.46	$0.33	$0.96	**$3.51**	$1.84	$0.47	$0.32	$0.98	**$3.62**	$1.88	$0.50	$0.35	$1.04	**$3.78**	**$4.15**	**$4.34**	**$4.50**
Shares Outstanding (Diluted)	52.8	53.3	53.0	53.0	53.0	53.2	53.2	53.3	53.3	53.2	53.4	53.5	53.6	53.7	53.5	54.0	54.2	54.3	54.4	54.2	55.0	55.8	56.6
Shares Outstanding (Basic)	52.2	52.6	52.5	52.5	52.7	52.8	52.9	52.9	52.9	52.9	53.0	53.1	53.3	53.4	53.2	53.7	53.8	53.9	54.1	53.9	54.6	55.5	56.2
Dividend - Qtrly	**$1.12**	**$1.20**	**$1.40**	**$1.68**	**$1.84**	$0.50	$0.50	$0.50	$0.50	**$2.00**	$0.54	$0.54	$0.54	$0.54	**$2.16**	$0.58	$0.58	$0.58	$0.58	**$2.32**	**$2.48**	**$2.64**	**$2.80**
		7.1%	16.7%	20.0%	9.5%					8.7%	8.0%				8.0%	$0.04				7.4%	6.9%	6.5%	6.1%
Annual Dividend Run Rate	$1.12	$1.20	$1.40	$1.68	$1.84	$2.00	$2.00	$2.00	$2.00	$2.00	$2.16	$2.16	$2.16	$2.16	$2.16	$2.32	$2.32	$2.32	$2.32	$2.32	$2.48	$2.64	$2.80
EBIT	$224	$239	$269	$299	$288	$128	$47	$39	$82	$295	$136	$50	$42	$85	$313	$142	$55	$46	$92	$335	$370	$394	$417
General Tax Rate	19.7%	18.7%	17.1%	16.0%	17.0%	11.3%	23.8%	26.8%	15.4%	16.9%	11.2%	24.7%	26.7%	14.5%	16.8%	11.2%	24.9%	27.1%	14.9%	17.1%	17.0%	17.1%	17.2%
Income Tax Rate	38.8%	38.0%	37.8%	36.4%	23.7%	16.6%	20.1%	19.2%	21.4%	18.7%	16.9%	20.5%	19.5%	21.8%	19.0%	17.7%	21.2%	20.3%	22.5%	19.8%	20.5%	21.3%	22.1%
Dividend Payout Ratio	**53.8%**	**53.7%**	**52.9%**	**54.6%**	**56.6%**					**57.0%**					**59.6%**					**61.4%**	**59.8%**	**60.9%**	**62.2%**
EBITDA	**$357**	**$372**	**$413**	**$451**	**$449**	$171	$92	$84	$128	**$476**	$183	$98	$90	$135	**$506**	$193	$106	$99	$146	**$543**	**$595**	**$635**	**$675**
Natural Gas Margin	**41.0%**	**50.2%**	**58.3%**	**56.4%**	**52.1%**	41.3%	68.1%	77.0%	53.7%	**54.4%**	45.2%	68.2%	75.0%	51.3%	**55.5%**	43.3%	68.2%	76.0%	52.5%	**55.1%**	**55.3%**	**55.2%**	**55.3%**
Gas Sales Margin Growth	(6.3%)	22.6%	16.2%	(3.3%)	(7.6%)	0.4%	6.7%	2.1%	9.8%	4.3%	4.6%	4.6%	4.3%	3.2%	2.1%	4.0%	5.2%	5.5%	5.0%	(0.8%)	0.4%	(0.2%)	0.2%
Charged Natural Gas Price	**$1.81**	**$1.98**	**$2.17**	**$2.26**	**$1.98**	$1.69	$2.50	$2.78	$1.93	**$2.07**	$1.69	$2.50	$2.78	$1.93	**$2.13**	$1.75	$2.63	$2.92	$2.02	**$2.22**	**$2.34**	**$2.42**	**$2.50**
Rate increase											$0.04	$0.09	$0.11	$0.06	$0.07	$0.04	$0.08	$0.09	$0.05	$0.06	$0.10	$0.06	$0.06
New Rates						$1.69	$2.50	$2.78	$1.93		$1.73	$2.59	$2.88	$1.99		$1.79	$2.71	$3.01	$2.06				
Y/Y Change	-1.6%	9.5%	9.5%	4.2%	-12.5%	*0.1%*	*11.1%*	*1.5%*	*7.6%*	4.5%	*0.0%*	*0.0%*	*0.0%*	*0.0%*	3.1%	*1.3%*	*1.3%*	*1.3%*	*1.3%*	3.9%	5.4%	3.6%	3.5%

Source: OGS reports, Jefferies estimates

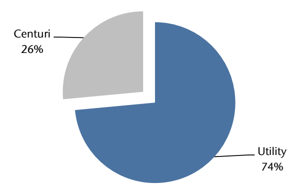
Exhibit 13 - SWX Valuation Analysis

Jefferies

Southwest Gas Corporation (SWX)

Discounted Cash Flow	2020	2021	2022	2023	2024
EBIT	$398	$453	$479	$526	$564
(Cash Taxes on EBIT)	($20)	($34)	($48)	($66)	($99)
NOPAT	$378	$419	$431	$460	$465
DD&A	$332	$349	$363	$376	$387
Capex	($800)	($815)	($780)	($747)	($612)
Changes in NWC	$9	($4)	$2	$4	$4
Free Cash Flow to the Firm	($80)	($50)	$17	$92	$244
Terminal Cash Flow					$6,983
Total Cash Flows	($80)	($50)	$17	$92	$7,228
PV of Cash Flows	($78)	($47)	$15	$78	$5,823
Implied Asset Value	$5,792				
(Net Debt)	($2,625)				
(Pension & Operating Lease)	($151)				
Cash surrender value of COLI policies	$132				
Implied Equity Value	$3,148				
Shares Outstanding	55.1				
Implied 12-Month Target	**$58.80**				

2019E Net Income Compositon



Average Price Target	$72.00

Dividend Discount Model	2020	2021	2022	2023	2024
Dividend Per Share	$2.26	$2.34	$2.42	$2.50	$2.58
Payout Ratio (SWX Convention)	*71%*	*65%*	*65%*	*62%*	*60%*
Terminal Value					$86.92
Present Value of Dividends	$1.66	$2.17	$2.12	$2.07	$2.02
Sum of PV of Dividends per Share	$10.03				
PV of Terminal Value	$61.56				
Equity Value per Share	$71.58				
Implied 12-Month Target	**$73.60**				

WACC Calculation	
New Debt Cost	3.75%
Beta (3yr vs SPX)	0.60
Risk Free Rate	2.5%
Risk Premium	5.5%
Cost of Equity	5.8%
Equity / Cap	61%
Debt / Cap	39%
Tax Rate	24%
WACC	4.7%

SWX Capitalization	
Current Stock Price	**$76.50**
Market Cap (MM)	$4,212
Total Debt (MM)	$2,675
Total Net Debt (MM)	$2,625
F12M Dividend Yield	3.0%
5yr Dividend CAGR	3.7%
Terminal CF Growth Rate	2.50%
Terminal Dividend Growth	2.75%

Terminal Growth Capex	$225.0
Trailing 5-Yr ROIC	6.0%
Implied Contribution	$13.5
2024E EBIT	$564
Implied Growth Rate	2.4%

Sum of the Parts Analysis

Business Segment	2021E Net Income	Multiple	Value
Gas Utility	$166	19.5x	$3,235
Infrastructure Services	$73	10.0x	$731
		Total Equity Value	$3,965
		Diluted Shares Outstanding	54.3
		Price Target	**$73.00**

Terminal WACC	
Cost of New Debt	5.0%
Adjusted Beta	0.73
Risk Free Rate	3.5%
Risk Premium	5.5%
Cost of Equity	7.5%
Terminal WACC	6.1%

Valuation Multiples	
2020E P/E	20.8x
2021E P/E	18.5x
2022E P/E	18.1x
2020E EV/EBITDA	9.8x
2021E EV/EBITDA	9.3x
2022E EV/EBITDA	9.1x

3-Yr Avg	
P/E	22.3x
EV/EBITDA	10.3x

Target Yield Analysis	
2Q21 Dividend	$0.59
Historical 3-year Average Yield	2.65%
Target Yield	2.90%
Implied 12-Month Target	**$81.30**

Implied Upside	
Current Share Price	$76.50
Price Target	$72.00
Forecasted Yield	3.0%
Total Expected Return	**-2.9%**

2019E NI Breakdown	
Utility	73.5%
Centuri	26.5%

Source: SWX reports, Jefferies estimates

Exhibit 14 - SWX Consolidated Income Statement

Consolidated Statement of Income ($MM)	2015	2016	2017	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020E	1QE	2QE	3QE	4QE	2021E	2022E	2023E	2024E
Gas Utility Revenues	$1,454.6	$1,321.4	$1,302.3	$1,357.7	$520.7	$258.7	$210.0	$379.6	$1,368.9	$531.5	$266.1	$233.0	$406.4	$1,437.0	$575.3	$300.2	$246.9	$424.0	$1,546.4	$1,603.7	$1,690.3	$1,765.9
Cost of Gas	$563.8	$397.1	$355.0	$419.4	$192.6	$65.2	$35.1	$92.3	$385.2	$196.6	$67.0	$38.9	$98.8	$401.4	$212.8	$75.6	$41.2	$103.1	$432.8	$448.3	$470.3	$492.2
Net Utility Operating Margin	$890.8	$924.3	$947.3	$938.3	$328.1	$193.5	$174.9	$287.3	$983.8	$334.9	$199.0	$194.1	$307.6	$1,035.6	$362.5	$224.6	$205.7	$320.9	$1,113.6	$1,155.3	$1,220.0	$1,273.7
Construction Revenues	$1,009.0	$1,139.1	$1,246.5	$1,522.3	$312.9	$454.3	$515.3	$468.6	$1,751.0	$309.1	$511.7	$558.6	$525.1	$1,904.5	$378.7	$591.1	$634.6	$515.6	$2,120.1	$2,313.5	$2,366.7	$2,455.9
Construction Expenses	$898.8	$1,024.4	$1,149.0	$1,380.8	$300.5	$402.2	$451.6	$419.0	$1,573.2	$294.5	$449.2	$485.4	$465.6	$1,694.7	$363.6	$526.1	$558.5	$453.7	$1,901.9	$2,086.5	$2,133.0	$2,215.1
Net Construction Operating Margin	$110.2	$114.7	$97.5	$141.5	$12.4	$52.1	$63.7	$49.6	$177.8	$14.6	$62.5	$73.2	$59.5	$209.8	$15.1	$65.0	$76.2	$61.9	$218.2	$226.9	$233.7	$240.7
Operation and maintenance	$393.2	$401.7	$412.2	$406.4	$106.2	$105.3	$109.7	$103.0	$424.2	$109.7	$109.1	$113.4	$106.7	$438.9	$111.9	$111.3	$115.6	$108.8	$447.6	$455.4	$463.4	$471.5
Depreciation and amortization	$270.1	$289.1	$251.0	$249.2	$77.5	$70.3	$75.4	$80.0	$303.2	$81.0	$82.5	$83.8	$84.9	$332.2	$85.7	$87.0	$87.9	$88.7	$349.3	$363.2	$375.8	$386.9
Taxes other than income	$49.4	$52.4	$57.9	$59.9	$16.2	$15.1	$15.3	$15.7	$62.3	$16.3	$15.3	$16.9	$16.8	$65.2	$17.8	$17.3	$18.1	$17.6	$70.8	$73.4	$77.7	$81.2
Total Operating Expenses	$712.7	$743.2	$721.1	$715.5	$200.0	$190.8	$200.3	$198.6	$789.7	$206.9	$206.9	$214.1	$208.4	$836.3	$215.5	$215.6	$221.6	$215.1	$867.8	$892.1	$916.9	$939.6
Other Income (Expense)	$2.4	$2.1	$2.8	($14.5)	($0.8)	($2.3)	$0.5	($5.0)	($7.6)	($2.8)	($3.0)	($2.9)	($2.4)	($11.1)	($2.8)	($3.0)	($2.9)	($2.4)	($11.1)	($11.1)	($11.1)	($11.1)
Income before Interest and Taxes	$290.7	$297.8	$326.5	$349.8	$139.7	$52.6	$38.8	$133.2	$364.2	$139.7	$51.7	$50.3	$156.3	$398.0	$159.4	$71.0	$57.3	$165.3	$452.9	$479.0	$525.7	$563.7
Interest Expense	$71.9	$73.7	$78.1	$96.7	$26.4	$26.8	$27.4	$28.6	$109.2	$30.7	$30.7	$31.3	$32.3	$125.0	$33.9	$33.9	$33.9	$33.9	$135.8	$145.9	$154.8	$165.9
Income before Taxes	$218.8	$224.1	$248.4	$253.2	$113.3	$25.7	$11.3	$104.7	$255.0	$109.0	$21.0	$19.0	$124.0	$273.0	$125.4	$37.1	$23.3	$131.3	$317.1	$333.1	$370.9	$397.8
Income Taxes	$79.9	$78.5	$85.1	$64.1	$25.5	$6.4	$3.1	$21.0	$56.0	$24.7	$4.0	$5.4	$30.5	$64.5	$28.6	$10.5	$6.4	$32.4	$77.9	$82.4	$92.2	$99.2
Net Income	**$138.9**	**$145.7**	**$163.3**	**$189.1**	**$87.7**	**$19.4**	**$8.2**	**$83.7**	**$199.0**	**$84.3**	**$17.0**	**$13.6**	**$93.5**	**$208.4**	**$96.9**	**$26.6**	**$16.9**	**$98.9**	**$239.3**	**$250.8**	**$278.7**	**$298.6**
Minority Interests	$1.1	$1.0	($0.1)	($0.8)	$0.6	$0.8	$1.2	$0.2	$2.7	$0.6	$0.8	$1.2	$0.2	$2.7	$0.6	$0.8	$1.2	$0.2	$2.7	$2.7	$2.7	$2.7
Net Income to Common	$137.8	$144.6	$163.4	$189.8	$87.2	$18.6	$7.0	$83.5	$196.3	$83.7	$16.3	$12.5	$93.3	$205.7	$96.3	$25.8	$15.7	$98.7	$236.6	$248.1	$276.0	$295.9
Avg. Diluted Common Shares	47.2	47.8	48.0	49.5	53.4	54.0	54.7	55.1	54.3	55.5	55.9	56.3	56.3	56.0	56.8	57.2	57.6	57.6	57.3	58.5	59.7	60.9
Avg. Basic Common Shares	46.9	47.5	47.7	49.4	53.4	53.9	54.7	55.0	54.2	57.0	57.4	57.8	58.2	57.6	58.7	59.1	59.5	60.0	59.3	61.0	62.6	64.2
Recurring Earnings per share	**$2.92**	**$3.03**	**$3.41**	**$3.84**	**$1.63**	**$0.34**	**$0.13**	**$1.52**	**$3.61**	**$1.51**	**$0.29**	**$0.22**	**$1.66**	**$3.68**	**$1.70**	**$0.45**	**$0.27**	**$1.71**	**$4.13**	**$4.24**	**$4.62**	**$4.86**
Excluded Items (non-recurring or discontinued operations)	($0.5)	$7.4	$10.6	($2.9)	$7.6	$3.4	$0.7	$5.9	$17.7					$0.0					$0.0	$0.0	$0.0	$0.0
EPS impact of excluded items	(0.01)	0.15	0.22	(0.15)	0.14	0.06	0.01	0.11	0.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reported Earnings per share (diluted)	$2.91	$3.18	$3.63	$3.68	$1.77	$0.41	$0.14	$1.62	$3.94	$1.51	$0.29	$0.22	$1.66	$3.68	$1.70	$0.45	$0.27	$1.71	$4.13	$4.24	$4.62	$4.86
Dividends paid per share	**$1.58**	**$1.76**	**$1.94**	**$2.06**	$0.52	$0.55	$0.55	$0.55	**$2.16**	$0.55	$0.57	$0.57	$0.57	**$2.26**	$0.57	$0.59	$0.59	$0.59	**$2.34**	**$2.42**	**$2.50**	**$2.58**
Dividend Growth Rate	**10.9%**	**11.1%**	**10.3%**	**6.2%**		4.8%			**4.9%**		4.6%			**4.6%**		3.5%			**3.8%**	**3.4%**	**3.3%**	**3.2%**
Payout Ratio (on recurring earnings)	**54.1%**	**58.0%**	**56.8%**	**53.6%**					**59.6%**					**61.4%**					**56.7%**	**57.1%**	**54.1%**	**53.1%**
Payout Ratio (on SWX methodology)	**59.7%**	**61.8%**	**54.6%**	**62.1%**					**61.8%**					**70.6%**					**64.6%**	**65.4%**	**61.5%**	**60.2%**
COLI actual and/or assumption	**$0.5**	**$7.4**	**$18.2**	**($2.9)**	$7.6	$3.4	$0.7	$5.9	**$17.7**	$1.3	$1.3	$1.3	$1.3	**$5.0**	$1.3	$1.3	$1.3	$1.3	**$5.0**	**$5.0**	**$5.0**	**$5.0**
Tax Rate	**36.5%**	**35.0%**	**34.2%**	**25.3%**	22.5%	24.7%	27.7%	20.1%	**22.0%**	22.7%	18.9%	28.3%	24.6%	**23.6%**	22.8%	28.2%	27.6%	24.7%	**24.6%**	**24.7%**	**24.9%**	**24.9%**
Change in Net Income	**2%**	**5%**	**12%**	**16%**	11%	-1%	8%	1%	**5%**	-4%	-12%	66%	12%	**5%**	15%	56%	24%	6%	**15%**	**5%**	**11%**	**7%**
Change in Common Equity	**7.1%**	**4.3%**	**9.1%**	**24.2%**	25.1%	25.2%	24.6%		**11.3%**					**8.1%**					**8.3%**	**7.8%**	**7.8%**	**7.6%**

Source: SWX reports, Jefferies estimates

Jefferies

Exhibit 15 - SWX Consolidated Balance Sheet

Consolidated Balance Sheet ($MM)	2015	2016	2017	1Q	2Q	3Q	4Q	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020	2021	2022	2023	2024
Cash & Equivalents	36	28	44	65	35	69	85	85	97	38	28	50	50	38	40	38	45	45	45	47	47	48
Accounts Receivable	315	285	347	336	358	348	414	414	429	418	434	474	474	416	470	430	557	557	563	601	606	625
Inventory	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Current Assets	208	220	266	263	303	304	340	340	304	296	303	336	336	336	336	336	336	336	336	336	336	336
Total Current Assets	**558**	**533**	**657**	**664**	**696**	**721**	**840**	**840**	**830**	**752**	**765**	**860**	**860**	**790**	**847**	**805**	**938**	**938**	**944**	**984**	**989**	**1,009**
Tangible Fixed Assets - Net	**3,891**	**4,132**	**4,524**	**4,604**	**4,717**	**4,870**	**5,093**	**5,093**	**5,216**	**5,370**	**5,536**	**5,685**	**5,685**	**5,777**	**5,905**	**6,040**	**6,153**	**6,153**	**6,619**	**7,035**	**7,407**	**7,735**
Goodwill	126	140	179	176	174	176	359	359	364	346	340	343	343	343	343	343	343	343	343	343	343	343
Other intangible fixed assets (Deferred Income Taxes)	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Investment in affiliates	469	432	447	443	426	420	441	441	441	436	430	497	497	497	497	497	497	497	497	497	497	497
Other investments	314	342	428	439	462	467	624	624	717	762	769	784	784	784	784	784	784	784	784	784	784	784
Non-Current Assets	**909**	**916**	**1,056**	**1,059**	**1,063**	**1,064**	**1,425**	**1,425**	**1,523**	**1,545**	**1,539**	**1,625**	**1,625**	**1,625**	**1,625**	**1,625**	**1,625**	**1,625**	**1,625**	**1,625**	**1,625**	**1,625**
Total assets	**5,359**	**5,581**	**6,237**	**6,328**	**6,476**	**6,655**	**7,358**	**7,358**	**7,569**	**7,667**	**7,840**	**8,170**	**8,170**	**8,191**	**8,376**	**8,470**	**8,716**	**8,716**	**9,187**	**9,645**	**10,021**	**10,369**
Trade payables and other ST liabilities	498	578	576	555	609	681	754	754	752	690	714	705	705	621	766	741	798	798	800	840	849	872
Short term debt	37	50	240	47	54	32	185	185	223	37	68	375	375	0	0	0	0	0	50	0	0	0
Total current liabilities	**535**	**628**	**816**	**603**	**664**	**713**	**939**	**939**	**974**	**727**	**782**	**1,080**	**1,080**	**621**	**766**	**741**	**798**	**798**	**850**	**840**	**849**	**872**
Long term debt	1,551	1,550	1,799	1,998	2,038	2,124	2,107	2,107	2,106	2,373	2,462	2,300	2,300	2,678	2,708	2,819	2,880	2,880	3,025	3,220	3,299	3,338
Debt deemed provisions (e.g. pensions)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred taxes (Revenue)	769	841	477	500	511	519	529	529	556	563	578	600	600	619	615	612	645	645	694	737	779	807
Other long term liabilities	895	878	1,333	1,350	1,332	1,353	1,449	1,449	1,504	1,501	1,510	1,599	1,599	1,599	1,599	1,599	1,599	1,599	1,599	1,599	1,599	1,599
Total liabilities	**3,750**	**3,897**	**4,425**	**4,451**	**4,544**	**4,709**	**5,024**	**5,024**	**5,140**	**5,164**	**5,332**	**5,580**	**5,580**	**5,517**	**5,688**	**5,771**	**5,922**	**5,922**	**6,168**	**6,397**	**6,526**	**6,616**
Common equity	1,592	1,661	1,812	1,876	1,933	1,946	2,252	2,252	2,347	2,419	2,424	2,506	2,506	2,589	2,603	2,614	2,709	2,709	2,935	3,163	3,410	3,668
Preferred equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Minority interests	16	23	0	0	0	0	82	82	82	83	84	85	85	85	85	85	85	85	85	85	85	85
Shareholders' Equity	**1,608**	**1,684**	**1,812**	**1,876**	**1,933**	**1,946**	**2,333**	**2,333**	**2,429**	**2,503**	**2,508**	**2,590**	**2,590**	**2,674**	**2,688**	**2,699**	**2,794**	**2,794**	**3,020**	**3,248**	**3,495**	**3,753**
Total liabilities and equity	**5,359**	**5,581**	**6,237**	**6,328**	**6,476**	**6,655**	**7,358**	**7,358**	**7,569**	**7,667**	**7,840**	**8,170**	**8,170**	**8,191**	**8,376**	**8,470**	**8,716**	**8,716**	**9,187**	**9,645**	**10,021**	**10,369**
Check	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Balance Sheet Assumptions		93	(125)	(1)	(12)	99	(72)	13	7	(6)	9	(47)	(37)	(26)	91	15	(70)	9	(4)	2	4	4
Accounts receivable (as % of EBIT)	108%	96%	106%	267%	737%	970%	297%	118%	307%	794%	1120%	356%	130%	297%	910%	855%	356%	140%	124%	125%	115%	111%
Inventory (as % of operating expenses)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Trade payable & other S.T. liabilities (as % of op. Exp.)	70%	78%	80%	308%	336%	373%	440%	105%	376%	362%	357%	355%	89%	300%	370%	346%	383%	95%	92%	94%	93%	93%
Working Capital	25	(73)	37	43	52	(29)	1	1	(18)	24	23	105	105	131	40	26	96	96	99	97	93	89
Average Collection Period	**47**	**42**	**50**	40	49	48	48	**52**	46	53	55	51	**55**	45	55	50	55	**61**	**56**	**56**	**55**	**54**
Inventory Days				-	-	-	-		-	-	-	-										
Average Payable Period	**124**	**149**	**140**	112	127	141	146	**153**	137	134	135	127	**131**	115	135	130	130	**139**	**125**	**121**	**119**	**118**
Cash	36	28	44	65	35	69	85	85	97	38	28	50	50	38	40	38	45	45	45	47	47	48
Total Debt	1,589	1,600	2,038	2,045	2,092	2,155	2,292	2,292	2,329	2,410	2,530	2,675	2,675	2,678	2,708	2,819	2,880	2,880	3,075	3,220	3,299	3,338
Total Net Debt	**1,553**	**1,572**	**1,995**	**1,980**	**2,057**	**2,086**	**2,207**	**2,207**	**2,232**	**2,371**	**2,502**	**2,625**	**2,625**	**2,641**	**2,668**	**2,780**	**2,835**	**2,835**	**3,030**	**3,173**	**3,252**	**3,290**
Preferred Securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	1,592	1,661	1,812	1,876	1,933	1,946	2,252	2,252	2,347	2,419	2,424	2,506	2,506	2,589	2,603	2,614	2,709	2,709	2,935	3,163	3,410	3,668
Net Debt/Capital	**49%**	**49%**	**52%**	51%	52%	52%	49%	**49%**	49%	49%	51%	51%	**51%**	50%	51%	52%	51%	**51%**	**51%**	**50%**	**49%**	**47%**
EBIT(1-T)	184	189	212	82	32	26	92	230	107	41	26	97	272	108	39	36	125	311	346	361	396	424
Invested capital	3,145	3,233	3,807	3,857	3,990	4,032	4,459	4,459	4,579	4,791	4,926	5,131	5,131	5,230	5,271	5,395	5,544	5,544	5,965	6,336	6,662	6,958
ROIC	6.4%	5.8%	5.2%	5.2%	5.0%	5.7%	8.9%	5.7%	6.0%	6.0%	5.7%	8.2%	5.6%	10.2%	8.7%	5.3%	8.8%	5.8%	6.0%	5.9%	6.1%	6.2%
ROE	8.7%	8.7%	9.3%	9.9%	9.8%	9.5%	13.6%	9.4%	9.1%	8.5%	8.0%	12.0%	7.8%	14.8%	11.6%	7.4%	11.8%	7.6%	8.1%	7.9%	8.2%	8.2%
EBITDA	561	587	577	188	110	98	203	599	217	123	114	213	667	221	134	134	241	730	802	842	902	951
Net Debt/EBITDA	**2.8x**	**2.7x**	**3.5x**	3.5x	3.5x	3.5x	3.7x	**3.7x**	3.6x	3.7x	3.8x	3.9x	**3.9x**	3.9x	3.9x	4.0x	3.9x	**3.9x**	**3.8x**	**3.8x**	**3.6x**	**3.5x**

Source: SWX reports, Jefferies estimates

Jefferies

EQUITY RESEARCH
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Exhibit 16 - SWX Consolidated Cash Flow Statement

Consolidated Statement of Cash Flows ($MM)	2015	2016	2017	1Q	2Q	3Q	4Q	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020	2021	2022	2023	2024
Operating activities																						
Net income	139	153	194	78	22	12	69	182	95	23	7	92	217	84	17	14	93	208	239	251	279	299
Depreciation, amortization	270	289	251	62	61	62	63	249	78	70	75	80	303	81	82	84	85	332	349	363	376	387
Deferred taxes	49	69	63	23	10	3	15	51	25	7	14	8	54	19	3	4	24	51	54	49	46	40
Net change in working capital	95	93	(125)	(1)	(12)	99	(72)	13	7	(6)	9	(47)	(37)	(26)	91	15	(70)	9	(4)	2	4	4
Other, including changes in provisions and other liabilities	(6)	(5)	(14)	18	(15)	(16)	46	33	(17)	(3)	(5)	(11)	(37)	0	(7)	(7)	9	(6)	(6)	(6)	(4)	(11)
Cash from operating activities	**547**	**598**	**370**	**181**	**66**	**160**	**121**	**529**	**188**	**90**	**100**	**122**	**500**	**158**	**186**	**109**	**142**	**595**	**633**	**660**	**700**	**718**
Investing activities																						
Capital expenditure - tangible fixed assets	(488)	(530)	(624)	(155)	(184)	(221)	(206)	(766)	(211)	(261)	(248)	(219)	(938)	(172)	(210)	(219)	(198)	(800)	(815)	(780)	(747)	(715)
Investment Expenditures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net disposals/(acquisitions)	(9)	(17)	(94)	(4)	0	0	(247)	(251)	0	(20)	0	(28)	(48)	0	0	0	0	0	0	0	0	0
Other investment	27	21	17	5	6	4	3	18	3	7	17	6	34	0	0	0	0	0	0	0	0	0
Cash from investing activities	**(470)**	**(526)**	**(701)**	**(154)**	**(178)**	**(217)**	**(450)**	**(999)**	**(207)**	**(273)**	**(231)**	**(241)**	**(952)**	**(172)**	**(210)**	**(219)**	**(198)**	**(800)**	**(815)**	**(780)**	**(747)**	**(715)**
Financing activities																						
Inc./(dec.) in short term debt	13	(163)	360	(303)	111	9	121	(63)	36	(188)	30	181	59	(375)	0	0	0	(375)	50	(50)	0	0
Inc./(dec.) in long term debt	(52)	169	68	314	(62)	85	(10)	327	(1)	265	91	(38)	318	378	30	111	61	579	146	195	79	39
Inc./(dec.) in equity	35	0	41	11	58	23	262	354	26	77	27	29	158	30	30	30	35	125	125	125	125	125
Common stock dividends paid	(74)	(83)	(92)	(24)	(25)	(26)	(26)	(100)	(28)	(29)	(30)	(30)	(116)	(31)	(33)	(33)	(33)	(130)	(139)	(148)	(157)	(166)
Other cash from financing	(1)	(3)	(30)	(3)	(1)	(0)	(2)	(7)	(2)	(1)	2	(2)	(3)	0	0	0	0	0	0	0	0	0
Inc./(dec.) in preferred equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash from financing activities	**(79)**	**(81)**	**346**	**(5)**	**82**	**91**	**345**	**513**	**31**	**124**	**121**	**140**	**415**	**2**	**27**	**108**	**63**	**200**	**182**	**122**	**47**	**(2)**
Cash flow increase/(decrease) in cash	(2)	(8)	15	22	(30)	34	17	42	12	(59)	(10)	21	(36)	(12)	3	(2)	6	(5)	0	2	0	1
Non-cash movements in cash	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Forex Adjustments	(1)	(0)	0	(0)	(0)	0	(0)	(0)	0	0	(0)	0	0	0	0	0	0	0	0	0	0	0
Net change in cash	**(4)**	**(8)**	**16**	21	(30)	34	16	**42**	12	(59)	(10)	21	**(36)**	(12)	3	(2)	6	**(5)**	**0**	**2**	**0**	**1**
Cash at the beginning of the year	**40**	**36**	**28**	44	65	35	69	**44**	85	97	38	28	**85**	50	38	40	38	**50**	**45**	**45**	**47**	**47**
Cash at the end of the year	**36**	**28**	**44**	65	35	69	85	**85**	97	38	28	50	**50**	38	40	38	45	**45**	**45**	**47**	**47**	**48**
Cash Interest Paid	67	67	72	13	27	9	37	87	16	34	12	40	102	42	23	43	24	133	132	142	151	162
Cash Taxes Paid	43	(19)	6	4	12	2	(17)	1	0	1	(1)	2	3	5	1	1	6	14	24	33	46	60
Free Cash Flow (NI+D&A-WC-CapEx)	(174)	(180)	(54)	(13)	(90)	(245)	(1)	(349)	(45)	(161)	(175)	1	(381)	19	(202)	(137)	50	(269)	(223)	(168)	(96)	(33)
Free Cash Flow Post Dividends	(248)	(264)	(146)	(36)	(115)	(271)	(27)	(449)	(73)	(190)	(205)	(29)	(497)	(12)	(234)	(169)	17	(399)	(362)	(316)	(253)	(199)
Accounting Free Cash Flow (CFO-CapEx)	59	69	(254)	26	(118)	(61)	(84)	(237)	(23)	(171)	(148)	(97)	(438)	(14)	(25)	(110)	(56)	(205)	(182)	(120)	(47)	3
Accounting Free Cash Flow Post Dividends	(15)	(14)	(346)	2	(143)	(86)	(110)	(337)	(50)	(200)	(177)	(127)	(554)	(45)	(57)	(143)	(89)	(334)	(320)	(268)	(204)	(163)
Cash Interest Rate	4.3%	4.4%	4.0%	0.7%	1.3%	0.4%	1.7%	4.0%	0.7%	1.4%	0.5%	1.5%	4.1%	1.6%	0.9%	1.6%	0.9%	4.8%	4.4%	4.5%	4.6%	4.9%
Cash Tax Rate	19.8%	-8.5%	2.3%	4.3%	48.5%	15.6%	-15.0%	0.5%	0.4%	5.4%	-12.9%	2.3%	1.1%	5.0%	5.0%	5.0%	5.0%	5.0%	7.5%	10.0%	12.5%	15.0%
Deferred Taxes as % of Book Taxes	61%	88%	74%	96%	186%	78%	48%	80%	98%	109%	454%	38%	97%	78%	74%	82%	80%	79%	69%	60%	50%	40%

Source: SWX reports, Jefferies estimates

Jefferies

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Exhibit 17 - UGI Consolidated Income Statement

Consolidated Income Statement	2015	2016	2017	2018	1Q	2Q	3Q	4Q	2019	1Q	2QE	3QE	4QE	2020E	1QE	2QE	3QE	4QE	2021E	2022E	2023E	2024E
Revenues	$6,691.1	$5,685.7	$6,120.7	$7,651.2	$2,200.2	$2,606.1	$1,363.7	$1,150.4	$7,320.4	$2,006.6	$2,318.2	$1,467.8	$1,185.9	$6,978.5	$2,139.5	$2,778.8	$1,554.5	$1,262.0	$7,734.8	$8,121.5	$8,481.2	$8,752.4
(Cost of Sales)	($3,647.6)	($2,529.1)	($2,896.6)	($4,169.7)	($1,308.3)	($1,414.5)	($745.3)	($648.1)	($4,116.2)	($996.4)	($1,161.8)	($794.6)	($597.1)	($3,549.9)	($1,081.7)	($1,434.8)	($853.0)	($662.0)	($4,031.4)	($4,355.3)	($4,573.5)	($4,732.9)
Gross Margin	$3,043.5	$3,156.6	$3,224.1	$3,481.5	$891.9	$1,191.6	$618.4	$502.3	$3,204.2	$1,010.2	$1,156.4	$673.2	$588.8	$3,428.6	$1,057.9	$1,344.1	$701.5	$600.0	$3,703.4	$3,766.1	$3,907.7	$4,019.4
(Operating & Administrative)	($1,751.3)	($1,808.0)	($1,804.9)	($1,982.9)	($503.2)	($535.8)	($460.2)	($431.7)	($1,930.9)	($510.5)	($542.9)	($500.9)	($454.5)	($2,008.9)	($536.5)	($589.5)	($512.1)	($473.7)	($2,111.8)	($2,119.4)	($2,145.8)	($2,192.2)
(Depreciation & Amortization)	($374.1)	($400.9)	($416.3)	($455.1)	($111.2)	($108.9)	($109.9)	($118.1)	($448.1)	($119.4)	($121.6)	($122.5)	($125.0)	($488.5)	($124.4)	($125.9)	($127.2)	($129.1)	($506.6)	($525.8)	($546.1)	($567.8)
Other Income (Loss)	$28.3	$6.6	($2.0)	$31.3	($1.2)	$0.6	$14.8	($15.3)	($1.1)	$24.9	$1.7	$3.0	($19.6)	$10.0	$5.0	$2.4	$3.7	$1.8	$12.9	$12.7	$12.9	$9.7
Operating Income	$946.4	$954.4	$1,000.9	$1,074.8	$276.3	$547.5	$63.1	($62.8)	$824.1	$405.2	$493.6	$52.8	($10.3)	$941.2	$401.9	$631.1	$65.9	($1.0)	$1,097.9	$1,133.6	$1,228.7	$1,269.2
(Income from Equity Investees)	($1.2)	($0.2)	$4.3	$4.3	$1.5	$1.6	$1.5	$4.5	$9.1	$6.5	$2.3	$2.3	$2.2	$13.3	$2.8	$2.8	$2.8	$2.8	$11.1	$22.1	$26.7	$25.9
(Other Items)	$0.0	$0.0	($46.0)	($12.7)	$9.0	$7.3	$0.7	$21.0	$38.0	($11.5)				($11.5)					$0.0	$0.0	$0.0	$0.0
(Interest Expense)	($231.6)	($228.9)	($223.5)	($230.1)	($60.2)	($61.0)	($60.5)	($76.1)	($257.8)	($84.1)	($81.7)	($78.3)	($78.5)	($322.6)	($78.3)	($78.3)	($78.3)	($78.3)	($313.0)	($307.0)	($300.7)	($296.7)
Income before Taxes	$713.6	$725.3	$735.8	$836.3	$226.6	$495.4	$4.8	($113.4)	$613.4	$316.1	$414.2	($23.3)	($86.6)	$620.4	$326.4	$555.6	($9.6)	($76.5)	$796.0	$848.7	$954.7	$998.4
(Income Tax Expense)	($226.7)	($178.6)	($204.5)	($186.3)	($58.5)	($90.2)	($10.1)	($0.1)	($158.9)	($82.1)	($97.3)	$5.5	$20.3	($153.6)	($76.7)	($130.6)	$2.2	$18.0	($187.1)	($199.4)	($224.3)	($234.6)
(Preferred Dividends)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Income before Other Items	$486.9	$546.7	$531.2	$650.0	$168.1	$405.2	($5.3)	($113.6)	$454.5	$234.0	$316.9	($17.8)	($66.2)	$466.8	$249.7	$425.1	($7.3)	($58.5)	$608.9	$649.3	$730.3	$763.7
(Minority Interest, prnc. in AmeriGas)	($133.0)	($181.7)	($126.9)	($164.4)	($24.3)	($151.3)	$31.8	$79.3	($64.5)	$0.0	$0.3	$0.2	($9.6)	($9.2)	($0.1)	$0.5	$0.2	($4.0)	($3.4)	($3.5)	($2.2)	($2.0)
Net Income - Recurring	$353.9	$365.0	$404.3	$485.6	$143.8	$253.9	$26.5	($34.3)	$390.0	$234.0	$317.1	($17.7)	($75.9)	$457.6	$249.6	$425.6	($7.1)	($62.5)	$605.5	$645.8	$728.1	$761.8
EPS (Adjusted Diluted)	**$2.01**	**$2.09**	**$2.29**	**$2.74**	$0.81	$1.43	$0.15	($0.18)	**$2.21**	$1.11	$1.50	($0.08)	($0.36)	**$2.18**	$1.19	$2.02	($0.03)	($0.30)	**$2.90**	**$3.12**	**$3.55**	**$3.75**
Shares Outstanding - Basic	173.1	173.2	173.7	173.9	174.4	174.5	174.8	189.9	178.4	209.4	209.2	209.0	209.1	209.2	208.7	208.4	208.1	207.8	208.2	205.9	203.8	201.7
Shares Outstanding - Diluted	175.7	174.9	176.3	176.9	177.6	177.3	177.3	189.9	180.6	211.3	211.1	209.0	209.1	210.1	210.5	210.2	208.1	207.8	209.1	207.3	205.1	203.1
EBIT	$946.4	$954.4	$1,000.9	$1,074.8	$276.3	$547.5	$63.1	($62.8)	$824.1	$405.2	$493.6	$52.8	($10.3)	$941.2	$401.9	$631.1	$65.9	($1.0)	$1,097.9	$1,133.6	$1,228.7	$1,269.2
EBITDA	$1,320.5	$1,355.2	$1,417.2	$1,529.9	$387.5	$656.4	$173.0	$55.3	$1,272.2	$524.6	$615.1	$175.3	$114.7	$1,429.7	$526.3	$757.0	$193.2	$128.1	$1,604.5	$1,659.4	$1,774.8	$1,837.0

Source: UGI reports, Jefferies estimates

Jefferies

EQUITY RESEARCH
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NATIONAL FUEL GAS COMPANY (NFG)

RATING	PRICE	MARKET CAP
BUY	$40.87^	$3.5B
PRICE TARGET (PT)	UPSIDE SCENARIO PT	DOWNSIDE SCENARIO PT
$50.00 (FROM $48.00)	$60.00	$30.00

^Prior trading day's closing price unless otherwise noted.

Estimates				
USD	2019A	2020E	2021E	2022E
EPS	3.45	↓ 2.90	↑ 3.23	↑ 3.44
Previous		2.94	2.74	3.06
Consensus EPS	3.45	↑ 2.92	↓ 2.62	↓ 2.59
Previous		2.90	2.72	2.89
DPS	1.72	1.76	1.80	1.84
Previous				
EBITDA (MM)				
Q1	223.6	229.2	-	-
Previous				
Q2	228.4	↓ 231.4	-	-
Previous		*235.7*		
Q3	185.7	↓ 174.5	-	-
Previous		*178.1*		
Q4	161.5	↑ 153.3	-	-
Previous		*149.9*		
FY Sep	799.2	↓ 788.3	↑ 844.3	↑ 883.6
Previous		*792.8*	*787.4*	*843.1*

Valuation				
	2019A	2020E	2021E	2022E
FY P/E	11.9x	14.1x	12.6x	11.9x
EV/EBITDA	7.4x	7.5x	7.0x	6.7x

The Long View

Scenarios

Base Case

- Appalachian drilling to grow production & reserves over next several years, California to provide free cash flow
- Midstream growth projects to add incremental Utica/ Marcellus takeaway capacity, aiding in-basin firm sale contracts & enabling Seneca production growth
- SOP, which utilizes EV/EBITDA multiples for business segments and reserve valuation for E&P & DCF analysis. F21 EPS: $2.90; F21 EBITDA: $788mm; PT $50

Upside Scenario

- Additional midstream opportunities are secured and progress successfully through regulatory approvals, driving meaningful takeaway options for Seneca and cementing a sustainably profitable net-back
- Stronger than anticipated proved reserve growth and continued improvements in drilling & completion activities, which aid Seneca's profit profile
- Sharp & sustained increase in natural gas and crude oil prices, limited basis issues. Utility experiences sustained cold weather in its PA service territory.
- SOP, which utilizes EV/EBITDA multiples for business segments and reserve valuation for E&P & DCF analysis. F21 EPS: $3.30; F21 EBITDA: $950; PT: $60

Downside Scenario

- Expansion projects in execution encounter cost overruns & time delays; NYSDEC's appeals of recent Northern Access victories are supported, permanently impairing Northern Access
- Production & reserve growth trails our expectations; drilling & completion efficiency gains do not materialize and Seneca's margins are minimized
- Sharp & sustained reduction in oil and natural gas prices, adverse basis differentials hinder realizations
- Mild weather, adverse rate case decisions
- SOP, which utilizes EV/EBITDA multiples for business segments and reserve valuation for E&P & DCF analysis. F21 EPS: $2.40; F21 EBITDA: $700; PT: $30

Investment Thesis / Where We Differ

- Appalachian drilling to grow production & reserves over next several years, California to provide free cash flow
- Midstream growth projects to add incremental Utica/ Marcellus takeaway capacity, aiding in-basin firm sale contracts & enabling Seneca production growth
- SOP, which utilizes EV/EBITDA multiples for business segments and reserve valuation for E&P & DCF analysis. F21 EPS: $2.90; F21 EBITDA: $788mm; PT $50

Catalysts

- Continued action by NFG in the wake of the FERC's decision to rule in favor of NFG as it relates to the NYSDEC waiving its certification authority under section 401 of the Clean Water Act; NYSDEC can appeal against the decision
- Execution of midstream projects & any additional expansions; Transco Zone 6 expected in 2021
- Narrowing of NE basis differentials and the disclosure of additional favorably priced firm sales agreements
- F2Q20 earnings out post-close on 4.30.20

Jefferies

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NISOURCE INC. (NI)

RATING	PRICE	MARKET CAP
HOLD	$25.85^	$9.9B
PRICE TARGET (PT)	UPSIDE SCENARIO PT	DOWNSIDE SCENARIO PT
$28.00	$30.00	$15.00

^Prior trading day's closing price unless otherwise noted.

	Estimates			
USD	2019A	2020E	2021E	2022E
EBITDA (MM)	1,759.3	1,840.3	1,944.4	2,060.5
Previous		1,852.7	1,955.5	2,071.7
DPS	0.80	0.84	0.88	0.93
Previous				
Consensus EPS	1.32	1.34	1.42	1.51
Previous		1.36		
EPS				
Q1	0.82	0.82	-	-
Previous		*0.83*		
Q2	0.05	0.06	-	-
Previous		*0.07*		
Q3	(0.00)	0.02	-	-
Previous		*0.03*		
Q4	0.45	0.42	-	-
Previous				
FY Dec	1.32	1.33	1.38	1.47
Previous		*1.35*	*1.40*	*1.50*

	Valuation			
	2019A	2020E	2021E	2022E
EV/EBITDA	11.0x	10.5x	10.0x	9.4x
FY P/E	19.6x	19.5x	18.7x	17.5x

The Long View

Scenarios

Base Case

- Infrastructure modernization programs to generate steady growth & returns across all segments for several decades
- Premium asset footprints and favorable regulatory climates, continuation on tracked infrastructure investments punctuated by rate case activity.
- ~5.4% dividend CAGR from 2019-24; ~4.1% EPS CAGR from 2019-24
- Combination of Target P/E, Target Yield, DDM, and DCF Analysis. 2021 Adj. EPS: $1.38; 2021 dividend: $0.88/share; PT $28

Upside Scenario

- Customer growth grows faster than projected ~0.5% per year assumption and alternative source of regulated revenues are secured
- NI spends above the high-end of its guidance range, growing rate base faster than anticipated
- Cash flow outperformance yields reduced debt load, generating interest cost savings
- Combination of Target P/E, Target Yield, DDM, and DCF Analysis. 2021 Adj. EPS: $1.70; 2021 dividend: $0.91/share; PT $30

Downside Scenario

- Customer growth is slower than projected ~0.5% per year assumption, or negative
- NI spends below the low-end of its guidance range, and rate base growth is slower than anticipated
- Cost overruns and rising debt loads weigh on EPS
- Adverse regulatory and rate case outcomes
- Combination of Target P/E, Target Yield, DDM, and DCF Analysis. 2021 Adj. EPS: $0.85; 2021 dividend: $0.45/share; PT $15

Investment Thesis / Where We Differ

- Infrastructure modernization programs to generate steady growth & returns across all segments for several decades
- Premium asset footprints and favorable regulatory climates, continuation on tracked infrastructure investments punctuated by rate case activity.
- ~5.4% dividend CAGR from 2019-24; ~4.1% EPS CAGR from 2019-24
- Combination of Target P/E, Target Yield, DDM, and DCF Analysis. 2021 Adj. EPS: $1.38; 2021 dividend: $0.88/share; PT $28

Catalysts

- Continued regulatory progress and reduction in regulatory lag could improve earnings growth
- Extension or expansion of modernization programs across any/all service territories
- Increased revenue-normalization efforts and reduction in volumetric sensitivities
- Sale of Columbia Gas of Mass. & removal of the overhang that comes with the Greater Lawrence Incident; NI remains liable for additional costs incurred
- 1Q20 earnings out pre-market on 5.06.20

Jefferies

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ONE GAS INC. (OGS)

RATING	PRICE	MARKET CAP
HOLD	**$85.74^**	**$4.5B**
PRICE TARGET (PT)	UPSIDE SCENARIO PT	DOWNSIDE SCENARIO PT
$82.00 (FROM $80.00)	**$95.00**	**$60.00**

^Prior trading day's closing price unless otherwise noted.

Estimates				
USD	2019A	2020E	2021E	2022E
EBITDA (MM)	475.6	506.2	543.3	595.0
Previous				
DPS	2.00	2.16	2.32	2.48
Previous				
Consensus EPS	3.51	↓ 3.60	↑ 3.85	4.13
Previous		3.61	3.84	
EPS				
Q1	1.76	1.84	-	-
Previous				
Q2	0.46	0.47	-	-
Previous				
Q3	0.33	↓ 0.32	-	-
Previous		*0.33*		
Q4	0.96	0.98	-	-
Previous				
FY Dec	3.51	↓ 3.62	↑ 3.78	↑ 4.15
Previous		*3.63*	*3.77*	*4.14*

Valuation				
	2019A	2020E	2021E	2022E
EV/EBITDA	13.3x	12.5x	11.6x	10.6x
FY P/E	24.4x	23.7x	22.7x	20.7x

The Long View

Scenarios

Base Case

- Customer growth continues at ~1.0% CAGR for several years
- Annual capex spend remains ~$500mm, delivering rate base growth broadly consistent with mgmt's expectations
- OGS continues to earn historical rate increases in KS & annual GRIP filings in TX
- Weather conditions revert to normal for consecutive years.
- Equal-weight valuation using DCF, DDM, Target P/E, and Target Yield methodologies; 2021 EPS: $3.78, 1Q21 DPS: $0.58; Target Yield: 2.6%; PT $82

Upside Scenario

- Customer growth grows faster than projected ~1.0% per year assumption and alternative sources of regulated revenue are secured
- OGS spends at or above the high-end of its guidance range growing its rate base faster than projected
- Mgmt employs cost cutting mechanisms which realizing an ROE closer to the top end of its authorized amount
- Equal-weight valuation using DCF, DDM, Target P/E, and Target Yield methodologies; 2021 EPS: $4.75, 1Q21 DPS: $0.60; Target Yield: ~2.25%; PT $95

Downside Scenario

- Customer growth is slower than projected ~1.0% per year assumption
- OGS spends at or below the low-end of its guidance range, thus its rate base ramp is slower than forecast
- Cost overruns occur and crimp allowed ROE in out-years
- Mild weather occurs in service areas where weather normalization provisions do not exist
- Equal-weight valuation using DCF, DDM, Target P/E, and Target Yield methodologies, 2021 EPS: $3.15, 1Q21 DPS: $0.48; Target Yield: ~3.2%; PT $60

Investment Thesis / Where We Differ

- Customer growth continues at ~1.0% CAGR for several years
- Annual capex spend remains ~$500mm, delivering rate base growth broadly consistent with mgmt's expectations
- OGS continues to earn historical rate increases in KS & annual GRIP filings in TX
- Weather conditions revert to normal for consecutive years.
- Equal-weight valuation using DCF, DDM, Target P/E, and Target Yield methodologies; 2021 EPS: $3.78, 1Q21 DPS: $0.58; Target Yield: 2.6%; PT $82

Catalysts

- Annual true-up regulatory filings across all three states
- With a low interest debt maturity in 2019, increased interest rates could act as a negative catalyst
- 1Q20 earnings out post-close on 4.27.20

Jefferies

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SOUTHWEST GAS CORPORATION (SWX)

RATING	PRICE	MARKET CAP
HOLD	$76.96^	$4.2B
PRICE TARGET (PT)	**UPSIDE SCENARIO PT**	**DOWNSIDE SCENARIO PT**
$72.00	$95.00	$40.00

^Prior trading day's closing price unless otherwise noted.

Estimates				
USD	2019A	2020E	2021E	2022E
EBITDA (MM)	667.5	730.2	802.2	842.2
Previous				
DPS	2.16	2.26	2.34	2.42
Previous				
Consensus EPS	3.61	↓ 3.77	↓ 4.23	4.37
Previous		3.80	4.26	
EPS				
Q1	1.63	↑ 1.51	-	-
Previous		*1.50*		
Q2	0.34	0.29	-	-
Previous				
Q3	0.13	0.22	-	-
Previous				
Q4	1.52	↑ 1.66	-	-
Previous		*1.65*		
FY Dec	3.61	↑ 3.68	↑ 4.13	↑ 4.24
Previous		*3.66*	*4.11*	*4.20*

Valuation				
	2019A	2020E	2021E	2022E
EV/EBITDA	10.3x	9.4x	8.6x	8.1x
FY P/E	21.3x	20.9x	18.6x	18.2x

The Long View

Scenarios

Base Case

- Customer growth continues at a ~1.7%+ annual rate through 2024 and dynamics of natural gas supply and demand trends remain supportive
- Centuri grows as utilities seek to replace & modernize aging infrastructure.
- SWX's regulatory outcomes are generally favorable and its LNG facility begins to contribute to earnings over the course of 2020.
- Equal-weighted DCF, DDM, SOP, and Target Yield approaches. 2Q21E Dividend: 59¢, Target Yield 2.9%, Projected 5-year Dividend CAGR 3.7%, PT $72

Upside Scenario

- Customer accounts grow faster than our baseline forecast and the economies of the AZ, NV, and CA service territories grow faster than anticipated.
- Rate activity is favorable and the LNG facility ramps up quicker than anticipated reaching above forecast utilization
- Centuri growth & profitability is better and Nueco acquisition is more accretive than anticipated, while Centuri's project backlog deepens
- Equal-weighted DCF, DDM, SOP, and Target Yield approaches. 2Q21E Dividend: 60¢, Target Yield 2.5%, Projected 5-year Dividend CAGR 6.5%, PT $95

Downside Scenario

- Weak economic conditions prompt slower than anticipated growth in customer accounts and an uptick in inactive meters
- Adverse future rate case outcomes & LNG facility contribution lower than anticipated
- Centuri backlog wanes & contract bidding becomes more competitive, crimping its growth & profitability
- Treasury yields widen, hindering capital costs
- Equal-weighted DCF, DDM, SOP, and Target Yield approaches. 2Q21E Dividend: 50¢, Target Yield 4.5%, Projected 5-year Dividend CAGR 0%, PT $40

Investment Thesis / Where We Differ

- Customer growth continues at a ~1.7%+ annual rate through 2024 and dynamics of natural gas supply and demand trends remain supportive
- Centuri grows as utilities seek to replace & modernize aging infrastructure.
- SWX's regulatory outcomes are generally favorable and its LNG facility begins to contribute to earnings over the course of 2020.
- Equal-weighted DCF, DDM, SOP, and Target Yield approaches. 2Q21E Dividend: 59¢, Target Yield 2.9%, Projected 5-year Dividend CAGR 3.7%, PT $72

Catalysts

- Dividend raises each Feb; expect a 3.7% 5-yr CAGR
- Additional sector consolidation (value read-through) and/or an accretive acquisition of its own
- Faster than expected increases in interest rates or a reduction of allowed ROEs act as negative catalysts
- Material change in the Arizona PUC with respect to favorable rate case outcomes; decision by the Nevada PUC on the rate case presented to them
- 1Q20 earnings out post-close on 5.12.20 (JEFe)

Jefferies

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UGI CORPORATION (UGI)

RATING	PRICE	MARKET CAP
BUY	**$28.05^**	**$5.8B**
PRICE TARGET (PT)	UPSIDE SCENARIO PT	DOWNSIDE SCENARIO PT
$48.00	**$60.00**	**$20.00**

^Prior trading day's closing price unless otherwise noted.

Estimates				
USD	2019A	2020E	2021E	2022E
EBITDA (MM)	1,272.2	↓ 1,429.7	↓ 1,604.5	↓ 1,659.4
Previous		1,437.7	1,610.8	1,666.1
Consensus EPS	2.21	↓ 2.49	↓ 2.88	↓ 3.10
Previous		2.69	2.90	3.16
DPS	1.15	↓ 1.31	↓ 1.35	↓ 1.40
Previous		1.33	1.38	1.43
EPS				
Q1	0.81	1.11A	-	-
Previous				
Q2	1.43	↓ 1.50	-	-
Previous		*1.53*		
Q3	0.15	↑ (0.08)	-	-
Previous		*(0.09)*		
Q4	(0.18)	↑ (0.36)	-	-
Previous		*(0.37)*		
FY Sep	2.21	↓ 2.18	↑ 2.90	↑ 3.12
Previous		*2.20*	*2.89*	*3.11*

Valuation				
	2019A	2020E	2021E	2022E
EV/EBITDA	9.6x	8.6x	7.6x	7.4x
FY P/E	12.7x	12.9x	9.7x	9.0x

The Long View

Scenarios

Base Case

- PennEast pipeline experiences no further delays & is put into service in F1Q22.
- Continued conversion of fuel oil customers
- Normal weather conditions across all regions
- Additional midstream projects are secured and successfully executed upon at a 5-6x multiple
- Equal-weighted DCF, SOP, and Target Yield approaches. F2Q21E Dividend: 33¢, Target Yield 3%, Projected 5-year Dividend CAGR 5.8%, PT $48

Upside Scenario

- Projects completed early and under-budget, with utilization ramp faster than anticipated
- Fuel oil customer conversions accelerate in the US and Europe; significantly colder-than-normal winter weather conditions pervade all operating regions
- Additional high-quality midstream projects come into service earlier than expected, at accretive multiples, and backed by long-term fee-based agreements
- Equal-weighted DCF, SOP, and Target Yield approaches. F2Q21E Dividend: 35¢, Target Yield 2.35%, Projected 5-year Dividend CAGR 7.5%, PT $60

Downside Scenario

- Recent NE gathering acquisition doesn't lend itself to the 5-6x bolt-on projects, making the transaction more expensive than originally anticipated
- Projects delayed further and experience cost overruns due to operational issues and drag on total UGI results
- Customer conversions across all delivery platforms slow and European acquisitions dry up
- Significantly warmer than normal temps afflict all operating regions during the winter heating season
- Equal-weighted DCF, SOP, and Target Yield approaches. F2Q21E Dividend: 32.5¢, Target Yield 4.75%, Projected 5-year Dividend CAGR 0%, PT $20

Investment Thesis / Where We Differ

- PennEast pipeline experiences no further delays & is put into service in F1Q22.
- Continued conversion of fuel oil customers
- Normal weather conditions across all regions
- Additional midstream projects are secured and successfully executed upon at a 5-6x multiple
- Equal-weighted DCF, SOP, and Target Yield approaches. F2Q21E Dividend: 33¢, Target Yield 3%, Projected 5-year Dividend CAGR 5.8%, PT $48

Catalysts

- Additional M&A in its NE Midstream business as well as announcements regarding expansion projects
- Unusually warm/cold winter weather in PA, due to the lack of weather normalization provisions
- Announcements regarding Penn East progress have the potential to act as a positive catalyst if the regulatory and construction processes are successfully navigated, but also have the potential to act as a negative catalyst if there are further delays in the regulatory and/or construction processes
- International M&A as UGI looks to expand the international propane business
- F2Q20 earnings out post-close on 5.06.20

Company Description

National Fuel Gas Company

National Fuel Gas Company (NYSE: NFG) is a diversified energy holding company which operates in five business segments: Utility, Pipeline & Storage, Gathering, Exploration & Production, and Energy Marketing. The Utility operations are conducted by NFG Distribution Corp., which sells natural gas and provides natural gas and transportation services to ~750,200 customers in western New York and northwestern Pennsylvania. The Pipeline & Storage operations are carried out by NFG Supply Corp. and Empire Pipeline, Inc., which provide interstate natural gas transportation & storage services for affiliated and nonaffiliated companies. The Exploration & Production operates via Seneca Resources Corp., which is engaged in the exploration, development and purchase of natural gas and oil reserves primarily in California and in the Appalachian region. National Fuel Gas was founded on December 8, 1902, is incorporated under the laws of the state of New Jersey, and is headquartered in Williamsville, NY.

NiSource Inc.

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4mm US customers. The Company operates two business segments: Gas Distribution and Electric. The Gas Distribution operations provide natural gas service and transportation to ~3.5mm residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. The Electric Operations segment provides electric service to ~472,000 customers across 20 counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

ONE Gas Inc.

ONE Gas Inc. (NYSE: OGS) is a Local Distribution Company (LDC), that provides natural gas distribution services to 2.2mm customers and, despite the LDC market being categorized as an extremely fragmented industry, is the largest natural gas distributor in Oklahoma and Kansas and is the third largest in Texas, in terms of customers. OGS is the successor of a company founded in 1906 as Oklahoma Natural Gas Company and is 100% regulated. OGS's customer base includes residential, commercial & industrial, wholesale & public authority, and transportation. OGS has three divisions, Oklahoma Natural Gas, Kansas Gas Service, and Texas Gas Service, that distribute natural gas to ~88%, ~72%, and ~13% of the natural gas distribution customers in Oklahoma, Kansas and Texas, respectively.

Southwest Gas

Southwest Gas Holdings, Inc. (NYSE:SWX) is a holding company with business interests in two major business segments -- Natural Gas Operations and Utility Infrastructure Services. Southwest Gas Corporation purchases, distributes, and transports natural gas in the states of Arizona, Nevada, and California to residential, commercial, and industrial users. It is the largest natural gas distributor in Arizona and Nevada, providing service to the Phoenix, Tucson, and Las Vegas metropolitan regions among others. Southwest Gas also owns Paiute Pipeline Company, which owns and operates an interstate pipeline system that extends from the Idaho-Nevada border to the California-Nevada state line near the north and south ends of Lake Tahoe. Paiute also operates a peak shaving LNG storage facility near Lovelock, Nevada. Centuri Construction Group, Inc. is a comprehensive utility infrastructure services enterprise dedicated to meeting the growing demands of North American utilities, energy, and industrial markets. The Company was founded in March 1931, is incorporated under the laws of the State of California, and is headquartered in Las Vegas, NV.

UGI Corporation

UGI Corporation (NYSE: UGI) is a holding company that, through subsidiaries, distributes, stores, transports and markets energy products and services. UGI distributes natural gas and electricity to approximately 642,000 customers in eastern PA, operates merchant power and midstream assets in the Mid-Atlantic, and has LPG distribution operations in France and Eastern Europe. The company was founded in 1882, is organized under the laws of the state of Pennsylvania, and is headquartered in King of Prussia, PA. In F4Q19, UGI closed the acquisition of all publicly-held APU common units, rendering APU a wholly-owned UGI subsidiary.

Company Valuation/Risks

National Fuel Gas Company

Our $50 PT and Buy recommendation are derived via DCF and SOP, which includes an E&P reserve valuation & EBITDA multiples for all other segments. Risks: Deviations in reserve growth, commodity prices, interest rates, and midstream expansions.

Please see important disclosure information on pages 25 - 32 of this report.

NiSource Inc.
Our $28 PT and Hold recommendation are derived via Target P/E, Target Yield, DCF, and DDM approaches. Unexpected regulatory outcomes, deviations in customer growth, and project execution present risks to our estimates & PT.

ONE Gas Inc.
Our $82 PT and Hold rating are derived via Target P/E, Target Yield, DCF, and DDM approaches. Risks to our PT include: slower than expected annual customer growth, capex spend below the low-end of the guided range, slowing rate base growth, cost overruns crimping allowed ROE in future years and non-normal weather in service areas impacting top line results.

Southwest Gas
Our $72 PT and Hold recommendation are derived via DCF, DDM, SOP, and Target Yield approaches. Unexpected regulatory outcomes, contracting & execution risk, SW economic conditions, and interest rates all pose risks to our EPS & dividend projections and to our price target.

UGI Corporation
Our $48 PT and Buy recommendation are derived via a combination of DCF, SOP, and Target Yield approaches. Risks include non-normal weather, severe & rapid LPG price fluctuations, project execution, and interest rates.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published	April 24, 2020 , 03:22 ET.
Recommendation Distributed	April 24, 2020 , 03:22 ET.

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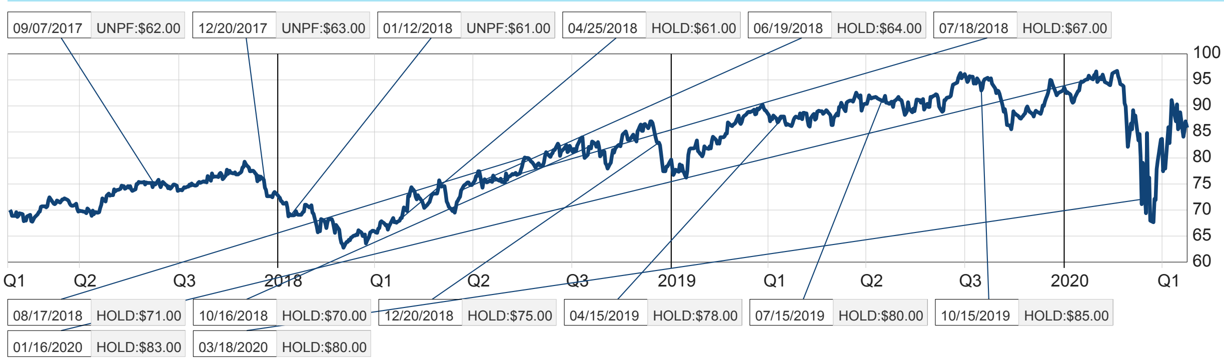
Other Companies Mentioned in This Report

- National Fuel Gas Company (NFG: $40.87, BUY)
- NiSource Inc. (NI: $25.85, HOLD)
- ONE Gas Inc. (OGS: $85.74, HOLD)
- Southwest Gas Corporation (SWX: $76.96, HOLD)
- UGI Corporation (UGI: $28.05, BUY)

Rating and Price Target History for: National Fuel Gas Company (NFG) as of 04-23-2020

Rating and Price Target History for: NiSource Inc. (NI) as of 04-23-2020

Rating and Price Target History for: ONE Gas Inc. (OGS) as of 04-23-2020



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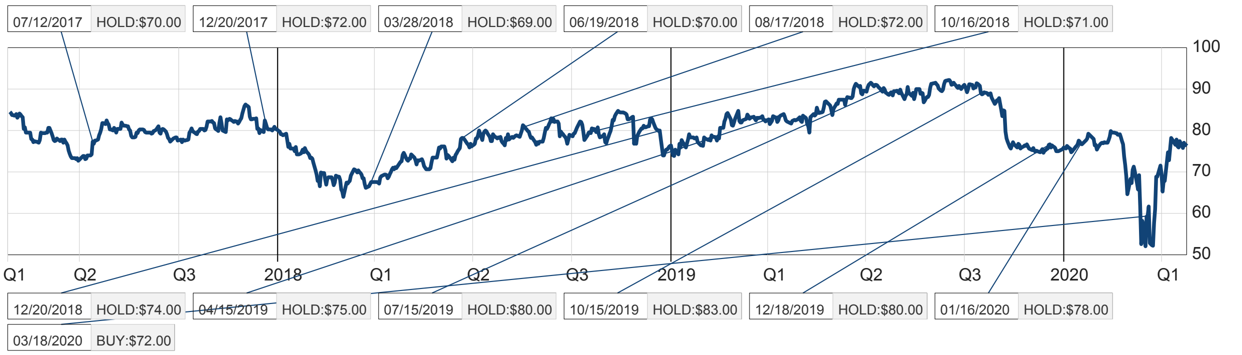
Rating and Price Target History for: Southwest Gas Corporation (SWX) as of 04-23-2020



Rating and Price Target History for: UGI Corporation (UGI) as of 04-23-2020

Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.
Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1322	54.63%	107	8.09%	12	0.91%
HOLD	943	38.97%	34	3.61%	2	0.21%
UNDERPERFORM	155	6.40%	1	0.65%	0	0.00%

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Regulateds – Market Weight
Gas/Power Infrastructure – Market Overweight

April 23, 2020

NISOURCE

(NI US Equity – $25.85 – Outperform)

Core investment story intact; mgmt. Fireside Chat

- **Near term uncertainty but the long term sounds great.** We hosted a fireside chat with NiSource CEO Joe Hamrock and CFO Donald Brown today to discuss potential impacts of COVID-19. Both Joe and Donald were candid in saying that the impacts weren't clear cut and a lot depends on the duration of state shutdowns and how quickly respective economies can recover. Fortunately, mgmt's sense is that their core Midwestern states (OH, IN and PA) look poised to be among the first to return to work. More broadly, the L-T investment proposition remains solid – long runway of robust rate base growth opportunities coupled with a much lower business risk profile post CMA. We are lowering our PT by $4 to $29, reflective of lower group multiples and maintain our Outperform rating. See a full replay of the call here.

- **Decent C&I exposure.** NI provided EPS sensitivities for a 1% change in sales. Gas = $0.01 each for residential and commercial; electric = $0.01 each for residential, commercial, and industrial. The impact on Q1 sounded manageable and NI is moving into shoulder months for both businesses.

- **Constructive mechanisms for bad debts.** NI has bad debt trackers for gas costs at all of its LDCs (OH includes delivery charge too). MD has authorized a deferral for incremental costs related to COVID and NI is in active discussions with its other state regulators to obtain similar mechanisms.

- **CMA sale still on track; no impact to capital plan.** NI still expects the sale of CMA to close in Q3. The DPU's investigation is moving forward in sync with the sale process. NI hasn't had any issues executing on its capital plan thus far and noted it is ahead of schedule due to the warm winter.

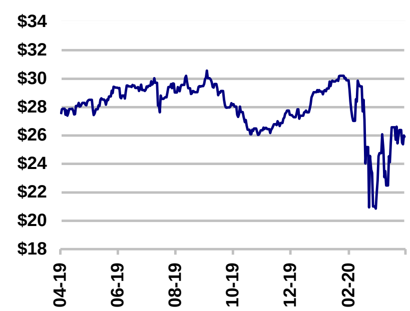
- **Liquidity and credit solid.** NI had $1.3B of liquidity available as of 3/31 and has no L-T debt needs through 2021. NI most recently had its stable outlook at Fitch affirmed earlier this month.

- **Upside ahead for the capex plan.** NI is in the final stages of evaluating the results of its recent generation RFP. The likely outcome sounds like a big deployment of renewables in 2023-24 to replace the bulk of company's remaining coal units. Incremental capex for grid mod under NI's TDISC program is likely too. NI has also identified incremental investments on the gas side for reliability and safety purposes. A full update is expected later this year.

Estimates / Valuation			
(US$)	2020E	2021E	2022E
EPS	$1.32	$1.42	$1.52
Consensus	$1.35	$1.42	$1.51
P/E	19.6x	18.3x	17.0x
Dividend Yield	3.3%	3.5%	3.7%

Trading and Fundamental Data	
Price Target	$ 29
Current Price	25.85
52-Week Range	$20-$31
Market Cap. (MM)	9,890
Enterprise Value (MM)	20,330
Shares Out. (MM)	382.7
Dividend Yield	3.28%
Dividend Payout Ratio	62.8%
ROE	6.6%
Debt to Cap	61.9%
Avg. Daily Vol. (000)	2,882

Price Performance	YTD	LTM
NI US Equity	-7%	-5%
Utility Index	-9%	2%
S&P 500	-13%	-4%



Source: FactSet/Wolfe Research

Key Changes		
Year	New	Old
PT	$29	$33

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WOLFE RESEARCH

NiSource

April 23, 2020

NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2020E	2021E	2022E
EPS	$1.32	$1.42	$1.52
Diluted Shares Outstanding	$387	397	407
Dividends Per Share	$0.85	$0.90	$0.95
Dividend Yield	3.3%	3.5%	3.7%
Dividend Payout Ratio	64%	63%	63%
Equity Ratio	38%	39%	40%
FFO/Net Debt	13%	14%	14%
Valuation Metrics			
P/E	19.6x	18.3x	17.0x
Price/Book	1.8x	1.7x	1.6x
Segment EPS			
Gas Distribution	$1.06	$1.15	$1.23
NIPSCO Electric	0.57	0.58	0.59
Parent & Other	(0.32)	(0.31)	(0.30)
Total EPS	**$1.32**	**$1.42**	**$1.52**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2020E	2021E	2022E
Capital Spending by Segment ($M)			
Gas Distribution	$1,361	$1,396	$1,396
Electric	472	487	487
Parent	25	25	25
Total Capex	**$1,858**	**$1,908**	**$1,908**
Financings ($M)			
Total Equity Issued/(Repurchased)	$298	$298	$298
Total Debt Issued/(Repurchased)	$250	$450	$500

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland and Massachusetts.

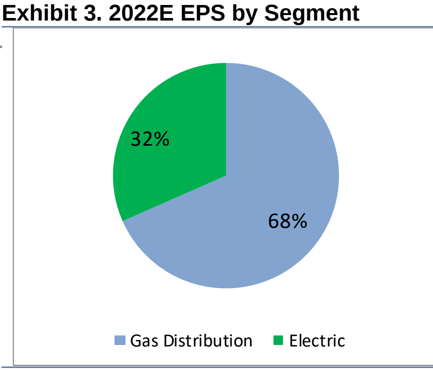
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of capital investment with recovery largely through trackers in mostly constructive regulatory environments. We see NI as a de-risking story in 2020 with an upward bias on rate base / EPS growth due to renewable investment opportunities at NIPSCO electric.

Valuation

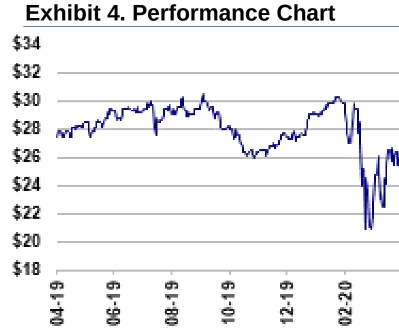
Our $29 price target is derived using a P/E multiple of 18.5x (full turn premium) for NI's electric business and 19x (average) for NI's gas businesses on 2022 estimated earnings. Risks for NiSource are 1) bad regulatory outcomes and 2) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer growth

Exhibit 3. 2022E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: FactSet

WOLFE RESEARCH

NiSource

April 23, 2020

Investment Conclusion

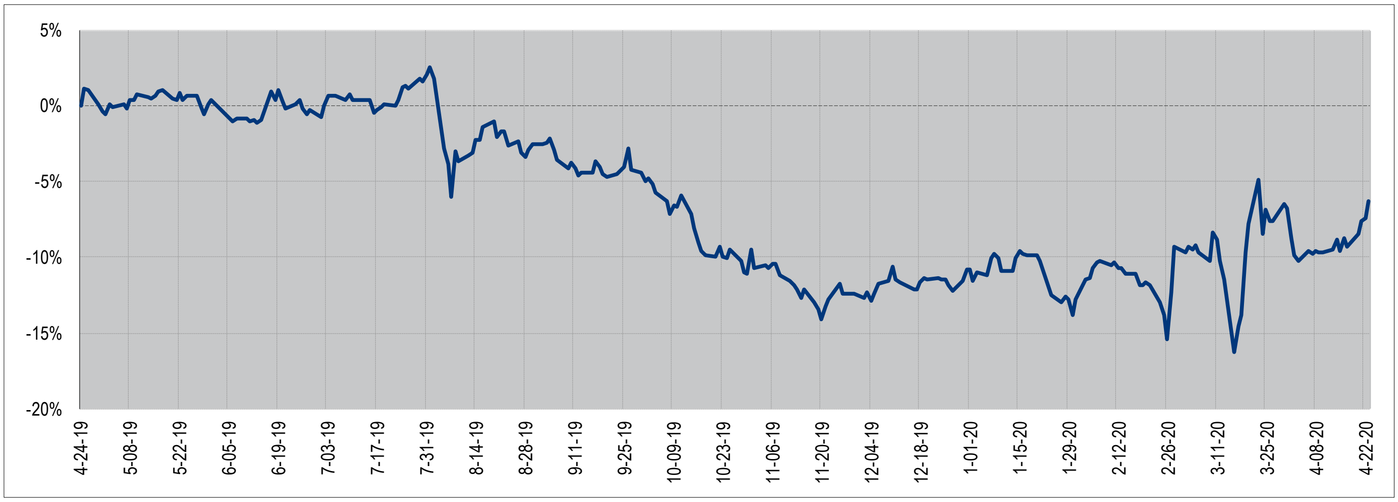
We are Outperform rated on NiSource. The company's $30B capital investment backlog should drive its 5-7% annual earnings target well into the future. Most of the company's annual capex (~80%) is recovered with minimal lag via tracking mechanisms and the company has built a constructive track record with most of its state regulators. We view the sale announcement of Columbia Gas MA as an inflection point for the stock that should allow NI to re-rate closer to its historic 5-10% premium over time. Further, we see an upward bias on NI's 5-7% EPS growth rate long-term due to renewable and grid mod opportunities at NIPSCO electric which should come into view later this year.

Exhibit 5: Regulated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2020E	P/E 2021E	P/E 2022E	P/E 2023E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Alliant Energy	LNT	$50.09	245	$12,283	20.6x	19.6x	18.6x	17.6x	3.0%	6.0%	62%	2.4x	45%
Ameren	AEE	74.19	247	18,305	21.3x	19.7x	18.5x	17.4x	2.8%	4.0%	59%	2.3x	45%
American Electric	AEP	83.02	495	41,081	19.1x	17.9x	16.7x	15.9x	3.4%	4.5%	64%	2.1x	39%
Avangrid	AGR	44.98	309	13,899	19.9x	18.1x	16.7x	N/A	4.1%	2.5%	82%	0.9x	65%
CMS Energy	CMS	59.24	284	16,836	22.2x	20.8x	19.3x	18.0x	2.8%	6.5%	61%	3.4x	27%
Con Edison	ED	81.78	334	27,313	18.8x	17.9x	17.2x	16.5x	3.7%	3.5%	71%	1.5x	44%
Duke Energy	DUK	85.12	734	62,481	16.4x	15.6x	14.9x	14.2x	4.5%	2.0%	74%	1.4x	43%
Edison International	EIX	58.23	363	21,115	13.0x	12.5x	11.8x	11.1x	4.3%	0.2%	56%	1.6x	40%
Entergy	ETR	96.97	201	19,473	17.3x	16.3x	15.4x	N/A	3.9%	2.2%	68%	1.9x	34%
Evergy	EVRG	57.79	227	13,099	18.7x	17.8x	17.1x	16.3x	3.5%	6.2%	66%	1.5x	46%
Eversource Energy	ES	86.56	330	28,594	23.6x	22.2x	21.0x	19.9x	2.6%	6.1%	62%	2.3x	45%
FirstEnergy	FE	43.03	542	23,311	17.4x	16.3x	15.6x	N/A	3.6%	2.6%	63%	3.3x	25%
Fortis*	FTS	53.19	464	24,691	20.4x	18.7x	17.6x	16.7x	3.6%	6.0%	74%	1.5x	44%
NiSource	**NI**	**25.85**	**383**	**9,892**	**19.6x**	**18.3x**	**17.0x**	**N/A**	**3.3%**	**6.0%**	**64%**	**1.9x**	**40%**
PG&E	PCG	11.00	530	5,828	7.1x	10.6x	9.1x	N/A	0.0%	N/A	0%	1.1x	17%
Pinnacle West	PNW	75.82	112	8,529	15.5x	14.6x	13.9x	13.2x	4.2%	6.0%	65%	1.6x	48%
Portland General	POR	48.43	89	4,333	18.7x	17.5x	16.9x	16.6x	3.3%	6.5%	63%	1.7x	48%
PPL Corp.	PPL	25.19	768	19,350	10.1x	10.1x	9.7x	N/A	6.6%	0.6%	66%	1.5x	36%
Southern Company	SO	56.80	1,057	60,038	18.0x	17.2x	15.9x	14.7x	4.5%	3.2%	81%	2.3x	36%
WEC Energy Group	WEC	94.39	315	29,774	25.3x	23.7x	22.2x	20.8x	2.7%	7.2%	68%	2.9x	44%
Xcel Energy	XEL	64.38	525	33,801	23.2x	21.8x	20.5x	19.3x	2.7%	6.0%	62%	2.6x	39%
Average					**18.4x**	**17.5x**	**16.5x**	**16.6x**	**3.5%**	**4.4%**	**63%**	**2.0x**	**41%**
Average (ex EIX, PCG, PPL)					**19.8x**	**18.5x**	**17.5x**	**16.9x**	**3.5%**	**4.8%**	**67%**	**2.1x**	**42%**

Source: Wolfe Research, FactSet

Exhibit 6: NI vs the Regulated Average



Source: Wolfe Research, FactSet

WOLFE RESEARCH

NiSource

April 23, 2020

DISCLOSURE SECTION

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Important Disclosures:

Price Chart with Ratings and Target Price History

Note: OP = Outperform; PP = Peer Perform; UP = Underperform

Wolfe Research, LLC Fundamental Valuation Methodology:

Company:	Fundamental Valuation Methodology:
NI US Equity	Forward P/E

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:	Risks That May Impede Achievement of the Recommendation, Rating or Target Price:
NI US Equity	Economy, regulatory outcomes, project execution, pipeline safety accidents

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
NI US Equity	None

Other Disclosures:

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Outperform (OP):	The security is projected to outperform analyst's industry coverage universe over the next 12 months.
Peer Perform (PP):	The security is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.
Underperform (UP):	The security is projected to underperform analyst's industry coverage universe over the next 12 months.

Wolfe Research, LLC uses a relative rating system using terms such as Outperform, Peer Perform and Underperform (see definitions above). Please carefully read the definitions of all ratings used in Wolfe Research, LLC research. In addition, since Wolfe Research, LLC research contains more complete information concerning the analyst's views, please carefully read Wolfe Research, LLC research in its entirety and not infer the contents from the ratings alone. In all cases, ratings (or research) should not be used or relied upon as investment advice and any investment decisions should be based upon individual circumstances and other considerations.

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Market Weight (MW):	Expect the industry to perform approximately in line with the primary market index for the region (S&P 500 in the U.S.) over the next 12 months.
Market Underweight (MU):	Expect the industry to underperform the primary market index for the region (S&P 500 in the U.S.) by at least 10% over the next 12 months.

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Outperform:	45%	2% Investment Banking Clients
Peer Perform:	44%	1% Investment Banking Clients
Underperform:	11%	0% Investment Banking Clients

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23 Apr 2020 03:00:00 ET | 9 pages

Pipelines & Gas Utilities
North America | United States

NiSource Inc (NI)

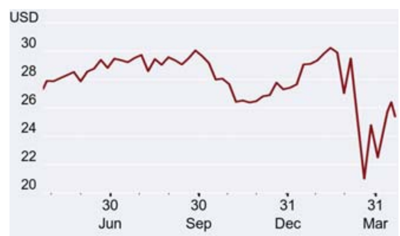
Updating Our Model

- Target Price Change
- Estimate Change

- **Estimate revisions:** We updated our model for the announced asset sale to Eversource, recent results, and current business outlook.
- **Price Target:** We are lowering our price target by $1.00 to reflect current interest rates and equity risk premiums, and lower comparable company trading multiples. Our approach is unchanged.

Neutral	2
Price (22 Apr 20 12:25)	US$25.97
Target price	US$29.00
from US$30.00	
Expected share price return	11.7%
Expected dividend yield	3.1%
Expected total return	14.8%
Market Cap	US$9,938M

Price Performance
(RIC: NI.N, BB: NI US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2019A	0.82A	0.06A	0.00A	0.45A	1.32A	1.32A	0.88A
2020E	0.80E	0.12E	0.08E	0.38E	1.35E	1.34E	1.30E
Previous	0.72E	0.14E	0.18E	0.34E	1.37E	na	na
2021E	na	na	na	na	1.45E	1.42E	1.40E
Previous	na	na	na	na	1.45E	na	na
2022E	na	na	na	na	1.55E	1.51E	1.50E
Previous	na	na	na	na	1.56E	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus. VA Cons: Visible Alpha Consensus. Click here for Visible Alpha consensus data

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

NI.N: Fiscal year end 31-Dec — Price: US$25.97; TP: US$29.00; Market Cap: US$9,938m; Recomm: Neutral

Profit & Loss (US$m)	2018	2019	2020E	2021E	2022E
Sales revenue	5,115	5,209	5,266	4,991	5,200
Cost of sales	-2,361	-2,252	-2,067	-1,905	-1,989
Gross profit	2,754	2,957	3,199	3,085	3,211
Gross Margin (%)	53.8	56.8	60.7	61.8	61.7
EBITDA (Adj)	724	1,275	1,793	1,885	2,059
EBITDA Margin (Adj) (%)	14.2	24.5	34.0	37.8	39.6
Depreciation	-600	-717	-554	-562	-624
Amortisation	0	0	0	0	0
EBIT (Adj)	125	557	1,238	1,323	1,434
EBIT Margin (Adj) (%)	2.4	10.7	23.5	26.5	27.6
Net interest	-353	-379	-386	-386	-415
Associates	0	0	0	0	0
Non-Op/Except/Other Adj	44	-5	-22	-22	-22
Pre-tax profit	-185	173	831	915	997
Tax	180	-56	-256	-284	-311
Extraord./Min.Int./Pref.div.	-15	-55	-55	-55	-55
Reported net profit	-20	63	520	576	631
Net Margin (%)	-0.4	1.2	9.9	11.5	12.1
Core NPAT	462	495	520	576	631

Per share data	2018	2019	2020E	2021E	2022E
Reported EPS ($)	-0.06	0.17	1.35	1.45	1.55
Core EPS ($)	1.29	1.32	1.35	1.45	1.55
DPS ($)	0.78	0.80	0.83	0.84	0.86
CFPS ($)	1.64	3.51	2.76	2.92	3.12
FCFPS ($)	-3.45	-1.29	-1.97	-1.75	-1.43
BVPS ($)	13.67	13.63	14.61	15.57	16.56
Wtd avg ord shares (m)	347	366	376	386	397
Wtd avg diluted shares (m)	357	376	385	396	406

Growth rates	2018	2019	2020E	2021E	2022E
Sales revenue (%)	4.9	1.8	1.1	-5.2	4.2
EBIT (Adj) (%)	-86.3	346.8	122.3	6.8	8.4
Core NPAT (%)	16.2	7.3	4.9	10.9	9.5
Core EPS (%)	6.9	1.9	2.3	7.8	6.8

Balance Sheet (US$m)	2018	2019	2020E	2021E	2022E
Cash & cash equiv.	121	148	148	148	148
Accounts receivables	1,059	857	737	766	800
Inventory	423	425	373	385	400
Net fixed & other tangibles	17,631	19,090	19,257	20,545	21,771
Goodwill & intangibles	1,911	1,486	1,486	1,486	1,486
Financial & other assets	659	654	626	633	641
Total assets	21,804	22,660	22,627	23,964	25,245
Accounts payable	884	666	498	507	515
Short-term debt	2,027	1,787	1,012	1,200	1,307
Long-term debt	7,105	7,856	8,356	8,956	9,556
Provisions & other liab	6,037	6,364	6,266	6,271	6,276
Total liabilities	16,053	16,673	16,133	16,934	17,655
Shareholders' equity	5,751	5,987	6,495	7,030	7,590
Minority interests	0	0	0	0	0
Total equity	5,751	5,987	6,495	7,030	7,590
Net debt (Adj)	9,012	9,494	9,220	10,007	10,715
Net debt to equity (Adj) (%)	156.7	158.6	142.0	142.3	141.2

Valuation ratios	2018	2019	2020E	2021E	2022E
PE (x)	20.1	19.7	19.3	17.9	16.7
PB (x)	1.9	1.9	1.8	1.7	1.6
EV/EBITDA (x)	31.0	18.1	12.9	12.4	11.7
FCF yield (%)	-13.3	-5.0	-7.6	-6.7	-5.5
Dividend yield (%)	3.0	3.1	3.2	3.2	3.3
Payout ratio (%)	60	61	62	58	55
ROE (%)	-0.4	1.3	9.7	9.8	9.8

Cashflow (US$m)	2018	2019	2020E	2021E	2022E
EBITDA	724	1,275	1,793	1,885	2,059
Working capital	110	-75	-66	-36	-42
Other	-249	118	-664	-692	-748
Operating cashflow	586	1,318	1,063	1,158	1,268
Capex	-1,818	-1,802	-1,822	-1,850	-1,850
Net acq/disposals	-104	-113	1,100	0	0
Other	-4	-7	0	0	0
Investing cashflow	-1,926	-1,922	-722	-1,850	-1,850
Dividends paid	-273	-299	-320	-349	-380
Financing cashflow	1,480	423	-295	738	628
Net change in cash	140	-182	46	46	46
Free cashflow to s/holders	-1,233	-485	-759	-692	-582

For definitions of the items in this table, please click here.

Powered by: dataCentral

NiSource Inc

Company description

NiSource Inc (NI) is primarily a regulated utility with an integrated network of gas distribution in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana. The company serves around 4 million customers across seven states through its two main business segments, including: 1) Gas Distribution, which delivers natural gas in several states; 2) Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCO).

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). We believe NI's long-term earnings are relatively stable due to diverse operations areas and constructive regulatory jurisdictions. Our estimates do not include: 1) Substantial industrial load growth at the utilities; 2) Colder-than-normal weather and faster than average customer growth; or 3) Slower than typical timeline in regulatory filing and approval process for new infrastructure projects and cost recovery mechanisms.

Valuation

We average multiple valuation methodologies to derive our $29 target price. Our NAV yields a value of $23. We value regulated assets at a multiple of 1.3x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $36 per share. Our P/E and EV/EBITDA analyses yield values of $28 per share.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. (4) Capital Markets — Access to cheap capital markets could be limited due to the size of the company. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target. (5) There is a risk that there will be negative political, financial, and regulatory backlash from the recent events in New England.

Appendix A-1

Analyst Certification

The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by "AC" in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst is certifying with respect to the entire research report other than (a) content attributable to another AC certifying analyst listed in bold alongside the content and (b) views expressed solely with respect to a specific issuer which are attributable to another AC certifying analyst identified in the price charts or rating history tables for that issuer shown below. Each of these analysts certify, with respect to the sections of the report for which they are responsible: (1) that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc. and its affiliates; and (2) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research

Analyst: Ryan Levine
Covered since March 27 2018

	Date	Rating	Target Price	Closing Price
1	03-May-17 20:43:41	1	*28.00	24.01
2	17-Nov-17 13:17:37	1	*31.00	27.08
3	27-Mar-18 05:03:46	*2	*25.00	23.79
4	28-Nov-18 16:01:00	2	*26.00	25.76
5	03-May-19 06:40:08	2	*28.00	27.86
6	23-Oct-19 22:00:00	2	*30.00	28.15

*Indicates Change

Rating/target price changes above reflect Eastern Time

Due to Citi advising NiSource Inc (the 'Company') on the spin-off of off its pipeline & midstream assets into a publicly traded company,Columbia Pipeline Group,Citi Research suspended its rating and target price on 28 September 2014 (the suspension date). Please note that the Company price chart that appears in this report and is available on Citi Research's disclosure website does not reflect that Citi Research did not have a rating or target price between the Suspension Date and 19 April 2015 when Citi Research resumed full coverage.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of NiSource Inc.

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

J.P.Morgan

North America Equity Research
09 April 2020

NiSource Inc.

Model Update

We are updating our model to account for Q4 earnings results and recent events. Please see changes below.

Overweight

NI, NI US

Price (09 Apr 20): $26.58

▼ **Price Target (Dec-20): $29.00**
Prior (Dec-20): $31.00

Utilities and Power

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J.P. Morgan Securities LLC

Key Changes (FYE Dec)

	Prev	Cur
Adj. EPS - 20E ($)	1.36	1.34

Quarterly Forecasts (FYE Dec)

Adj. EPS ($)

	2019A	2020E	2021E
Q1	0.82	0.83	
Q2	0.05	0.08	
Q3	(0.00)	0.03	
Q4	0.45	0.41	
FY	1.32	1.34	1.42

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	44	39	43	35	1
Growth	24	54	79	79	69
Momentum	70	54	49	72	30
Quality	54	81	93	42	80
Low Vol	33	63	55	42	56
ESGQ	79	92	31	28	84

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

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Price Performance

	YTD	1m	3m	12m
Abs	-4.5%	-4.0%	-4.2%	-4.9%
Rel	10.4%	3.5%	11.3%	-8.3%

Company Data

Shares O/S (mn)	375
52-week range ($)	30.67-19.56
Market cap ($ mn)	9,956.87
Exchange rate	1.00
Free float(%)	99.5%
3M - Avg daily vol (mn)	4.03
3M - Avg daily val ($ mn)	108.1
Volatility (90 Day)	65
Index	S&P 500
BBG BUY|HOLD|SELL	12|4|0

Key Metrics (FYE Dec)

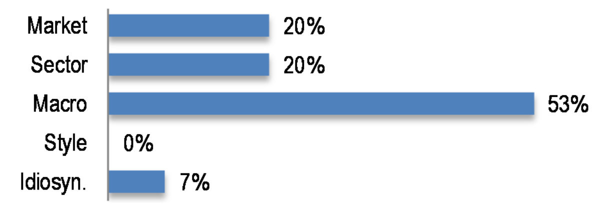
$ in millions	FY19A	FY20E	FY21E	FY22E
Financial Estimates				
Revenue	5,184	5,553	5,603	5,735
Adj. EBITDA	1,759	1,843	1,876	1,990
Adj. EBIT	1,042	1,130	1,174	1,259
Adj. net income	495	522	566	611
Adj. EPS	1.32	1.34	1.42	1.51
BBG EPS	1.30	1.35	1.42	1.51
Cashflow from operations	1,583	1,405	1,322	1,460
FCFF	95	(121)	(227)	(68)
Margins and Growth				
Revenue growth	2.0%	7.1%	0.9%	2.4%
EBITDA margin	33.9%	33.2%	33.5%	34.7%
EBITDA growth	13.6%	4.8%	1.8%	6.1%
EBIT margin	20.1%	20.4%	21.0%	21.9%
Net margin	9.5%	9.4%	10.1%	10.7%
Adj. EPS growth	1.6%	1.8%	5.9%	5.9%
Ratios				
Adj. tax rate	17.1%	23.1%	23.9%	23.8%
Interest cover	4.6	4.8	5.2	5.2
Net debt/Equity	1.6	1.5	1.3	1.3
Net debt/EBITDA	5.4	5.1	5.0	5.0
ROCE	5.7%	5.5%	5.5%	5.7%
ROE	8.4%	8.3%	8.4%	8.5%
Valuation				
FCFF yield	1.0%	(1.2%)	(2.1%)	(0.6%)
Dividend yield	3.0%	3.2%	3.3%	3.6%
EV/EBITDA	9.3	9.2	8.8	8.7
Adj. P/E	20.1	19.8	18.7	17.6

Summary Investment Thesis and Valuation

NiSource's heavy capital investment program drives rate base growth of at least ~7.5% over the next 3 years, with upside should the mid-or-high end of the capex guided ranges materialize. Declining O&M spending versus current elevated levels should improve earned ROE's at the utilities over coming quarters and additional cost discipline could further support growth. With an agreement in place to divest Bay State Gas, NI has reduced 2020 equity funding needs and will reestablish LT growth guidance post 2021. NiSource continues to offer top-tier rate base growth, which we see supporting long term earnings growth of 5-7% through 2022.

Our December 2020 price target of $29/per share is based on a sum-of-the-parts analysis and uses our 2021 electric and gas segment EPS forecasts. We value the gas and electric segments using 20.8x and 20.5x P/E multiples respectively, in line with LDC and Electric peer multiples.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.88	0.83
Sect: Utilities	0.91	0.87
Ind: Utilities	0.91	0.87
Macro:		
US 10yr yield	-0.71	-0.68
Crude Oil	-0.08	-0.11
Credit Spread	-0.17	-0.09
Quant Styles:		
Value	-0.60	-0.52
Momentum	0.61	0.43
LowVol	0.43	0.43

Source: J.P. Morgan Quantitative and Derivatives Strategy for Performance Drivers; company data, Bloomberg and J.P. Morgan estimates for all other tables.

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Investment Thesis, Valuation and Risks

NiSource Inc. *(Overweight; Price Target: $29.00)*

Investment Thesis

NiSource's heavy capital investment program drives rate base growth of at least ~7.5% over the next 3 years, with upside should the mid-or-high end of the capex guided ranges materialize. Declining O&M spending versus current elevated levels should improve earned ROE's at the utilities over coming quarters and additional cost discipline could further support growth. With an agreement in place to divest Bay State Gas, NI has reduced 2020 equity funding needs and will reestablish LT growth guidance post 2021. NiSource continues to offer top-tier rate base growth, which we see supporting long term earnings growth of 5-7% through 2022.

Valuation

We lower our December 2020 price target to $29/share versus prior $31/share. Our price target is based on a sum-of-the-parts analysis and uses our 2021 electric and gas segment EPS forecasts. We value the gas and electric segments using 20.8x and 20.5x P/E multiples respectively, in line with LDC and Electric peer multiples. Our lower price target is due to lower peer group multiples versus prior.

Risk to Rating and Price Target

- Regulated electric transmission and distribution earnings are vulnerable to mild weather, as regulated revenues are calculated based on energy volumes sold. Extreme or mild temperatures may cause future earnings to differ materially from our current forecasts.
- Achievement of NiSource's long-term rate base and EPS CAGR targets are heavily dependent on robust capital investments, regulatory support, and favorable ratemaking mechanism. Any deferral of spending could put the company at risk of falling short of the LT rate base and earnings growth CAGR in any one year.
- Regulated electric and gas utilities are subject to federal and state regulations, including determinations of allowed revenues. Positive or negative changes to the regulatory environments may cause future earnings potential to differ materially from current expectations.

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NiSource Inc.: Summary of Financials

Income Statement - Annual	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**5,084**	**5,184**	**5,553**	**5,603**	**5,735**
COGS	(1,759)	(1,535)	(1,760)	(1,760)	(1,760)
Gross profit	**3,325**	**3,649**	**3,793**	**3,844**	**3,976**
SG&A	(1,794)	(1,885)	**(1,950)**	**(1,968)**	**(1,986)**
Adj. EBITDA	**1,549**	**1,759**	**1,843**	**1,876**	**1,990**
D&A	(600)	(717)	(713)	(702)	(731)
Adj. EBIT	**949**	**1,042**	**1,130**	**1,174**	**1,259**
Net Interest	(353)	(379)	(380)	(358)	(384)
Adj. PBT	**596**	**663**	**750**	**816**	**874**
Tax	(118)	(113)	(174)	(195)	(208)
Minority Interest	(15)	(55)	(55)	(55)	(55)
Adj. Net Income	**463**	**495**	**522**	**566**	**611**
Reported EPS	1.30	1.32	1.34	1.42	1.51
Adj. EPS	**1.30**	**1.32**	**1.34**	**1.42**	**1.51**
DPS	**0.78**	**0.80**	**0.84**	**0.89**	**0.94**
Payout ratio	60.0%	60.6%	62.5%	62.6%	62.6%
Shares outstanding	357	375	388	398	406

Income Statement - Quarterly	1Q20E	2Q20E	3Q20E	4Q20E
Revenue	**1,939**	**1,107**	**989**	**1,517**
COGS	(725)	(313)	(222)	(500)
Gross profit	**1,214**	**794**	**767**	**1,017**
SG&A	(511)	(464)	(463)	(512)
Adj. EBITDA	**703**	**330**	**305**	**505**
D&A	(175)	(177)	(179)	(181)
Adj. EBIT	**528**	**153**	**126**	**324**
Net Interest	(94)	(94)	(97)	(95)
Adj. PBT	**434**	**58**	**29**	**229**
Tax	(102)	(12)	(5)	(54)
Minority Interest	(14)	(14)	(14)	(14)
Adj. Net Income	**318**	**32**	**10**	**162**
Reported EPS	0.83	0.08	0.03	0.41
Adj. EPS	**0.83**	**0.08**	**0.03**	**0.41**
DPS	**0.21**	**0.21**	**0.21**	**0.21**
Payout ratio	25.4%	251.9%	833.3%	50.9%
Shares outstanding	384	387	390	392

Balance Sheet & Cash Flow Statement	FY18A	FY19A	FY20E	FY21E	FY22E
Cash and cash equivalents	121	148	0	0	0
Accounts receivable	1,059	857	857	857	857
Other current assets	876	849	940	1,031	1,122
Current assets	**2,055**	**1,854**	**1,796**	**1,887**	**1,979**
PP&E	15,543	16,912	18,017	19,136	20,226
Other non current assets	4,206	3,894	3,806	2,756	2,756
Total assets	**21,804**	**22,660**	**23,620**	**23,780**	**24,960**
Short term borrowings	1,977	1,773	1,795	879	1,379
Payables	884	666	666	666	666
Other short term liabilities	1,176	1,307	1,718	1,293	1,293
Current liabilities	**4,037**	**3,746**	**4,180**	**2,839**	**3,338**
Long-term debt	7,105	7,856	7,670	8,520	8,520
Other long term liabilities	4,911	5,071	5,245	5,440	5,648
Total liabilities	**16,053**	**16,673**	**17,094**	**16,798**	**17,506**
Shareholders' equity	5,751	5,987	6,526	6,982	7,455
Minority interests	-	-	-	-	-
Total liabilities & equity	**21,804**	**22,660**	**23,620**	**23,780**	**24,960**
BVPS	**15.44**	**15.67**	**16.57**	**17.38**	**18.21**
y/y Growth	*20.5%*	*1.4%*	*5.8%*	*4.9%*	*4.8%*
Net debt/(cash)	8,962	9,481	9,465	9,399	9,899
Cash flow from operating activities	**540**	**1,583**	**1,405**	**1,322**	**1,460**
o/w Depreciation & amortization	600	717	713	702	731
o/w Changes in working capital	110	(75)	(91)	(91)	(91)
Cash flow from investing activities	**(1,926)**	**(1,922)**	**(1,818)**	**(721)**	**(1,821)**
o/w Capital expenditure	(1,818)	(1,802)	(1,818)	(1,821)	(1,821)
as % of sales	*35.8%*	*34.8%*	*32.7%*	*32.5%*	*31.8%*
Cash flow from financing activities	**1,469**	**366**	**243**	**315**	**(139)**
o/w Dividends paid	(273)	(299)	(327)	(355)	(384)
o/w Net debt issued/(repaid)	75	494	225	425	0
Net change in cash	**83**	**27**	**(171)**	**916**	**(500)**
Adj. Free cash flow to firm	**(995)**	**95**	**(121)**	**(227)**	**(68)**
y/y Growth	*37.6%*	*(109.6%)*	*(227.3%)*	*87.1%*	*(69.8%)*

Ratio Analysis	FY18A	FY19A	FY20E	FY21E	FY22E
Gross margin	65.4%	70.4%	68.3%	68.6%	69.3%
EBITDA margin	30.5%	33.9%	33.2%	33.5%	34.7%
EBIT margin	18.7%	20.1%	20.4%	21.0%	21.9%
Net profit margin	9.1%	9.5%	9.4%	10.1%	10.7%
ROE	9.2%	8.4%	8.3%	8.4%	8.5%
ROA	2.2%	2.2%	2.3%	2.4%	2.5%
ROCE	5.5%	5.7%	5.5%	5.5%	5.7%
SG&A/Sales	35.3%	36.4%	35.1%	35.1%	34.6%
Net debt/equity	1.6	1.6	1.5	1.3	1.3
P/E (x)	20.5	20.1	19.8	18.7	17.6
P/BV (x)	1.7	1.7	1.6	1.5	1.5
EV/EBITDA (x)	10.1	9.3	9.2	8.8	8.7
Dividend Yield	2.9%	3.0%	3.2%	3.3%	3.6%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	4.4	4.6	4.8	5.2	5.2
Operating leverage	(33.9%)	496.0%	119.6%	423.2%	305.4%
Revenue y/y Growth	3.7%	2.0%	7.1%	0.9%	2.4%
EBITDA y/y Growth	1.1%	13.6%	4.8%	1.8%	6.1%
Tax rate	19.7%	17.1%	23.1%	23.9%	23.8%
Adj. Net Income y/y Growth	16.6%	6.8%	5.4%	8.6%	8.0%
EPS y/y Growth	7.7%	1.6%	1.8%	5.9%	5.9%
DPS y/y Growth	11.4%	2.6%	5.0%	6.0%	6.0%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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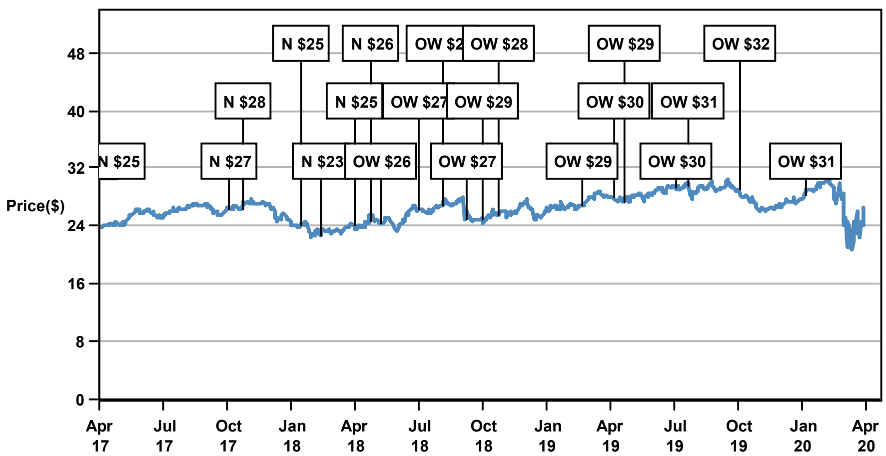
NiSource Inc. (NI, NI US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
11-Apr-17	N	23.74	25
12-Oct-17	N	26.42	27
01-Nov-17	N	26.37	28
24-Jan-18	N	24.17	25
22-Feb-18	N	22.80	23
10-Apr-18	N	24.15	25
02-May-18	N	24.52	26
17-May-18	OW	24.40	26
11-Jul-18	OW	26.24	27
15-Aug-18	OW	26.96	28
17-Sep-18	OW	24.79	27
09-Oct-18	OW	25.05	29
01-Nov-18	OW	25.36	28
01-Mar-19	OW	26.98	29
15-Apr-19	OW	28.07	30
02-May-19	OW	27.40	29
15-Jul-19	OW	29.34	30
01-Aug-19	OW	29.69	31
13-Oct-19	OW	29.14	32
15-Jan-20	OW	28.18	31

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JPMS Equity Research Coverage	44%	42%	14%
IB clients*	75%	68%	57%

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ARGUS

NYSE: NI

NISOURCE INC

NiSource Inc. is an energy holding company whose subsidiaries are fully regulated natural gas and electric utility companies serving approximately 4.0 million customers in seven states. NiSource is one of the nation's largest natural gas distribution companies, as measured by number of customers. NiSource's principal subsidiaries include NiSource Gas Distribution Group Inc., a natural gas distribution holding company, and NIPSCO, a regulated gas and electric company. NiSource derives substantially all of its revenues and earnings from the operating results of these rate-regulated utilities.

Analyst's Notes

Analysis by Gary Hovis, April 6, 2020

ARGUS RATING: BUY

- Sharply discounted NI shares offer value
- On March 27, NiSource agreed to sell its Columbia Gas of Massachusetts assets to Eversource for $1.1 billion in a transaction expected to close by the end of 3Q20. With the transaction pending, NiSource withdrew its 2020 operating EPS guidance of $1.36-$1.40.
- After the completion of the transaction, the company expects to issue 2021 operating EPS guidance and establish a 5%-7% long-term growth rate with 2021 as the base year.
- On February 27, NiSource posted 2019 non-GAAP operating earnings of $494.7 million or $1.32 per share, compared to $463.3 million or 1.30 per share in 2018.
- Our EPS estimates are $1.42 for 2020 and $1.50 for 2021. The company will report 1Q20 EPS on April 29.

INVESTMENT THESIS

Our rating on NiSource Inc. (NYSE: NI) is BUY based on valuation and historical performance. Focusing on its regulated electric and gas utilities, NiSource recently completed a corporate restructuring that resulted in the spinoff of its nonregulated pipeline group. The company keeps a tight rein on expenses as well as capital spending. The shares trade near the midpoint of their historical range on P/E, price/book and price/cash flow. The balance sheet appears stable and, in our view, able to support the current dividend, which yields an above-industry-average 3.6%. We think the yield could be attractive to income-oriented investors during the coronavirus crisis. We are reiterating our BUY rating on NI with a 12-month target price of $32.

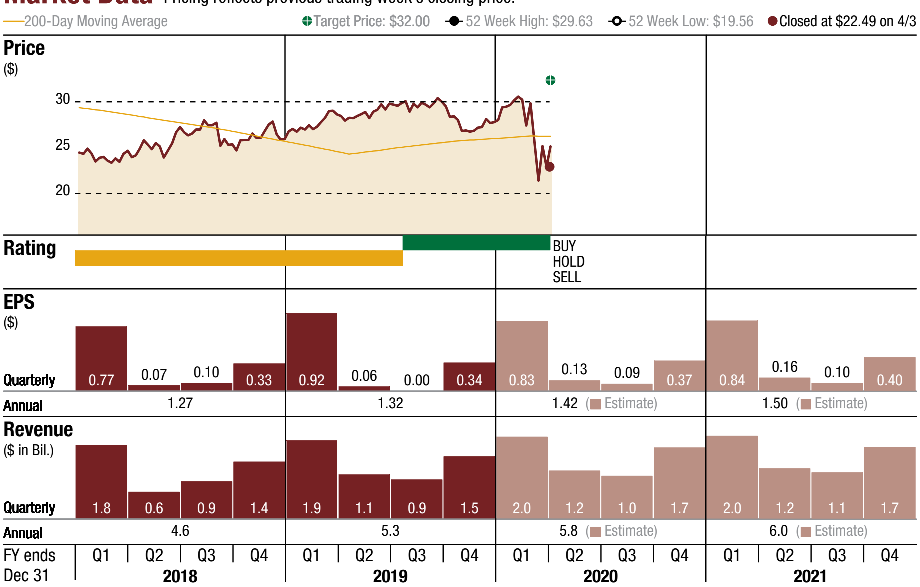
Our long-term rating is also BUY.

RECENT DEVELOPMENTS

Over the past three months, NI shares have fallen 17%, compared to a decline of 20% for the S&P 500. Over the past 52 weeks, the shares have fallen 19%, compared to decline

Market Data

Pricing reflects previous trading week's closing price.



Argus Recommendations

Twelve Month Rating	SELL	HOLD	**BUY**
Five Year Rating	SELL	HOLD	**BUY**
Sector Rating	Under Weight	**Market Weight**	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 64% Buy, 35% Hold, 1% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview	
Price	$22.49
Target Price	$32.00
52 Week Price Range	$19.56 to $30.67
Shares Outstanding	382.26 Million
Dividend	$0.84
Sector Overview	
Sector	Utility
Sector Rating	MARKET WEIGHT
Total % of S&P 500 Market Cap.	3.00%
Financial Strength	
Financial Strength Rating	MEDIUM
Debt/Capital Ratio	61.9%
Return on Equity	9.9%
Net Margin	7.4%
Payout Ratio	0.59
Current Ratio	0.49
Revenue	$5.21 Billion
After-Tax Income	$383.10 Million
Valuation	
Current FY P/E	15.84
Prior FY P/E	17.04
Price/Sales	1.65
Price/Book	1.68
Book Value/Share	$13.36
Market Capitalization	$8.60 Billion
Forecasted Growth	
1 Year EPS Growth Forecast	7.58%
5 Year EPS Growth Forecast	4.00%
1 Year Dividend Growth Forecast	5.00%
Risk	
Beta	0.90
Institutional Ownership	90.85%

Please see important information about this report on page 4

Analyst's Notes...Continued

of 9% for the index. Over the last five years, NI shares have advanced 33% versus a 26% gain for the S&P 500.

On February 27, NiSource posted 2019 non-GAAP operating earnings of $494.7 million or $1.32 per share, compared to $463.3 million or 1.30 per share in 2018. It posted 4Q operating earnings of $169.6 million or $0.45 per share, compared to $141.9 million or $0.38 per share in 4Q18. During 2019, the company focused on reliability and its electric generation and natural gas strategies, with nearly $1.9 billion in capital infrastructure investments.

On March 27, NiSource agreed to sell its Columbia Gas of Massachusetts assets to Eversource for $1.1 billion in a transaction expected to close by the end of 3Q20. With the transaction pending, NiSource withdrew its 2020 operating EPS guidance of $1.36-$1.40. However, the company continues to project capital investments of $1.8-$1.9 billion in 2020.

After the completion of the transaction, the company expects to issue 2021 operating EPS guidance and establish a 5%-7% long-term growth rate with 2021 as the base year. This new guidance is expected to include significant investments in electric generation and natural gas distribution.

EARNINGS & GROWTH ANALYSIS

On a stand-alone basis, our EPS estimates are $1.42 for 2020 and $1.50 for 2021. The company will report 1Q20 EPS on April 29.

NiSource continues to rely on its utility infrastructure programs for earnings and dividend growth. The company's regulated gas and electric segments will primarily invest in pipelines and in electric transmission lines as well as distribution modernization programs, and we believe the company will benefit from favorable regulation. In all, management expects the company to post operating earnings growth of 5%-7% annually from 2020 through 2023, resulting in total annual returns for shareholders of 6%-7%.

NiSource could also become a buyout target, as larger utilities and private equity firms have purchased smaller utilities because of their stable earnings growth and above-average dividend yields.

FINANCIAL STRENGTH & DIVIDEND

NiSource expects to complete capital investments of $1.8-$1.9 billion in 2020. The company remains committed to maintaining its current investment-grade credit ratings with Fitch (BBB), Moody's (Baa2), and Standard & Poor's (BBB+). As of December 31, 2019, NiSource had $1.5 billion in net available liquidity, consisting of cash and available capacity under its credit facility and accounts receivable securitization programs.

We believe that NiSource has improved its balance sheet by selling noncore assets, recalibrating capital expenditures, and carefully managing operating expenses and working capital.

NiSource pays an annualized dividend of $0.84 per share, for a yield of about 3.6%. Our dividend estimates are $0.84 for 2020 and $0.88 for 2021.

MANAGEMENT & RISKS

Growth & Valuation Analysis

GROWTH ANALYSIS					
($ in Millions, except per share data)	2015	2016	2017	2018	2019
Revenue	4,652	4,493	4,875	5,115	5,209
COGS	3,070	2,836	3,120	4,114	2,890
Gross Profit	1,582	1,657	1,754	1,000	2,319
SG&A	—	—	—	—	—
R&D	—	—	—	—	—
Operating Income	802	865	927	126	1,305
Interest Expense	379	346	349	347	371
Pretax Income	340	514	443	-231	507
Income Taxes	141	182	315	-180	124
Tax Rate (%)	42	35	71	—	24
Net Income	287	332	129	-51	383
Diluted Shares Outstanding	320	324	331	357	376
EPS	0.90	1.02	0.39	-0.18	0.87
Dividend	0.83	0.64	0.70	0.78	0.80
GROWTH RATES (%)					
Revenue	-12.0	-5.0	7.7	5.5	1.2
Operating Income	1.2	7.9	7.1	-86.4	936.7
Net Income	-45.9	15.7	-61.2	—	—
EPS	-22.2	61.9	-61.8	—	—
Dividend	-18.6	-22.9	9.4	11.4	2.6
Sustainable Growth Rate	3.0	2.7	1.1		3.4
VALUATION ANALYSIS					
Price: High	$49.16	$26.94	$27.76	$28.11	$30.67
Price: Low	$16.04	$19.05	$21.65	$22.44	$24.69
Price/Sales: High-Low	3.4 - 1.1	1.9 - 1.4	1.9 - 1.5	2.0 - 1.6	2.2 - 1.8
P/E: High-Low	54.6 - 17.8	26.4 - 18.7	71.2 - 55.5	— - —	35.3 - 28.4
Price/Cash Flow: High-Low	9.7 - 3.2	10.9 - 7.7	11.3 - 8.8	8.6 - 6.9	13.6 - 10.9

Financial & Risk Analysis

FINANCIAL STRENGTH	2017	2018	2019
Cash ($ in Millions)	29	113	139
Working Capital ($ in Millions)	-1,415	-1,981	-1,892
Current Ratio	0.55	0.51	0.49
LT Debt/Equity Ratio (%)	173.9	145.9	153.8
Total Debt/Equity Ratio (%)	208.4	187.5	188.8
RATIOS (%)			
Gross Profit Margin	36.0	19.6	44.5
Operating Margin	19.0	2.5	25.1
Net Margin	2.6	-1.3	6.3
Return On Assets	0.7	-0.3	1.5
Return On Equity	3.1	-1.4	6.6
RISK ANALYSIS			
Cash Cycle (days)	53.7	42.5	22.7
Cash Flow/Cap Ex	0.4	0.3	0.9
Oper. Income/Int. Exp. (ratio)	2.2	0.4	2.4
Payout Ratio	66.3	84.2	303.9

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Analyst's Notes...Continued

The CEO of NiSource is Joseph Hamrock, 53, who assumed the position in July 2015. Mr. Hamrock, who joined NiSource in 2012, previously served as EVP and Group CEO for NiSource's Gas Distribution segment. He also has experience as an executive with American Electric Power. Donald E. Brown is the CFO.

Management is committed to electric and gas service expansion strategies in the company's regulated service territories, and to the expansion of its gas transmission and storage business. We think the company's platform for a return to growth is solid, and we are confident in management's ability to provide shareholders with increased value over the long term.

Key risks for stocks in our electric utility universe include fluctuations in interest rates and commodity prices, the effect of adverse weather on revenue, regulatory issues (especially involving construction cost recovery), and potential environmental and safety liabilities. In addition, the capital-intensive nature of the utility industry creates ongoing liquidity risk that must be actively managed by each company.

COMPANY DESCRIPTION

NiSource Inc. is an energy holding company whose subsidiaries are fully regulated natural gas and electric utility companies serving approximately 4.0 million customers in seven states. NiSource is one of the nation's largest natural gas distribution companies, as measured by number of customers. NiSource's principal subsidiaries include NiSource Gas Distribution Group Inc., a natural gas distribution holding company, and NIPSCO, a regulated gas and electric company. NiSource derives substantially all of its revenues and earnings from the operating results of these rate-regulated utilities.

VALUATION

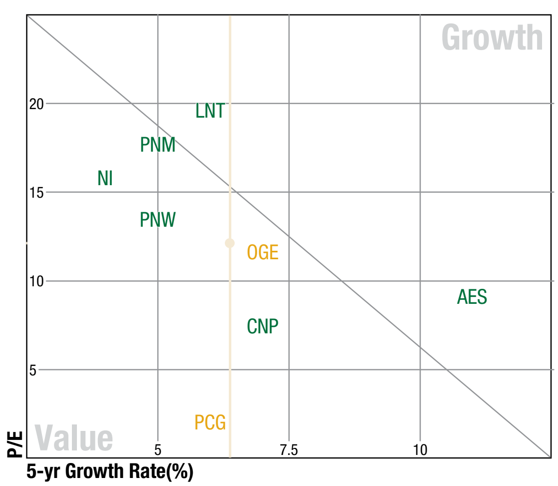
We think that NI shares are favorably valued at current prices near $23, toward the low end of their 52-week range of $20-$31. The shares trade at 15-times our 2021 EPS estimate, below the average P/E of 21.7 for comparable electric and gas utilities. They are also trading at a price/book multiple of 2.2, close to the peer average of 2.3. The price/cash flow ratio is 16.2, above the peer average of 14.9. The shares trade near the midpoint of their historical range on P/E, price/book and price/cash flow. The dividend yield of 3.6% is above the industry average of 2.8%. We are reiterating our BUY rating on NI with a 12-month target price of $32.

On April 6 at midday, BUY-rated NI traded at $24.69, up $2.20.

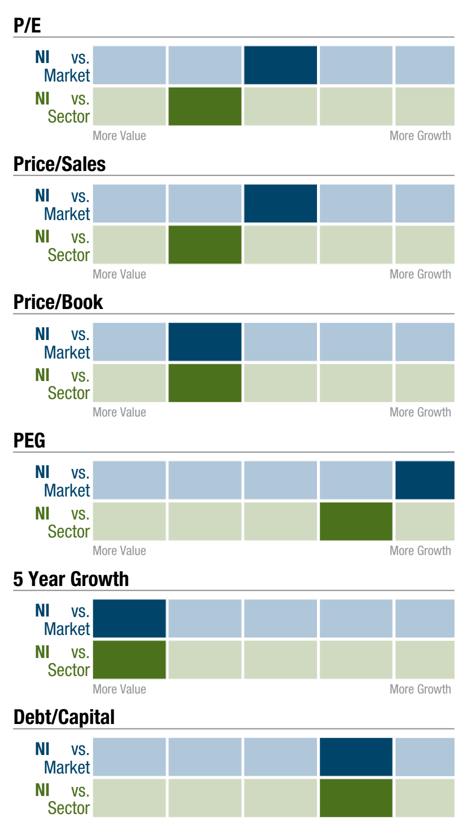
Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare NI versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how NI stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how NI might fit into or modify a diversified portfolio.**



Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
LNT	Alliant Energy Corp.	11,063	6.0	19.6	15.6	3.9	BUY
NI	Nisource Inc. (Holding Co.)	8,597	4.0	15.8	7.4	5.6	BUY
AES	AES Corp.	8,137	11.0	9.1	3.0	8.2	BUY
PNW	Pinnacle West Capital Corp.	7,667	5.0	13.5	15.5	1.8	BUY
CNP	Centerpoint Energy Inc.	6,755	7.0	7.5	6.4	8.3	BUY
OGE	Oge Energy Corp.	5,321	7.0	11.7	19.4	5.3	HOLD
PCG	PG&E Corp.	4,197	6.0	2.0	-44.6	6.2	HOLD
PNM	PNM Resources Inc	3,035	5.0	17.7	5.3	3.3	BUY
Peer Average		**6,846**	**6.4**	**12.1**	**3.5**	**5.3**	



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The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

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- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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UBS

First Read

NiSource Inc.

NI Provides Update on COVID-19 Impact

Equities

Americas
Gas Utilities

12-month rating	**Neutral**
12m price target	**US$27.00**
Price (26 May 2020)	**US$23.39**
RIC: NI.N **BBG:** NI US	

Trading data and key metrics

52-wk range	US$30.56-20.86
Market cap.	US$8.95b
Shares o/s	383m (COM)
Free float	99%
Avg. daily volume ('000)	1,243
Avg. daily value (m)	US$31
Common s/h equity(12/20E)	US$5.09b
P/BV(12/20E)	1.7x
Net debt to EBITDA(12/20E)	5.6x

EPS (UBS, diluted) (US$)

	12/20E	
	UBS	Cons.
Q1	0.76	0.76
Q2E	0.08	0.14
Q3E	0.03	0.05
Q4E	0.40	0.38
12/20E	1.27	1.32
12/21E	1.35	1.39
12/22E	1.43	1.49

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NI Sees $0.00-$0.10/share negative EPS impact from COVID-19 in 2020/2021

Tonight, NI published a presentation with details on the impact from the pandemic and guided ($0.15-$0.20) negative EPS impact in 2020 and ($0.00-$0.10) in 2021. That said, management initiated mitigation efforts, including O&M and regulatory deferrals of COVID-19 expenses. As a result, NI sees overall ($0.00-$0.10) per year negative EPS impact in 2020 & 2021. We highlight that NI withdrew its 2020 guidance earlier this year. That said, 2020 EPS Cons of $1.33 is above UBSe of $1.27 and up from $1.32 in 2019 and likely doesn't reflect the negative impact from COVID-19. Overall, the guided impact is less than 5% of annual earnings in 2020 and should not be a surprise for investors; however, negative impact on 2021 was likely not expected. We will closely monitor the recovery of electric demand into summer as it is likely an important factor in the provided range.

Consumption Trends in April/May

NI noted that in April total margin declined $8.1MM as residential margin increased by $3.8MM but was more than offset by lower commercial ($4.1MM) and industrial (7.8MM) margin. That said, NI highlighted mid-to-late May volumes started to recover from the bottom in April. NI also provided reopening plan for each state in which it operates.

Highlights (US$m)	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
Revenues	4,905	5,095	5,184	5,084	5,295	5,487	5,685	5,901
EBIT (UBS)	964	942	1,047	1,054	1,099	1,179	1,262	1,356
Net earnings (UBS)	398	463	495	493	538	583	629	684
EPS (UBS, diluted) (US$)	1.21	1.30	1.32	1.27	1.35	1.43	1.51	1.61
DPS (net) (US$)	0.72	0.79	0.84	0.89	0.95	1.01	1.07	1.13
Net (debt) / cash	(8,973)	(9,892)	(10,374)	(9,955)	(10,581)	(11,262)	(11,945)	(12,672)
Profitability/valuation	**12/17**	**12/18**	**12/19**	**12/20E**	**12/21E**	**12/22E**	**12/23E**	**12/24E**
EBIT (UBS) margin %	19.7	18.5	20.2	20.7	20.8	21.5	22.2	23.0
ROIC (EBIT) %	8.6	7.7	7.9	7.8	7.9	7.9	7.8	7.8
EV/EBITDA (UBS core) x	9.8	10.6	10.6	9.7	9.4	9.2	8.7	8.2
P/E (UBS, diluted) x	20.9	19.4	21.2	18.1	17.1	16.2	15.3	14.3
Equity FCF (UBS) yield %	(11.6)	(14.5)	(1.6)	(5.9)	(11.1)	(154.5)	(3,962.0)	(105,287.4)
Dividend yield (net) %	2.9	3.1	3.0	3.9	4.1	4.4	4.6	4.9

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$ 23.39 on 26-May-2020

Forecast returns

Forecast price appreciation	+15.4%
Forecast dividend yield	3.9%
Forecast stock return	+19.4%
Market return assumption	5.2%
Forecast excess return	+14.2%

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. We use comparable company multiples in our sum-of-the-parts EV/EBITDA and P/E valuations. Our price target is derived using an average of sum-of-the-parts EV/EBITDA and P/E valuations and DDM.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	48%	32%
Neutral	FSR is between -6% and 6% of the MRA.	40%	28%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<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 March 2020.
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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Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$23.39	26 May 2020

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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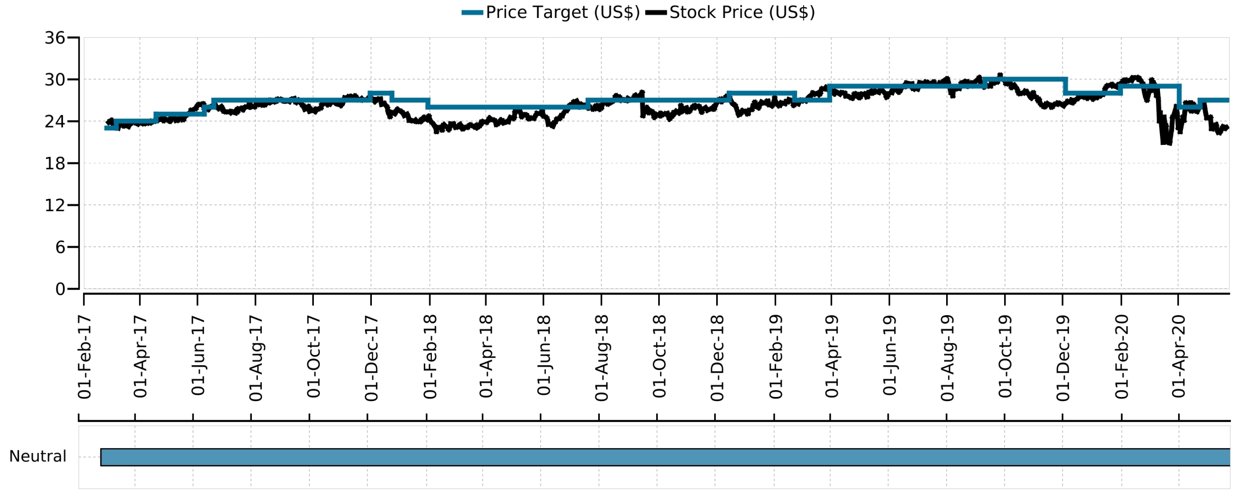
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2017-02-24	24.01	23.00	Neutral
2017-03-06	23.58	24.00	Neutral
2017-04-17	24.02	25.00	Neutral
2017-06-07	26.44	26.00	Neutral
2017-06-17	26.06	27.00	Neutral
2017-11-29	27.17	28.00	Neutral
2017-12-22	25.28	27.00	Neutral
2018-01-29	24.22	26.00	Neutral
2018-07-17	26.12	27.00	Neutral
2018-12-13	27.62	28.00	Neutral
2019-02-20	26.28	27.00	Neutral
2019-03-29	28.66	29.00	Neutral
2019-09-09	28.91	30.00	Neutral
2019-12-03	26.41	28.00	Neutral
2020-01-30	29.10	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral

Source: UBS; as of 26-May-2020

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FLASH NOTE

May 27, 2020

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NI BUY

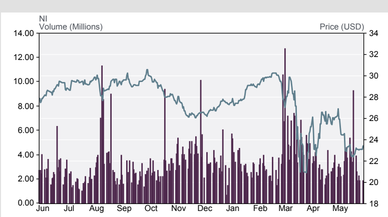
NiSource Inc.
Sector: Power, Utilities & Alternative Energy

Company Update

Share Price	$23.39

Market Data

52-Week Range	$19.56 - $30.67
Dividend	$0.86
Dividend Yield	3.7%
Market Cap (M)	$8,954
Enterprise Value (M)	$21,092
Shares Out (M)	382.8
ADV (3 mo; 000)	4,246



NI – Management Meetings; Impacts Defined, Increased Visibility Should Quell Investor Concerns; Price Action Overreaction

Key Message: COVID impact manageable, conservative messaging builds buffer and contingencies; Mgmt. sees opportunities to pull incremental levers while 2021 EPS guidance should be in “proximity” with the prior 2020 EPS guidance range (i.e. $1.38 guidance midpoint vs. Guggenheim at $1.37) with potential to come in stronger with incremental levers and/or COVID backdrop coming in better than Mgmt's. conservative assumptions. Post 2021, we continue to model (and the message today reinforced this notion) ~6-7% EPS growth off our 2021 base EPS estimate of $1.37 – growth drivers will include generation spend in Indiana, rate cases, further cost measure etc.

Main Takeaway: Ahead of our client hosted Mgmt. meetings with CEO, CFO and others at NiSource held early AM today, the company released updated slides detailing and quantifying the impact of COVID and the offsetting mitigation measures – providing clarity we were hoping to receive on the Q1. Mitigation efforts include O&M reductions and regulatory deferral for incremental COVID expenses and bad debt expense. **Key point – Mgmt. in good spot to provide 2021 EPS guidance in Q3 that should be close to flattish versus the prior pulled 2020 guidance range of ~$1.38 (midpoint) following the CMA sale announcement.** Further, Mgmt. **sees supplementary opportunities to pull additional mitigation levers that could potentially put ’21 EPS guidance slightly ahead of ‘20’s prior pulled guide.** In our view, investor concerns surrounding the 2021 impact are overstated (shares have underperformed UTY by ~100-150bps throughout the trading day) as Mgmt. has taken a conservative bend, managing expectations and messaging and creating contingencies should they need to be realized. **No change to our estimates through our ’23 trajectory as today’s message reconfirmed our thesis**. Potential catalysts: Q2 update around generation spending plan in IN and Q3 updated CapEx, growth trajectory through ’24 off of the new 2021 EPS midpoint, 2021 EPS guidance range as well as new financing needs.

Improved visibility – flat EPS in 2021 from initial 2020 guidance back in view despite conservative bend taken on COVID impact. Mgmt. released slides (HERE) and further detailed on our client hosted calls (8am and 9am) volume and expense impacts from COVID and strong mitigation factors including O&M reductions and regulatory mechanisms for 2020/2021. Overall, mgmt. expects ($0.00-$0.10) of EPS impacts in 2020 and 2021 **but ’21 could come in better if NI is able to utilize incremental mitigation levers which they are currently assessing – i.e. “flat-to-better” ’21 language presented at the YE call could still stand.** While some investors are apprehensive on the 2021 impact, **we feel the concerns are unfounded as mgmt. is taking a very conservative bend on sales and bad debt expense** - i.e. the estimated impact assumes gradual mean reversion to normal loads in 1H21 compared to other utilities that are assuming recovery to normal loads in 4Q20. Volumes have already started to rebound from April lows with industrial customers in the Midwest, specifically the auto industry, beginning to reopen. Mgmt., quantified mitigation measures including O&M reductions and regulatory approvals/actions. More specifically on the bad debt expense side, NI has received regulatory deferrals/recovery of COVID related expenses and bad debt above normal levels in MD, PA, and VA while working with other commissions to receive similar treatments. **The current plan does not include any regulatory treatment for the incremental expenses in IN and OH which is further potential upside.** Mgmt. noted increased bad debt expense could impact 2021 EPS by ($0.05), but we feel confident that NI will receive the mechanisms to offset the impact. **We expect the maximum downside on 2021 EPS to be ~ ($0.05) from the initial 2020 guidance of $1.36-$1.40 IF incremental levers are not able to be utilized.** Mgmt. will provide updates on expected impact throughout the year and the range will likely tighten over time. **Given mgmt's conservative stance on 2021 and the potential for incremental**

levers, we continue to model 2021 EPS of $1.37 and 5-7% LT EPS CAGR off a 2021 base (2022/23 EPS of $1.47/$1.57).

Mitigation efforts are extensive with a mix of perpetual and ST O&M reductions. Mgmt. quantified mitigation measures of $0.10 - $0.15 in 2020 and $0.05 - $0.10 in 2021. Employee and administrative expenses and the deferral of some non-essential field work make up the bulk of the cost cutting. **The mix of O&M reductions will be more short-term in 2020 and permanent in 2021.** Like we have seen with other utilities, NI has a better view on prioritization of work allowing crews to work more effectively, efficiently, and productively as a result of the pandemic. Cuts to offset the dis-synergies related to the sale of CMA will happen regardless of volume trends. Direct costs related to CMA will be eliminated while more structural items from shared services across the company will be addressed in 2021. **Mgmt. is still identifying incremental levers but is focused on stepping through the regulatory items and managing expenses.**

Core business investment remains strong despite lowering at 1Q call – renewable investment opportunities are robust. The core capital plan remains strong with modernization trackers and other mechanisms to support investment; renewable additions represent incremental capex. As a reminder, NI lowered its expected 2020 capital spend by $100M at the 1Q call to shore up cash flow due to the pandemic. **Discussions with parties on the RFP in IN are ongoing with 50/50 owned and PPA still expected and upside to their CapEx guidance which Mgmt. will update during the all-important Q3 earnings call.** Mgmt. noted owning projects is competitive because of their high credit quality. The tax equity market remains healthy from mgmt.'s view. NI expects to file CPCNs in the summer, and we continue to look for an extensive update on the investment opportunity on the 3Q call. There has not been an impact on the 2021 IRP from the virus. Investment in renewables drives the outlook for 2022 and beyond.

Limited capital market needs for 2020 outside of ATM equity – thinking long-term, incremental renewable investments will be financed with a mix of debt and equity while still supporting the 5-7% growth trajectory. NI still expects to issue $200M-$300M in ATM equity in 2020 to support core investments. As a reminder, NI pulled forward a debt issuance in 1Q to help shore up liquidity and does not expect substantial debt financing for the remainder of 2020. **Renewable investment stemming from the RFP will be financed with a mix of debt and equity that will maintain credit metrics and support the current 5-7% growth trajectory.** Mgmt. expects to roll out an updated financing plan along with the investment opportunity on the 3Q call which will also come with an extended growth rate likely through '23/'24 as well as a formal '21 EPS guidance range.

Valuation: We apply an 18x multiple on the electric utility and 21x multiple on the gas LDCs. We arrive at our valuation utilizing a sum-of-the parts analysis, based on: (1) ~$10/share for the regulated electric utility; (2) ~$20/share value for the regulated gas segment given the limited spread from LDCs after recent market volatility; and (3) (~$-3)/share for other adjustments for Corp and Other. We use this sum of the parts to arrive at our $27 valuation.

Risk: The primary risk on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

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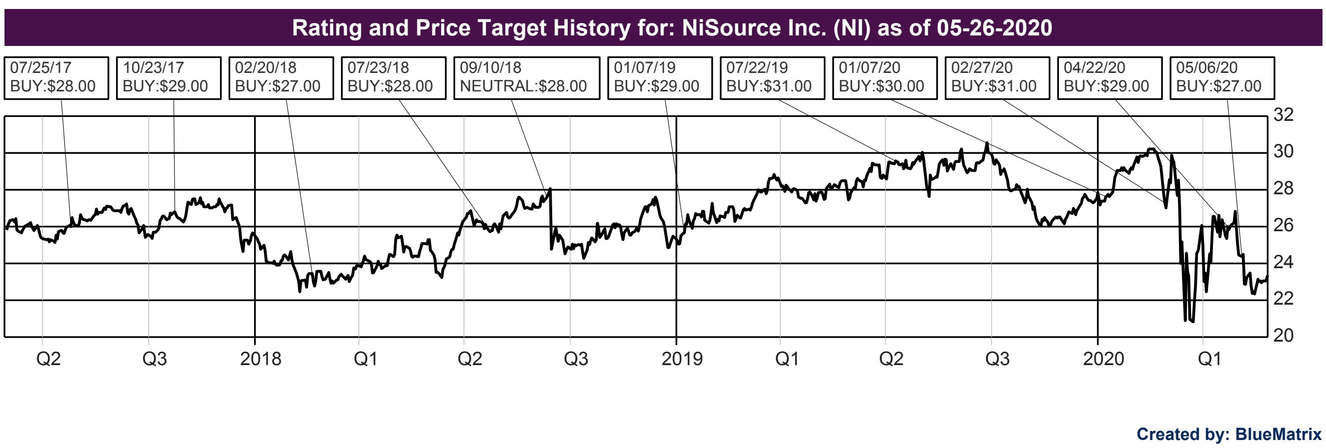

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North American Utilities & IPPs

Power Points: ERCOT & PJM, NiSource, LNT Solar, Longview, NEE in FL

Industry Overview

27 May 2020

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Power & COVID impact: ERCOT recovery & PJM markets

We had previously highlighted signs of a gradual turnaround in U.S. load, with total load bottoming out at -10% vs. pre-COVID expectations and then gradually improving to -8% vs. expectations, with ERCOT in particular showing meaningful growth from its lows after reversal of lockdowns in the state. In recent days, we have seen even further improvement, specifically in ERCOT with a 30% rally in the Jul-Aug '20 contract over the last two days. While this may have been partially driven by shifts in market sentiment around load trends, we *also* highlight weather as driving some of this upward movement. Separately, PJM recently stated it has over 187 GW of installed generation capacity available, relative to its forecast summer peak demand of 148 GW. This forecast compares to PJM's peak demand in 2019 of over 151 GW (i.e. '20 forecast is ~2% lower v. last year). PJM has seen load decline by ~10% as of mid-March due to COVID-related restrictions. We see the trends in ERCOT as only further affirming underlying positive load trends, especially in this the Central region which have proven consistently more resilient.

NI: '21 outlook updated: we see this implying ~$1.35

Seeing mgmt had already announced mitigation efforts to offset the loss of the MA biz largely (and seemingly affirmed), we effectively see the full impact. These are the variances from the last plan – and when at that time it was roughly ~$1.40 in '21 (higher end of $1.36-1.40 range was achievable in '21). Now, you have up to 10c Covid-related impacts off this $1.40, offset by *incremental* cost savings suggest $1.35. The NI load recovery is well under way and seemingly ahead of earlier plan. The 10c impact of Covid impacts appear *half from load degradation* (permanent/long ramp in C&I) as well as incremental expenses (reconnection fees, Covid-related mitigation costs). We see the mitigation efforts as *not entirely* different from the existing mitigation efforts already under way to offset loss of earnings from MA biz sale (principally dis-synergies from allocated SG&A). We note the wide range of expectations may prove offputting to investors upon initial look (albeit the wide range is perhaps the caution, *we* see this as roughly implying $1.35 likely *in-line with the reduced EPS expectations already and close our reduced $1.36 estimate already)*. The critical point is that Covid pressures are entirely under-earning related and should normalize out over time with future rate cases (this is not any reduction in '21 capex for instance after a slight earlier tweak to '20). We note this is the first update across the sector to provide an update on load expectations and cost reductions. <u>We also expect this load update on '21 to kickstart further moderation of EPS ests into next year across the sector.</u> We expect companies to continue to talk *up* the ongoing recovery in load in forthcoming meetings given numerous sellside meetings hosted in coming days (including our own mini-conference tomorrow).

Refer to important disclosures on page 7 to 10. Analyst Certification on page 5. Price Objective Basis/Risk on page 4. 12146539

Timestamp: 27 May 2020 08:38AM EDT

LNT: acquired 675MW solar portfolio: executing against the expected buildout.. now it's time to watch WI approval

LNT announced to acquire 675MW solar portfolio at a purchase consideration of $900m of which tax equity partner would sponsor 35-40% of the investment outlay with the rest being financed by LNT's Wisconsin subsidiary. The company indicated to purchase tax equity's ownership in the projects within 10 years of operation. LNT expects to file an application with the PUC on the acquisition and anticipates a decision by 1H21. We note that LNT already signed purchase and sale agreements with the developers, subject to pending approval from the regulators, however, none of the projects are currently under construction. The company anticipates 425MW to be placed in service by 2022 and 250MW in 2023. Notably, last week the company announced early retirement of its Edgewater coal facility in Sheboygan in 2022. The latest development is no real surprise to us, given it is part of LNT's stated Clean Energy Blueprint plant for 1GW of solar in Wisconsin and in-line with its previous commentary on accelerating coal retirement with renewables installation to avoid hundreds of millions in long-term costs. Maintain Buy on LNT. *We note positive early indications from stakeholders in the state on regulatory approval prospects.*

Overall, the portfolio is comprised of six solar projects that include 200MW project developed by NEE sub NEER, a 150MW and 75MW facilities in Sheboygan County and Jefferson County, respectively, and developed by Ranger Power, a 150MW and a 50MW solar projects developed by Savion, owned by Macquarie Group Ltd.'s Green Investment Group and located in Wood County and Richland County, respectively, and a 50-MW facility in Rock County developed by National Grid's Geronimo Energy.

NI: rolled out details on COVID impact on EPS; No 20/21 EPS guidance still

NI rolled out supplementary details on COVID impact. While the slides include granular details on COVID 19 impact on operating EPS as well as mitigation measures to offset some of the pandemic impact, however, neither did the company provide 2020 EPS guidance (Recall they pulled it when MASS Sale to ES Was announced) nor did they reiterate 2021 EPS guidance. Specifically, the company quantified the impact to be ($0.15) – ($0.20) for 2020 and ($0.00)-($0.10) for 2021on NI's base case assumptions. However, the company expects mitigation measures initiated in April would likely offset $0.10-$0.15 and $0.05-$0.10 for 2020 and 2021, respectively.

Table 1: COVID 19 impact on net Operating EPS ($) for 2020/2021

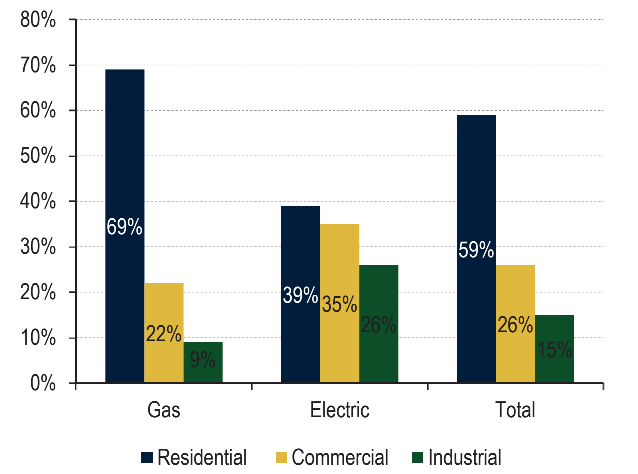
$	2020E	2021E
COVID-19 Impact on EPS Base Case	($0.15)-($0.20)	($0.00)-($0.10)
Mitigation Efforts - Initiated in April	$0.10-$0.15	$0.05-$0.10
Estimated Net NOEPS Impact	**($0.00)-($0.10)**	**($0.00)-($0.10)**

Source: BofA Global Research, Company report

While the company stressed on non-safety related savings in O&M, recovery for COVID related impacts and improving organization efficiencies by addressing dis-synergies, however, they did not quantify anticipated O&M savings to combat the COVID losses.

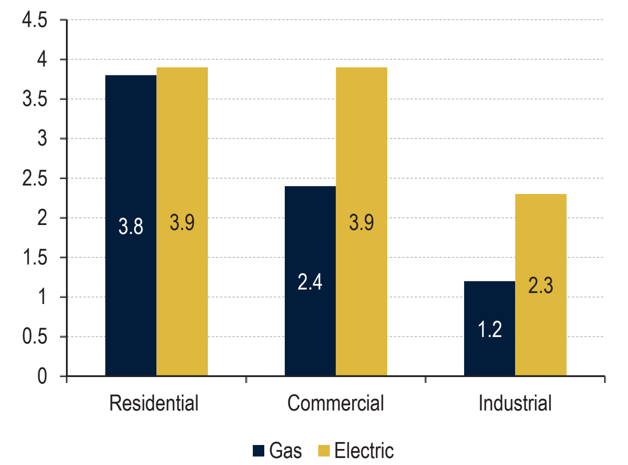
Meanwhile, NI outlined the detail on retail margins by customer class, in-addition to providing pre-tax operating earnings sensitivity to 1% change in annual sales volume both by customer class and by segment, besides noting out the COVID 19 impact on weather normalized April 2020 sales volumes as compared to April 2019 (4%/26% decline in Gas Distribution and Electric Operations). $8.1m margin loss booked in April 2020 reflecting the mitigation efforts initiated by the company.

Chart 1: Retail Margins by customer class and by segment



Source: BofA Global Research, Company report

Chart 2: Pre-tax operating income sensitivity to +/- 1% change in sales volumes ($M)



Source: BofA Global Research, Company report

However, the company did mention mid to late May trend in volumes indicated a recovery from April lows. While the company expects a rise in bad debt expense, however, reiterated rate design and availability of bad debt recovery mechanisms in certain states. The company requested IN IURC to create a bad debt tracker, besides deferring bad debt expenses much in-line with the states like MD, VA, and PA, which already allowed deferral of COVID related expenses and bad debt.

Critically, where many co's can use O&M savings to balance impacts, we see this as a greater challenge to NI as it promised it would pursue a program of cost savings to mitigate NT impacts of the CMA sale to ES this 3Q. With 2020 guidance having already been pulled related to the CMA sale, we only have an adj 2021 guide of a $1.36-1.40/sh 'earnings floor' (see this as risk). We previously downgraded NiSource to Neutral from Buy due to our concerns around absorbing lower demand from COVID.

Delaware BK court approved Longview's prepackaged reorganization plan

The U.S. Bankruptcy Court for the District of Delaware has confirmed Longview Power's prepackaged reorganization plan filed in April, effectively transferring company's equity ownership to its senior secured debt holders offsetting its $350m existing debt. The company would receive $40m as term loan to fund its working capital and capex program for next five years upon emergence from bankruptcy. We note the reorganization plan has no impact on the creditors as well as its employees.

NEE: Gulf Power requested FL PSC to allow deferral of bad debt/safety costs

Given anticipation of continuous rise in bad debt expense and safety costs associated with COVID, NEE subsidiary Gulf Power Co. requested Florida PSC (Florida PSC Docket No. 20200151-EI) to allow the company to defer bad debt expenses and safety costs associated with COVID as regulated asset that can be recovered later or to provide any other relief much in-line with states that have already ordered to create some sort of recovery mechanisms either through deferral of bad debt, creation of a regulatory asset, or by recording and tracking costs related to COVID-19. The utility proposed regulators to determine eligibility for bad debt to be deferred as regulated asset by taking the difference between the bad debt expense for a month in 2020 and the average bad debt expense for last three years, besides deferring safety costs by taking actual spending on safety measures related to COVID and as guided by the U.S. Centers for Disease Control and Prevention and the Florida Department of Health.

Stocks mentioned

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
LNT	LNT US	Alliant Energy Corp	US$ 46.91	A-1-7
NEE	NEE US	NextEra Energy	US$ 234.31	A-1-7
NI	NI US	NiSource Inc	US$ 23.39	B-2-7

Source: BofA Global Research

Price objective basis & risk

Alliant Energy Corporation (LNT)

Our $52 PO is based on a sum of the parts analysis employing relative premium and discounts to the large cap regulated peer multiple of 16.3x 2022E P/E. While our PO is on a 1 year basis we note the 2022 P/E multiple reflects a discount back to 2019. We note that electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector.

We apply a 2.0x P/E premium on IPL as we see the ratecase overhang being resolved. We apply a 3.0x P/E premium on Eastern Wisconsin Electric Company reflecting 1) low risk investment nature of the state, 2) above average ROEs, 3) higher than average growth runway for investments, and 4) bad debt deferral. At ATC, we reflect a 2.0 x P/E premium on LNT's 16% share in the transmission company. Growth expectations for this segment are high, paired with above average ROEs that we believe face less downward pressure vs. regulated state distribution ROEs. We apply an in line multiple at the parent to account for the blend of numerous businesses some which benefit from long term stable PPAs via intercompany generation.

Risks to our price objective are: 1) adverse rate case outcomes, 2) further equity dilution beyond our estimates, 3) interest rate risk, 4) natural disasters, and 5) lower allowed ROE's

NextEra Energy (NEE)

Our $258 PO is derived using a SOTP approach, with the utilities and parent segment valued on a 2022E P/E basis, and the generation segment valued on a 2022E EV/EBITDA basis. In addition, we include NEE's ownership stake in NextEra Energy Partners (NEP) as well as the value of IDRs (DCF, at 7% disc rate). We assign peer multiple of 17.0x (and gross this up by 5% to reflect capital appreciation across the sector) with disc/prem to the assets that reflect the growth/risk profile of the businesses. We provide value for possible regulated M&A announced as one strategy of capital redeployment, albeit weighted at 50% to reflect execution risk. Our valuation reflects the drag from the $5.1bn in new debt. For NEER, we apply a peer EV/EBITDA multiple of 8x, which we adjust depending on asset type. Give contracted renewables 6x prem given fuel type and contracted nature. We apply 2x discount to merchant nuclear (aside from Seabrook), and value contracted nuclear on a DCF approach using a 10% discount rate. We apply a 3x prem multiple to pipelines (2x for MVP), 1x discount to gas infrastructure and 2x discount for supply and trading given lower asset quality, line multiple for contracted gas peakers and 1x discount for merchant peakers (other), again based on asset quality. Downside risks: 1) unfavorable regulatory outcomes in Florida which could negatively affect ability to earn authorized ROE or lower authorized ROE, 2) higher interest rates, 3) changes in commodity prices.

NiSource Inc (NI)

Our $27 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2022 forward P/E multiples of 17.8x for gas utilities and 17.2x for electric utilities with an inline mult for gas utilities with just weather normalization, a 0.5x prem for gas utes with revenue normalization (prev 0x), and a 1.0x premium for the electric utility's strong growth rates (we factor in BOT in '24 EPS) but acknowledgement of industrial risk (prev 2x). We note that electric / gas peer P/E multiples are grossed up by 5% / 5.1% to reflect capital appreciation across the sector. We strip value from Columbia Gas of MA given the pending sale to close in 3Q20. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
NEUTRAL				
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA

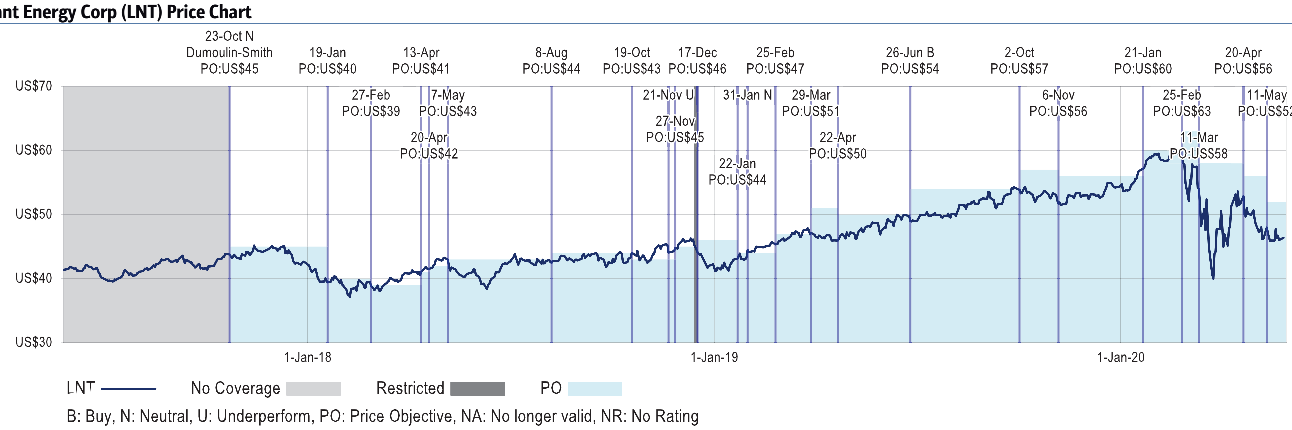
North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Alliant Energy Corp (LNT) Price Chart



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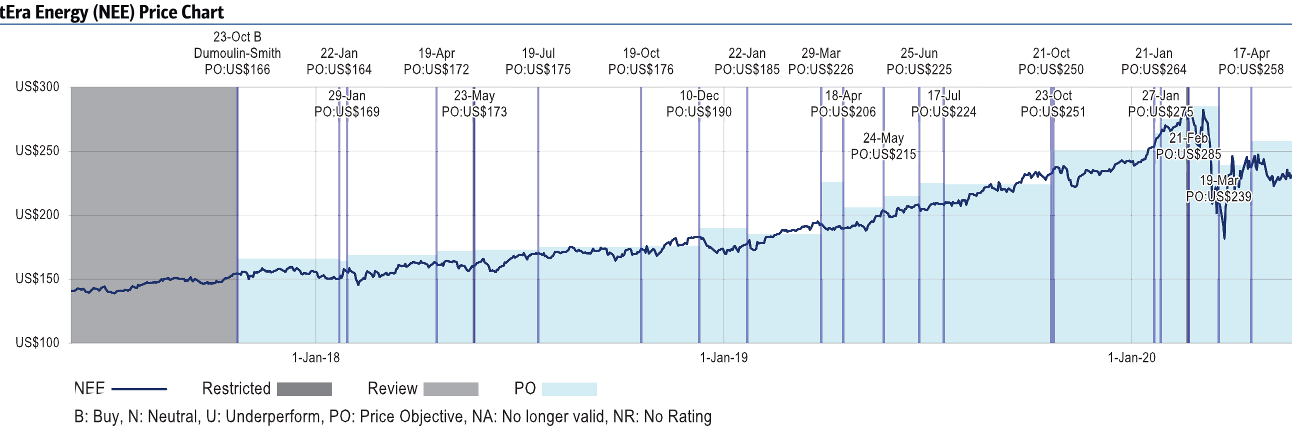
NextEra Energy (NEE) Price Chart



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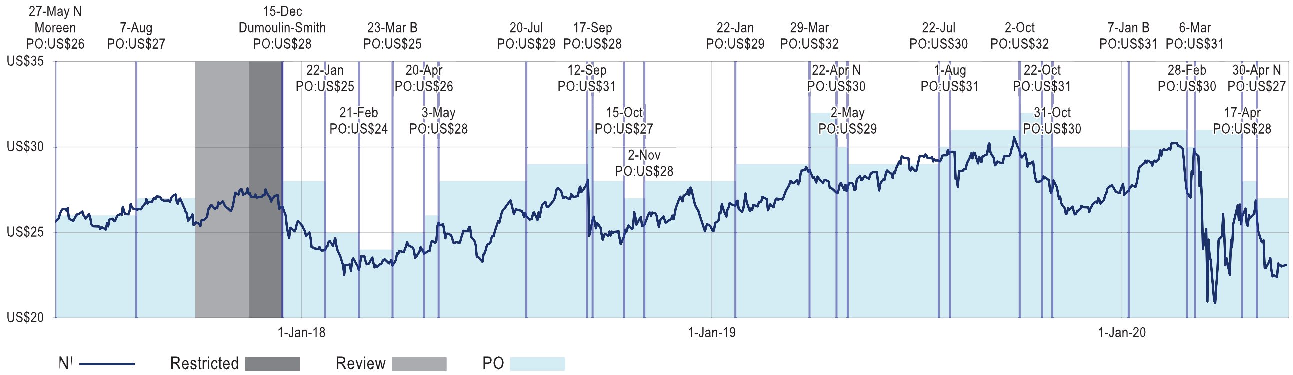
NiSource Inc (NI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	63	39.13%	Buy	51	80.95%
Hold	51	31.68%	Hold	35	68.63%
Sell	47	29.19%	Sell	26	55.32%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	72	50.35%	Buy	51	70.83%
Hold	38	26.57%	Hold	28	73.68%
Sell	33	23.08%	Sell	24	72.73%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1602	52.15%	Buy	1005	62.73%
Hold	713	23.21%	Hold	463	64.94%
Sell	757	24.64%	Sell	382	50.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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May 26, 2020 | 22:57 ET | 22:57 ET~

NiSource

NI-NYSE	Rating	Price: May-22	Target	Total Rtn
	Outperform	$23.09	$27.00	21%

Incrementally Incremental

Bottom Line: NiSource released an investor update including management's current forecast for the net impact to 2020 and 2021 earnings from the COVID-19 pandemic.

Overall, we believe the update will be viewed as modestly disappointing and will likely raise incremental questions on what the company is seeing regarding the lingering COVID-19 and cost impacts embedded in the company's 2021 impact. That said, we believe the stock's nearly 500 bps under-performance (since 4/29) and current multiple (3% discount) largely reflects these uncertainties.

We reiterate our Outperform rating and $27 target price.

Key Points

In front of investor meetings this week, NiSource released an incremental COVID-19 update including a base case that calls for roughly a $30-40mm margin reduction in 2020 and $0-25mm margin reduction in 2021. Including other COVID-19 costs, total unmitigated non-GAAP costs are estimated to range from ($0.15-0.20)/share in 2020 and ($0-0.10)/share in 2021.

Management believes it can mitigate up to $0.10-0.15/share in 2020 and $0.05-0.10/share in 2021 through cost control, regulatory mechanisms and organizational repositioning efforts.

Although the net impact could suggest only an incremental $0.05 of potential EPS drag, management seems to be striking a more cautious stance suggesting a $0.0-0.10/share impact for both 2020 and 2021 and a recovery that extends into at least the first half of 2021. We believe the company's range likely includes some flexibility regarding the potential timing of regulatory recovery as well as financing costs associated with bridging lower operating cash flows.

We are reducing our 2020-22 EPS estimates to $1.30, $1.33 and $1.45, respectively, to reflect a more conservative sales outlook and a slightly longer time frame to execute its organizational repositioning efforts post the upcoming sale of Columbia Gas Massachusetts (CGM) in 3Q20.

Acknowledging the near-term uncertainties, we continue to find NI share attractive relative to the company's above-average 5-7% long-term EPS CAGR. In addition, the company has several positive catalysts upcoming in the Fall, including the completion of its sale of CGM to Eversource in 3Q20 as well as the company re-initiating its 2021 EPS guidance, which will serve as a base for its 5-7% above-average EPS CAGR.

Key Changes

Estimates	2020E	2021E
EPS	$1.30	$1.33
Previous	*$1.35*	*$1.40*
EBIT	$1,087	$1,155
Previous	*$1,113*	*$1,188*

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Company Data			in $
Dividend	$0.84	Shares O/S (mm)	382.8
Yield	3.6%	Market Cap (mm)	$8,839
P/BV	1.4x	Net Debt (mm)	$9,606

BMO Estimates (FY- Dec .) in $	2019A	2020E	2021E
EPS	$1.32	$1.30↓	$1.33↓
DPS	$0.80	$0.84	$0.89
EBIT	$1,042	$1,087↓	$1,155↓
EBITDA	1,759	1,834↓	1,927↓

Consensus Estimates	2019A	2020E	2021E
EPS		$1.33	$1.40

Valuation	2019A	2020E	2021E
P/E	17.5x	17.8x	17.3x
Div. Yield (%)	3.5%	3.6%	3.9%

QTR. EPS	Q1	Q2	Q3	Q4
2019A	$0.82	$0.05	$0.00	$0.45
2020E	$0.76a	$0.06	$0.05	$0.43
2021E	$0.81	$0.06	$0.05	$0.41

Our Thesis

We like several aspects of the NI following the sale of Columbia Gas of Massachusettes and removal of previously guided $500-700mm equity issuance overhang, which we believe meaningfully de-risked the story.

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NiSource - Block Summary Model

Income Statement	2019A	2020E	2021E
Electric Operations	402	403	427
Gas Distribution	632	676	720
Parent & Other	13	13	13
Consolidated EBIT	1,042	1,087	1,155
Depreciation & Amortization	717	747	772
EBITDA	1,759	1,834	1,927
Interest Expense	379	399	396
Income Tax	113	120	132
Income from continuing operations	495	503	532
Weighted Average Shares Outstanding	376	388	399
Diluted Operating EPS	$1.32	$1.30	$1.33
Dividends per Share	$0.80	$0.84	$0.89
Cash Flow Statement	**2019A**	**2020E**	**2021E**
Operating Cash Flow	1,750	1,417	1,365
Investing Cash Flow	(1,988)	(630)	(1,770)
Financing Cash Flow	154	(106)	(99)
Net Change in Cash Flow	(84)	681	(504)
EOP Cash on Balance Sheet	37	718	214
Common stock (net)	34	335	335
Net debt issued/(repaid)	494	500	(64)
Dividends paid	(301)	(326)	(355)
Balance Sheet	**2019A**	**2020E**	**2021E**
Common Equity	5,327	6,019	6,611
Preferred Equity	880	880	880
Total Debt	9,643	10,143	10,079
Enterprise Value	$20,207	$20,913	$21,681
Common equity %	33.6%	35.3%	37.6%
Preferred equity %	5.6%	5.2%	5.0%
Total Debt %	60.8%	59.5%	57.4%
Book Value per Share	$16.51	$17.79	$18.78

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

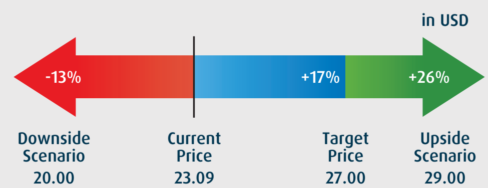
Our $27 target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2022E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook. For NI, we have removed EPS for its MA gas business from our P/E valuation and instead include only the asset value (1x equity rate base) in our SOTP framework.

Upside Scenario 29.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile.

Downside Scenario 20.00

Our downside scenario reflects a tightening monetary policy and a deceleration of the company's rate base growth.



Key Catalysts

Initial indicative pricing in its second renewable RFP in IN. Completing the sale of Columbia Gas of Massachusetts to Eversource. Potentially, capital spending and growth rate update in 2H20 given clarity in the aforementioned RFP and recent rate orders in MA and IN.

Company Description

NiSource, Inc. is a regulated utility holding company, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states. Through its Columbia Gas and NIPSCO brands, it provides natural gas, electricity, and other products and services. The company was founded in 1987 and is headquartered in Merrillville, Indiana.

NI-NYSE Research

Glossary

Company Models

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Take 2… "Action"

In front of investor meetings this week, NiSource released an investor update including management's current forecast for the net impact to 2020 and 2021 earnings from the COVID-19 pandemic.

Overall, we believe the update will be viewed as modestly disappointing and will likely raise incremental questions on what the company is seeing regarding the lingering COVID-19 and cost impacts embedded in the company's 2021 impact report. That said, we believe the stock's nearly 500 bps underperformance (since 4/29) and current multiple (3% discount) largely reflects these uncertainties and investors will now likely look to management for incremental details behind the company's additional disclosures for comfort.

For the month of April (which could prove to be the worst for the year), management estimates a net impact of $8.1 million pre-tax or just under 2c/share with gas distribution sales down 4% reflecting decoupling (0.3% annualized) and electric operation sales down 26% (2.3% annualized).

Although management indicated volumes had begun to recover by mid- to late-May off April lows, assuming a non-specified gradual recovery that extends into 1H21 and an assumption of favorable regulatory treatment on COVID-19 related costs (primarily at NIPSCO), **management's base case calls for roughly a $30-40 million margin reduction in 2020 and $0-25 million margin reduction in 2021**. When including other COVID-19 costs including bad debt, lost late payment fees and other operational expenses, total unmitigated non-GAAP costs are estimated to range from ($0.15-0.20)/share in 2020 and ($0-0.10)/share in 2021.

Partially offsetting these impacts and in an effort to mitigate the unallocated costs associated with the company's pending sale of Columbia Gas Massachusetts (CGM) to Eversource, **management believes it can mitigate up to $0.10-0.15/share in 2020 and $0.05-0.10/share in 2021 through cost control**, regulatory mechanisms and organizational repositioning efforts.

Although the net impacts above would suggest only an incremental $0.05 of potential EPS drag relative to its previous, pre-COVID-19 expectation that 2021 would be "at or above" 2020's initial $1.36-1.40/share guidance (issued on 3Q19 call but withdrawn with its 4Q19 release) **management seems to be striking a more cautious stance suggesting a $0.0-0.10/share** impact in both years and a recovery that extends into at least the first half of 2021. We believe the company's range likely includes some flexibility regarding the potential timing of regulatory recovery as well as financing costs associated with bridging lower operating cash flows.

We would hope to get more clarity on the cadence and magnitude of the demand recovery embedded in the company's current outlook as well as a better sense of the incremental costs and recovery assumptions, especially at NIPSCO. While not precise, we see bad debt and other costs ranging from $40-55 million in 2020 to $0-$22 million in 2021, which would imply a full-year sales reduction at NIPSCO in the lower-single-digit range (Exhibit 1).

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Exhibit 1: Net Margin & Cost Impacts for 2020 & 2021

	2020		2021	
	Low	High	Low	High
COVID Base Case EPS Impact	**($0.15)**	**($0.20)**	**$0.00**	**($0.10)**
Pre/Tax Revenue	($70)	($94)	$0	($47)
Base-Case Margin Impact	($30)	($40)	$0	($25)
Implied Bad-Debt & Other Costs	($40)	($54)	$0	($22)
Mitigation Efforts	**$0.10**	**$0.15**	**$0.05**	**$0.10**
Net Impacts	**($0.05)**	**($0.10)**	**($0.05)**	**($0.10)**

* Assumes primary impact at NIPSCO

Source: BMO Capital Markets

The company filed a petition with the Indiana commission (IURC) in early May for the ability to defer lost revenue and costs and the establishment of a bad debt tracker. Management has asked for the commission to respond by July 15th.

We are reducing our 2020-22 EPS estimates to $1.30, $1.33 and $1.45, respectively, to reflect a more conservative sales outlook and a slightly longer time frame to execute its organizational repositioning efforts post the sale of CGM.

We Reiterate Our Outperform Rating and $27 Target Price

Acknowledging the near-term uncertainties, we continue to find NI shares attractive relative to the company's above-average 5-7% long-term EPS CAGR, which is supported by a visible $30 billion investment backlog at both its natural gas and electric operations with minimal regulatory lag (75-80% converted to earnings within 12-18 months).

The company has several positive catalysts upcoming in the Fall, including the completion of its sale of Columbia Gas Massachusetts to Eversource in 3Q20 as well as the company re-initiating its 2021 EPS guidance, which will serve as a base for its 5-7% EPS CAGR.

We also see a bias to the upper end of this 5-7% growth range as the company finalizes its renewable RFPs to replace its retiring coal fleet at NIPSCO as well as other capex opportunities including grid modernization spending. Management should have visibility on both these opportunities in the Fall also and as such, we would look for the company to extend its 5-7% growth through 2024 (from 2022) to incorporate these new growth drivers.

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Sum-of-the-Parts Valuation

Exhibit 2: NiSource Inc. Sum-of-the-Parts Valuation

							BMO Low Case		BMO Base Case		BMO High Case	
Regulated, Corporate & Other	Valuation Metric	2022E EPS	Sector Comp	Sector Multiple	Prem/ (Discount)	Base Multiple	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)
Electric Operations	EPS	$0.83	Electric	16.2x	+0.0%	16.2x	13.2x	$11	16.2x	$13	17.2x	$14
Gas Distribution	EPS	$1.19	Natural Gas	17.3x	+5.0%	18.2x	14.3x	$17	18.2x	$22	19.2x	$23
Coporate & Other	EPS	($0.57)	Blend	16.8x	+0.0%	16.8x	16.8x	($10)	16.8x	($10)	17.8x	($10)
Utility & Parent Value		**$1.45**					12.7x	**$18**	17.6x	**$25**	18.6x	**$27**
		'19 Rate Bas	Equity %	Equity								
Columbia Gas of Massachusetts		$1,100	47%	$517		1.0x	1.0x	$1.26	1.0x	$1.26	1.0x	$1.26
Total NiSource Inc.								**$20**		**$27**		**$28**
Upside/(Downside)								-16.2%		14.1%		20.3%
Current Yield								2.9%		2.9%		2.9%
Total Return								**-13.3%**		**16.9%**		**23.1%**

Source: BMO Capital Markets

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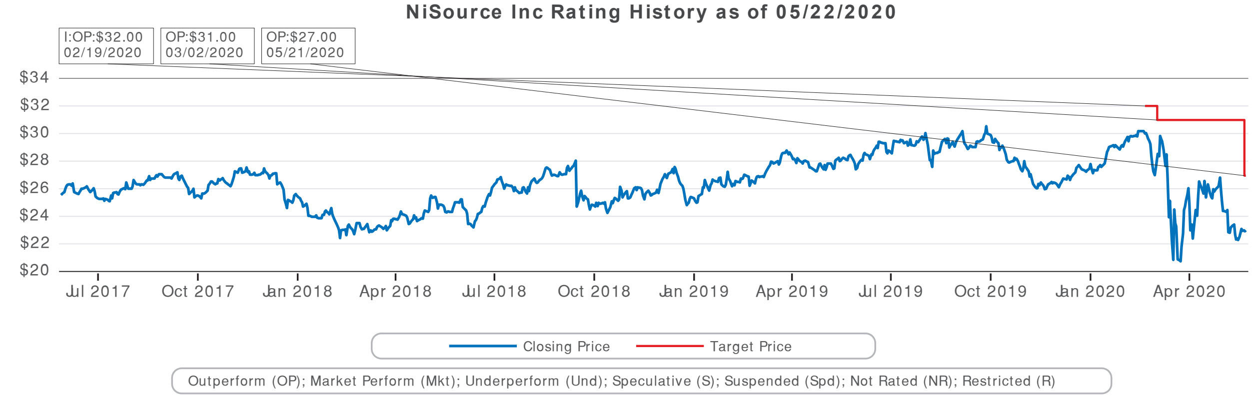
NiSource Inc Rating History as of 05/22/2020



Source: FactSet, BMO Capital Markets

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Company Specific Disclosures

Disclosure 9B: BMO Capital Markets makes a market in NiSource Inc in United States.

Methodology and Risks to Target Price/Valuation for NiSource Inc (NI-NYSE)

Methodology: Our $27 target price is the product of a P/E-based sum-of-the-parts (SOTP) analysis of the company's primary regulated operating companies. We utilize a regulated group-average multiple based on 2022E EPS as our initial basis for valuation and then make adjustments specific to each jurisdiction to reflect our current view of the fundamental outlook.

Risks: NI's regulated profile exposes the company to business risk including but not limited to federal and state regulatory risk, federal and state political risk, environmental policy, interest rate risk, access to capital markets, construction risk, changes in customer demand trends, changes in customer affordability, extreme weather, natural disaster, and equipment failure.

Distribution of Ratings (May 25, 2020)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	42.9 %	25.9 %	50.9 %	45.3 %	54.6 %	57.7%
Hold	Market Perform	54.3 %	18.7 %	46.5 %	52.0 %	43.5 %	37.5%
Sell	Underperform	2.8 %	20.0 %	2.6 %	2.7 %	1.9 %	4.8%

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(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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Goldman Sachs | Equity Research

27 May 2020 | 7:07PM EDT

NiSource Inc. (NI): 2021 uncertainty a near-term overhang but continue to see favorable LT growth; Buy

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We reiterate our Buy rating on NiSource (NI) after our virtual meeting with senior management. While we recognize concerns related to a lack of clarity on 2021 earnings power (guidance expected with 3Q20 results), we view current valuations somewhat accounting for a potentially bearish scenario and believe normalizing demand and robust investment pipeline support a relatively unchanged 2022 earnings profile. Our 2020-2022 EPS estimates of $1.27/$1.38/$1.49 remain unchanged, which already incorporate our forecasted -$0.09 and -$0.05 net impact (2020/2021) from COVID-19 that fall within the company's guidance impact range.

Below are the key takeaways from our virtual meeting:

- **Cost mitigation includes sustainable efficiencies.** While some cost controls (especially in 2020) reflect more short-term timing of various expenses, management noted that a bulk of the items stem from items planned prior to the 2018 gas incident, including corporate function consolidation and ongoing cost structure adjustments. NI's 2021 mitigation plan of $0.05-$0.10 accounts for certain delays in 2020 expenses.
- **NI expects a constructive outcome on COVID cost deferral proposals.** With Pennsylvania, Virginia, and Maryland already having approved incremental bad debt deferral and/or other COVID related costs, management looks to receive a similar decision in the proposal for Indiana and Ohio. In the $0.00 to -$0.10 net EPS impact guidance, they assume constructive outcomes at both jurisdictions.
- **While NI did not provide formal 2020/2021 guidance, prior management commentary serves as a guide.** On the 4Q19 earnings call, management pulled their 2020 EPS guidance range of $1.36-$1.40 given the announced sale of its MA gas utility, but commented that 2021 earnings could be at or above the prior 2020 guidance range. They still view this as a fair base to assess the ultimate COVID-19 impact and hope to provide formal 2021 guidance with 3Q20 earnings.
- **No bulk equity needed until renewable financing.** NI's financing plans through 2021 do not incorporate any assumed recovery of the $300mn in property insurance associated with the MA gas incident. They also do not expect a need to issue bulk equity unless to finance the purchase of owned renewables, either from the recent Indiana RFP or the 50% future ownership of the Rosewood (100 MW) and Crossroads (300 MW) wind plants (expected in 2023).

They continue to view RFP-based generation ownership potential as incremental upside, consisting of up to 50% of the 1.6 GW capacity opportunity. We note NI would need to file a base rate case to add any generation into rate base.

Our $28 12-month price target (unchanged) embeds 20x our 2021 EPS estimate of $1.38. Our target reflects a 24% total return, with the stock currently trading at a 1.0x P/E discount to smid-cap peers. Key risks include (1) legal and regulatory risks, (2) earnings/cash impact due to COVID-19, (3) higher than expected O&M, (4) electricity demand and customer growth, and (5) financing.

NI	12m Price Target: **$28.00**	Price: **$23.32**	Upside: **20.1%**

Buy

Market cap: $7.6bn
Enterprise value: $18.1bn
3m ADTV: $101.6mn
United States
America-Regulated Utilities
M&A Rank: 3

GS Forecast

	12/19	12/20E	12/21E	12/22E
Revenue ($ mn)	5,208.9	4,968.9	5,187.4	5,409.0
EBITDA ($ mn)	1,608.1	1,792.4	1,998.9	2,160.7
EBIT ($ mn)	890.7	1,033.9	1,183.8	1,284.7
EPS ($)	1.32	1.27	1.38	1.49
P/E (X)	21.3	18.4	16.9	15.6
EV/EBITDA (X)	13.0	10.9	10.5	10.1
FCF yield (%)	(2.1)	(7.7)	(4.7)	(3.3)
Dividend yield (%)	2.9	3.6	3.8	4.0
Net debt/EBITDA (X)	5.9	5.3	5.1	5.0

	3/20	6/20E	9/20E	12/20E
EPS ($)	0.76	0.07	0.02	0.42

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 27 May 2020 close.

Disclosure Appendix

Reg AC

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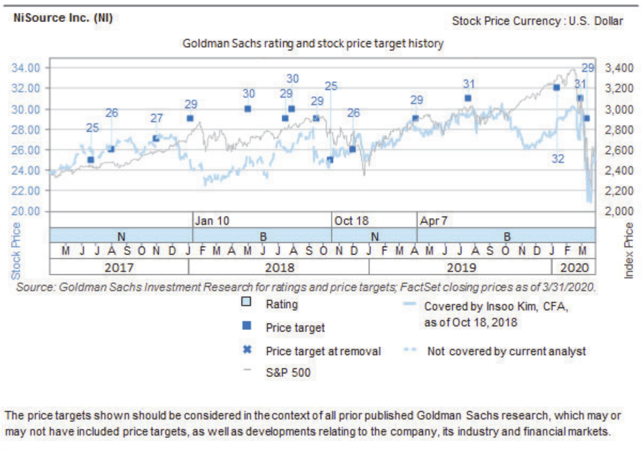

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UBS

First Read

NiSource Inc.

Catching up with the C-Suite

Equities

Americas
Gas Utilities

12-month rating	**Neutral**
12m price target	**US$27.00**
Price (27 May 2020)	**US$23.32**
RIC: NI.N **BBG:** NI US	

Trading data and key metrics

52-wk range	US$30.56-20.86
Market cap.	US$8.93b
Shares o/s	383m (COM)
Free float	99%
Avg. daily volume ('000)	1,218
Avg. daily value (m)	US$30.3
Common s/h equity(12/20E)	US$5.09b
P/BV(12/20E)	1.8x
Net debt to EBITDA(12/20E)	5.6x

EPS (UBS, diluted) (US$)

	12/20E	
	UBS	Cons.
Q1	0.76	0.76
Q2E	0.08	0.14
Q3E	0.03	0.05
Q4E	0.40	0.37
12/20E	1.27	1.32
12/21E	1.35	1.38
12/22E	1.43	1.49

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Key Takeaways

Earlier today, we hosted a Virtual Investor Update Meeting with NiSource's CEO Joe Hamrock and CFO Donald Brown. NI published its expected impact from COVID-19 (click here) and some were surprised with $0.00-$0.10 per share negative impact on 2021 EPS. Management clarified that they tried to be conservative and that they see a recovery in margin from April lows and they expect full recovery by the end of the year. 2021 EPS will be a base year for future 5-7% long term growth and NI plans to provide 2021 EPS guidance on the 3Q20 earnings call together with an update on the long-term outlook. Management remains focused on cost reduction to mitigate the impact of COVID-19 on revenues and highlighted that they look at traditional cost management but also some structural changes could by under way and they could be more long term in nature.

Other Tidbits

Despite strong liquidity post recent debt issuance and planned asset sale, management sees a need for issuance on ATM to get to targeted FFO/Debt metrics. NI maintained its previously provided $200-$300MM range of ATM equity issuance in 2020. Sale of Columbia Gas of MA remains on track, with close expected by the end of 3Q20. Management doesn't see a risk to 2021 capex due to COVID-19 at this time. An increase in bad debt has not been material so far.

Regulatory Update

Earlier in May, NIPSCO filed for a deferral of COVID-19 expenses and NI plans to file for deferral in OH. Despite the lockdown, NI filed rate cases in Pennsylvania and Maryland with new rates expected in 2021. NI requested a $100.4MM rate increase in PA (based on ROE of 10.95% and equity/capital structure of 54.19%) and a $6.5MM rate increase in Maryland (based on ROE of 10.95% and equity/capital structure of 52.63%).

Highlights (US$m)	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
Revenues	4,905	5,095	5,184	5,084	5,295	5,487	5,685	5,901
EBIT (UBS)	964	942	1,047	1,054	1,099	1,179	1,262	1,356
Net earnings (UBS)	398	463	495	493	538	583	629	684
EPS (UBS, diluted) (US$)	1.21	1.30	1.32	1.27	1.35	1.43	1.51	1.61
DPS (net) (US$)	0.72	0.79	0.84	0.89	0.95	1.01	1.07	1.13
Net (debt) / cash	(8,973)	(9,892)	(10,374)	(9,955)	(10,581)	(11,262)	(11,945)	(12,672)
Profitability/valuation	**12/17**	**12/18**	**12/19**	**12/20E**	**12/21E**	**12/22E**	**12/23E**	**12/24E**
EBIT (UBS) margin %	19.7	18.5	20.2	20.7	20.8	21.5	22.2	23.0
ROIC (EBIT) %	8.6	7.7	7.9	7.8	7.9	7.9	7.8	7.8
EV/EBITDA (UBS core) x	9.8	10.6	10.6	9.7	9.4	9.2	8.7	8.2
P/E (UBS, diluted) x	20.9	19.4	21.2	18.3	17.3	16.3	15.4	14.5
Equity FCF (UBS) yield %	(11.6)	(14.5)	(1.6)	(6.0)	(11.1)	(154.9)	(3,973.9)	(105,603.4)
Dividend yield (net) %	2.9	3.1	3.0	3.8	4.1	4.3	4.6	4.8

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$ 23.32 on 27-May-2020

Forecast returns

Forecast price appreciation	+15.8%
Forecast dividend yield	3.9%
Forecast stock return	+19.7%
Market return assumption	5.2%
Forecast excess return	+14.5%

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. We use comparable company multiples in our sum-of-the-parts EV/EBITDA and P/E valuations. Our price target is derived using an average of sum-of-the-parts EV/EBITDA and P/E valuations and DDM.

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Buy	FSR is > 6% above the MRA.	48%	32%
Neutral	FSR is between -6% and 6% of the MRA.	40%	28%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	**Definition**	**Coverage**[3]	**IB Services**[4]
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<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 March 2020.
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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Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$23.32	27 May 2020

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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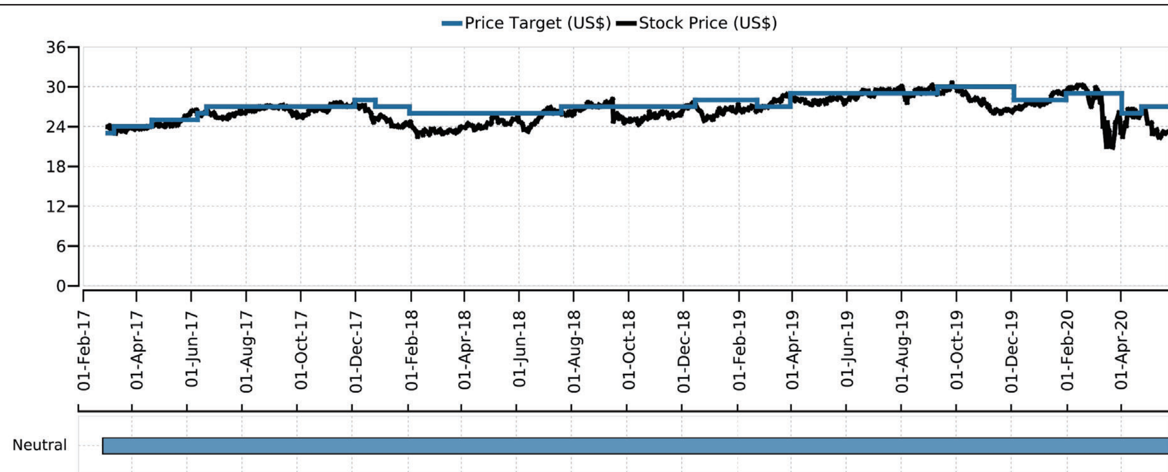
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2017-02-27	23.80	23.00	Neutral
2017-03-06	23.58	24.00	Neutral
2017-04-17	24.02	25.00	Neutral
2017-06-07	26.44	26.00	Neutral
2017-06-17	26.06	27.00	Neutral
2017-11-29	27.17	28.00	Neutral
2017-12-22	25.28	27.00	Neutral
2018-01-29	24.22	26.00	Neutral
2018-07-17	26.12	27.00	Neutral
2018-12-13	27.62	28.00	Neutral
2019-02-20	26.28	27.00	Neutral
2019-03-29	28.66	29.00	Neutral
2019-09-09	28.91	30.00	Neutral
2019-12-03	26.41	28.00	Neutral
2020-01-30	29.10	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral

Source: UBS; as of 27-May-2020

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May 28, 2020 | Equity Research

WELLS FARGO SECURITIES

Flash Comment

Utilities

Utility & Infrastructure Daily

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Quick thoughts from Wells Fargo Securities, LLC Utility & Infrastructure Team:

Utilities

NiSource Inc. (NI/Overweight) (Akers) – Since COVID-19 fears hit the US market, shares of NI have underperformed Gas Utility peers by nearly 7% and lagged the S&P Utilities by 3% (from 2/21/20 close). Most recently, shares reacted to the lack of affirmative guidance on the Q1 call and, subsequently, disclosures this week outlining a potential net impact from COVID of ($0.00-0.10) in each 2020 and 2021. Based on our conversation with NI mgmt. yesterday (5/27), we feel incrementally better about the story. Mgmt. highlighted opportunities to drive both structural cost savings and general process improvements; the company also expects more temporary cost reductions in 2020. O&M is likely to go down in 2021 on account of the sale of MA and trend flat or better off that base. The biggest determinant as to where the company lands in the ($0.00-0.10) COVID impact range is sales. The company currently expects gas/electric sales to be down 2.5%/4%, respectively, in 2020 with a margin impact of $30-40mm ($8mm of which was experienced in April), or $0.06-0.08 per share after-tax, and $0-20mm, or $0.00-0.04 in 2021. Within the industrial customer base, exposure to the auto supply chain and steel industry has weighed on volumes. That said, mgmt. is starting to see a recovery and noted that industrial customers continue to pay their bills. The commercial recovery remains murky as states are in the process of phased re-openings.

Regarding the growth rate, the 5-7% appears intact off of a normalized 2021 base as any lingering COVID impacts in 2021 would eventually be reconciled through a natural rebound and/or rate cases. Further, the 5-7% is supported by annual capex of ~$1.8B with renewable opportunities at NIPSCO offering potential upside to those levels in 2022 and 2023. The company outlined a 1,300-1,400 MW generation need in 2023 (three wind projects representing ~800 MW already announced). NI would look to procure half of the needs through power purchase agreements (PPA) and own the other half, which would be financed with the help of tax equity and likely require incremental equity beyond the ATM and ongoing programs. Reiterate Overweight.

American Electric Power (AEP/Overweight) (Kalton) – It's a go. On 5/27, the Louisiana Public Service Commission (LPSC) approved SWEPCO-LA's portion of North Central Wind, a 1,485 MW regulated wind project located in OK. The LPSC also approved a flex-up option in the event the Public Utility Commission of Texas (PUCT) does not approve the SWEPCO-TX allocation. As a result of the LPSC approval plus prior approvals in AR (including flex-up) and OK, AEP has secured approvals sufficient to proceed with the entire project regardless of the PUCT's final decision. Our EPS outlook already incorporates the $2B North Central Wind project with a full year contribution beginning in '22. Upon completion, we estimate North Central will add ~$0.10 to annual EPS power assuming a 9.0-9.5% ROE, 45-50% equity ratio and $1.0-1.3B of new equity in '21, which is consistent with AEP's guidance of 50-66% equity financing for the project. Our 20-24E EPS

Please see page 3 for rating definitions, important disclosures and required analyst certifications.
All estimates/forecasts are as of 05/28/20 unless otherwise stated. 05/28/20 05:30:42 ET

remain $4.30, $4.70, $5.10, $5.40 & $5.70, which results in a 7% CAGR off the original mid-point of '19 guidance ($4.10). Our take: not a surprise, but an incremental positive nonetheless and increases our confidence in AEP's ability to achieve a '20-24 EPS CAGR in the upper half of the 5-7% guidance range.

American Electric Power Company, Inc. (AEP)/Overweight
Price as of 5/27/2020: $81.44
FY 20 EPS: $4.30
FY 21 EPS: $4.70
Shares Out.: 494.8 MM
Market Cap.: $40,296.51 MM

NiSource Inc. (NI)/Overweight
Price as of 5/27/2020: $23.32
FY 20 EPS: $1.26
FY 21 EPS: $1.37
Shares Out.: 382.2 MM
Market Cap.: $8,912.9 MM

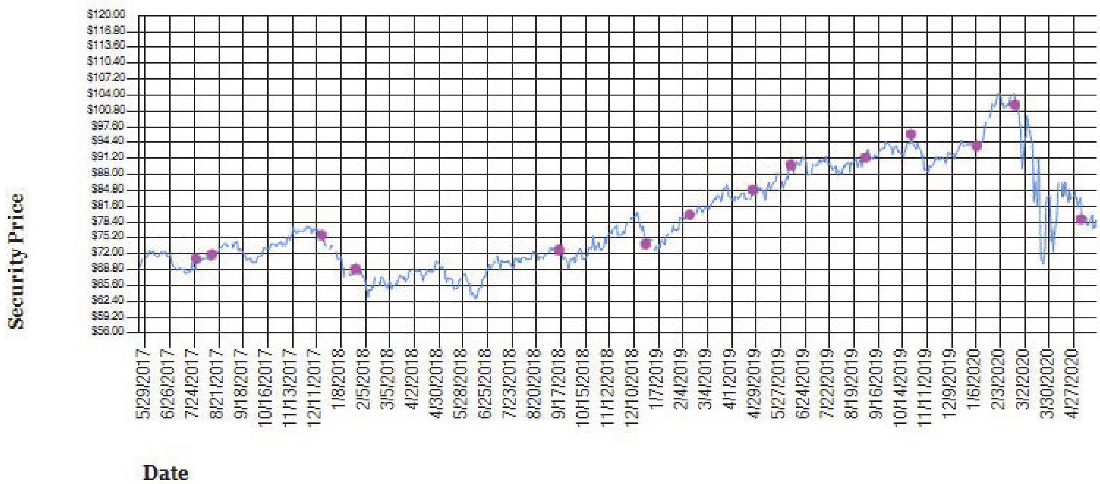
Rating Basis Information:
AEP Thesis: We are attracted to AEP’s strong EPS and dividend growth prospects, organic investment opportunities and regulatory diversity.

NI Thesis: We rate shares Overweight. We are attracted to NI's robust long-term infrastructure growth opportunities and supportive regulatory treatment.

DISCLOSURE APPENDIX

Required Disclosures

American Electric Power Company, Inc. (AEP) 3-yr. Price Performance



Date	Published Price ($)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
5/22/2017		Kalton				
5/22/2017	NA	1	NE	NE	NE	69.42
7/27/2017	70.67	1	78	NE	NE	70.67
8/15/2017	71.05	1	81	NE	NE	71.52
12/18/2017	76.54	1	85	NE	NE	75.50
1/26/2018	69.70	1	77	NE	NE	68.75
9/16/2018	72.60	1	81	NE	NE	72.60
12/24/2018	76.43	1	85	NE	NE	73.55
2/13/2019	80.30	1	89	NE	NE	79.55
4/26/2019	84.83	1	93	NE	NE	84.71
6/9/2019	89.54	1	100	NE	NE	89.54
9/2/2019	91.15	1	101	NE	NE	91.15
10/24/2019	95.85	1	103	NE	NE	95.72
1/8/2020	93.41	1	104	NE	NE	93.41
2/21/2020	102.38	1	115	NE	NE	101.71
5/6/2020	79.78	1	93	NE	NE	78.82

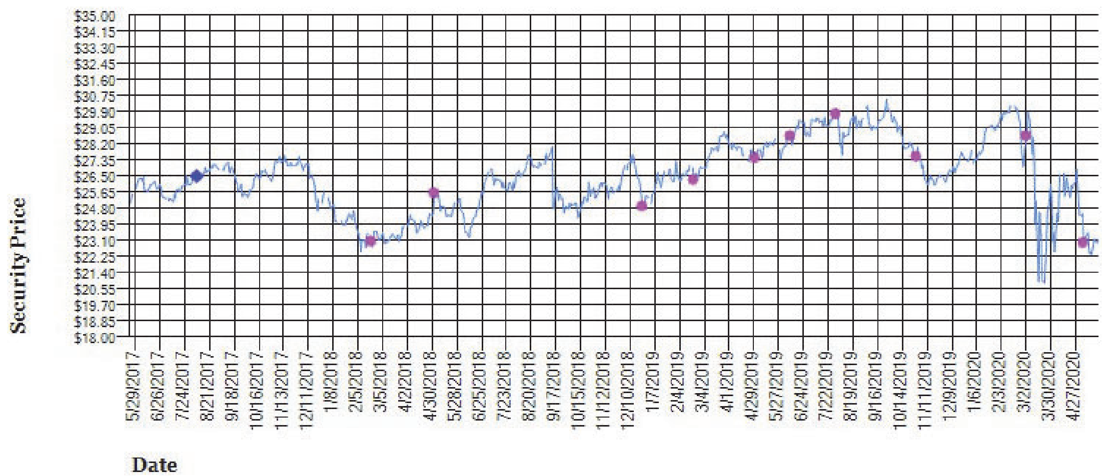
*Effective December 7, 2019, Wells Fargo Securities' Equity Research modified its ratings definitions. Complete definitions of current ratings can be found below. For information related to prior ratings definitions, please contact equityresearch1@wellsfargo.com.

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ❐ Split Adjustment

Rating Code Key
- 1 Overweight/Buy
- 2 Equal Weight/Hold
- 3 Underweight/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

NiSource Inc. (NI) 3-yr. Price Performance



Date	Published Price ($)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
8/9/2017		Akers				
8/9/2017	26.32	1	30	NE	NE	26.38
2/20/2018	22.99	1	26	NE	NE	23.02
5/3/2018	25.38	1	28	NE	NE	25.57
12/24/2018	26.05	1	29	NE	NE	24.89
2/20/2019	26.28	1	30	NE	NE	26.28
5/1/2019	27.41	1	31	NE	NE	27.40
6/9/2019	28.54	1	32	NE	NE	28.54
7/31/2019	29.79	1	33	NE	NE	29.69
10/30/2019	27.29	1	31	NE	NE	27.51
3/2/2020	27.02	1	30	NE	NE	28.56
5/6/2020	23.07	1	27	NE	NE	22.92

*Effective December 7, 2019, Wells Fargo Securities' Equity Research modified its ratings definitions. Complete definitions of current ratings can be found below. For information related to prior ratings definitions, please contact equityresearch1@wellsfargo.com.

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ☐ Split Adjustment

Rating Code Key

1	Overweight/Buy	SR	Suspended
2	Equal Weight/Hold	NR	Not Rated
3	Underweight/Sell	NE	No Estimate

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2=Equal Weight: Total return on stock expected to be 0-10% over the next 12 months. HOLD
3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

VOLATILITY RATING
V=A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: May 28, 2020

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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Overweight
Gas/Power Infrastructure – Market Overweight

May 27, 2020

NISOURCE

(NI US Equity – $23.32 – Outperform)

Thinkin' of a master plan

- **Planning to mitigate COVID impact, CMA dis-synergies.** We hosted several members of NI's mgmt. team, including CEO Joe Hamrock and CFO Donald Brown, for a virtual meeting today. The punchline was that mgmt. is hopeful to offset impacts from COVID and dis-synergies from the CMA sale when looking out to 2021, with the goal of crafting a plan to still meet the $1.36-1.40 range that was pointed to on the YE19 call. This was encouraging to hear given commentary on the Q1 call less than a month ago where NI was noncommittal on expectations for 2021, which will be the basis for its 5-7% growth thereafter. Our 2021E is at the bottom of that range ($1.36), which assumes some spillover of COVID pressures/dis-synergies that aren't fully offset. We remain Outperform rated with a $26 PT as LT fundamentals remain solid and the plan post-CMA should be a lot easier to execute on.

- **Base scenario = ($0.00-0.10) EPS impact on 2021.** The base scenario that was outlined for 2021 assumes modest customer attrition/load declines, resulting in ($0-25M) of estimated margin reduction. Other potential impacts include incremental bad debts and financing expenses as well as the timing of regulatory activities. Mitigation efforts are underway, namely permanent structural changes and cost reductions catalyzed by the CMA sale. Importantly, lingering impacts stemming from COVID next year will be trued up through rate cases ultimately to where NI should get back on track LT.

- **Signs that sales are beginning to recover.** April sales data showed gas down (4%) and electric down (26%)! NI has started to see improvement off April-lows as C&I customers for both gas/electric (who are most impacted by the autos) have started to ramp back up. On the B/S, NI feels it is in good shape for 2020 as its $100M capex deferral was done largely to buffer cash.

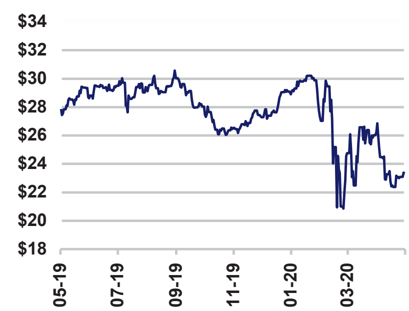
- **Generation strategy.** NI's generation strategy in Indiana will start to piece together this summer as CPCN filings are made at the IURC, with a full update targeted for Q3. All capex will be incremental and result in a step-up in EPS growth in the 2022/2023 timeframe. Financing is TBD but will include equity that could come via a forward or hybrids to minimize any dilutive impacts until the capex is rolled into rates.

- **CMA sale on track.** NI still expects the CMA sale to close in Q3.

Estimates / Valuation				
(US$)	**2020E**	**2021E**	**2022E**	**2023E**
EPS	$1.30	$1.36	$1.46	$1.57
Consensus	$1.32	$1.39	$1.49	$1.56
P/E	18.0x	17.1x	16.0x	14.9x
Dividend Yield	3.6%	3.9%	4.1%	4.3%

Trading and Fundamental Data	
Price Target	**$ 26**
Current Price	23.32
52-Week Range	$20-$31
Market Cap. (MM)	8,930
Enterprise Value (MM)	19,470
Shares Out. (MM)	382.8
Dividend Yield	3.63%
Dividend Payout Ratio	64%
ROE	6.6%
Debt to Cap	63.2%
Avg. Daily Vol. (000)	2,425

Price Performance	YTD	LTM
NI US Equity	-16%	-18%
Utility Index	-11%	-3%
S&P 500	-6%	7%



Source: FactSet/Wolfe Research

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WOLFE RESEARCH

NiSource

May 27, 2020

NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2020E	2021E	2022E	2023E
EPS	$1.30	$1.36	$1.46	$1.57
Diluted Shares Outstanding	$387	399	409	420
Dividends Per Share	$0.85	$0.90	$0.95	$1.01
Dividend Yield	3.6%	3.9%	4.1%	4.3%
Dividend Payout Ratio	65%	66%	65%	64%
Equity Ratio	39%	39%	40%	40%
FFO/Net Debt	13%	13%	14%	14%
Valuation Metrics				
P/E	18.0x	17.1x	16.0x	14.9x
Price/Book	1.6x	1.5x	1.5x	1.4x
Segment EPS				
Gas Distribution	$1.06	$1.12	$1.20	$1.27
NIPSCO Electric	0.56	0.56	0.57	0.60
Parent & Other	(0.32)	(0.32)	(0.31)	(0.30)
Total EPS	**$1.30**	**$1.36**	**$1.46**	**$1.57**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2020E	2021E	2022E	2023E
Capital Spending by Segment ($M)				
Gas Distribution	$1,261	$1,446	$1,446	$1,396
Electric	472	487	487	847
Parent	25	25	25	25
Total Capex	**$1,758**	**$1,958**	**$1,958**	**$2,268**
Financings ($M)				
Total Equity Issued/(Repurchased)	$298	$298	$298	$298
Total Debt Issued/(Repurchased)	$150	$500	$550	$750

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland and Massachusetts.

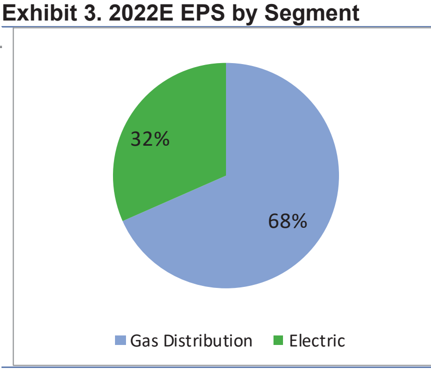
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of capital investment with recovery largely through trackers in mostly constructive regulatory environments. We see NI as a de-risking story in 2020 with an upward bias on rate base / EPS growth due to renewable investment opportunities at NIPSCO electric.

Valuation

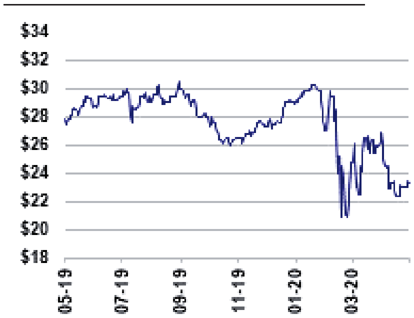
Our $26 price target is derived using a P/E multiple of 17.5x on our 2022E. This reflects a full-turn premium for NI's electric utility and an average for its gas LDCs. Risks for NiSource are 1) bad regulatory outcomes and 2) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer growth

Exhibit 3. 2022E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: FactSet

WOLFE RESEARCH

NiSource

May 27, 2020

Investment Conclusion

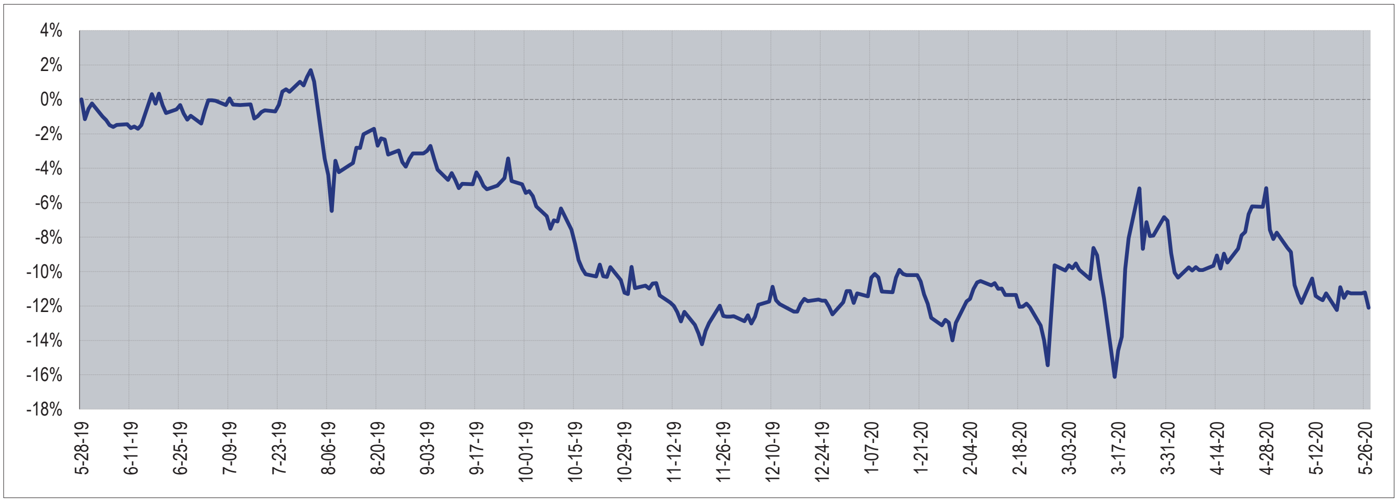
We are Outperform rated on NiSource. The company's $30B capital investment backlog should drive its 5-7% annual earnings target over the long term. Most of the NI's annual capex (~80%) is recovered with minimal lag via tracking mechanisms and the company has built a constructive track record with most of its state regulators. Post the CMA sale, we believe the company's plan is a lot easier to execute on. Incremental capex is on the horizon from renewable opportunities in Indiana, which will provide a step-up in EPS growth in the 2022/2023 timeframe. NI's generation strategy in Indiana should start to come together over the summer, with a full update targeted for its 3Q20 call. The dramatic shift toward renewables and fact that NI will be coal-free by 2028 is also helpful from an ESG perspective. We see exiting MA as a turning point that should allow NI to re-rate closer to its historic 5-10% premium over time as it proves out its ability to execute going forward.

Exhibit 5: Regulated Comparables

Company		Current	Current	Mkt Cap	P/E				Div	Div	Payout	Price/	Equity
Name	Ticker	Price	Shares	($M)	2020E	2021E	2022E	2023E	Yield	Growth (E)	Ratio	Book	Ratio
Alliant Energy	LNT	$47.33	250	$11,809	19.7x	18.5x	17.6x	16.7x	3.2%	7.0%	63%	2.1x	47%
Ameren	AEE	70.51	247	17,408	20.5x	18.9x	17.6x	16.7x	2.9%	4.0%	60%	2.2x	44%
American Electric	AEP	81.44	496	40,360	19.2x	17.6x	16.5x	15.6x	3.4%	4.5%	66%	2.0x	37%
Avangrid	AGR	42.90	309	13,256	19.0x	17.2x	15.9x	N/A	4.2%	2.5%	80%	0.9x	65%
CMS Energy	CMS	55.97	286	16,020	21.6x	19.7x	18.3x	17.0x	2.9%	6.5%	63%	3.1x	27%
Con Edison	ED	71.25	334	23,805	16.8x	15.6x	15.0x	14.4x	4.3%	3.5%	72%	1.3x	44%
Duke Energy	DUK	83.72	735	61,522	16.1x	15.3x	14.7x	14.0x	4.6%	2.0%	74%	1.4x	42%
Edison International	EIX	57.05	378	21,562	12.8x	12.3x	11.6x	10.9x	4.3%	0.2%	56%	1.6x	38%
Entergy	ETR	99.47	200	19,910	18.0x	16.8x	15.9x	N/A	3.8%	2.2%	69%	1.9x	33%
Evergy	EVRG	60.93	227	13,815	20.2x	18.8x	18.1x	17.2x	3.4%	6.2%	68%	1.6x	45%
Eversource Energy	ES	77.47	336	26,064	21.1x	19.9x	18.8x	17.9x	2.9%	6.1%	62%	2.0x	46%
FirstEnergy	FE	41.36	542	22,407	16.7x	15.7x	15.0x	14.2x	3.8%	2.6%	63%	3.3x	24%
Fortis*	FTS	52.05	464	24,167	20.3x	18.3x	17.2x	16.4x	3.7%	6.0%	75%	1.3x	44%
NiSource	NI	23.32	383	8,927	18.0x	17.1x	16.0x	14.9x	3.6%	6.0%	65%	1.9x	40%
PG&E	PCG	10.93	530	5,791	6.9x	10.8x	9.5x	N/A	0.0%	N/A	0%	1.1x	57%
Pinnacle West	PNW	75.50	112	8,493	15.7x	15.0x	14.5x	13.6x	4.2%	6.0%	66%	1.6x	47%
Portland General	POR	44.76	89	4,006	18.7x	17.2x	16.1x	15.8x	3.4%	1.5%	64%	1.5x	49%
PPL Corp.	PPL	26.74	769	20,557	11.4x	10.9x	9.9x	N/A	6.2%	0.6%	71%	1.6x	36%
Southern Company	SO	55.01	1,056	58,088	17.4x	16.6x	15.4x	14.2x	4.7%	3.2%	81%	2.1x	36%
WEC Energy Group	WEC	85.90	315	27,096	23.0x	21.6x	20.2x	18.9x	2.9%	7.2%	68%	2.6x	45%
Xcel Energy	XEL	61.73	525	32,410	22.2x	20.9x	19.7x	18.7x	2.8%	6.2%	62%	2.4x	39%
Average					**17.9x**	**16.9x**	**15.9x**	**15.7x**	**3.6%**	**4.2%**	**64%**	**1.9x**	**42%**
Average (ex EIX, PCG, PPL)					**19.1x**	**17.8x**	**16.8x**	**16.0x**	**3.6%**	**4.6%**	**68%**	**2.0x**	**42%**

Source: Wolfe Research, FactSet

Exhibit 6: NI vs the Regulated Average



Source: Wolfe Research, FactSet

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Price Chart(s) with Ratings and Target Price History

Note: OP = Outperform; PP = Peer Perform; UP = Underperform

Wolfe Research, LLC Fundamental Valuation Methodology:

Company:	Fundamental Valuation Methodology:
NI US Equity	Forward P/E

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:	Risks That May Impede Achievement of the Recommendation, Rating or Target Price:
NI US Equity	Economy, regulatory outcomes, project execution, pipeline safety accidents

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
NI US Equity	None

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FLASH NOTE

May 27, 2020

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NI BUY

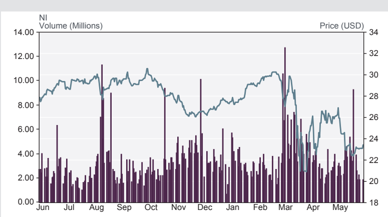
NiSource Inc.
Sector: Power, Utilities & Alternative Energy

Company Update

Share Price	$23.39

Market Data

52-Week Range	$19.56 - $30.67
Dividend	$0.86
Dividend Yield	3.7%
Market Cap (M)	$8,954
Enterprise Value (M)	$21,092
Shares Out (M)	382.8
ADV (3 mo; 000)	4,246



NI – Management Meetings; Impacts Defined, Increased Visibility Should Quell Investor Concerns; Price Action Overreaction

Key Message: COVID impact manageable, conservative messaging builds buffer and contingencies; Mgmt. sees opportunities to pull incremental levers while 2021 EPS guidance should be in "proximity" with the prior 2020 EPS guidance range (i.e. $1.38 guidance midpoint vs. Guggenheim at $1.37) with potential to come in stronger with incremental levers and/or COVID backdrop coming in better than Mgmt's. conservative assumptions. Post 2021, we continue to model (and the message today reinforced this notion) ~6-7% EPS growth off our 2021 base EPS estimate of $1.37 – growth drivers will include generation spend in Indiana, rate cases, further cost measure etc.

Main Takeaway: Ahead of our client hosted Mgmt. meetings with CEO, CFO and others at NiSource held early AM today, the company released updated slides detailing and quantifying the impact of COVID and the offsetting mitigation measures – providing clarity we were hoping to receive on the Q1. Mitigation efforts include O&M reductions and regulatory deferral for incremental COVID expenses and bad debt expense. **Key point – Mgmt. in good spot to provide 2021 EPS guidance in Q3 that should be close to flattish versus the prior pulled 2020 guidance range of ~$1.38 (midpoint) following the CMA sale announcement.** Further, Mgmt. **sees supplementary opportunities to pull additional mitigation levers that could potentially put '21 EPS guidance slightly ahead of '20's prior pulled guide.** In our view, investor concerns surrounding the 2021 impact are overstated (shares have underperformed UTY by ~100-150bps throughout the trading day) as Mgmt. has taken a conservative bend, managing expectations and messaging and creating contingencies should they need to be realized. **No change to our estimates through our '23 trajectory as today's message reconfirmed our thesis**. Potential catalysts: Q2 update around generation spending plan in IN and Q3 updated CapEx, growth trajectory through '24 off of the new 2021 EPS midpoint, 2021 EPS guidance range as well as new financing needs.

Improved visibility – flat EPS in 2021 from initial 2020 guidance back in view despite conservative bend taken on COVID impact. Mgmt. released slides (HERE) and further detailed on our client hosted calls (8am and 9am) volume and expense impacts from COVID and strong mitigation factors including O&M reductions and regulatory mechanisms for 2020/2021. Overall, mgmt. expects ($0.00-$0.10) of EPS impacts in 2020 and 2021 **but '21 could come in better if NI is able to utilize incremental mitigation levers which they are currently assessing – i.e. "flat-to-better" '21 language presented at the YE call could still stand.** While some investors are apprehensive on the 2021 impact, **we feel the concerns are unfounded as mgmt. is taking a very conservative bend on sales and bad debt expense** - i.e. the estimated impact assumes gradual mean reversion to normal loads in 1H21 compared to other utilities that are assuming recovery to normal loads in 4Q20. Volumes have already started to rebound from April lows with industrial customers in the Midwest, specifically the auto industry, beginning to reopen. Mgmt., quantified mitigation measures including O&M reductions and regulatory approvals/actions. More specifically on the bad debt expense side, NI has received regulatory deferrals/recovery of COVID related expenses and bad debt above normal levels in MD, PA, and VA while working with other commissions to receive similar treatments. **The current plan does not include any regulatory treatment for the incremental expenses in IN and OH which is further potential upside.** Mgmt. noted increased bad debt expense could impact 2021 EPS by ($0.05), but we feel confident that NI will receive the mechanisms to offset the impact. **We expect the maximum downside on 2021 EPS to be ~ ($0.05) from the initial 2020 guidance of $1.36-$1.40 IF incremental levers are not able to be utilized.** Mgmt. will provide updates on expected impact throughout the year and the range will likely tighten over time. **Given mgmt's conservative stance on 2021 and the potential for incremental**

levers, we continue to model 2021 EPS of $1.37 and 5-7% LT EPS CAGR off a 2021 base (2022/23 EPS of $1.47/$1.57).

Mitigation efforts are extensive with a mix of perpetual and ST O&M reductions. Mgmt. quantified mitigation measures of $0.10 - $0.15 in 2020 and $0.05 - $0.10 in 2021. Employee and administrative expenses and the deferral of some non-essential field work make up the bulk of the cost cutting. **The mix of O&M reductions will be more short-term in 2020 and permanent in 2021.** Like we have seen with other utilities, NI has a better view on prioritization of work allowing crews to work more effectively, efficiently, and productively as a result of the pandemic. Cuts to offset the dis-synergies related to the sale of CMA will happen regardless of volume trends. Direct costs related to CMA will be eliminated while more structural items from shared services across the company will be addressed in 2021. **Mgmt. is still identifying incremental levers but is focused on stepping through the regulatory items and managing expenses.**

Core business investment remains strong despite lowering at 1Q call – renewable investment opportunities are robust. The core capital plan remains strong with modernization trackers and other mechanisms to support investment; renewable additions represent incremental capex. As a reminder, NI lowered its expected 2020 capital spend by $100M at the 1Q call to shore up cash flow due to the pandemic. **Discussions with parties on the RFP in IN are ongoing with 50/50 owned and PPA still expected and upside to their CapEx guidance which Mgmt. will update during the all-important Q3 earnings call.** Mgmt. noted owning projects is competitive because of their high credit quality. The tax equity market remains healthy from mgmt.'s view. NI expects to file CPCNs in the summer, and we continue to look for an extensive update on the investment opportunity on the 3Q call. There has not been an impact on the 2021 IRP from the virus. Investment in renewables drives the outlook for 2022 and beyond.

Limited capital market needs for 2020 outside of ATM equity – thinking long-term, incremental renewable investments will be financed with a mix of debt and equity while still supporting the 5-7% growth trajectory. NI still expects to issue $200M-$300M in ATM equity in 2020 to support core investments. As a reminder, NI pulled forward a debt issuance in 1Q to help shore up liquidity and does not expect substantial debt financing for the remainder of 2020. **Renewable investment stemming from the RFP will be financed with a mix of debt and equity that will maintain credit metrics and support the current 5-7% growth trajectory.** Mgmt. expects to roll out an updated financing plan along with the investment opportunity on the 3Q call which will also come with an extended growth rate likely through '23/'24 as well as a formal '21 EPS guidance range.

Valuation: We apply an 18x multiple on the electric utility and 21x multiple on the gas LDCs. We arrive at our valuation utilizing a sum-of-the parts analysis, based on: (1) ~$10/share for the regulated electric utility; (2) ~$20/share value for the regulated gas segment given the limited spread from LDCs after recent market volatility; and (3) (~$-3)/share for other adjustments for Corp and Other. We use this sum of the parts to arrive at our $27 valuation.

Risk: The primary risk on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

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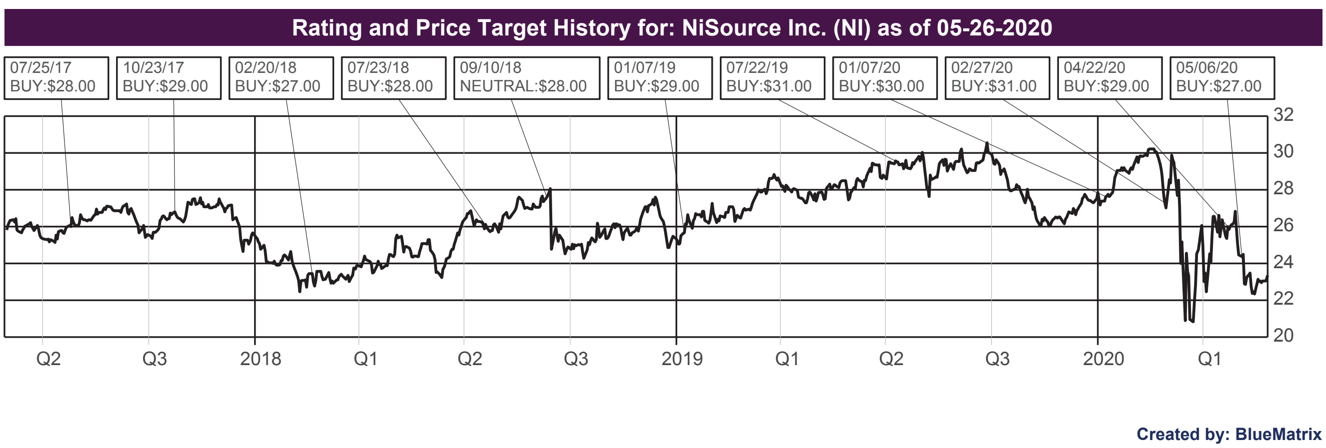

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NEUTRAL	154	39.49%	5	3.25%
SELL	9	2.31%	0	0.00%

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NiSource Inc

Fireside Chat: Tweaking ests as co projects into '21 and beyond

Maintain Rating: NEUTRAL | PO: 27.00 USD | Price: 23.83 USD

Reducing estimates slightly: Lag & rate case timing

Following our fireside chat last week with mgmt., we adjust our ests to reflect expanded COVID impacts into '21, cont'd lag into '22 based on rate case timing (i.e. a protracted period of underearning) and a jump in '24 when NIPSCO BOT renewables are brought into ratebase fully. NI continued to provide a 0-10c range of impacts for '20 and '21, as uncertainties still lie in sales and what exactly economic recovery will look like. Without a '20 guide, we specifically drop our '21 est to $1.35/sh, which assumes NI is subject to the midpoint of its anticipated '21 impact (i.e. -5c) off of an initially predicted $1.40/sh (the top end of the co's $1.36-1.40/sh guidance floor that was put into effect after the CMA sale was announced). Even though this is a downward adjustment of -1c from our prior est, we see NI as one of the first to share foresight into '21 impacts, and we expect more peers to follow suit in the coming months. We also tweak down '22 ests -1c to account for anticipated lag. Our estimates are now towards the low end of the previously updated 5-7% EPS CAGR guidance off '21 earnings (we'd expect this means off the $1.36-1.40/sh floor) for '22, but then start to recover towards the high end in '23 as NIPSCO renewables are completed by mid-year '23 and fully reflected in rates in '24. Our '24 est peaks at high end of EPS CAGR targets as such. We MtM the peer mult to 17.3x gas / 16.9x electric (17.8x / 17.2x before) driving $27/sh PO. Reiterate Neutral after earlier downgrade (here). *We see NI as among the first companies to formalize views on '21 & has both wider range and raises more concern on under-earnings.*

Indiana: Balancing rate casing timing with renewables

Our ests fully bake in what portion of the NIPSCO RFPs we expect NI can own via BOT, and the dilution we anticipate NI will need to endure for equity financing. We expect NI and partners are awarded half of the RFPs, and that tax equity would own 50% of wind projects (30% of solar) until flips at year 7-10. This means in '23, we'd expect NI to own 276MW wind and 805MW solar with '24 having the first full yr of impact. Net income would be based on a 50% equity ratio and 9.75% ROE, and equity financing needing ~21 incremental shares. While NI will likely encounter costs from COVID and bad debt, we still expect the rate case isn't filed until YE23 when the BOT projects are brought in.

Estimates (Dec)

(US$)	2018A	2019A	2020E	2021E	2022E
EPS	1.30	1.32	1.28	1.35	1.46
GAAP EPS	1.30	1.32	1.28	1.35	1.46
EPS Change (YoY)	7.4%	1.5%	-3.0%	5.5%	8.1%
Consensus EPS (Bloomberg)			1.32	1.38	1.48
DPS	0.79	0.83	0.88	0.94	0.99

Valuation (Dec)

	2018A	2019A	2020E	2021E	2022E
P/E	18.3x	18.1x	18.6x	17.7x	16.3x
GAAP P/E	18.3x	18.1x	18.6x	17.7x	16.3x
Dividend Yield	3.3%	3.5%	3.7%	3.9%	4.2%
EV / EBITDA*	15.7x	13.6x	13.3x	12.5x	11.7x
Free Cash Flow Yield*	-14.0%	-2.4%	-7.6%	-6.6%	-5.6%

* For full definitions of *iQmethod*SM measures, see page 9.

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Refer to important disclosures on page 10 to 12. Analyst Certification on page 7. Price Objective Basis/Risk on page 7. 12148467

Timestamp: 01 June 2020 08:31AM EDT

01 June 2020

Equity

Key Changes

(US$)	Previous	Current
2020E EPS	1.29	1.28
2021E EPS	1.36	1.35
2022E EPS	1.47	1.46
2020E EBITDA (m)	1,813.2	1,804.7
2021E EBITDA (m)	1,936.3	1,927.0
2022E EBITDA (m)	2,064.2	2,059.8

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Stock Data

Price	23.83 USD
Price Objective	27.00 USD
Date Established	30-Apr-2020
Investment Opinion	B-2-7
52-Week Range	19.56 USD - 30.67 USD
Mrkt Val (mn) / Shares Out (mn)	9,122 USD / 382.8
Average Daily Value (mn)	82.93 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2020E)	9.1%
Net Dbt to Eqty (Dec-2019A)	158.6%

NIPSCO: Northern Indiana Public Service Co
BOT: Build Own Transfer
CMA: Columbia Gas of Massachusetts

iQprofile℠ NiSource Inc

iQmethod ℠ – Bus Performance*					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Return on Capital Employed	3.9%	4.3%	4.0%	4.2%	4.3%
Return on Equity	10.1%	9.9%	9.1%	9.1%	9.5%
Operating Margin	18.3%	20.2%	19.8%	20.7%	21.5%
Free Cash Flow	(1,278)	(219)	(693)	(602)	(513)

iQmethod ℠ – Quality of Earnings*					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Cash Realization Ratio	1.2x	3.2x	2.4x	2.4x	2.3x
Asset Replacement Ratio	3.0x	2.5x	2.5x	2.4x	2.2x
Tax Rate	19.7%	17.1%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	156.7%	158.6%	143.4%	143.6%	142.6%
Interest Cover	2.6x	2.8x	2.8x	2.8x	3.0x

Income Statement Data (Dec)					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Sales	5,084	5,184	5,360	5,537	5,726
% Change	4.3%	2.0%	3.4%	3.3%	3.4%
Gross Profit	3,325	3,649	3,772	3,925	4,090
% Change	-0.9%	9.8%	3.4%	4.1%	4.2%
EBITDA	1,531	1,764	1,805	1,927	2,060
% Change	3.4%	15.2%	2.3%	6.8%	6.9%
Net Interest & Other Income	(335)	(384)	(379)	(408)	(415)
Net Income (Adjusted)	463	495	487	527	592
% Change	16.6%	6.8%	-1.6%	8.4%	12.3%

Free Cash Flow Data (Dec)					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Net Income from Cont Operations (GAAP)	463	495	487	527	592
Depreciation & Amortization	600	717	742	783	827
Change in Working Capital	110	(75)	(186)	(186)	(186)
Deferred Taxation Charge	(188)	118	115	124	103
Other Adjustments, Net	(445)	328	0	0	0
Capital Expenditure	(1,818)	(1,802)	(1,850)	(1,850)	(1,850)
Free Cash Flow	-1,278	-219	-693	-602	-513
% Change	-34.0%	82.9%	-216.2%	13.2%	14.6%

Balance Sheet Data (Dec)					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Cash & Equivalents	121	148	165	181	197
Trade Receivables	1,147	905	1,092	1,278	1,464
Other Current Assets	787	800	800	800	800
Property, Plant & Equipment	15,543	16,912	17,020	18,087	19,109
Other Non-Current Assets	4,206	3,894	3,894	3,894	3,894
Total Assets	21,804	22,660	22,970	24,239	25,464
Short-Term Debt	2,027	1,787	2,205	2,367	2,516
Other Current Liabilities	2,010	1,959	1,959	1,959	1,959
Long-Term Debt	7,105	7,856	7,186	7,713	8,199
Other Non-Current Liabilities	4,911	5,071	5,186	5,310	5,413
Total Liabilities	16,053	16,673	16,537	17,348	18,088
Total Equity	5,751	5,987	6,433	6,891	7,376
Total Equity & Liabilities	21,804	22,660	22,970	24,239	25,464

* For full definitions of *iQmethod*℠ measures, see page 9.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

NI's positives include 5-7% earnings/dividend growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries. We have factored in resolution of overhang from the MA incident as the company will likely sell 3Q. However, NI has C&I demand risk from COVID, which will be difficult to offset with O&M cuts due to promises already around cost cuts to balance CMA sale. We see shares valued appropriately and rate Neutral.

Stock Data

Average Daily Volume	3,480,172

Quarterly Earnings Estimates

	2019	2020
Q1	0.82A	0.74E
Q2	0.05A	0.79E
Q3	0A	0.01E
Q4	0.45A	-0.12E

Rate case timing

We focused on rate case updates in key states of OH, IN, and PA since these jurisdictions represent 80% of the gas biz and 100% of the electric biz (i.e. in NIPSCO). As anticipated, NiSource will have to will have to come in for an Ohio case next year, and in PA, the company is roughly in nearly every year. This leaves Indiana as key, where NIPSCO will likely time its rate case with electric – important as the company will have expanded rate base through its two request for proposals (RFPs) to replace retiring coal. These projects will likely commission between end of '22 to mid-year '23, and as such, we'd expect an Indiana rate proceeding by the end of '23.

Particularly with Indiana, we'd expect Covid pressures leave the company subject to some underearning from now through a potential rate case filed in '23. As such, we'd expect these pressures to normalized out over time with future rate cases. We adjust our anticipated earned ROEs and estimates to reflect this, as seen in the ROE table below. *The question is can mgmt continue to see improving earned ROE trends in '22, or will both '22 & '23 prove pronounced without a rate case in NIPSCo. We perceive downside bias to both years in our ests.*

Improving trends in earned ROEs is likely to feature prominently in any re-based overall EPS CAGR on its outlook.

Table 1: BofA estimated earned ROEs

Earned ROEs	Authorized	2020E	2021E	2022E	2023E	2024E	2025E
Gas Utilities							
Columbia Gas of OH	10.39%	9.89%	9.89%	9.89%	10.14%	10.14%	10.14%
Columbia Gas of PA	10.00%	8.75%	8.75%	9.25%	9.50%	9.75%	9.75%
NIPSCO Gas	9.85%	8.60%	8.60%	8.85%	8.85%	9.60%	9.60%
Columbia Gas of MA	9.55%	1.05%					
Columbia Gas of VA	10.00%	9.25%	9.25%	9.50%	9.50%	9.50%	9.50%
Columbia Gas of KY	9.50%	8.25%	8.25%	8.75%	9.00%	9.25%	9.25%
Columbia Gas of MD	9.70%	8.95%	8.95%	9.45%	9.45%	9.45%	9.45%
Electric Utilities							
NIPSCO Electric	9.75%	8.75%	8.75%	9.15%	9.15%	9.75%	9.75%

Source: BofA Global Research estimates, company report

RFP 2: Tweaking our assumptions

We include our build own transfer (BOT) assumptions for NI below, factoring in both RFPs 1 and 2. Recall NI has two wind projects already approved from the first RFO (100MW Rosewater and 302MW Crossroads). In the second 2.6GW round (with 300MW slated to be wind and 1.3GW solar), we assume NI and partners will win half through BOTs and the other half through power purchase agreements (PPAs). The purchase of the projects will happen upon completion ('22-'23) with a rate case likely thereafter – meaning that in '24, NI would see the full impact of rates in place.

On the call, mgmt. noted that for wind, funding level for BOT projects will be 50% from NI and 50% from a tax equity partner. However, for solar, this would be 70% from NI and 30% tax equity. For the equity to debt break down for the project investment, we assume a leverage multiple of 6.7x. Finally, we'd anticipate NI's implied net income off of the project would correspond with its NIPSCO equity layer and ROE.

We adjust below based off these assumptions, but note that clarity around true ownership potential will come out this summer – around when we expect the first series of CPCNs (certificates of public convenience and necessity) to be filed for some for the projects. A fuller view on long-term capex and rate case plans through '24 will likely be updated on the 3Q call.

Table 2: NIPSCO Renewables rate Base

	2020	2021	2022	2023	2024	2025
Ratebase (YE)	5,789	6,167	6,522	6,852	7,157	7,435
Beginning Ratebase Additions	0	-50	-100	-150	1,204	1,146
Wind Capex	0	0	0	439	0	0
Wind Depreciation (25 yrs)	0	0	0	-18	-18	-18
Solar Capex	0	0	0	1,024	0	0
Solar Depreciation (25 yrs)	0	0	0	-41	-41	-41
Increase in Depreciation coming off from last ratecase	-50	-50	-50	-50	0	0
Ending Ratebase Additions	-50	-100	-150	1,204	1,146	1,087
Average Ratebase Additions	-25	-75	-125	527	1,175	1,117
New Ending Ratebase	5,739	6,067	6,372	8,056	8,303	8,522
New Average Ratebase	5,583	5,928	6,269	7,289	7,577	7,840
Implied Net Income (50% Equity, 9.975% ROE)	-1	-4	-6	26	57	54
BofA Global Research Model Implied NI for NIPSCO Electric	234	247	272	322	384	395
Shares (Incremental shares baked in)	381	392	407	423	450	460
Incremental shares				21.6	21.6	21.6
Implied EPS impact (net of dilution)	$0.00	-$0.01	-$0.01	-$0.02	$0.09	$0.08
BofA Global Research Model Implied EPS for NIPSCO Electric	$0.61	$0.63	$0.67	$0.76	$0.85	$0.86

			Ratio
Total Earnings Power (NI)	71		
D&A	59		
FFO	130		
Total Debt	865	59.2%	Debt
Total Equity	597	40.8%	Equity
Project Investment	1,463		

Assumptions (note TE owns 30-50% until flip at yr 7-10 when NI would then own 100%)	
Wind BOT Capacity (MW)	276
Existing Awards	201
New RFP 2 Awards in BOT form	75
Wind ($1,500/kW implied) + 6% buy-out premium	439
Solar BOT Capacity (MW) = From RFP 2, some w/ storage	805
Solar ($1,200/kW implied) + 6% buy-out premium	1024
Total Capacity	1,081
Total Capex	1,463
Equity Ratio	50%
ROE	9.750%
Leverage Multiple (Maintain 15%)	6.7x
Share Price	$27.67
Incremental Shares (Factored in on Consolidated)	21.6

Source: BofA Global Research estimates

More details on '21 outlook updated

While mgmt had already announced mitigation efforts to offset the loss of the MA biz largely, the company updated its drivers for the year noting up to 10c Covid-related impacts, offset by incremental cost savings. We continue to expect that NI load recovery is well under way and seemingly ahead of earlier plan. The 10c impact of Covid impacts appear half from load degradation (permanent/long ramp in C&I) as well as incremental expenses (reconnection fees, Covid-related mitigation costs). We see the mitigation efforts as not entirely different from the existing mitigation efforts already under way to offset loss of earnings from MA biz sale (principally dis-synergies from allocated SG&A). The critical point is that Covid pressures are entirely under-earning related and should normalize out over time with future rate cases (this is not any reduction in '21 capex for instance after a slight earlier tweak to '20).

We note this is the first '21 update across the sector to provide an update on load expectations and cost reductions. We also expect this load update on '21 to kickstart further moderation of EPS ests into next year across the sector. We expect companies to continue to talk up the ongoing recovery in load in forthcoming meetings. As for 2020, NI has still not provided EPS guidance (Recall they pulled it when MASS Sale to ES Was announced).

Estimates

Below we tweak our estimates to reflect updates made to underearning expectations at NIPSCO until a rate case filing is made as well as the updates made to the renewables ownership potential that largely kicks in in '24. While the company sees clear pressure in the next two to three years, we expect in the long-run it returns to its 5-7% EPS CAGR.

Table 3: BofA NI EPS Estimates: below Street on both '21 and '22 with some risk s to both still in our view as load appears to be cautious still

NI EPS Estimates		2020E	2021E	2022E	2023E	2024E	2025E
Gas		0.99	1.03	1.09	1.14	1.16	1.20
Electric		0.61	0.63	0.67	0.75	0.85	0.86
Parent/Other		-0.32	-0.31	-0.30	-0.29	-0.27	-0.27
BofA EPS		1.28	1.35	1.46	1.60	1.74	1.79
Previous EPS		1.29	1.36	1.47	1.60	1.74	1.78
-							
Guidance			Floor: 1.36-1.40				
Consensus		1.32	1.38	1.48	1.57	1.66	
Consensus '19-'23 CAGR	4.9%						
BofA CAGR '19-'23 CAGR	5.1%						
Consensus '20-'24 CAGR	5.9%						
BofA CAGR '20-'24 CAGR	8.1%						
(Prev) 5%-7% CAGR EPS off '19 guidance range	High End	1.42	1.52	1.63	1.74	1.87	2.00
	Mid-Point	1.38	1.46	1.55	1.64	1.74	1.85
	Low End	1.33	1.40	1.47	1.54	1.62	1.70
5%-7% CAGR EPS off prior '21 guidance range	High End		1.40	1.50	1.60	1.72	1.84
	Mid-Point		1.38	1.46	1.55	1.64	1.74
	Low End		1.36	1.43	1.50	1.57	1.65
BofA DPS		0.88	0.94	0.99	1.05	1.12	1.18
BofA CAGR 2017-2021	6.6%						
Guidance							
5%-7% CAGR DPS guidance	High End	0.86	0.92	0.98	1.05		
	Mid-Point	0.83	0.88	0.94	0.99		
	Low End	0.81	0.85	0.89	0.94		
Share Count		381	392	407	423	450	460

Source: BofA Global Research estimates, company report, Bloomberg

Valuation

Below, we find the same PO of $27/sh and we maintain our Neutral rating. Note this reflects the latest peer multiple of 17.3x for gas and 16.9x for electric. Our premiums awarded stay the same per subsidiary. Total return is at 17% using current multiples as it would appear Street has lost confidence in mgmt's ability to temper Covid impacts. We appreciate the series of rate cases in OH & PA, but much more critically uncertainty on timeline to resolve lag and/or level of leg in '22 (or even depth of under-earning possible) as enabling outsized discount vs peers. We perceive better upside than downside at current valuation levels although degree of uncertainty holds us back.

Table 4: NI SOTP Valuation

NI SOP Valuation										
	Metric			P/E Multiple						
	2022E EPS	Low	Peer	Prem/ Discount	Base	High		Low	Base	High
Group Peer Multiple - Gas	-	-	17.3x	-	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Gas	-	-	5.10%	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Gas Utilities	-	-	18.2x	-	-	-	-	-	-	-
Columbia Gas of OH	$0.51	17.7x	18.2x	0.5x	18.7x	19.7x		$8.94	$9.45	$9.96
Columbia Gas of PA	$0.25	17.2x	18.2x	0.0x	18.2x	19.2x		$4.27	$4.52	$4.77
NIPSCO Gas	$0.20	17.2x	18.2x	0.0x	18.2x	19.2x		$3.43	$3.63	$3.83
Columbia Gas of VA	$0.08	17.7x	18.2x	0.5x	18.7x	19.7x		$1.37	$1.44	$1.52
Columbia Gas of KY	$0.04	17.2x	18.2x	0.0x	18.2x	19.2x		$0.73	$0.77	$0.81
Columbia Gas of MD	$0.02	17.7x	18.2x	0.5x	18.7x	19.7x		$0.31	$0.33	$0.35
Group Peer Multiple - Electric			16.9x							
Group EPS '18-'22 CAGR - Electric			5.00%							
Electric Utilities			17.7x							
NIPSCO Electric	$0.67	17.7x	17.7x	1.0x	18.7x	19.7x		$11.87	$12.54	$13.21
Total Utility	$1.76	*17.6x*			*18.6x*	*19.6x*		$30.92	$32.68	$34.44
-Parent EPS Drag (ex-Interest Expense)	-$0.09	17.6x	0.0x		18.2x	19.2x		-$1.58	-$1.63	-$1.72
Total EPS *(incl. debt drag)*	$1.46									
Midpoint of 5-7% EPS	*$1.46*									
Holdco Debt @ Parent, *not* allocated to Utilities										
(50% Netting out Debt)				-$2,000	50%			-$1,000	-$1,000	-$1,000
(50% P/E multiple on Interest Exp)				5.5%	50%			-$763	-$807	-$850
Grand Total Equity Value								$25.01	$26.61	$28.17
Shares Outstanding 2022E									407	
Total Equity Value								$25.00	$27.00	$28.00

Source: BofA Global Research estimates, company report, Bloomberg

Price objective basis & risk

NiSource Inc (NI)
Our $27 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2022 forward P/E multiples of 17.8x for gas utilities and 17.2x for electric utilities with an inline mult for gas utilities with just weather normalization, a 0.5x prem for gas utes with revenue normalization (prev 0x), and a 1.0x premium for the electric utility's strong growth rates (we factor in BOT in '24 EPS) but acknowledgement of industrial risk (prev 2x). We note that electric / gas peer P/E multiples are grossed up by 5% / 5.1% to reflect capital appreciation across the sector. We strip value from Columbia Gas of MA given the pending sale to close in 3Q20. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
NEUTRAL				
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith

***iQ**method*[SM] **Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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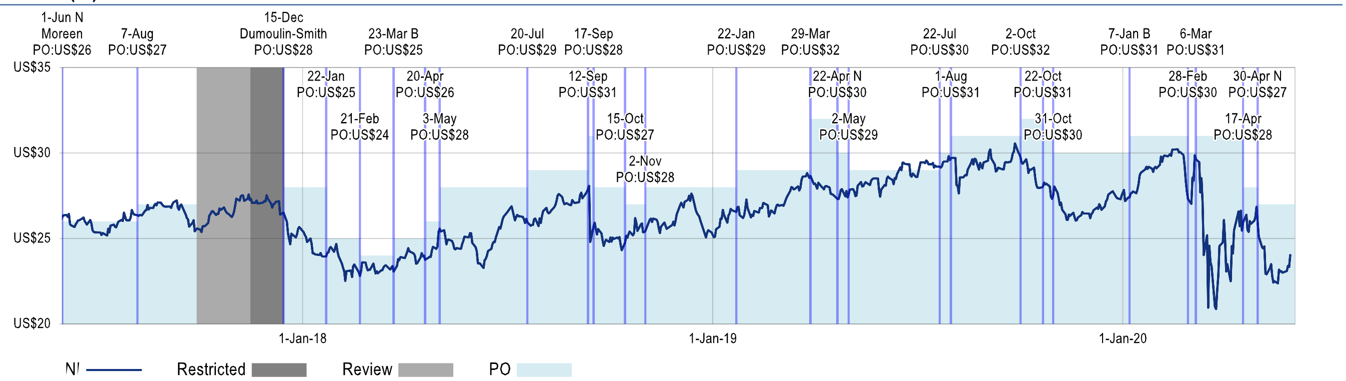
NiSource Inc (NI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	63	39.13%	Buy	51	80.95%
Hold	51	31.68%	Hold	35	68.63%
Sell	47	29.19%	Sell	26	55.32%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	72	50.35%	Buy	51	70.83%
Hold	38	26.57%	Hold	28	73.68%
Sell	33	23.08%	Sell	24	72.73%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1602	52.15%	Buy	1005	62.73%
Hold	713	23.21%	Hold	463	64.94%
Sell	757	24.64%	Sell	382	50.46%

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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Overweight

Gas/Power Infrastructure – Market Overweight

May 27, 2020

NISOURCE

(NI US Equity – $23.32 – Outperform)

Thinkin' of a master plan

- **Planning to mitigate COVID impact, CMA dis-synergies.** We hosted several members of NI's mgmt. team, including CEO Joe Hamrock and CFO Donald Brown, for a virtual meeting today. The punchline was that mgmt. is hopeful to offset impacts from COVID and dis-synergies from the CMA sale when looking out to 2021, with the goal of crafting a plan to still meet the $1.36-1.40 range that was pointed to on the YE19 call. This was encouraging to hear given commentary on the Q1 call less than a month ago where NI was noncommittal on expectations for 2021, which will be the basis for its 5-7% growth thereafter. Our 2021E is at the bottom of that range ($1.36), which assumes some spillover of COVID pressures/dis-synergies that aren't fully offset. We remain Outperform rated with a $26 PT as LT fundamentals remain solid and the plan post-CMA should be a lot easier to execute on.

- **Base scenario = ($0.00-0.10) EPS impact on 2021.** The base scenario that was outlined for 2021 assumes modest customer attrition/load declines, resulting in ($0-25M) of estimated margin reduction. Other potential impacts include incremental bad debts and financing expenses as well as the timing of regulatory activities. Mitigation efforts are underway, namely permanent structural changes and cost reductions catalyzed by the CMA sale. Importantly, lingering impacts stemming from COVID next year will be trued up through rate cases ultimately to where NI should get back on track LT.

- **Signs that sales are beginning to recover.** April sales data showed gas down (4%) and electric down (26%)! NI has started to see improvement off April-lows as C&I customers for both gas/electric (who are most impacted by the autos) have started to ramp back up. On the B/S, NI feels it is in good shape for 2020 as its $100M capex deferral was done largely to buffer cash.

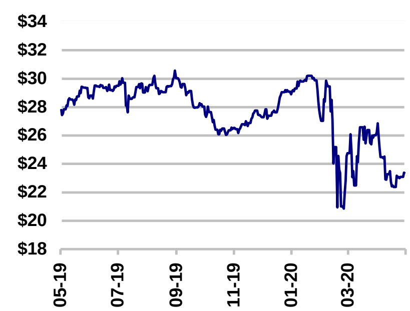
- **Generation strategy.** NI's generation strategy in Indiana will start to piece together this summer as CPCN filings are made at the IURC, with a full update targeted for Q3. All capex will be incremental and result in a step-up in EPS growth in the 2022/2023 timeframe. Financing is TBD but will include equity that could come via a forward or hybrids to minimize any dilutive impacts until the capex is rolled into rates.

- **CMA sale on track.** NI still expects the CMA sale to close in Q3.

Estimates / Valuation				
(US$)	**2020E**	**2021E**	**2022E**	**2023E**
EPS	$1.30	$1.36	$1.46	$1.57
Consensus	$1.32	$1.39	$1.49	$1.56
P/E	18.0x	17.1x	16.0x	14.9x
Dividend Yield	3.6%	3.9%	4.1%	4.3%

Trading and Fundamental Data	
Price Target	**$ 26**
Current Price	23.32
52-Week Range	$20-$31
Market Cap. (MM)	8,930
Enterprise Value (MM)	19,470
Shares Out. (MM)	382.8
Dividend Yield	3.63%
Dividend Payout Ratio	64%
ROE	6.6%
Debt to Cap	63.2%
Avg. Daily Vol. (000)	2,425

Price Performance	YTD	LTM
NI US Equity	-16%	-18%
Utility Index	-11%	-3%
S&P 500	-6%	7%



Source: FactSet/Wolfe Research

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WOLFE RESEARCH

NiSource

May 27, 2020

NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2020E	2021E	2022E	2023E
EPS	$1.30	$1.36	$1.46	$1.57
Diluted Shares Outstanding	$387	399	409	420
Dividends Per Share	$0.85	$0.90	$0.95	$1.01
Dividend Yield	3.6%	3.9%	4.1%	4.3%
Dividend Payout Ratio	65%	66%	65%	64%
Equity Ratio	39%	39%	40%	40%
FFO/Net Debt	13%	13%	14%	14%
Valuation Metrics				
P/E	18.0x	17.1x	16.0x	14.9x
Price/Book	1.6x	1.5x	1.5x	1.4x
Segment EPS				
Gas Distribution	$1.06	$1.12	$1.20	$1.27
NIPSCO Electric	0.56	0.56	0.57	0.60
Parent & Other	(0.32)	(0.32)	(0.31)	(0.30)
Total EPS	**$1.30**	**$1.36**	**$1.46**	**$1.57**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2020E	2021E	2022E	2023E
Capital Spending by Segment ($M)				
Gas Distribution	$1,261	$1,446	$1,446	$1,396
Electric	472	487	487	847
Parent	25	25	25	25
Total Capex	**$1,758**	**$1,958**	**$1,958**	**$2,268**
Financings ($M)				
Total Equity Issued/(Repurchased)	$298	$298	$298	$298
Total Debt Issued/(Repurchased)	$150	$500	$550	$750

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland and Massachusetts.

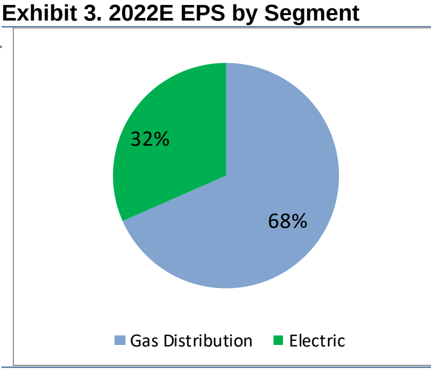
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of capital investment with recovery largely through trackers in mostly constructive regulatory environments. We see NI as a de-risking story in 2020 with an upward bias on rate base / EPS growth due to renewable investment opportunities at NIPSCO electric.

Valuation

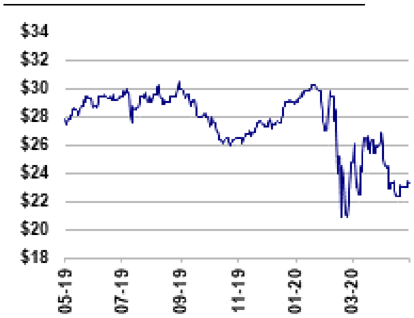
Our $26 price target is derived using a P/E multiple of 17.5x on our 2022E. This reflects a full-turn premium for NI's electric utility and an average for its gas LDCs. Risks for NiSource are 1) bad regulatory outcomes and 2) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer growth

Exhibit 3. 2022E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: FactSet

Investment Conclusion

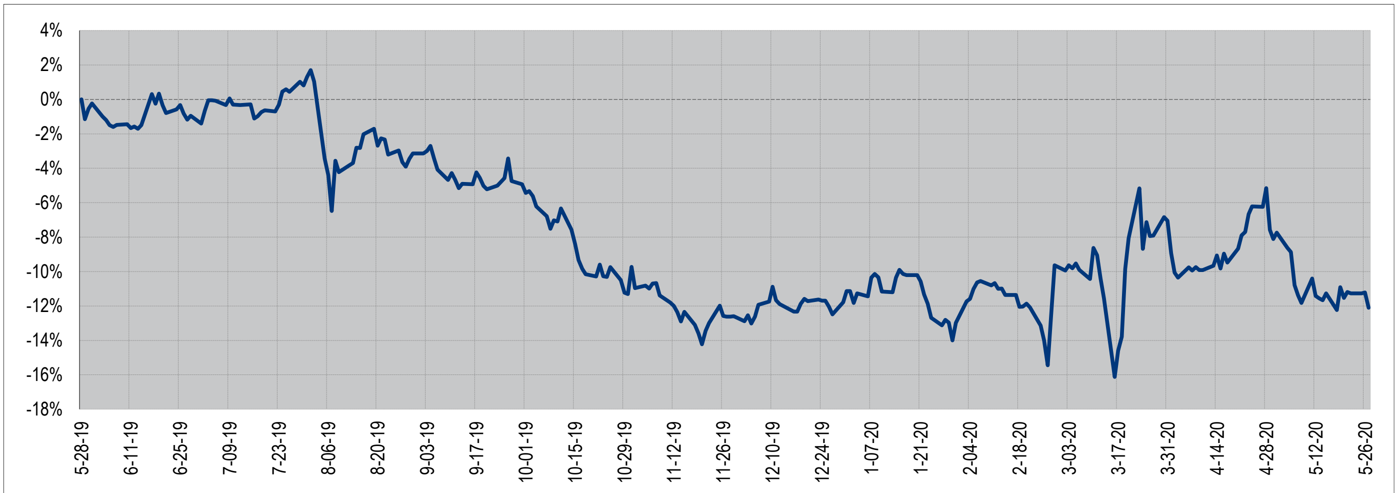
We are Outperform rated on NiSource. The company's $30B capital investment backlog should drive its 5-7% annual earnings target over the long term. Most of the NI's annual capex (~80%) is recovered with minimal lag via tracking mechanisms and the company has built a constructive track record with most of its state regulators. Post the CMA sale, we believe the company's plan is a lot easier to execute on. Incremental capex is on the horizon from renewable opportunities in Indiana, which will provide a step-up in EPS growth in the 2022/2023 timeframe. NI's generation strategy in Indiana should start to come together over the summer, with a full update targeted for its 3Q20 call. The dramatic shift toward renewables and fact that NI will be coal-free by 2028 is also helpful from an ESG perspective. We see exiting MA as a turning point that should allow NI to re-rate closer to its historic 5-10% premium over time as it proves out its ability to execute going forward.

Exhibit 5: Regulated Comparables

Company		Current	Current	Mkt Cap	P/E				Div	Div	Payout	Price/	Equity
Name	Ticker	Price	Shares	($M)	2020E	2021E	2022E	2023E	Yield	Growth (E)	Ratio	Book	Ratio
Alliant Energy	LNT	$47.33	250	$11,809	19.7x	18.5x	17.6x	16.7x	3.2%	7.0%	63%	2.1x	47%
Ameren	AEE	70.51	247	17,408	20.5x	18.9x	17.6x	16.7x	2.9%	4.0%	60%	2.2x	44%
American Electric	AEP	81.44	496	40,360	19.2x	17.6x	16.5x	15.6x	3.4%	4.5%	66%	2.0x	37%
Avangrid	AGR	42.90	309	13,256	19.0x	17.2x	15.9x	N/A	4.2%	2.5%	80%	0.9x	65%
CMS Energy	CMS	55.97	286	16,020	21.6x	19.7x	18.3x	17.0x	2.9%	6.5%	63%	3.1x	27%
Con Edison	ED	71.25	334	23,805	16.8x	15.6x	15.0x	14.4x	4.3%	3.5%	72%	1.3x	44%
Duke Energy	DUK	83.72	735	61,522	16.1x	15.3x	14.7x	14.0x	4.6%	2.0%	74%	1.4x	42%
Edison International	EIX	57.05	378	21,562	12.8x	12.3x	11.6x	10.9x	4.3%	0.2%	56%	1.6x	38%
Entergy	ETR	99.47	200	19,910	18.0x	16.8x	15.9x	N/A	3.8%	2.2%	69%	1.9x	33%
Evergy	EVRG	60.93	227	13,815	20.2x	18.8x	18.1x	17.2x	3.4%	6.2%	68%	1.6x	45%
Eversource Energy	ES	77.47	336	26,064	21.1x	19.9x	18.8x	17.9x	2.9%	6.1%	62%	2.0x	46%
FirstEnergy	FE	41.36	542	22,407	16.7x	15.7x	15.0x	14.2x	3.8%	2.6%	63%	3.3x	24%
Fortis*	FTS	52.05	464	24,167	20.3x	18.3x	17.2x	16.4x	3.7%	6.0%	75%	1.3x	44%
NiSource	NI	23.32	383	8,927	18.0x	17.1x	16.0x	14.9x	3.6%	6.0%	65%	1.9x	40%
PG&E	PCG	10.93	530	5,791	6.9x	10.8x	9.5x	N/A	0.0%	N/A	0%	1.1x	57%
Pinnacle West	PNW	75.50	112	8,493	15.7x	15.0x	14.5x	13.6x	4.2%	6.0%	66%	1.6x	47%
Portland General	POR	44.76	89	4,006	18.7x	17.2x	16.1x	15.8x	3.4%	1.5%	64%	1.5x	49%
PPL Corp.	PPL	26.74	769	20,557	11.4x	10.9x	9.9x	N/A	6.2%	0.6%	71%	1.6x	36%
Southern Company	SO	55.01	1,056	58,088	17.4x	16.6x	15.4x	14.2x	4.7%	3.2%	81%	2.1x	36%
WEC Energy Group	WEC	85.90	315	27,096	23.0x	21.6x	20.2x	18.9x	2.9%	7.2%	68%	2.6x	45%
Xcel Energy	XEL	61.73	525	32,410	22.2x	20.9x	19.7x	18.7x	2.8%	6.2%	62%	2.4x	39%
Average					**17.9x**	**16.9x**	**15.9x**	**15.7x**	**3.6%**	**4.2%**	**64%**	**1.9x**	**42%**
Average (ex EIX, PCG, PPL)					**19.1x**	**17.8x**	**16.8x**	**16.0x**	**3.6%**	**4.6%**	**68%**	**2.0x**	**42%**

Source: Wolfe Research, FactSet

Exhibit 6: NI vs the Regulated Average



Source: Wolfe Research, FactSet

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Important Disclosures:

Price Chart(s) with Ratings and Target Price History

Note: OP = Outperform; PP = Peer Perform; UP = Underperform

Wolfe Research, LLC Fundamental Valuation Methodology:

Company:	Fundamental Valuation Methodology:
NI US Equity	Forward P/E

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:	Risks That May Impede Achievement of the Recommendation, Rating or Target Price:
NI US Equity	Economy, regulatory outcomes, project execution, pipeline safety accidents

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Company:	Research Disclosures:
NI US Equity	None

Other Disclosures:

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May 28, 2020 | Equity Research

Flash Comment

Utilities

Utility & Infrastructure Daily

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Quick thoughts from Wells Fargo Securities, LLC Utility & Infrastructure Team:

Utilities

NiSource Inc. (NI/Overweight) (Akers) – Since COVID-19 fears hit the US market, shares of NI have underperformed Gas Utility peers by nearly 7% and lagged the S&P Utilities by 3% (from 2/21/20 close). Most recently, shares reacted to the lack of affirmative guidance on the Q1 call and, subsequently, disclosures this week outlining a potential net impact from COVID of ($0.00-0.10) in each 2020 and 2021. Based on our conversation with NI mgmt. yesterday (5/27), we feel incrementally better about the story. Mgmt. highlighted opportunities to drive both structural cost savings and general process improvements; the company also expects more temporary cost reductions in 2020. O&M is likely to go down in 2021 on account of the sale of MA and trend flat or better off that base. The biggest determinant as to where the company lands in the ($0.00-0.10) COVID impact range is sales. The company currently expects gas/electric sales to be down 2.5%/4%, respectively, in 2020 with a margin impact of $30-40mm ($8mm of which was experienced in April), or $0.06-0.08 per share after-tax, and $0-20mm, or $0.00-0.04 in 2021. Within the industrial customer base, exposure to the auto supply chain and steel industry has weighed on volumes. That said, mgmt. is starting to see a recovery and noted that industrial customers continue to pay their bills. The commercial recovery remains murky as states are in the process of phased re-openings.

Regarding the growth rate, the 5-7% appears intact off of a normalized 2021 base as any lingering COVID impacts in 2021 would eventually be reconciled through a natural rebound and/or rate cases. Further, the 5-7% is supported by annual capex of ~$1.8B with renewable opportunities at NIPSCO offering potential upside to those levels in 2022 and 2023. The company outlined a 1,300-1,400 MW generation need in 2023 (three wind projects representing ~800 MW already announced). NI would look to procure half of the needs through power purchase agreements (PPA) and own the other half, which would be financed with the help of tax equity and likely require incremental equity beyond the ATM and ongoing programs. Reiterate Overweight.

American Electric Power (AEP/Overweight) (Kalton) – It's a go. On 5/27, the Louisiana Public Service Commission (LPSC) approved SWEPCO-LA's portion of North Central Wind, a 1,485 MW regulated wind project located in OK. The LPSC also approved a flex-up option in the event the Public Utility Commission of Texas (PUCT) does not approve the SWEPCO-TX allocation. As a result of the LPSC approval plus prior approvals in AR (including flex-up) and OK, AEP has secured approvals sufficient to proceed with the entire project regardless of the PUCT's final decision. Our EPS outlook already incorporates the $2B North Central Wind project with a full year contribution beginning in '22. Upon completion, we estimate North Central will add ~$0.10 to annual EPS power assuming a 9.0-9.5% ROE, 45-50% equity ratio and $1.0-1.3B of new equity in '21, which is consistent with AEP's guidance of 50-66% equity financing for the project. Our 20-24E EPS

Please see page 3 for rating definitions, important disclosures and required analyst certifications.
All estimates/forecasts are as of 05/28/20 unless otherwise stated. 05/28/20 05:30:42 ET

remain $4.30, $4.70, $5.10, $5.40 & $5.70, which results in a 7% CAGR off the original mid-point of '19 guidance ($4.10). Our take: not a surprise, but an incremental positive nonetheless and increases our confidence in AEP's ability to achieve a '20-24 EPS CAGR in the upper half of the 5-7% guidance range.

American Electric Power Company, Inc. (AEP)/Overweight
Price as of 5/27/2020: $81.44
FY 20 EPS: $4.30
FY 21 EPS: $4.70
Shares Out.: 494.8 MM
Market Cap.: $40,296.51 MM

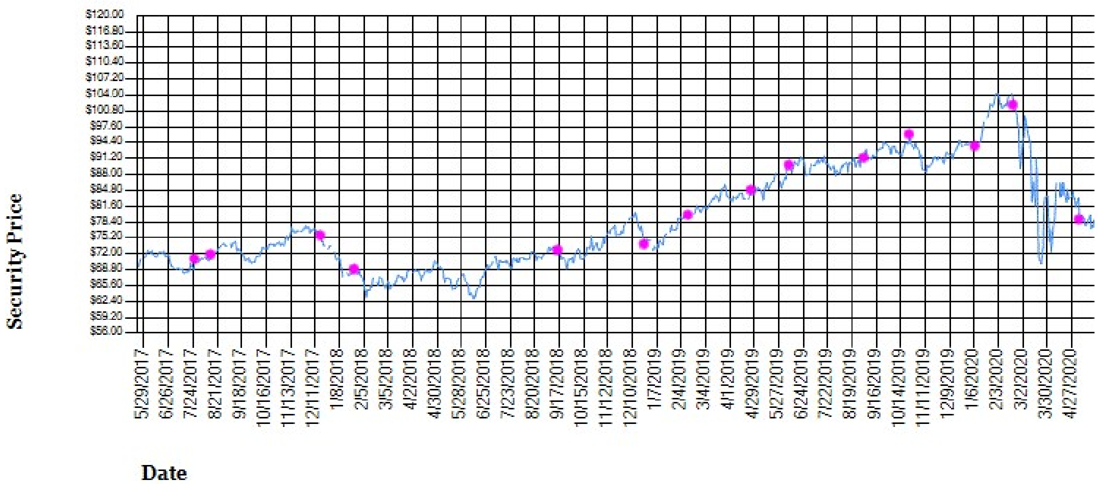
NiSource Inc. (NI)/Overweight
Price as of 5/27/2020: $23.32
FY 20 EPS: $1.26
FY 21 EPS: $1.37
Shares Out.: 382.2 MM
Market Cap.: $8,912.9 MM

Rating Basis Information:
AEP Thesis: We are attracted to AEP's strong EPS and dividend growth prospects, organic investment opportunities and regulatory diversity.

NI Thesis: We rate shares Overweight. We are attracted to NI's robust long-term infrastructure growth opportunities and supportive regulatory treatment.

DISCLOSURE APPENDIX
Required Disclosures

American Electric Power Company, Inc. (AEP) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
	5/22/2017		Kalton				
	5/22/2017	NA	1	NE	NE	NE	69.42
•	7/27/2017	70.67	1	78	NE	NE	70.67
•	8/15/2017	71.05	1	81	NE	NE	71.52
•	12/18/2017	76.54	1	85	NE	NE	75.50
•	1/26/2018	69.70	1	77	NE	NE	68.75
•	9/16/2018	72.60	1	81	NE	NE	72.60
•	12/24/2018	76.43	1	85	NE	NE	73.55
•	2/13/2019	80.30	1	89	NE	NE	79.55
•	4/26/2019	84.83	1	93	NE	NE	84.71
•	6/9/2019	89.54	1	100	NE	NE	89.54
•	9/2/2019	91.15	1	101	NE	NE	91.15
•	10/24/2019	95.85	1	103	NE	NE	95.72
•	1/8/2020	93.41	1	104	NE	NE	93.41
•	2/21/2020	102.38	1	115	NE	NE	101.71
•	5/6/2020	79.78	1	93	NE	NE	78.82

*Effective December 7, 2019, Wells Fargo Securities' Equity Research modified its ratings definitions. Complete definitions of current ratings can be found below. For information related to prior ratings definitions, please contact equityresearch1@wellsfargo.com.

Source: Wells Fargo Securities, LLC estimates and Reuters data

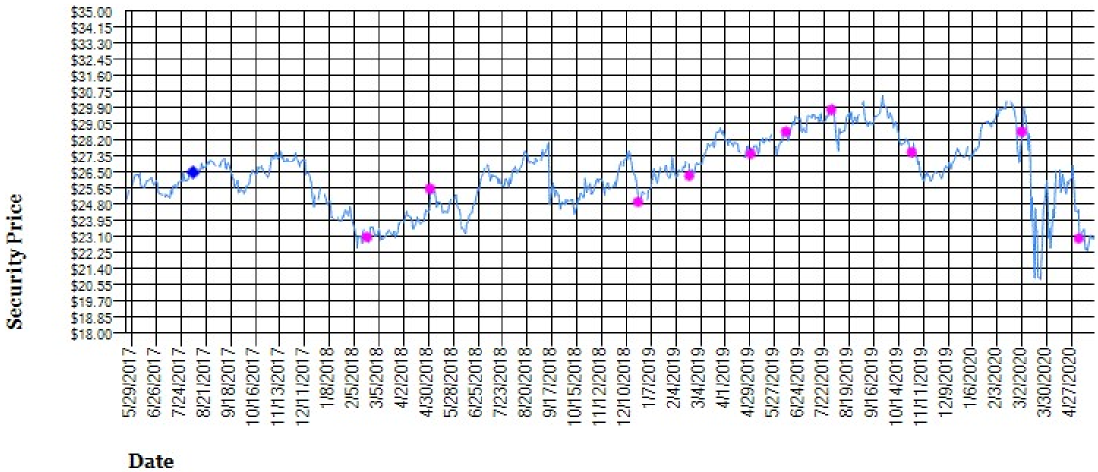
Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- • Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- □ Split Adjustment

Rating Code Key

1	Overweight/Buy	SR	Suspended
2	Equal Weight/Hold	NR	Not Rated
3	Underweight/Sell	NE	No Estimate

NiSource Inc. (NI) 3-yr. Price Performance



Date	Published Price ($)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
8/9/2017		Akers				
8/9/2017	26.32	1	30	NE	NE	26.38
2/20/2018	22.99	1	26	NE	NE	23.02
5/3/2018	25.38	1	28	NE	NE	25.57
12/24/2018	26.05	1	29	NE	NE	24.89
2/20/2019	26.28	1	30	NE	NE	26.28
5/1/2019	27.41	1	31	NE	NE	27.40
6/9/2019	28.54	1	32	NE	NE	28.54
7/31/2019	29.79	1	33	NE	NE	29.69
10/30/2019	27.29	1	31	NE	NE	27.51
3/2/2020	27.02	1	30	NE	NE	28.56
5/6/2020	23.07	1	27	NE	NE	22.92

*Effective December 7, 2019, Wells Fargo Securities' Equity Research modified its ratings definitions. Complete definitions of current ratings can be found below. For information related to prior ratings definitions, please contact equityresearch1@wellsfargo.com.

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- Rating Downgrade
- Rating Upgrade
- Price Target/Val Range Change
- Initiation, Resumption, Drop or Suspend
- Analyst Change
- Split Adjustment

Rating Code Key

1	Overweight/Buy	SR	Suspended
2	Equal Weight/Hold	NR	Not Rated
3	Underweight/Sell	NE	No Estimate

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Wells Fargo Securities, LLC maintains a market in the common stock of American Electric Power Company, Inc., NiSource Inc..
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3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

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As of: May 28, 2020

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Wells Fargo Securities, LLC has provided investment banking services for 33% of its Underweight-rated companies.

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UBS

First Read

NiSource Inc.

Catching up with the C-Suite

Equities

Americas

Gas Utilities

12-month rating	**Neutral**
12m price target	**US$27.00**
Price (27 May 2020)	**US$23.32**

RIC: NI.N **BBG:** NI US

Trading data and key metrics

52-wk range	US$30.56-20.86
Market cap.	US$8.93b
Shares o/s	383m (COM)
Free float	99%
Avg. daily volume ('000)	1,218
Avg. daily value (m)	US$30.3
Common s/h equity(12/20E)	US$5.09b
P/BV(12/20E)	1.8x
Net debt to EBITDA(12/20E)	5.6x

EPS (UBS, diluted) (US$)

	12/20E	
	UBS	Cons.
Q1	0.76	0.76
Q2E	0.08	0.14
Q3E	0.03	0.05
Q4E	0.40	0.37
12/20E	1.27	1.32
12/21E	1.35	1.38
12/22E	1.43	1.49

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Key Takeaways

Earlier today, we hosted a Virtual Investor Update Meeting with NiSource's CEO Joe Hamrock and CFO Donald Brown. NI published its expected impact from COVID-19 (click here) and some were surprised with $0.00-$0.10 per share negative impact on 2021 EPS. Management clarified that they tried to be conservative and that they see a recovery in margin from April lows and they expect full recovery by the end of the year. 2021 EPS will be a base year for future 5-7% long term growth and NI plans to provide 2021 EPS guidance on the 3Q20 earnings call together with an update on the long-term outlook. Management remains focused on cost reduction to mitigate the impact of COVID-19 on revenues and highlighted that they look at traditional cost management but also some structural changes could by under way and they could be more long term in nature.

Other Tidbits

Despite strong liquidity post recent debt issuance and planned asset sale, management sees a need for issuance on ATM to get to targeted FFO/Debt metrics. NI maintained its previously provided $200-$300MM range of ATM equity issuance in 2020. Sale of Columbia Gas of MA remains on track, with close expected by the end of 3Q20. Management doesn't see a risk to 2021 capex due to COVID-19 at this time. An increase in bad debt has not been material so far.

Regulatory Update

Earlier in May, NIPSCO filed for a deferral of COVID-19 expenses and NI plans to file for deferral in OH. Despite the lockdown, NI filed rate cases in Pennsylvania and Maryland with new rates expected in 2021. NI requested a $100.4MM rate increase in PA (based on ROE of 10.95% and equity/capital structure of 54.19%) and a $6.5MM rate increase in Maryland (based on ROE of 10.95% and equity/capital structure of 52.63%).

Highlights (US$m)	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
Revenues	4,905	5,095	5,184	5,084	5,295	5,487	5,685	5,901
EBIT (UBS)	964	942	1,047	1,054	1,099	1,179	1,262	1,356
Net earnings (UBS)	398	463	495	493	538	583	629	684
EPS (UBS, diluted) (US$)	1.21	1.30	1.32	1.27	1.35	1.43	1.51	1.61
DPS (net) (US$)	0.72	0.79	0.84	0.89	0.95	1.01	1.07	1.13
Net (debt) / cash	(8,973)	(9,892)	(10,374)	(9,955)	(10,581)	(11,262)	(11,945)	(12,672)

Profitability/valuation	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
EBIT (UBS) margin %	19.7	18.5	20.2	20.7	20.8	21.5	22.2	23.0
ROIC (EBIT) %	8.6	7.7	7.9	7.8	7.9	7.9	7.8	7.8
EV/EBITDA (UBS core) x	9.8	10.6	10.6	9.7	9.4	9.2	8.7	8.2
P/E (UBS, diluted) x	20.9	19.4	21.2	18.3	17.3	16.3	15.4	14.5
Equity FCF (UBS) yield %	(11.6)	(14.5)	(1.6)	(6.0)	(11.1)	(154.9)	(3,973.9)	(105,603.4)
Dividend yield (net) %	2.9	3.1	3.0	3.8	4.1	4.3	4.6	4.8

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$ 23.32 on 27-May-2020

Forecast returns

Forecast price appreciation	+15.8%
Forecast dividend yield	3.9%
Forecast stock return	+19.7%
Market return assumption	5.2%
Forecast excess return	+14.5%

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. We use comparable company multiples in our sum-of-the-parts EV/EBITDA and P/E valuations. Our price target is derived using an average of sum-of-the-parts EV/EBITDA and P/E valuations and DDM.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	48%	32%
Neutral	FSR is between -6% and 6% of the MRA.	40%	28%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<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 March 2020.
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 Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$23.32	27 May 2020

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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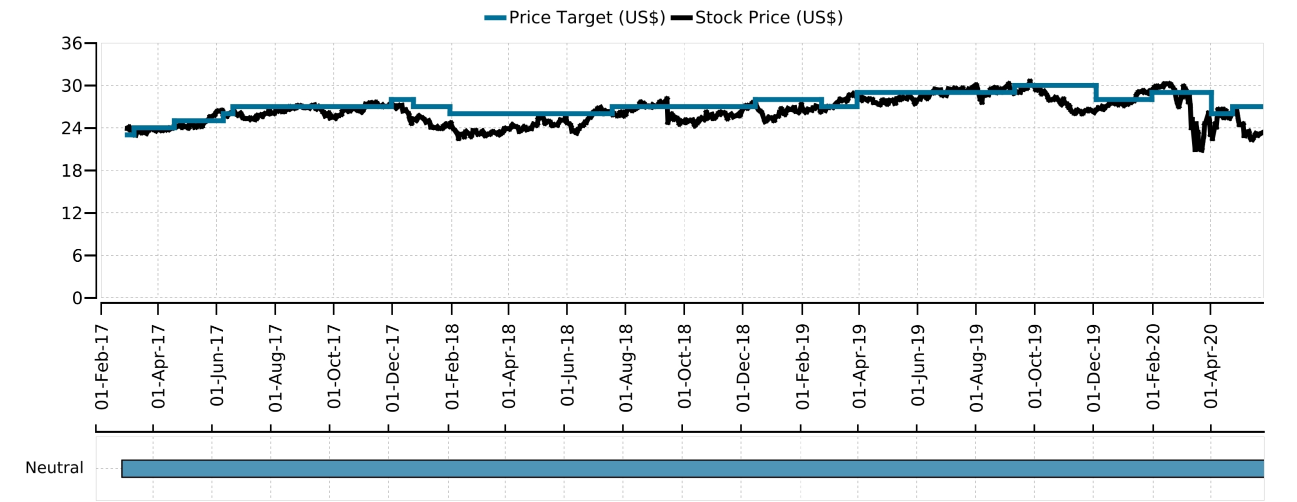
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2017-02-27	23.80	23.00	Neutral
2017-03-06	23.58	24.00	Neutral
2017-04-17	24.02	25.00	Neutral
2017-06-07	26.44	26.00	Neutral
2017-06-17	26.06	27.00	Neutral
2017-11-29	27.17	28.00	Neutral
2017-12-22	25.28	27.00	Neutral
2018-01-29	24.22	26.00	Neutral
2018-07-17	26.12	27.00	Neutral
2018-12-13	27.62	28.00	Neutral
2019-02-20	26.28	27.00	Neutral
2019-03-29	28.66	29.00	Neutral
2019-09-09	28.91	30.00	Neutral
2019-12-03	26.41	28.00	Neutral
2020-01-30	29.10	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral

Source: UBS; as of 27-May-2020

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Goldman Sachs | Equity Research

27 May 2020 | 7:07PM EDT

NiSource Inc. (NI): 2021 uncertainty a near-term overhang but continue to see favorable LT growth; Buy

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We reiterate our Buy rating on NiSource (NI) after our virtual meeting with senior management. While we recognize concerns related to a lack of clarity on 2021 earnings power (guidance expected with 3Q20 results), we view current valuations somewhat accounting for a potentially bearish scenario and believe normalizing demand and robust investment pipeline support a relatively unchanged 2022 earnings profile. Our 2020-2022 EPS estimates of $1.27/$1.38/$1.49 remain unchanged, which already incorporate our forecasted -$0.09 and -$0.05 net impact (2020/2021) from COVID-19 that fall within the company's guidance impact range.

Below are the key takeaways from our virtual meeting:

- **Cost mitigation includes sustainable efficiencies.** While some cost controls (especially in 2020) reflect more short-term timing of various expenses, management noted that a bulk of the items stem from items planned prior to the 2018 gas incident, including corporate function consolidation and ongoing cost structure adjustments. NI's 2021 mitigation plan of $0.05-$0.10 accounts for certain delays in 2020 expenses.
- **NI expects a constructive outcome on COVID cost deferral proposals.** With Pennsylvania, Virginia, and Maryland already having approved incremental bad debt deferral and/or other COVID related costs, management looks to receive a similar decision in the proposal for Indiana and Ohio. In the $0.00 to -$0.10 net EPS impact guidance, they assume constructive outcomes at both jurisdictions.
- **While NI did not provide formal 2020/2021 guidance, prior management commentary serves as a guide.** On the 4Q19 earnings call, management pulled their 2020 EPS guidance range of $1.36-$1.40 given the announced sale of its MA gas utility, but commented that 2021 earnings could be at or above the prior 2020 guidance range. They still view this as a fair base to assess the ultimate COVID-19 impact and hope to provide formal 2021 guidance with 3Q20 earnings.
- **No bulk equity needed until renewable financing.** NI's financing plans through 2021 do not incorporate any assumed recovery of the $300mn in property insurance associated with the MA gas incident. They also do not expect a need to issue bulk equity unless to finance the purchase of owned renewables, either from the recent Indiana RFP or the 50% future ownership of the Rosewood (100 MW) and Crossroads (300 MW) wind plants (expected in 2023).

They continue to view RFP-based generation ownership potential as incremental upside, consisting of up to 50% of the 1.6 GW capacity opportunity. We note NI would need to file a base rate case to add any generation into rate base.

Our $28 12-month price target (unchanged) embeds 20x our 2021 EPS estimate of $1.38. Our target reflects a 24% total return, with the stock currently trading at a 1.0x P/E discount to smid-cap peers. Key risks include (1) legal and regulatory risks, (2) earnings/cash impact due to COVID-19, (3) higher than expected O&M, (4) electricity demand and customer growth, and (5) financing.

NI	12m Price Target: **$28.00**	Price: **$23.32**	Upside: **20.1%**

Buy

Market cap: $7.6bn
Enterprise value: $18.1bn
3m ADTV: $101.6mn
United States
America-Regulated Utilities
M&A Rank: 3

GS Forecast

	12/19	12/20E	12/21E	12/22E
Revenue ($ mn)	5,208.9	4,968.9	5,187.4	5,409.0
EBITDA ($ mn)	1,608.1	1,792.4	1,998.9	2,160.7
EBIT ($ mn)	890.7	1,033.9	1,183.8	1,284.7
EPS ($)	1.32	1.27	1.38	1.49
P/E (X)	21.3	18.4	16.9	15.6
EV/EBITDA (X)	13.0	10.9	10.5	10.1
FCF yield (%)	(2.1)	(7.7)	(4.7)	(3.3)
Dividend yield (%)	2.9	3.6	3.8	4.0
Net debt/EBITDA (X)	5.9	5.3	5.1	5.0

	3/20	6/20E	9/20E	12/20E
EPS ($)	0.76	0.07	0.02	0.42

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 27 May 2020 close.

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Reg AC

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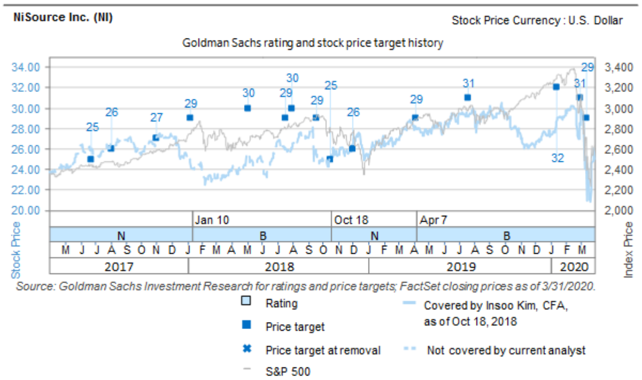

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May 26, 2020 | 22:57 ET | 22:57 ET~

NiSource

NI-NYSE	Rating	Price: May-22	Target	Total Rtn
	Outperform	$23.09	$27.00	21%

Incrementally Incremental

Bottom Line: NiSource released an investor update including management's current forecast for the net impact to 2020 and 2021 earnings from the COVID-19 pandemic.

Overall, we believe the update will be viewed as modestly disappointing and will likely raise incremental questions on what the company is seeing regarding the lingering COVID-19 and cost impacts embedded in the company's 2021 impact. That said, we believe the stock's nearly 500 bps under-performance (since 4/29) and current multiple (3% discount) largely reflects these uncertainties.

We reiterate our Outperform rating and $27 target price.

Key Points

In front of investor meetings this week, NiSource released an incremental COVID-19 update including a base case that calls for roughly a $30-40mm margin reduction in 2020 and $0-25mm margin reduction in 2021. Including other COVID-19 costs, total unmitigated non-GAAP costs are estimated to range from ($0.15-0.20)/share in 2020 and ($0-0.10)/share in 2021.

Management believes it can mitigate up to $0.10-0.15/share in 2020 and $0.05-0.10/share in 2021 through cost control, regulatory mechanisms and organizational repositioning efforts.

Although the net impact could suggest only an incremental $0.05 of potential EPS drag, management seems to be striking a more cautious stance suggesting a $0.0-0.10/share impact for both 2020 and 2021 and a recovery that extends into at least the first half of 2021. We believe the company's range likely includes some flexibility regarding the potential timing of regulatory recovery as well as financing costs associated with bridging lower operating cash flows.

We are reducing our 2020-22 EPS estimates to $1.30, $1.33 and $1.45, respectively, to reflect a more conservative sales outlook and a slightly longer time frame to execute its organizational repositioning efforts post the upcoming sale of Columbia Gas Massachusetts (CGM) in 3Q20.

Acknowledging the near-term uncertainties, we continue to find NI share attractive relative to the company's above-average 5-7% long-term EPS CAGR. In addition, the company has several positive catalysts upcoming in the Fall, including the completion of its sale of CGM to Eversource in 3Q20 as well as the company re-initiating its 2021 EPS guidance, which will serve as a base for its 5-7% above-average EPS CAGR.

Key Changes

Estimates	2020E	2021E
EPS	$1.30	$1.33
Previous	*$1.35*	*$1.40*
EBIT	$1,087	$1,155
Previous	*$1,113*	*$1,188*

Please refer to pages 6 to 9 for Important Disclosures, including Analyst's Certification.

BMO Capital Markets — IN Fact

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Company Data			in $
Dividend	$0.84	Shares O/S (mm)	382.8
Yield	3.6%	Market Cap (mm)	$8,839
P/BV	1.4x	Net Debt (mm)	$9,606

BMO Estimates (FY- Dec .)	2019A	2020E	2021E (in $)
EPS	$1.32	$1.30↓	$1.33↓
DPS	$0.80	$0.84	$0.89
EBIT	$1,042	$1,087↓	$1,155↓
EBITDA	1,759	1,834↓	1,927↓

Consensus Estimates	2019A	2020E	2021E
EPS		$1.33	$1.40

Valuation	2019A	2020E	2021E
P/E	17.5x	17.8x	17.3x
Div. Yield (%)	3.5%	3.6%	3.9%

QTR. EPS	Q1	Q2	Q3	Q4
2019A	$0.82	$0.05	$0.00	$0.45
2020E	$0.76a	$0.06	$0.05	$0.43
2021E	$0.81	$0.06	$0.05	$0.41

Our Thesis

We like several aspects of the NI following the sale of Columbia Gas of Massachusettes and removal of previously guided $500-700mm equity issuance overhang, which we believe meaningfully de-risked the story.

BMO Capital Markets

NiSource - Block Summary Model

Income Statement	2019A	2020E	2021E
Electric Operations	402	403	427
Gas Distribution	632	676	720
Parent & Other	13	13	13
Consolidated EBIT	1,042	1,087	1,155
Depreciation & Amortization	717	747	772
EBITDA	1,759	1,834	1,927
Interest Expense	379	399	396
Income Tax	113	120	132
Income from continuing operations	495	503	532
Weighted Average Shares Outstanding	376	388	399
Diluted Operating EPS	$1.32	$1.30	$1.33
Dividends per Share	$0.80	$0.84	$0.89
Cash Flow Statement	**2019A**	**2020E**	**2021E**
Operating Cash Flow	1,750	1,417	1,365
Investing Cash Flow	(1,988)	(630)	(1,770)
Financing Cash Flow	154	(106)	(99)
Net Change in Cash Flow	(84)	681	(504)
EOP Cash on Balance Sheet	37	718	214
Common stock (net)	34	335	335
Net debt issued/(repaid)	494	500	(64)
Dividends paid	(301)	(326)	(355)
Balance Sheet	**2019A**	**2020E**	**2021E**
Common Equity	5,327	6,019	6,611
Preferred Equity	880	880	880
Total Debt	9,643	10,143	10,079
Enterprise Value	$20,207	$20,913	$21,681
Common equity %	33.6%	35.3%	37.6%
Preferred equity %	5.6%	5.2%	5.0%
Total Debt %	60.8%	59.5%	57.4%
Book Value per Share	$16.51	$17.79	$18.78

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

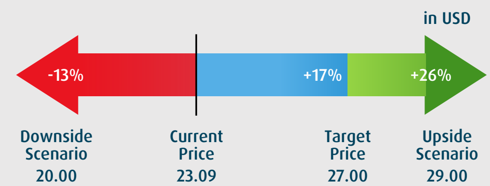
Our $27 target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2022E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook. For NI, we have removed EPS for its MA gas business from our P/E valuation and instead include only the asset value (1x equity rate base) in our SOTP framework.

Upside Scenario 29.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile.

Downside Scenario 20.00

Our downside scenario reflects a tightening monetary policy and a deceleration of the company's rate base growth.



Key Catalysts

Initial indicative pricing in its second renewable RFP in IN. Completing the sale of Columbia Gas of Massachusetts to Eversource. Potentially, capital spending and growth rate update in 2H20 given clarity in the aforementioned RFP and recent rate orders in MA and IN.

Company Description

NiSource, Inc. is a regulated utility holding company, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states. Through its Columbia Gas and NIPSCO brands, it provides natural gas, electricity, and other products and services. The company was founded in 1987 and is headquartered in Merrillville, Indiana.

NI-NYSE Research

Glossary

Company Models

Take 2… "Action"

In front of investor meetings this week, NiSource released an investor update including management's current forecast for the net impact to 2020 and 2021 earnings from the COVID-19 pandemic.

Overall, we believe the update will be viewed as modestly disappointing and will likely raise incremental questions on what the company is seeing regarding the lingering COVID-19 and cost impacts embedded in the company's 2021 impact report. That said, we believe the stock's nearly 500 bps underperformance (since 4/29) and current multiple (3% discount) largely reflects these uncertainties and investors will now likely look to management for incremental details behind the company's additional disclosures for comfort.

For the month of April (which could prove to be the worst for the year), management estimates a net impact of $8.1 million pre-tax or just under 2c/share with gas distribution sales down 4% reflecting decoupling (0.3% annualized) and electric operation sales down 26% (2.3% annualized).

Although management indicated volumes had begun to recover by mid- to late-May off April lows, assuming a non-specified gradual recovery that extends into 1H21 and an assumption of favorable regulatory treatment on COVID-19 related costs (primarily at NIPSCO), **management's base case calls for roughly a $30-40 million margin reduction in 2020 and $0-25 million margin reduction in 2021**. When including other COVID-19 costs including bad debt, lost late payment fees and other operational expenses, total unmitigated non-GAAP costs are estimated to range from ($0.15-0.20)/share in 2020 and ($0-0.10)/share in 2021.

Partially offsetting these impacts and in an effort to mitigate the unallocated costs associated with the company's pending sale of Columbia Gas Massachusetts (CGM) to Eversource, **management believes it can mitigate up to $0.10-0.15/share in 2020 and $0.05-0.10/share in 2021 through cost control**, regulatory mechanisms and organizational repositioning efforts.

Although the net impacts above would suggest only an incremental $0.05 of potential EPS drag relative to its previous, pre-COVID-19 expectation that 2021 would be "at or above" 2020's initial $1.36-1.40/share guidance (issued on 3Q19 call but withdrawn with its 4Q19 release) **management seems to be striking a more cautious stance suggesting a $0.0-0.10/share** impact in both years and a recovery that extends into at least the first half of 2021. We believe the company's range likely includes some flexibility regarding the potential timing of regulatory recovery as well as financing costs associated with bridging lower operating cash flows.

We would hope to get more clarity on the cadence and magnitude of the demand recovery embedded in the company's current outlook as well as a better sense of the incremental costs and recovery assumptions, especially at NIPSCO. While not precise, we see bad debt and other costs ranging from $40-55 million in 2020 to $0-$22 million in 2021, which would imply a full-year sales reduction at NIPSCO in the lower-single-digit range (Exhibit 1).

BMO Capital Markets

Exhibit 1: Net Margin & Cost Impacts for 2020 & 2021

	2020		2021	
	Low	High	Low	High
COVID Base Case EPS Impact	**($0.15)**	**($0.20)**	**$0.00**	**($0.10)**
Pre/Tax Revenue	($70)	($94)	$0	($47)
Base-Case Margin Impact	($30)	($40)	$0	($25)
Implied Bad-Debt & Other Costs	($40)	($54)	$0	($22)
Mitigation Efforts	**$0.10**	**$0.15**	**$0.05**	**$0.10**
Net Impacts	**($0.05)**	**($0.10)**	**($0.05)**	**($0.10)**

* Assumes primary impact at NIPSCO

Source: BMO Capital Markets

The company filed a petition with the Indiana commission (IURC) in early May for the ability to defer lost revenue and costs and the establishment of a bad debt tracker. Management has asked for the commission to respond by July 15th.

We are reducing our 2020-22 EPS estimates to $1.30, $1.33 and $1.45, respectively, to reflect a more conservative sales outlook and a slightly longer time frame to execute its organizational repositioning efforts post the sale of CGM.

We Reiterate Our Outperform Rating and $27 Target Price

Acknowledging the near-term uncertainties, we continue to find NI shares attractive relative to the company's above-average 5-7% long-term EPS CAGR, which is supported by a visible $30 billion investment backlog at both its natural gas and electric operations with minimal regulatory lag (75-80% converted to earnings within 12-18 months).

The company has several positive catalysts upcoming in the Fall, including the completion of its sale of Columbia Gas Massachusetts to Eversource in 3Q20 as well as the company re-initiating its 2021 EPS guidance, which will serve as a base for its 5-7% EPS CAGR.

We also see a bias to the upper end of this 5-7% growth range as the company finalizes its renewable RFPs to replace its retiring coal fleet at NIPSCO as well as other capex opportunities including grid modernization spending. Management should have visibility on both these opportunities in the Fall also and as such, we would look for the company to extend its 5-7% growth through 2024 (from 2022) to incorporate these new growth drivers.

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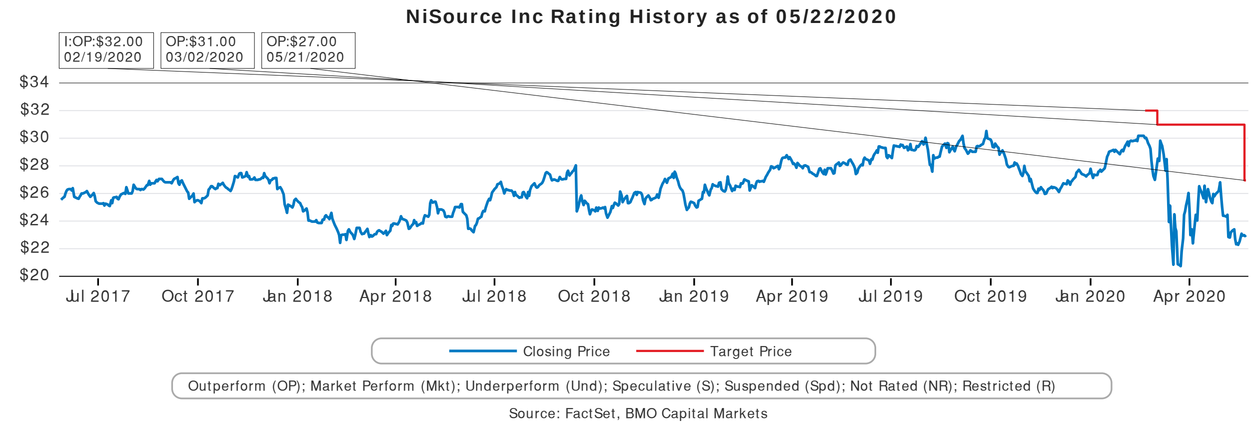
Sum-of-the-Parts Valuation

Exhibit 2: NiSource Inc. Sum-of-the-Parts Valuation

Regulated, Corporate & Other	Valuation Metric	2022E EPS	Sector Comp	Sector Multiple	Prem/ (Discount)	Base Multiple	BMO Low Case P/E Multiple	BMO Low Case Implied Value ($ MM)	BMO Base Case P/E Multiple	BMO Base Case Implied Value ($ MM)	BMO High Case P/E Multiple	BMO High Case Implied Value ($ MM)
Electric Operations	EPS	$0.83	Electric	16.2x	+0.0%	16.2x	13.2x	$11	16.2x	$13	17.2x	$14
Gas Distribution	EPS	$1.19	Natural Gas	17.3x	+5.0%	18.2x	14.3x	$17	18.2x	$22	19.2x	$23
Coporate & Other	EPS	($0.57)	Blend	16.8x	+0.0%	16.8x	16.8x	($10)	16.8x	($10)	17.8x	($10)
Utility & Parent Value		**$1.45**					12.7x	**$18**	17.6x	**$25**	18.6x	**$27**
		'19 Rate Bas	Equity %	Equity								
Columbia Gas of Massachusetts		$1,100	47%	$517		1.0x	1.0x	$1.26	1.0x	$1.26	1.0x	$1.26
Total NiSource Inc.								**$20**		**$27**		**$28**
Upside/(Downside)								-16.2%		14.1%		20.3%
Current Yield								2.9%		2.9%		2.9%
Total Return								**-13.3%**		**16.9%**		**23.1%**

Source: BMO Capital Markets

BMO Capital Markets



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Methodology and Risks to Target Price/Valuation for NiSource Inc (NI-NYSE)

Methodology: Our $27 target price is the product of a P/E-based sum-of-the-parts (SOTP) analysis of the company's primary regulated operating companies. We utilize a regulated group-average multiple based on 2022E EPS as our initial basis for valuation and then make adjustments specific to each jurisdiction to reflect our current view of the fundamental outlook.

Risks: NI's regulated profile exposes the company to business risk including but not limited to federal and state regulatory risk, federal and state political risk, environmental policy, interest rate risk, access to capital markets, construction risk, changes in customer demand trends, changes in customer affordability, extreme weather, natural disaster, and equipment failure.

Distribution of Ratings (May 25, 2020)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	42.9 %	25.9 %	50.9 %	45.3 %	54.6 %	57.7%
Hold	Market Perform	54.3 %	18.7 %	46.5 %	52.0 %	43.5 %	37.5%
Sell	Underperform	2.8 %	20.0 %	2.6 %	2.7 %	1.9 %	4.8%

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The total return potential, target price and the associated time horizon is 12 months unless otherwise stated in each report. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small Cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

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9 July 2020 | 5:51PM EDT

Americas Utilities: Recent CMA transaction settlement details multi-year rate plan for ES

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On July 2, NiSource (NI, Buy) and Eversource (ES, Neutral), along with several state agencies including the MA Attorney General's Office and MA Department of Energy Resources, filed a settlement agreement regarding the proposed NI sale of Columbia Gas of Massachusetts (CMA) to ES for $1.1bn. The signatories have requested that the MA Department of Public Utilities (DPU) issue its final decision by September 30.

For NI, the agreement calls for the company to pay $56mn (in lieu of penalties) to finalize all remaining issues related to the 2018 Merrimack incident, with any current/future lawsuits, claims, and other proceedings considered resolved and terminated.

For ES, the agreement includes a multi-year rate plan (Docket #20-59) for its proposed ownership of CMA, with the following key items:

- **8-year rate case stay-out** ending 10/31/2028.
- **Rate base (at close of transaction):** $995mn after a downward adjustment from the $1.13bn rate base calculated on 12/31/2019 test year.
- **Cost of capital:** 9.7% ROE and 53.25% equity ratio, consistent with settlement terms filed in CMA's 2018 rate case (subsequently withdrawn); earnings sharing at above 12% earned ROE.
- **Capital spend:** ~$3bn from 2021-2030 - representing ~10% CAGR - with around 2/3 eligible for recovery through Gas System Enhancement Program (GSEP) rider.
- **Rate base true-up:** Once on 11/1/2024 and the other on 11/1/2027, to include into rate base non-GSEP capital while inserting GSEP assets into base rates.

Our $28 12-month price target for NI embeds 20x our 2021 EPS estimate of $1.38. Our target reflects a 24% total return, with the stock currently trading at a 1.0x P/E discount to smid-cap peers. Key risks include (1) legal and regulatory risks, (2) earnings/cash impact due to COVID-19, (3) higher than expected O&M, (4) electricity demand and customer growth, and (5) financing.

Our $88 12-month price target for ES is based on a 22.5x P/E applied to our 2021 EPS. Key upside risks include improved offshore wind return forecasts, reduced permitting/construction hurdles, indications of additional rate base investments. Key downside risks include ineffective cost management, slowing rate base growth, dilutive acquisitions, and delays/cost overruns in ES's offshore wind investments.

Disclosure Appendix

Reg AC

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

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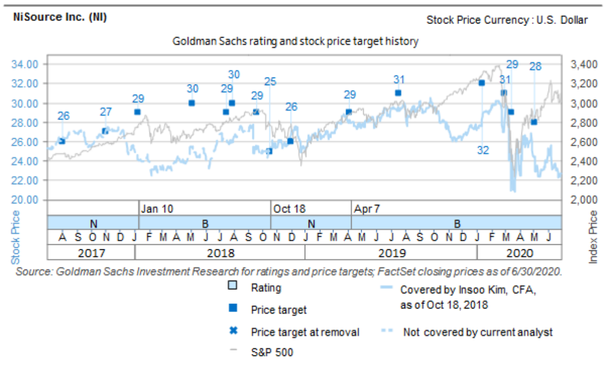

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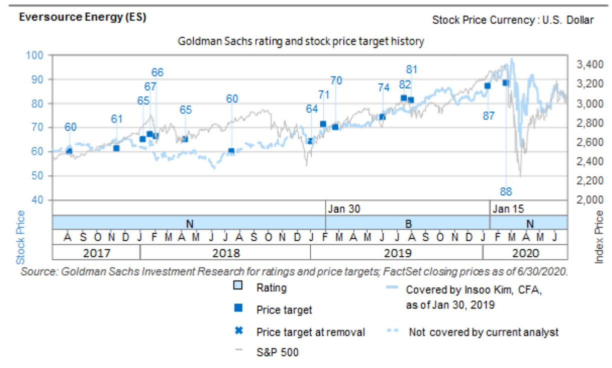

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NiSource, Inc.

NI: Opportunity for Earnings Acceleration

Stock Rating/Industry View: Equal Weight/Positive
Price Target: USD 24.00
Price (04-Aug-2020): USD 24.15
Potential Upside/Downside: -1%
Tickers: NI

NI provided Q2 results, set 2021 guidance, and provided insight into LT earnings trajectory on the call. We reiterate our Equal Weight rating and $24 price target as the company looks to finalize the Columbia Gas of MA sale and reignite long-term growth with a slate of renewable investments.

- **Q2 adj EPS of $0.13 (vs consensus and Barclays $0.07).**

- **Management set 2021 adj EPS guidance of $1.28 to $1.36.** While this figure is lower than previously pulled FY20 guidance of $1.36-$1.40, the new FY21 guidance includes a base case ~-$0.05 impact from COVID-19, based on the assumption that a gradual recovery will continue into 1H 2021.

- **COVID-19 impact in Q2 was -$0.06**, or $30 million, with most of the demand impact in April. This headwind was completely offset by non-SMS related O&M reductions in the quarter. Management states

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NiSource Inc

In Excess of its Prior EPS CAGR: Watch the Details Now into September

Maintain Rating: NEUTRAL | PO: 25.00 USD | Price: 24.15 USD

05 August 2020

Equity

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Projected rate base growth better than expected

Projected ratebase CAGR of +10-12% through ’24 inclusive of renewables (off ’21 base) was provided by the company for the first time, as a preview into newly announced September Investor Day. Overall ratebase appears better than expected to the tune of ~$0.7 Bn by ’24 (and ratably higher in interim years). For instance, ’22 ratebase is ~$0.4Bn higher than what we were modeling. While the $1.8-1.9bn annual capex range is maintained and extended (admittedly is without CMA and hence implicitly a tad higher), the company expects incremental an $1.8-2.0bn primarily in 2022 and 2023 related to electric generation strategy replacing coal with renewables (expect 50% ownership of replacement capacity). This incremental renewable capex is higher than our estimate of roughly $1.5bn. In turn, we note the guidance stresses that the EPS CAGR is now in excess of the previously articulated +5-7% (off 2019 this would have implied *better than* $1.87 vs our est of $1.74 by ‘24). We estimate with additional renewables that EPS would be closer to high end, but not necessarily above (~$1.80-1.85 range). Look for further details on call. Maintain Neutral as we see execution challenges against higher guidance. Balanced risk/reward. Expect positive reaction.

Initiated ’21 EPS guidance is a bit weaker

NI initiated 2021 adj. EPS guidance of $1.28-1.36 (vs our / consensus $1.35 / $1.36) implying 2% negative revisions (-4c) to consensus at the mid-point. We note the ’21 guidance range is below the company’s ’21 guidance floor of $1.36-1.40 put into effect following the CMA sale announcement pre-COVID. Mgmt. highlights the new ’21 guidance includes its COVID base case scenario (-5c net EPS impact in ’21) outlined in its last investor presentation. This ’21 guidance comes earlier than expected as NI previously disclosed it would likely wait to announce ’21 guidance until the 3Q update or shortly thereafter. Despite the higher ratebase projections, ongoing lag from COVID remains an overhang on the shares and we see risks to ’22 EPS given lower than anticipated ’21 EPS guidance. However, the new LT EPS growth range above its previous commitment of +5-7% EPS growth should help quell these concerns on near-term execution. Ultimately, pressure on '21 and '22 will see earned ROE pressures but are transient in nature, in our view. '23 into '24 should see a full year of new rates with step-up of ratebase.

Financing remains the focus; don’t expect blocks until ‘23

Mgmt. anticipates providing a more explicit update by 9/29 Analyst Day, at which point the company will publish commercial deals on almost all committed renewables. We note mgmt. does not anticipate more block equity issuance but for a potential convert prior to the ’23 capex uplift to pay for additional renewables. Overall, reason for uplift to this total amount of presumed award for ownership under NI renewable deal is higher than previously contemplated. Recall, NI previously noted that new wind build-own-transfer (BOT) JVs would include 50% tax equity partner while Solar BOT JVs would include a 30% tax equity partner: the latest update suggests that the tax equity would only be ~33% of total capital structure, a key part of the reason behind positive ratebase revisions (without knowing wind/solar balance yet).

Stock Data

Price	24.15 USD
Price Objective	25.00 USD
Date Established	21-Jul-2020
Investment Opinion	B-2-7
52-Week Range	19.56 USD - 30.67 USD
Mrkt Val (mn) / Shares Out (mn)	9,245 USD / 382.8
Average Daily Value (mn)	72.52 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2020E)	9.1%
Net Dbt to Eqty (Dec-2019A)	158.6%

Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2. 12175192

Price objective basis & risk

NiSource Inc (NI)

Our $25 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2022 forward P/E multiples of 15.5x for gas utilities and 16.9x for electric utilities with an inline mult for gas utilities with just weather normalization, a 0.5x prem for gas utes with revenue normalization (prev 0x), and a 1.0x premium for the electric utility's strong growth rates (we factor in BOT in '24 EPS) but acknowledgement of industrial risk (prev 2x). We note that electric / gas peer P/E multiples are grossed up by 5% / 5.1% to reflect capital appreciation across the sector. We strip value from Columbia Gas of MA given the pending sale to close in 3Q20. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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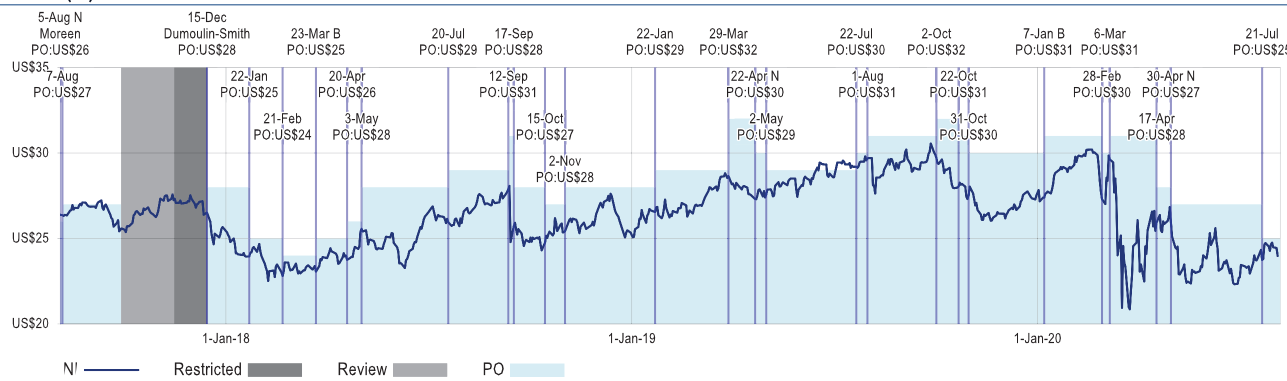
NiSource Inc (NI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Energy Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	69	43.40%	Buy	52	75.36%
Hold	48	30.19%	Hold	34	70.83%
Sell	42	26.42%	Sell	24	57.14%

Equity Investment Rating Distribution: Utilities Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	76	51.01%	Buy	56	73.68%
Hold	33	22.15%	Hold	22	66.67%
Sell	40	26.85%	Sell	29	72.50%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1632	52.21%	Buy	1031	63.17%
Hold	711	22.74%	Hold	444	62.45%
Sell	783	25.05%	Sell	407	51.98%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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5 August 2020
Equity Research
Americas | United States

CREDIT SUISSE

NiSource Inc.

NI

2Q20 Beat, 2021 Guidance Initiated

Target price (12M, US$)
26.00
Outperform

Natural Gas | Research Bulletin

- **NI reported a 2Q20 adj. EPS Beat at $0.13** vs. cons $0.08, CS $0.05, and 2Q19 $0.05 driven by cost mitigation efforts and partially offset by financial impacts of COVID19. The company also projects $0.10-$0.15 cost savings this year to offset COVID19 effects (not as front loaded).
- **2021 Guidance Initiated at $1.28-$1.36** (CS $1.33 vs consensus $1.36) that includes the positive impact of new electric generation in Indiana and a (~$0.05) drag from COVID19, and drag from temporary overhead remaining from Columbia Gas of Mass).
- **Columbia Gas of Massachusetts sale remains on track.** On July 2, NI announced that it will pay $56M to settle and resolve the state's investigation into the 2018 Greater Lawrence incident.
- **Cost management and regulatory solutions offset COVID's impact to customer class (~$0.06) in Q2.** Gas margin impact by customer class saw a $0.7M increase in residential and a $4.7M decrease in industrial (vs 2Q19). Electric margin impacts saw a $9.2M and $3.9M decreases to industrial and commercial load respectively, partially offset with a $6.2M increase in residential vs 2Q19. COVID's impact are trending with the company's base case scenario.
- **Base rate filing at Columbia Gas of PA** on 4/24/2020 to support continued replacement of aging pipelines as well as adoption of safety upgrades. The filing includes a $100.4M total annual revenue increase. An order is expected with new rates effective in Jan or Feb 2021. This filing was not a surprise as there was none in 2019 despite typically an annual schedule in PA.
- **Base rate filing at Columbia Gas of MD** filed on May 15th requesting a $6.3M total annual revenue increase ($5M net of infrastructure trackers) in response to replacing aging pipelines and upgrade safety measures. An order is expected on 4Q20 with new rates effective in Dec 2020.
- **2020 Capex Plan Reaffirmed at $1.7B-$1.8B**. Recall the company previously reduced its capital investment plan by $100M to $1.7-$1.8B for 2020 to conserve cash in order to maintain liquidity.
- **No block equity needed in 2020, nor any going forward,** with unchanged plans for $200-$300M annual ATM and $35-$60M employee plan equity (no plans for use of convertible or hybrid financing). Estimated incremental long-term debt for 2020 is $1B-$1.2B. NI continues to target FFO/Debt ~14%-15%.
- **Liquidity Update.** NI's net liquidity available is ~$2B as of June 30th, with ~$2.2B of committed facilities in place which include a ~$1.9B revolving credit facility and ~$0.3B accounts receivable securitization facilities. Debt level is ~$10B as of June 30th and includes ~$8.7B of long-term debt with a weighted average maturity of ~16 years and interest rate of 4.31%. Total debt/total capitalization stands at 63.8% in Q2 vs 61.7% in

Price (4 Aug 20, US$)	24.15
52-week price range	30.56 - 20.86
Enterprise value (US$ m)	18,427

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2019.

- **Virtual Investor's Day** scheduled for September 29th in which NI expects to discuss details of long-term growth strategy.
- **See our recent reports:** 7/20 2Q20 Earnings Preview, 5/26 Left Behind but Holding Up Well, 5/11 Covid19 Adds Near-Term Uncertainty, but Long-Term Fundamentals Remain Strong, 5/5 1Q20 Earnings Preview, 2/28 Raise to Outperform on Sale of Mass, Elimination of Block Equity Plan, 1/17 2020 Earnings Preview, 2020 Outlook – Getting Meaner and Less Defensive, 11/14 EEI 2019 Financial Conference: Full Takeaways, 11/1 New Growth Trajectory after Equitizing, 10/30 3Q Miss with 2020 Guidance a Bit Light, 8/7 Downgrade to Neutral on Gas Operations Risk
- **Call Today at 9AM ET;** Dial in info: 833 350 1271, passcode 1763700

Companies Mentioned *(Price as of 02-Aug-2020)*
NiSource Inc. (NI.N, $24.45, OUTPERFORM, TP $26.0)

Disclosure Appendix

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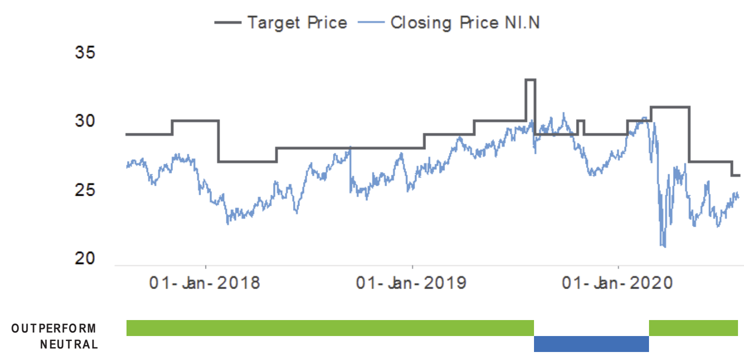
Michael Weinstein, ERP, and Andres Sheppard each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
14-Aug-17	26.64	29.00	O
02-Nov-17	26.94	30.00	
23-Jan-18	24.17	27.00	
06-May-18	25.41	28.00	
23-Jan-19	26.83	29.00	
21-Apr-19	27.56	30.00	
22-Jul-19	29.14	33.00	
07-Aug-19	27.63	29.00	N
21-Oct-19	28.05	30.00	
01-Nov-19	27.65	29.00	
17-Jan-20	29.04	30.00	
28-Feb-20	27.02	31.00	O
05-May-20	24.53	27.00	
20-Jul-20	23.75	26.00	



** Asterisk signifies initiation or assumption of coverage.*

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Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European (excluding Turkey) ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin America, Turkey and Asia (excluding Japan and Australia), stock ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

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Underperform/Sell*	12%	(21% banking clients)
Restricted	1%	

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Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: We arrive at our $26 target price for NI by applying a 1.5x premium to the gas segment peer 2021 P/E to reflect the constructive regulatory environments with capex trackers in place in the jurisdictions that NI operates. We also apply a 1.5x premium to the average peer electric utility 2021 P/E multiple for NIPSCO Electric utility in Indiana to reflect the favorable ratebase growth profile and regulatory environment in the state. Our OUTPERFORM rating reflects a forecasted total return that is equal the group average.

Risk: Risks to our $26 target price and OUTPERFORM rating are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particulary in the non-decoupled jurisdictions, 7) weather risk, and 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety after the 2018 explosion incident in Mass. 11) COVID19 load reductions

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This research report is authored by:

Credit Suisse Securities (USA) LLC.. Michael Weinstein, ERP ; Maheep Mandloi ; Andres Sheppard

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Goldman Sachs | Equity Research

5 August 2020 | 8:14AM EDT

NiSource Inc. (NI): First Take: 2Q20 beat; 2021 guidance disappoints but highlights robust renewable investments

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NiSource (NI, Buy) reported 2Q20 operating EPS of $0.13, above both GS/FactSet consensus at $0.07/$0.08, driven largely by better cost management. The company also initiated 2021 guidance in the range of $1.28-$1.36 (midpoint $1.32), below GS/FactSet consensus at $1.38/$1.36. From this new base, NI expects 10-12% rate base CAGR through 2024 and EPS CAGR exceeding the previous 5-7% forecast boosted by incremental $1.8-$2bn renewable investments, although we note the company moved away from an annual EPS growth guidance given timing of the bulky generation projects.

Key takeaways: We find the 2021 guidance somewhat disappointing, given prior commentary that implied a range closer to the now-removed 2020 guidance range of $1.36-$1.40. That said, the incremental renewable investment levels are higher than our initial expectations. We expect management clarity on trajectory of EPS growth, as well as equity financing thoughts through 2023.

Key takeaways from NI's release include:

- **The company reiterated its capital investment plan of $1.7-$1.8bn for 2020** and introduced expectation of $1.8-$1.9bn in capital spending for 2021. NI also anticipates incremental capital investment opportunities related to its renewable generation strategy of approximately $1.8 to $2.0 billion, primarily in 2022 and 2023, which represents around 50% ownership of planned replacement for retiring coal capacity.
- **NI reaffirmed its expectations to complete the Columbia Gas of Massachussets (CMA) sale by end of 3Q2020.**
- **NI launched a multi-year initiative** to improve costs and efficiencies of its businesses, with initial expected savings embedded into the company's 2021 guidance.
- **2Q20 performance beat driven largely by cost management which offset COVID-19 related impact**, which totaled -$0.06 for the quarter. The electric segment (Indiana), which makes up ~1/3 of the consolidated company earnings, recorded residential/commercial/industrial load of 13.8%/-6.6%/-32% YoY for 2Q20, or a -$0.01 to -$0.02 EPS impact. NI cited lower late payment/reconnection fees and increased bad debt expenses making up the

other total related costs.

Key topics to monitor on NI's earnings call include (1) additional details on the potential magnitude of electric demand impact by customer class, (2) additional color on the $1.8-$2bn planned renewable investments in Indiana, (3) O&M growth expectations in 2020 and beyond, and (4) trajectory of EPS growth expectations through 2024.

We derive our 12-month target price of $28 which embeds 20.0x blended P/E multiple on 2021E EPS estimate of $1.38. Key risks include (1) legal and regulatory risks, (2) earnings/cash impact due to COVID-19, (3) higher than expected O&M, (4) electricity demand and customer growth, and (5) financing.

NI	12m Price Target: **$28.00**	Price: **$24.15**	Upside: **15.9%**

Buy

Market cap: $7.9bn
Enterprise value: $18.3bn
3m ADTV: $76.0mn
United States
America-Regulated Utilities
M&A Rank: 3

GS Forecast

	12/19	12/20E	12/21E	12/22E
Revenue ($ mn)	5,208.9	4,968.9	5,187.4	5,409.0
EBITDA ($ mn)	1,608.1	1,792.4	1,998.9	2,160.7
EBIT ($ mn)	890.7	1,033.9	1,183.8	1,284.7
EPS ($)	1.32	1.27	1.38	1.49
P/E (X)	21.3	19.0	17.5	16.2
EV/EBITDA (X)	13.0	11.1	10.7	10.3
FCF yield (%)	(2.1)	(7.5)	(4.6)	(3.2)
Dividend yield (%)	2.9	3.5	3.7	3.9
Net debt/EBITDA (X)	5.9	5.3	5.1	5.0

	3/20	6/20E	9/20E	12/20E
EPS ($)	0.76	0.07	0.02	0.42

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4 Aug 2020 close.

Disclosure Appendix

Reg AC

I, Insoo Kim, CFA, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

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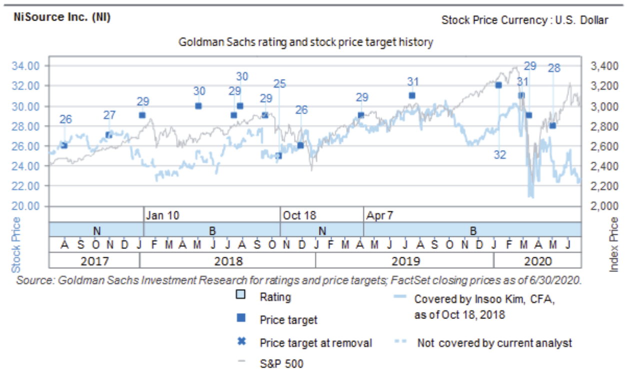

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Jefferies

EQUITY RESEARCH
NiSource Inc. (NI)

NiSource Inc.
Cost Control Propels 2Q, Eyes on Sept. Investor Day

August 5, 2020

Key Takeaway

NI adj 2Q EPS of 13¢ handedly exceeded our 6¢ forecast & the 8¢ Street mean est.; the beat vs. JEFe touched all divisions & was primarily fueled by sharp opex reductions. NI affirmed its $1.7-$1.8B 2020 capex guidance, announced a virtual Investor Day for Sept. 29th, and initiated $1.28-$1.36 2021 non-GAAP EPS guidance (vs. $1.36 Street mean), which includes an estimated 5¢ COVID-related headwind. The sale of Bay State Gas remains on-track for a 3Q/4Q close.

2Q results. Respective 2Q adj. EPS & EBITDA of 13¢ and $369mm surpassed our 6¢ and $325mm forecasts due primarily to sharp reductions in operating expense; Gas opex declined ~7% y/y while Electric opex dropped ~16% to its lowest quarterly level since 4Q11. Mgmt estimates 6¢ of COVID-related headwinds were absorbed in the period, but offset by non-safety related expense reductions. OCF of $338mm exceeded JEFe by ~ $80mm, due in part to a larger WC benefit (+$40mm), while capex fell short of our forecast ($367mm vs. $460mm JEFe). 2Q Gas segment volumes rose 0.8% y/y (+24% y/y among residential customers), while Electric segment load compressed ~17% y/y (+14% among residential, down ~32% with industrial customers); we believe these are the best high-level representations of COVID's demand impacts across NI's portfolio.

Sept. 29 Virtual Investor Day. Mgmt will host a virtual meeting to detail its business strategy and LT outlook. A preview of the agenda includes 1) the transition from coal to renewable power will deliver a ~90% reduction in NI's GHG emissions (2005-30) and $1.8-$2.0B of incremental 2021-23 renewable investment opportunities remain under evaluation; 2) capex plans will underpin a 10-12% 2021-24 rate base CAGR; 3) 2021 non-GAAP EPS guidance of $1.28-$1.36, including 5¢ of COVID impacts, and a 2021-24 EPS CAGR 'in excess of' its previous 5-7% rate; and 4) updates on its SMS and strategic realignment initiatives.

Regulatory updates. CG of PA's $100.3mm rate case, filed in April, remains before the PA PUC and new rates are expected in Feb. 2021. In May, CG of MD filed for a $6.3mm revenue increase, including $1.3mm of current tracker revenue; new rates are expected in Dec. In July, the IURC approved a 6-year extension of NIPSCO's $950mm gas infrastructure modernization program, with semi-annual TDSIC recovery, and NI secured tax equity financing with WFC for the Rosewater project. Separately, the Bay State sale remains on-track to receive regulatory approval by quarter end and is expected to close shortly thereafter; in lieu of penalties, NI has agreed to pay $56mm into an Energy Relief Fund to settle & resolve all pending matters.

Financing & Liquidity. NI affirmed its $1.7-$1.8B 2020 capital program and expects to use Bay State sale proceeds to repay its $850mm term loan, which expires in March 2021. It ended 2Q with ~$2.0B of liquidity and a total debt/capital ratio of 61.5%; while a goodwill test was performed in 2Q, it did not result in any impairments. Mgmt still anticipates $235-$360mm of 2020 equity through its ATM, ESPP, and 401K programs, implying $227-$352mm to be raised in 2H, and continues to target LT AFFO/Debt of 14-15%.

Exhibit 1 offers greater detail on 2Q performance.

FLASH NOTE

USA | Utilities

RATING	HOLD
TICKER	NI
PRICE	$24.15^
PRICE TARGET (PT)	$26.00
MARKET CAP	$9.2B

^Prior trading day's closing price unless otherwise noted.

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Exhibit 1 - NI 2Q20 Results Review

Operating Income by Division	Actual 2Q20A	Jefferies Expectations 2Q20E		Year-over-Year 2Q19A	
Gas Distribution	$73.4	$62.8	16.8%	$43.5	68.7%
Electric Operations	$89.4	$71.2	25.5%	$85.6	4.4%
Corporate, Other, and Eliminations	$2.5	($0.0)	NM	$2.3	NM
Total Operating Income	**$165.3**	**$134.0**	**23.3%**	**$131.4**	**25.8%**
Depreciation	($197.4)	($184.9)	6.7%	($177.9)	11.0%
Other Income / (Expenses)	$6.5	$5.5	17.5%	$0.0	NM
Interest Expense	($97.0)	($95.7)	1.3%	($94.1)	3.1%
Income Tax Benefit (Expense)	($10.8)	($7.3)	49.0%	($4.4)	145.5%
Preferred Dividend	($13.8)	($13.8)	0.2%	$0.0	NM
Recurring Net Income	**$50.2**	**$22.8**	**120.1%**	**$19.1**	**162.8%**
Avg Diluted Shares Outstanding	384.5	384.3	0.1%	375.2	2.5%
EPS (Non-GAAP, Diluted)	**$0.13**	**$0.06**	**120.0%**	**$0.05**	**156.5%**
EBITDA ($MM)	**$369**	**$325**	**13.8%**	**$309**	**19.4%**
Capex & Affiliate Investments ($MM)	**$367**	**$460**	**-20.2%**	**$490**	**-25.0%**

Source: NI reports, Jefferies estimates; Note: Non-GAAP results normalize for weather and exclude Greater Lawrence Incident costs, asset sale gains/losses, and Bay State sale impacts.

Company Description

NiSource Inc.

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4mm US customers. The Company operates two business segments: Gas Distribution and Electric. The Gas Distribution operations provide natural gas service and transportation to ~3.5mm residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. The Electric Operations segment provides electric service to ~472,000 customers across 20 counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

Company Valuation/Risks

NiSource Inc.

Our $26 PT and Hold recommendation are derived via Target P/E, Target Yield, DCF, and DDM approaches. Unexpected regulatory outcomes, deviations in customer growth, and project execution present risks to our estimates & PT.

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(Article 3(1)e and Article 7 of MAR)

Recommendation Published	August 5, 2020 , 11:27 ET.
Recommendation Distributed	August 5, 2020 , 11:27 ET.

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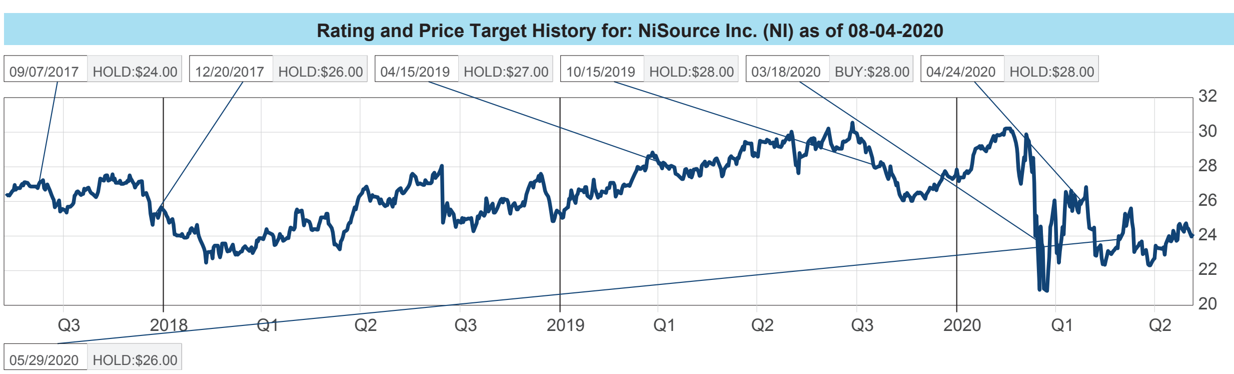

Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.
Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1398	55.15%	116	8.30%	10	0.72%
HOLD	987	38.93%	27	2.74%	5	0.51%
UNDERPERFORM	150	5.92%	0	0.00%	0	0.00%

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J.P.Morgan

North America Equity Research
05 August 2020

NiSource Inc.

LT Outlook Previewed with Significant Renewables-Driven Investment; 2021 EPS Guidance Initiated

Overweight

NI, NI US

Price: $24.15

04 Aug 2020

Utilities and Power

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J.P. Morgan Securities LLC

- **2Q20 EPS beats estimates on COVID offsets.** NI's 2Q20 operating EPS of $0.13 exceeded JPMe/Street median estimates of $0.08/$0.07, respectively. O&M savings and new rates from infrastructure replacement programs & Columbia of Ohio's CEP more than offset 2Q20 combined electric and gas COVID-19 impacts totaling -6c. NI's corporate segment also includes a benefit from unrealized gains on the cash surrender value of COLI investments.

- **2021 Operating EPS guide introduced.** NI introduced 2021 operating EPS guidance in the range of $1.28-1.36, inclusive of -5c of COVID-19 impacts, below JPMe $1.41 but comparable at the high end ex COVID vs our estimate. This range establishes a base for NI's LT growth. We remain positive on NI's long-term earnings growth outlook and await the full plan refresh at the company's planned Sept Investor Day.

- **Sept Investor Day previewed with $1.8-2.0bn renewables investments.** NI highlighted several updates in advance of the company's Sept 29 Investor Day, including 1) 2021 capital spending expected to return to the $1.8-1.9bn range, 2) incremental renewables investments through 2023 totaling $1.8-2.0bn, 3) a targeted 10-12% rate base CAGR through 2024, and 4) plan supportive of annual EPS growth expected to exceed 5-7%. NI will discuss these updates and the company's financial outlook through 2024 at its Sept 29 Investor Day. The investor day preview largely focuses on plans to retire 80% of NIPSCO's coal-fired generation by 2023, and the $1.8-2.0bn incremental investment opportunity outlined by NI represents ~50% ownership of renewable replacement capacity in the form of JV's with tax equity partners.

- **Conference call details.** NI will host a conference call to discuss 2Q20 results on Wednesday, August 5 at 9:00 AM EDT.

Table 1: NI 2Q20 Results

Income Statement:	Actual 2Q19	Actual 2Q20	JPM 2Q20E	% Chg Y/Y	% Chg vs JPMe	YoY Drivers
Operating Earnings	131	165	151	26%	9%	New rates from infrastructure replacement programs and Columbia of Ohio's CEP.
Net Income	19	50	30	163%	66%	O&M savings offsetting COVID impacts.
Share Count	374	384	385	3%	0%	
Operating EPS	**$0.05**	**$0.13**	**$0.08**	**156%**	**67%**	

Source: Company reports and J.P. Morgan estimates.

See page 2 for analyst certification and important disclosures.

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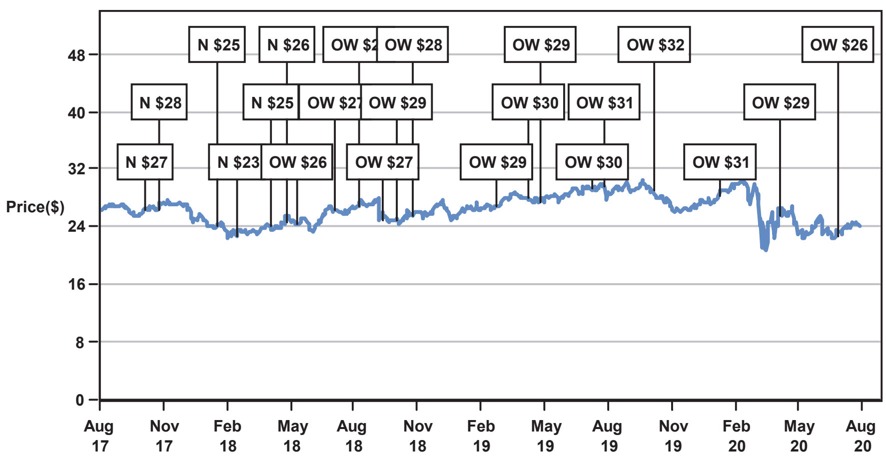
NiSource Inc. (NI, NI US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
12-Oct-17	N	26.42	27
01-Nov-17	N	26.37	28
24-Jan-18	N	24.17	25
22-Feb-18	N	22.80	23
10-Apr-18	N	24.15	25
02-May-18	N	24.52	26
17-May-18	OW	24.40	26
11-Jul-18	OW	26.24	27
15-Aug-18	OW	26.96	28
17-Sep-18	OW	24.79	27
09-Oct-18	OW	25.05	29
01-Nov-18	OW	25.36	28
01-Mar-19	OW	26.98	29
15-Apr-19	OW	28.07	30
02-May-19	OW	27.40	29
15-Jul-19	OW	29.34	30
01-Aug-19	OW	29.69	31
13-Oct-19	OW	29.14	32
15-Jan-20	OW	28.18	31
09-Apr-20	OW	25.47	29
01-Jul-20	OW	22.74	26

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
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IB clients*	53%	49%	38%
JPMS Equity Research Coverage	43%	42%	15%
IB clients*	75%	70%	58%

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"Other Disclosures" last revised July 04, 2020.

UBS | Global Research | 5 August 2020

First Read

NiSource Inc.
Renewable Generation Capex Above UBSe

NI Provided 2021 Guidance and Long Term Rate Base Growth

NI reported strong 2Q despite the pandemic driven by lower O&M (see details below). Management provided 2021 EPS guidance of $1.28-$1.36, with midpoint at $1.32 vs UBSe/Cons of $1.37; however, it includes $0.05/share impact from COVID. At this stage we don't include impact from COVID and we will look for more colour during the call today on the pace of recovery from the pandemic and lockdowns. Notably, NI provided $1.8-$2B capex related to renewable investments in 2022-2023 above UBSe of $1B-$1.5B and noted additional investments through 2028. The new investments to transition from coal to renewables will reduce GHG emissions by 90% by 2030 (from 2005). Additionally, management revised higher rate base growth to 10-12% up from 9% and noted that strong rate base growth will drive EPS CAGR in excess of prior long term guidance of 5-7% (vs. UBSe of '21-'24 EPS CAGR of 7.2%). Management plans to provide more details on investments and growth through 2024 during the virtual Analyst Day scheduled for Sept 29th. We expect investors will react positively to strong quarter and long term positive outlook despite modestly disappointing 2021 EPS outlook.

Results: 2Q20 EPS Above UBSe/Consensus

NI reported 2Q20 adj. EPS of $0.13 above Consensus of $0.08 and UBSe of $0.05. The beat was driven by lower O&M and higher net margin from Gas Distribution segment. Electric segment operating income was roughly inline with UBSe. NI received deferral orders to recover increases in bad debt due to the COVID in following states: IN, PA, VA, MD and OH.

Adjusting Estimates

To reflect 2Q20 results, we are increasing our 2020 EPS estimates by 7% to $1.32, while we are maintaining 2021 EPS estimates roughly unchanged. We also increased 2022-2023 capex to reflect higher than expected renewable investments of $1.8-$2B vs. UBSe of $1.0B-1.5B. We also increased 2024 EPS to reflect higher recovery from invested capital.

Valuation:

We maintain Neutral rating and $27 PT.

Equities

Americas
Gas Utilities

12-month rating	**Neutral**
12m price target	US$27.00
Price (04 Aug 2020)	US$24.15
RIC: NI.N BBG: NI US	

Trading data and key metrics

52-wk range	US$30.56-20.86
Market cap.	US$9.24bn
Shares o/s	383m (COM)
Free float	99%
Avg. daily volume ('000)	943
Avg. daily value (m)	US$22.1
Common s/h equity (12/20E)	US$5.05bn
P/BV (12/20E)	1.8x
Net debt / EBITDA (12/20E)	5.4x

EPS (UBS, diluted) (US$)

	12/20E			
	From	To	% ch	Cons.
Q1	0.76	0.76	0	0.76
Q2	0.05	0.13	NM	0.08
Q3E	0.03	0.03	NM	0.04
Q4E	0.39	0.40	1	0.43
12/20E	1.24	1.32	7	1.30
12/21E	1.37	1.37	NM	1.37
12/22E	1.46	1.45	-1	1.47

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Highlights (US$m)	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
Revenues	4,905	5,095	5,184	4,984	5,309	5,519	5,779	6,060
EBIT (UBS)	964	942	1,047	1,066	1,113	1,203	1,330	1,469
Net earnings (UBS)	398	463	495	510	546	596	663	745
EPS (UBS, diluted) (US$)	1.21	1.30	1.32	1.32	1.37	1.45	1.56	1.71
DPS (US$)	0.72	0.79	0.84	0.89	0.95	1.01	1.07	1.13
Net (debt) / cash	(8,973)	(9,891)	(10,374)	(9,890)	(10,411)	(11,584)	(12,695)	(13,321)
Profitability/valuation	**12/17**	**12/18**	**12/19**	**12/20E**	**12/21E**	**12/22E**	**12/23E**	**12/24E**
EBIT margin %	19.7	18.5	20.2	21.4	21.0	21.8	23.0	24.2
ROIC (EBIT) %	8.6	7.7	7.9	7.9	8.1	8.0	7.8	7.9
EV/EBITDA (core) x	9.8	10.6	10.6	9.6	9.2	9.1	8.4	7.8
P/E (UBS, diluted) x	20.9	19.4	21.2	18.3	17.6	16.7	15.5	14.1
Equity FCF (UBS) yield %	(11.6)	(14.5)	(1.6)	(4.2)	14.4	477.5	13043.1	347387.6
Net dividend yield %	2.9	3.1	3.0	3.7	3.9	4.2	4.4	4.7

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$24.15 on 04 Aug 2020 19:34 EDT

www.ubs.com/investmentresearch

Figure 1: 2Q20 Results vs UBS estimates

$ in millions	Actual 2Q20	UBSe 2Q20e	% variance	Actual 2Q19	YoY % change
Financial Data					
Revenues	$957.4	$1,035.5	*(7.5%)*	$1,011.9	*(5.4%)*
Cost of Sales	($188.4)	($274.4)	*(31.3%)*	($253.5)	*(25.7%)*
Operating & Maintenance Expenses	($338.1)	($380.2)	*(11.1%)*	($382.7)	*(11.7%)*
Depreciation & Amortization	($197.4)	($182.3)	*8.3%*	($177.9)	*11.0%*
Total Expenses	($603.7)	($628.0)	*(3.9%)*	($627.0)	*(3.7%)*
Interest Expense	($97.0)	($94.1)	*3.1%*	($94.1)	*3.1%*
Net Income	$50.2	$20.2	*148.5%*	$19.1	*162.8%*
EPS	$0.13	$0.05	*148.9%*	$0.05	*157.1%*
Diluted Shares Outstanding	$383.5	$383.1	*0.1%*	$373.9	*2.6%*
Dividend Per Share	$0.220	$0.220	*0.0%*	$0.205	*7.3%*
Segment Operating Income					
Gas Distribution	$73.4	$48.9	*50.1%*	$46.8	*56.8%*
Electric Operations	$89.4	$87.0	*2.7%*	$85.8	*4.2%*
Total	$165.3	$133.1	*24.2%*	$131.4	*25.8%*

Source: UBS estimates, Company Reports

Figure 2: NI Summary Model

NiSource Inc (NI)												
($ in Millions)	2017	2018	2019	1Q20	2Q20	3Q20e	4Q20e	2020e	2021e	2022e	2023e	2024e
Operating Data												
Customers (000)												
Gas Utilities Customers	3,455	3,482	3,510	3,523	3,526	3,483	3,542	3,542	3,575	3,608	3,641	3,674
Electric Customers	469	472	476	477	477	476	478	478	480	483	485	488
Income Statement												
Revenues	**$ 4,904.8**	**$ 5,095.1**	**$ 5,184.1**	**$ 1,631.8**	**$ 957.4**	**$ 971.3**	**$ 1,423.1**	**$ 4,983.6**	**$ 5,309.5**	**$ 5,518.8**	**$ 5,779.3**	**$ 6,060.3**
Operating costs & expenses												
(Cost of Sales)	$ (1,518.7)	$ (1,759.5)	$ (1,534.8)	$ (462.4)	$ (188.4)	$ (213.9)	$ (415.2)	$ (1,280.0)	$ (1,429.1)	$ (1,483.3)	$ (1,550.5)	$ (1,624.9)
(Operating & Maintenance Expenses)	$ (1,589.2)	$ (1,963.4)	$ (1,588.3)	$ (436.5)	$ (338.1)	$ (368.3)	$ (408.6)	$ (1,551.4)	$ (1,580.3)	$ (1,599.8)	$ (1,618.9)	$ (1,637.5)
(Depreciation & Amortization)	$ (570.3)	$ (596.6)	$ (717.4)	$ (184.3)	$ (197.4)	$ (192.9)	$ (192.8)	$ (767.4)	$ (804.7)	$ (839.5)	$ (875.8)	$ (913.8)
Gain on the Sale of Assets	$ (5.5)	$ (0.7)	$ -	$ -	$ -	$ -	$ (17.8)	$ (17.8)	$ (65.7)	$ (65.7)	$ (65.7)	$ (65.7)
(Other Taxes)	$ (257.2)	$ (275.0)	$ (296.8)	$ (85.9)	$ (68.2)	$ (70.6)	$ (76.6)	$ (301.3)	$ (316.5)	$ (327.5)	$ (338.1)	$ (349.6)
Equity Earnings in Unconsolidated Affilates	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	**$ (2,422.2)**	**$ (2,835.7)**	**$ (2,602.5)**	**$ (706.7)**	**$ (603.7)**	**$ (631.8)**	**$ (695.8)**	**$ (2,638.0)**	**$ (2,767.1)**	**$ (2,832.5)**	**$ (2,898.4)**	**$ (2,966.6)**
Operating Income By Division												
Gas Distribution	$ 586.9	$ 564.6	$ 632.0	$ 391.6	$ 73.4	$ (3.7)	$ 218.7	$ 680.0	$ 714.4	$ 780.0	$ 837.9	$ 903.2
Transmission & Storage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Electric Operations	$ 376.6	$ 381.2	$ 401.5	$ 80.0	$ 89.4	$ 132.3	$ 84.5	$ 386.2	$ 406.3	$ 436.9	$ 512.3	$ 590.8
Corporate & Eliminations	$ 0.4	$ (3.9)	$ 13.3	$ (8.9)	$ 2.5	$ (3.0)	$ 8.9	$ (0.4)	$ (7.5)	$ (13.9)	$ (19.8)	$ (25.2)
Total Operating Income	**$ 963.9**	**$ 941.9**	**$ 1,046.8**	**$ 462.7**	**$ 165.3**	**$ 125.6**	**$ 312.1**	**$ 1,065.7**	**$ 1,113.2**	**$ 1,203.0**	**$ 1,330.4**	**$ 1,468.8**
EBITDA	**$ 1,534.2**	**$ 1,538.5**	**$ 1,764.2**	**$ 647.0**	**$ 362.7**	**$ 318.5**	**$ 504.9**	**$ 1,833.1**	**$ 1,917.9**	**$ 2,042.5**	**$ 2,206.2**	**$ 2,382.6**
Other expenses												
Interest Expense	$ (353.2)	$ (353.3)	$ (378.9)	$ (92.9)	$ (97.0)	$ (95.1)	$ (98.0)	$ (383.0)	$ (356.8)	$ (383.9)	$ (426.5)	$ (460.7)
Other Expense (Income)	$ (2.8)	$ (96.5)	$ (5.2)	$ 5.4	$ 6.5	$ -	$ (3.0)	$ 8.9	$ (10.0)	$ (10.0)	$ (10.0)	$ (10.0)
Total Other Expenses	**$ (356.0)**	**$ (449.8)**	**$ (384.1)**	**$ (87.5)**	**$ (90.5)**	**$ (95.1)**	**$ (101.0)**	**$ (374.1)**	**$ (366.8)**	**$ (393.9)**	**$ (436.5)**	**$ (470.7)**
Income from Before Income Taxes	**$ 607.9**	**$ 477.1**	**$ 607.6**	**$ 361.4**	**$ 61.0**	**$ 16.7**	**$ 197.4**	**$ 636.5**	**$ 691.3**	**$ 754.0**	**$ 838.8**	**$ 943.0**
Income Taxes	$ (210.4)	$ (13.8)	$ (112.9)	$ (70.5)	$ (10.8)	$ (3.5)	$ (41.4)	$ (126.3)	$ (145.2)	$ (158.3)	$ (176.1)	$ (198.0)
Effective Tax Rate	34.6%	2.9%	18.6%	19.5%	17.7%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Net income	**$ 397.5**	**$ 463.3**	**$ 494.7**	**$ 290.9**	**$ 50.2**	**$ 13.2**	**$ 155.9**	**$ 510.2**	**$ 546.2**	**$ 595.6**	**$ 662.6**	**$ 745.0**
Diluted Weighted Avg Number of Common U	$ 329.4	$ 356.4	$ 374.7	$ 383.1	$ 383.5	$ 383.5	$ 392.9	$ 385.8	$ 398.9	$ 411.8	$ 426.0	$ 435.8
EPS	**$ 1.21**	**$ 1.30**	**$ 1.32**	**$ 0.76**	**$ 0.13**	**$ 0.03**	**$ 0.40**	**$ 1.32**	**$ 1.37**	**$ 1.45**	**$ 1.56**	**$ 1.71**
Balance Sheet Summary												
Assets												
Cash and Cash Equivalents	$ 29.0	$ 121.1	$ 148.4	$ 213.0	$ 153.6	$ 149.1	$ 162.8	$ 162.8	$ 136.8	$ 191.9	$ 247.0	$ 302.1
Property, Plant and Equipment	$ 14,359.5	$ 15,542.5	$ 16,912.2	$ 15,587.2	$ 15,772.4	$ 16,044.8	$ 15,217.4	$ 15,217.4	$ 16,212.7	$ 18,073.2	$ 19,897.4	$ 21,083.6
Investment in affiliates	$ 82.0	$ 86.5	$ 163.7	$ 160.2	$ 163.1	$ 163.1	$ 163.1	$ 163.1	$ 163.1	$ 163.1	$ 163.1	$ 163.1
Total Assets	**$ 19,961.7**	**$ 21,804.0**	**$ 22,659.8**	**$ 22,592.7**	**$ 22,436.5**	**$ 22,704.4**	**$ 21,890.7**	**$ 21,890.7**	**$ 22,859.9**	**$ 24,775.5**	**$ 26,654.8**	**$ 27,896.2**
Liabilities & Partners' Capital												
Long Term Debt	$ 7,512.2	$ 7,105.4	$ 7,856.2	$ 7,817.9	$ 8,810.2	$ 9,320.8	$ 8,295.4	$ 8,295.4	$ 8,800.9	$ 9,974.2	$ 11,089.8	$ 11,765.1
Partners' Equity	$ 4,320.1	$ 5,750.9	$ 5,986.7	$ 5,741.4	$ 5,661.8	$ 5,590.6	$ 5,905.2	$ 5,905.2	$ 6,324.3	$ 6,956.1	$ 7,614.9	$ 8,119.6
Total Liabilities & Partners' Capital	**$ 19,961.7**	**$ 21,804.0**	**$ 22,659.8**	**$ 22,592.7**	**$ 22,436.5**	**$ 22,704.4**	**$ 21,890.7**	**$ 21,890.7**	**$ 22,859.9**	**$ 24,775.5**	**$ 26,654.8**	**$ 27,896.2**
Cash Flow Summary												
Changes in Working Capital	$ (56.5)	$ 110.2	$ (75.1)	$ (158.2)	$ 72.3	$ -	$ -	$ (85.9)	$ -	$ -	$ -	$ -
Net cash provided by operating activities	$ 742.2	$ 540.1	$ 1,583.3	$ 369.9	$ 337.8	$ 219.9	$ 362.5	$ 1,290.1	$ 1,406.0	$ 1,490.2	$ 1,593.5	$ 1,713.8
Capital Expenditues	$ (1,695.8)	$ (1,818.2)	$ (1,802.4)	$ (452.1)	$ (367.2)	$ (465.4)	$ (465.4)	$ (1,750.0)	$ (1,800.0)	$ (2,700.0)	$ (2,700.0)	$ (2,100.0)
Net cash provided by investing activities	$ (1,808.5)	$ (1,926.1)	$ (1,922.4)	$ (484.6)	$ (402.0)	$ (465.4)	$ 634.7	$ (717.3)	$ (1,800.0)	$ (2,700.0)	$ (2,700.0)	$ (2,100.0)
Net cash provided by financing activities	$ 1,068.7	$ 1,468.7	$ 366.4	$ 179.3	$ 4.8	$ 240.9	$ (983.4)	$ (558.4)	$ 368.0	$ 1,264.9	$ 1,161.6	$ 441.3
Net change in cash	**$ 2.4**	**$ 82.7**	**$ 27.3**	**$ 64.6**	**$ (59.4)**	**$ (4.5)**	**$ 13.8**	**$ 14.4**	**$ (26.1)**	**$ 55.1**	**$ 55.1**	**$ 55.1**
Dividend												
Dividend Per Share	**$ 0.72**	**$ 0.79**	**$ 0.84**	**$ 0.22**	**$ 0.22**	**$ 0.22**	**$ 0.23**	**$ 0.89**	**$ 0.95**	**$ 1.01**	**$ 1.07**	**$ 1.13**
Payout Ratio	59.7%	60.9%	63.3%	29.0%	168.1%	639.0%	58.6%	67.5%	69.0%	69.5%	68.5%	65.8%

Source: UBS estimates, Company Reports

Forecast returns

Forecast price appreciation	+11.8%
Forecast dividend yield	3.9%
Forecast stock return	+15.7%
Market return assumption	5.1%
Forecast excess return	+10.6%

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. We use comparable company multiples in our sum-of-the-parts EV/EBITDA and P/E valuations. Our price target is derived using an average of sum-of-the-parts EV/EBITDA and P/E valuations and DDM.

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Buy	FSR is > 6% above the MRA.	49%	32%
Neutral	FSR is between -6% and 6% of the MRA.	39%	30%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<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 30 June 2020.
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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Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	N/A	US$24.15	04 Aug 2020

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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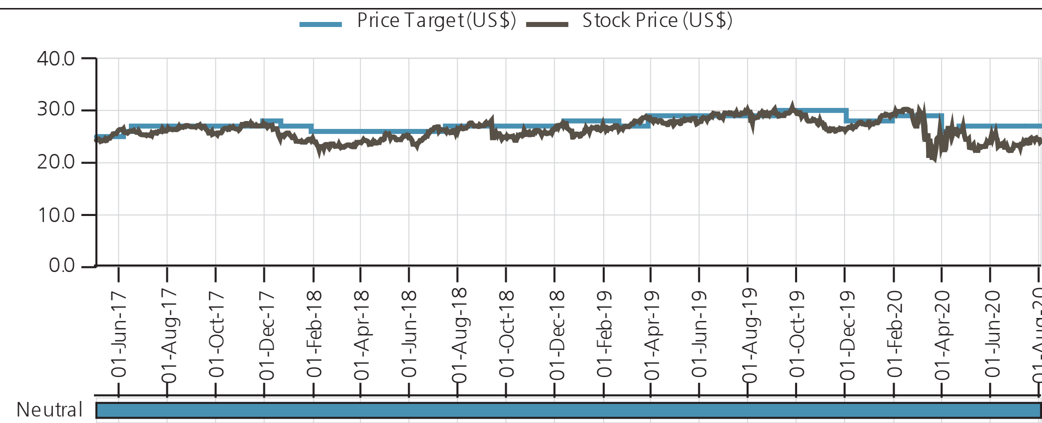
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2017-05-04	24.28	25.0	Neutral
2017-06-07	26.44	26.0	Neutral
2017-06-17	26.06	27.0	Neutral
2017-11-29	27.17	28.0	Neutral
2017-12-22	25.28	27.0	Neutral
2018-01-29	24.22	26.0	Neutral
2018-07-17	26.12	27.0	Neutral
2018-12-13	27.62	28.0	Neutral
2019-02-20	26.28	27.0	Neutral
2019-03-29	28.66	29.0	Neutral
2019-09-09	28.91	30.0	Neutral
2019-12-03	26.41	28.0	Neutral
2020-01-30	29.1	29.0	Neutral
2020-04-01	23.06	26.0	Neutral
2020-04-23	25.85	27.0	Neutral

Source: UBS; as of 04 Aug 2020

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UBS

August 05, 2020 | 21:27 ET | 21:27 ET~

NiSource

NI-NYSE	Rating	Price: Aug-5	Target	Total Rtn
	Outperform	$24.36	$27.00	14%

NI 2Q20 - Initiates 2021 Guidance, Early Preview of September 29 Investor Day

Bottom Line: NI reported a nice 2Q20 beat of $0.13 vs. the street's $0.08 and our own $0.08. 2Q19 comp was $0.05. The primary drivers of the better results include the company's cost mitigation efforts which were only partially offset by 1H20 financing activity and demand/cost impacts of COVID19. For the full year management is targeting $0.10-$0.15 COVID-19 cost mitigation benefits.

Management moved forward the initiation of its 2021 guidance range of $1.28-1.36 which will be used as the new base year for its long-term growth rate.

Key Points

The midpoint of the $1.28-$1.36 range was in line with our own $1.33 estimate and just shy of the implied range the company had discussed in its May meetings. The guidance includes the midpoint of the $0-0.10/share estimated impact of COVID-19. **We are lowering our 2022 EPS to $1.38/share to reflect the slightly higher retention of TSA-related costs under the agreement to sell Columbia Gas Massachusetts, a more gradual path in cost mitigation activities and higher financing costs.**

Management gave an early preview of its upcoming analyst day scheduled for September 29th. Management provided year-by-year rate base guidance for the consolidated entity which shows a rate base CAGR of 10-12% for the four-year period of '20-24. **Although management did not disclose the discrete EPS growth rate associated with its rate base CAGR, it did suggest that over the four-year forecast period the EPS growth rate would exceed its current 5-7% LT growth rate (currently through 2022) through the new 2024 time-frame and then revert back to the initial 5-7% EPS CAGR.**

While the growth rate will be a function of the both the timing and financing vehicles utilized, its new cost management program and timely rate relief, we would expect the 18-20c of incremental earnings associated with its renewable investments would be additive to earnings in the 2H23 (concurrent with the retirement of the Schafer Plant) with a full year in 2024. **Our initial cut is the company's new growth rate ('21-24), albeit back-end loaded could be in the range of 8-9%.**

We'd expect the new investments will be financed with ~60% equity and with the bulk of spending to occur in late 2022 and 2023 we'd expect the company to likely synchronize its equity financing strategy with the cadence of the spending.

We reiterate our Outperform rating and $27 target price.

BMO Capital Markets — IN Fact

Utilities, Power & Renewables

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2YR Price Volume Chart

LHS: Price ($) / RHS: Volume (mm) — Source: FactSet

Company Data			in $
Dividend	$0.84	Shares O/S (mm)	382.8
Yield	3.4%	Market Cap (mm)	$9,325
P/BV	1.5x	Net Debt (mm)	$9,606

BMO Estimates (FY- Dec .)	2019A	2020E	2021E
EPS	$1.32	$1.30	$1.33
DPS	$0.80	$0.84	$0.89
EBIT	$1,042	$1,087	$1,155
EBITDA	1,759	1,834	1,927

Consensus Estimates	2019A	2020E	2021E
EPS		$1.28	$1.36

Valuation	2019A	2020E	2021E
P/E	18.5x	18.8x	18.3x
Div. Yield (%)	3.3%	3.4%	3.7%

QTR. EPS	Q1	Q2	Q3	Q4
2019A	$0.82	$0.05	$0.00	$0.45
2020E	$0.76a	$0.13a	$0.05	$0.36
2021E	$0.81	$0.06	$0.05	$0.41

Our Thesis

We like several aspects of the NI following the sale of Columbia Gas of Massachusettes and removal of previously guided $500-700mm equity issuance overhang, which we believe meaningfully de-risked the story.

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NiSource - Block Summary Model

Income Statement	2019A	2020E	2021E
Electric Operations	402	403	427
Gas Distribution	632	676	720
Parent & Other	13	13	13
Consolidated EBIT	1,042	1,087	1,155
Depreciation & Amortization	717	747	772
EBITDA	1,759	1,834	1,927
Interest Expense	379	399	396
Income Tax	113	120	132
Income from continuing operations	495	503	532
Weighted Average Shares Outstanding	376	388	399
Diluted Operating EPS	$1.32	$1.30	$1.33
Dividends per Share	$0.80	$0.84	$0.89
Cash Flow Statement	**2019A**	**2020E**	**2021E**
Operating Cash Flow	1,750	1,417	1,365
Investing Cash Flow	(1,988)	(630)	(1,770)
Financing Cash Flow	154	(106)	(99)
Net Change in Cash Flow	(84)	681	(504)
EOP Cash on Balance Sheet	37	718	214
Common stock (net)	34	335	335
Net debt issued/(repaid)	494	500	(64)
Dividends paid	(301)	(326)	(355)
Balance Sheet	**2019A**	**2020E**	**2021E**
Common Equity	5,327	6,019	6,611
Preferred Equity	880	880	880
Total Debt	9,643	10,143	10,079
Enterprise Value	$20,207	$20,913	$21,681
Common equity %	33.6%	35.3%	37.6%
Preferred equity %	5.6%	5.2%	5.0%
Total Debt %	60.8%	59.5%	57.4%
Book Value per Share	$16.51	$17.79	$18.78

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

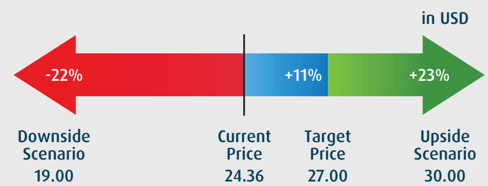
Our $27 target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2022E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook. For NI, we have removed EPS for its MA gas business from our P/E valuation and instead include only the asset value (1x equity rate base) in our SOTP framework.

Upside Scenario 30.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile.

Downside Scenario 19.00

Our downside scenario reflects a tightening monetary policy and a deceleration of the company's rate base growth.



Key Catalysts

Initial indicative pricing in its second renewable RFP in IN. Completing the sale of Columbia Gas of Massachusetts to Eversource. Potentially, capital spending and growth rate update in 2H20 given clarity in the aforementioned RFP and recent rate orders in MA and IN.

Company Description

NiSource, Inc. is a regulated utility holding company, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states. Through its Columbia Gas and NIPSCO brands, it provides natural gas, electricity, and other products and services. The company was founded in 1987 and is headquartered in Merrillville, Indiana.

NI-NYSE Research

Glossary

Company Models

BMO Capital Markets

2Q20 Results

NI reported a nice 2Q20 beat of $0.13 vs. the street's $0.08 and our own $0.08. 2Q19 comp was $0.05. The primary drivers of the better results include the company's cost mitigation efforts which were only partially offset by 1H20 financing activity and demand/cost impacts of COVID19. For the full year management is targeting $0.10-$0.15 COVID-19 cost mitigation benefits.

Management move forward the initiation of its 2021 guidance range which will be used as the new base year for its long-term growth rate. The midpoint of the $1.28-$1.36 range was in line with our own $1.33 estimate and just shy of the implied range the company had discussed in its May meetings. The guidance includes the midpoint of the $0-0.10/share estimated impact of COVID-19, a roughly a $0.05 drag from retained TSA costs associated with the sale of Columbia Gas Massachusetts, and the positive impact of investment at NIPSCO.

We are lowering our 2022 EPS to $1.38/share to reflect the slightly higher retention of TSA-related costs under the agreement to sell Columbia Gas Massachusetts, a more gradual path in cost mitigation activities and higher financing costs. Our 2023 number remains unchanged for now as we plan to update this as the company rolls out its multi-year financing plan at its September Analyst Day and updates investors on the cost and capital efficiencies that come out of its strategic initiative program. We also intend to roll out our 2024 estimate at that time which should include a full year impact from coal plant replacement investments in renewable supply.

Analyst Day Sneak Peak

Management gave an early preview of its upcoming analyst day scheduled for September 29th. Management provided year-by-year rate base guidance for the consolidated entity which shows a rate base CAGR of 10-12% for the four-year period of '20-24. Consistent with scope and cost savings in its 2018 IRP, managements rate base forecast includes an estimated range of $1,800-2,000mm for its share of renewable investment to replace the retirement of coal plants through 2023. The company will file an IRP in 2021 to outline the replacement of the its final coal plant (Michigan City plant) in 2028.

Although management did not disclose the discrete EPS growth rate associated with its rate base CAGR, it did suggest that over the four-year forecast period the EPS growth rate would exceed its current 5-7% LT growth rate (currently through 2022) through the new 2024 timeframe and then revert back to the initial 5-7% EPS CAGR. While the growth rate will be a function of the both the timing and financing vehicles utilized, its new cost management program and timely rate relief, we would expect the 18-20c of incremental earnings associated with its renewable investments would be additive to earnings in the 2H23 (concurrent with the retirement of the Schafer Plant) with a full year in 2024. Our initial cut is the company's new growth rate ('21-24), albeit back-end loaded could be in the range of 8-9%.

We expect the new investments will be financed with 60% equity content and will likely include both common equity as well as the use of an equity unit product. **With the bulk of spending to occur in late 2022 and 2023 we would expect the company to likely synchronize its equity financing strategy with the cadence of the spending**. However, we would not rule out an earlier deployment of equity units given the current market environment. Finally, the company has targeted an FFO/adjusted Debt target of 14-15% which we think it will aim to managed though the 2022-2023 construction schedule through its recently announced strategic initiative program which targets both O&M and capital efficiencies.

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Other Updates

Columbia Gas of Massachusetts sale remains on track with a settlement filed by Eversource on July 2nd, and a concurrent announcement from NiSource that it will pay $56M to settle the state's investigation into the 2018 Greater Lawrence incident. Hearings are scheduled for August 25th and 27th and the transaction is still on target to close at the end of September. We assume the $1,100mm cash proceeds will be used to retire any short-term debt and fund general corporate purposes.

Columbia Gas - PA Rate: The company filed for new base rates on 4/24 for the continued replacement of aging pipelines as well as adoption of safety upgrades. The $100mm revenue request if approved would allow new rates effective early 2021

Columbia Gas - MD Rate: The company filed for new base rates on 5/15 requesting a $6.3mm revenue increase with new rates effective in Dec 2020

Outlook

With the 2021 outlook and renewable development de-risked, we think the risk return going into the September 29th analyst day is favorable and **we reiterate our Outperform rating and $27 target price.**

Exhibit 1: Model Summary

NI Model Summary	2018	2019	2020	2021	2022	2023
EPS By Segment						
Electric Operations	$0.72	$0.78	$0.76	$0.79	$0.79	$0.82
Gas Distribution	$0.99	$1.12	$1.15	$1.14	$1.16	$1.32
Corporate & Other	($0.41)	($0.58)	($0.61)	($0.59)	($0.57)	($0.59)
Consolidated E.P.S.	**$1.30**	**$1.32**	**$1.30**	**$1.33**	**$1.38**	**$1.55**
Dividend per share	**$0.78**	**$0.80**	**$0.84**	**$0.89**	**$0.94**	**$1.00**
Payout Ratio total	60.0%	60.8%	64.7%	66.8%	68.2%	64.6%
Dividend Yield	3.1%	2.9%	2.9%	3.0%	3.2%	3.4%
Valuation Metrics						
Price to Earnings	19.5x	21.2x	22.6x	22.0x	21.2x	18.9x
Price to Book Value	1.6x	1.7x	1.6x	1.6x	1.5x	1.4x
Funding Sources						
Cash Flow from Operations	$540	$1,750	$1,417	$1,365	$1,439	$1,537
Total Debt Financings	$350	$750	$500	$0	$550	$950
Total Equity Financings	$1,724	$34	$335	$335	$335	$335
Credit Metrics						
Total Debt/Capitlization	61%	61%	60%	57%	55%	54%
FFO/Total Debt	12%	14%	14%	14%	14%	15%
Regulated Operations Performance - Realized ROE						
NIPSCO Electric ROE	12.8%	12.6%	11.5%	11.4%	11.3%	11.6%
Columbia Gas of Ohio ROE	8.8%	9.4%	9.1%	9.6%	9.2%	9.9%
Columbia Gas of Pennsylvania ROE	8.9%	9.4%	9.1%	9.6%	9.2%	9.9%
NIPSCO Gas ROE	9.2%	9.4%	9.1%	9.6%	9.2%	9.9%
Columbia Gas of Massachusetts ROE	9.3%	9.4%	9.1%	0.0%	0.0%	0.0%
Columbia Gas of Virginia ROE	8.6%	9.4%	9.1%	9.6%	9.2%	9.9%
Columbia Gas of Kentucky ROE	8.8%	9.3%	8.9%	9.5%	9.2%	9.9%
Columbia Gas of Maryland ROE	9.3%	9.7%	9.2%	9.4%	9.1%	9.8%

Source: BMO Capital Markets, Company Filings

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Exhibit 2: Model Assumptions

Key Model Assumptions	2018	2019	2020	2021	2022	2023	5-Year
Total Capital Expenditures by Segment							
Electric Operations	$499	$469	$460	$470	$480	$490	**$2,369**
Gas Distribution	$1,315	$1,380	$1,270	$1,300	$1,300	$1,310	**$6,560**
Consolidated Capital Expenditures	**$1,815**	**$1,849**	**$1,730**	**$1,770**	**$1,780**	**$1,800**	**$8,929**
YE Rate Base Estimates							
NIPSCO Electric	$4,401	$4,866	$5,317	$5,682	$5,871	$6,065	*6.6%*
Columbia Gas of Ohio	$2,800	$3,106	$3,401	$3,743	$4,073	$4,403	*9.5%*
Columbia Gas of Pennsylvania	$1,698	$1,883	$2,062	$2,270	$2,470	$2,670	*9.5%*
NIPSCO Gas	$1,497	$1,660	$1,818	$2,001	$2,178	$2,354	*9.5%*
Columbia Gas of Massachusetts	$990	$1,098	$1,203	$0	$0	$0	
Columbia Gas of Virginia	$712	$789	$864	$951	$1,035	$1,119	*9.5%*
Columbia Gas of Kentucky	$305	$338	$369	$407	$442	$478	*9.4%*
Columbia Gas of Maryland	$122	$136	$150	$165	$179	$194	*9.6%*
Total Rate Base	**$12,525**	**$13,876**	**$15,185**	**$15,218**	**$16,248**	**$17,282**	***6.7%***

Source: BMO Capital Markets, Company Filings

Exhibit 3: SOTP Valuation

Regulated, Corporate & Other	Valuation Metric	2022E EPS	Sector Comp	Sector Multiple	Prem/ (Discount)	Base Multiple	BMO Low Case P/E Multiple	BMO Low Case Implied Value ($ MM)	BMO Base Case P/E Multiple	BMO Base Case Implied Value ($ MM)	BMO High Case P/E Multiple	BMO High Case Implied Value ($ MM)
Electric Operations	EPS	$0.79	Electric	17.4x	+5.0%	18.3x	14.4x	$11	18.3x	$14	20.3x	$16
Gas Distribution	EPS	$1.16	Natural Gas	17.1x	+5.0%	18.0x	14.1x	$16	18.0x	$21	20.0x	$23
Coporate & Other	EPS	($0.57)	Blend	17.2x	+0.0%	17.2x	17.2x	($10)	17.2x	($10)	19.2x	($11)
Utility & Parent Value		**$1.38**					13.0x	**$18**	18.4x	**$26**	20.4x	**$28**
		'19 Rate Bas	Equity %	Equity								
Columbia Gas of Massachusetts		$1,100	47%	$517		1.0x	1.0x	$1.26	1.0x	$1.26	1.0x	$1.26
Total NiSource Inc.								**$19**		**$27**		**$30**
Upside/(Downside)								-20.4%		10.9%		22.4%
Current Yield								2.9%		2.9%		2.9%
Total Return								**-17.5%**		**13.8%**		**25.2%**

Source: BMO Capital Markets, Company Filings

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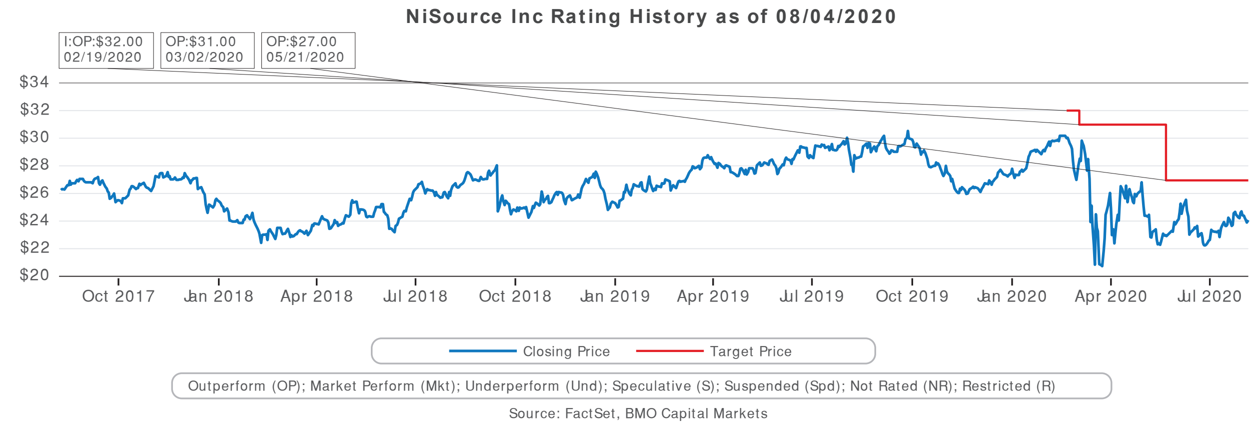

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Company Specific Disclosures

Disclosure 9B: BMO Capital Markets makes a market in NiSource Inc in United States.

Methodology and Risks to Target Price/Valuation for NiSource Inc (NI-NYSE)

Methodology: Our $27 target price is the product of a P/E-based sum-of-the-parts (SOTP) analysis of the company's primary regulated operating companies. We utilize a regulated group-average multiple based on 2022E EPS as our initial basis for valuation and then make adjustments specific to each jurisdiction to reflect our current view of the fundamental outlook.

Risks: NI's regulated profile exposes the company to business risk including but not limited to federal and state regulatory risk, federal and state political risk, environmental policy, interest rate risk, access to capital markets, construction risk, changes in customer demand trends, changes in customer affordability, extreme weather, natural disaster, and equipment failure.

Distribution of Ratings (August 04, 2020)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	44.1 %	26.2 %	52.9 %	46.6 %	57.7 %	57.7%
Hold	Market Perform	52.9 %	18.4 %	44.5 %	50.8 %	41.2 %	37.5%
Sell	Underperform	2.9 %	18.8 %	2.5 %	2.6 %	1.1 %	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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~ As of April 1, 2019.

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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;
Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;
(S) = Speculative investment;
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(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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August 5, 2020

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NI BUY

NiSource Inc.
Sector: Power, Utilities & Alternative Energy

Earnings Release

Share Price	$24.35
Price Target	$27.00

EPS ($) (FY DEC)	1Q	2Q	3Q	4Q	FY
2020	0.76	0.13	0.04E	0.39E	1.31E
Prior	*—*	*0.07*	*0.07E*	*0.42E*	*—*
P/E					18.6x
2021	0.75E	0.14E	0.06E	0.40E	1.35E
Prior	*0.76E*	*0.10E*	*0.09E*	*0.43E*	*1.37E*
P/E					18.1x
2022	0.80E	0.17E	0.08E	0.44E	1.48E
Prior	*0.81E*	*0.11E*	*0.10E*	*0.46E*	*1.47E*
P/E					16.5x

Market Data

52-Week Range	$19.56 - $30.67
Dividend	$0.74
Dividend Yield	3.0%
Market Cap (M)	$9,245
Enterprise Value (M)	$21,092
Shares Out (M)	382.8
ADV (3 mo; 000)	3,215

NI – 2Q Earnings Beat; Investor Day Preview Brings with It Incremental Capex, Upside to Previous Growth Rate

Key Message: NiSource reported 2Q20 earnings, beating Guggenheim and consensus estimates. Mgmt. initiated FY21 earnings guidance, removing some uncertainty from the picture. Renewable generation spending related to the 2018 IRP was defined and was higher than previous estimates, driving top-tier rate base growth over the forecast period. Mgmt. noted rate base growth and improved cost structure will lead to top-quartile EPS growth, and we will have more specifics during the investor day in Sep. FY20 financing and capital plan remain on track.

Key takeaways: NI reported 2Q20 adj. EPS of $0.13 vs Guggenheim at $0.07 and Street at $0.08 driven mainly by lower employee and administrative expenses YoY. **Mgmt., with more clarity around the CMA sale and COVID-19 impacts, initiated FY21 guidance of $1.28 to $1.36 – consistent with our prior thoughts that it could come in slightly lower than prior 2020 guide, which is better than some of the more draconian bear arguments we heard. We still believe 2021 could prove conservative.** The range is the starting point for mgmt.'s expected 10-12% rate base growth driven by renewable generation spending of between $1.8B to $2.0B through 2024, a significant increase from mgmt.'s initial estimates. Customer bills will not be impacted significantly as NI retires O&M intensive coal and replaces it with O&M light renewables. **Mgmt. expects rate base growth and improved cost structure to drive EPS growth in excess of 5-7%.** We await further detail on the long-term forecast of the business during the investor day in late Sep. The CMA settlement was filed early last month and is on track for regulatory approval in 3Q and closure shortly after. ATM equity financing is still expected by mgmt. to be between $200M-$300M for 2020. Liquidity and balance sheet remain strong. Updates on the regulatory side include deferral of COVID-related bad debt in IN, PA, VA, MD, and OH and NIPSCO Gas System Modernization Program extension.

A preview of what's to come… mgmt. lays the groundwork for a robust update on the capital plan and growth trajectory during its investor day in Sep. Mgmt. previewed its investor day by giving specifics on expected capital spending on renewables, estimated rate base CAGR, and expected earnings growth through 2024. Spending on renewables is estimated to be in the range of $1.8B-$2.0B through the forecast period, an increase from mgmt.'s initial estimates of $1.0B-$1.5B. NI will own ~50% of the new generation capacity, which is in line with the 2018 IRP. The renewables spending paired with continued investment in safety and reliability will drive rate base growth of 10-12% from 2021-2024. As of today, NI has $0.4B in approved projects with $1.4B-$1.6B in projects still in negotiations. The tax equity investment totals ~$1.0B and will be additive to rate base over time as the tax equity partners farm out the benefits. The earnings associated with the increased investment will be back-end loaded as projects are completed and added to rates. Customer bill impact is targeted in the low single digits supported by the retirement of O&M intensive coal. **2021 IRP could potentially support an extended runway of renewable generation spending.** The upcoming 2021 IRP could support additional renewable spending in years outside of the forecast as NI moves to retire its remaining coal capacity by 2028. Mgmt. also highlighted its goal to decrease GHG emissions by 90% from 2005 levels by 2030.

Earnings guidance for 2021 initiated, removing some angst from the picture. Mgmt. initiated FY21 EPS guidance of $1.28-$1.36 with more clarity on the CMA sale and the impact of COVID-19. **The range is consistent with our previous thoughts that 2021 guidance could come in lower than the original 2020 guidance and it is better than some of the more draconian bear arguments we heard… we still believe 2021 could prove conservative.** As a reminder, mgmt. removed FY20 guidance of $1.36-$1.40 when the CMA sale was announced. The loss of CMA earnings is offset by eliminating the need for block equity and cost restructuring. Mgmt. forecasts a conservative ~($0.05) impact from

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COVID-19 in 2021. 2021 will be the base year and the starting point for the new long-term plan.

Managing the COVID-19 impact through cost cutting and regulatory support. The impacts of COVID-19 in 2Q were in line with mgmt.'s expectations. YoY for the second quarter, residential, commercial, and industrial gas margins were $0.7M, flat, and ($4.7M) while residential, commercial, and industrial electric margins were $6.2M, ($3.9M), and ($9.2M). The impact of COVID-19 on 2Q20 EPS was ~($0.06), offset with cost cutting and regulatory support. Mgmt. still expects a gradual recovery of the economy into 2021. NI has received orders to defer COVID-related bad debt in IN, PA, VA, MD, and OH. MD, OH, and VA also allow for deferral of other COVID-related costs.

NI still expects to issue $200M-$300M in ATM equity in 2020. Incremental long-term debt financing for FY20 stands at $1.0B-$1.2B. NI's net available liquidity position as of Jun. 30, 2020 was ~$2.0B. Mgmt. reiterated its commitment to an IG credit rating and long-term FFO/Debt target of ~14-15%.

NI reported 2Q20 adj. EPS of $0.13 vs $0.05 in 2Q19. Gas segment operating earnings were up ~$27M YoY driven by lower employee and administrative expenses and higher revenue from safety and modernization investments slightly offset by a reduction in C&I demand, increased bad debt, and reduced late payment and reconnect fees. Electric segment operating earnings were up ~$4M driven by lower employee and administrative expenses, lower generation maintenance expense, and higher resi demand offset partially by lower C&I demand, increased bad debt expense, and reduced late payment and reconnect fees.

We are lowering our 2021 EPS estimate to account for the initiated guidance and greater impact to the electric segment and slightly raising our 2022 and 2023 EPS estimates to account for increased capital spending.

EPS($)	1Q	2Q	3Q	4Q	FY
2020E	0.76A	0.13A	0.04E	0.39E	**1.31E**
Prior	*0.76E*	*0.07E*	*0.07E*	*0.42E*	*1.31E*
2021E	0.75E	0.14E	0.06E	0.40E	**1.35E**
Prior	*0.76E*	*0.10E*	*0.09E*	*0.43E*	*1.37E*
2022E	0.80E	0.17E	0.08E	0.44E	**1.48E**
Prior	*0.81E*	*0.11E*	*0.10E*	*0.46E*	*1.47E*
2023E	0.86E	0.19E	0.10E	0.45E	**1.61E**
Prior	*0.85E*	*0.12E*	*0.12E*	*0.47E*	*1.57E*

Source: Company Filings, Guggenheim Securities, LLC estimates

Valuation

We apply a 19x multiple (from 18x) on the electric utility to account for upside to the capital plan and 21x multiple on the gas LDCs. We arrive at our valuation utilizing a sum-of-the parts analysis, based on: (1) ~$10/share for the regulated electric utility; (2) ~$20/share value for the regulated gas segment given the limited spread from LDCs after recent market volatility; and (3) (~$-3)/share for other adjustments for Corp and Other. We use this sum of the parts to arrive at our $27 valuation.

Risk

The primary risks on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

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NEUTRAL	151	38.32%	7	4.64%
SELL	11	2.79%	0	0.00%

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UTILITIES & POWER

Regulateds – Market Overweight
Gas/Power Infrastructure – Market Overweight

August 5, 2020

NISOURCE

(NI US Equity – $24.36 – Outperform)

Does ESG have room for an LDC?

- **2021 guidance light, but L-T EPS CAGR now above 5-7%.** NI initiated 2021 guidance of $1.28-1.36 which missed prior consensus of $1.36 (prev. WRe $1.34), but nonetheless removed a key overhang for the stock. The range includes dilution from the CMA sale/dis-synergies which are largely expected to be offset by NI's cost restructuring program. The bogey between consensus and the midpoint is ~$0.05 of COVID related headwinds as NI's base case assumes modest impacts through the 1H of 2021. NI also gave a preview of L-T growth opportunities which will be discussed in detail at its Sept. 29th Analyst Day – $1.8-2.0B of incremental renewable capex, which will drive rate base growth of 10-12% and an EPS CAGR in excess of 5-7% through 2024 (off 2021). NI outperformed the UTY index by 220bps on the day.

- **New EPS growth likely lumpy, financing considerations.** The renewable investments will take place primarily in 2022 & 2023. But timing and financing costs will ultimately determine how much regulatory lag NI faces as the projects are build transfer (i.e., no AFUDC) and are not expected to be rolled into rates until mid-2023. Our sense is that NI will work to minimize lag in 2022, targeting projects for in-service near the tail end of the year. For financing, NI plans to use equity content consistent with its targeted consolidated cap structure (60% equity); NI might look to use a forward, hybrids or converts (likely a mix). NI will work to smooth the growth trajectory by leveraging O&M through its cost restructuring program.

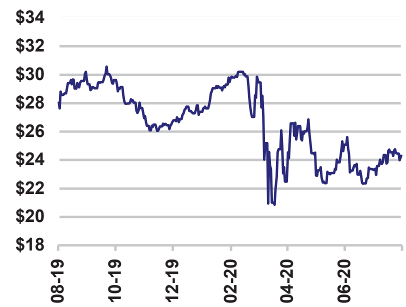
- **Model update**. We have refreshed our model, making several assumptions around the timing of capex deployment, financings and when NIPSCO will have new rates. We assume 1/3 of the $1.9B is deployed in late-2022, with the remaining staggered in the 1H of 2023. As of now, we are financing with $1.1B of common equity which is deployed in-sync with the investments. We target new rates in place at NIPSCO in the July/August timeframe of 2023. Our new 2022-23E imply 9% and 5% EPS growth, respectively – see a summary of our changes in the table on the right. We see 2024 EPS of $1.70, which implies a ~8.5% CAGR once the renewables are fully reflected

- **PT to $27; Outperform.** We raise our PT by $1 to $27 due to higher utility multiples. We stay Outperform rated and like the direction NI is headed via its renewables program; post-CMA, the ability to execute should be a lot easier.

Estimates / Valuation				
(US$)	**2020E**	**2021E**	**2022E**	**2023E**
EPS	$1.30	$1.33	$1.45	$1.52
Consensus	$1.28	$1.35	$1.46	$1.58
P/E	18.8x	18.4x	16.8x	16.0x
Dividend Yield	3.5%	3.7%	3.9%	4.1%

Trading and Fundamental Data	
Price Target	**$ 27**
Current Price	24.36
52-Week Range	$20-$31
Market Cap. (MM)	9,320
Enterprise Value (MM)	19,860
Shares Out. (MM)	382.8
Dividend Yield	3.48%
Dividend Payout Ratio	66.1%
ROE	6.6%
Debt to Cap	63.2%
Avg. Daily Vol. (000)	2,261

Price Performance	YTD	LTM
NI US Equity	-13%	-18%
Utility Index	-6%	1%
S&P 500	3%	13%



Source: FactSet/Wolfe Research

Key Changes		
Year	**New**	**Old**
PT	$27	$26
2021E	$1.33	$1.34
2022E	$1.45	$1.46
2023E	$1.52	$1.57

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NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2020E	2021E	2022E	2023E
EPS	$1.30	$1.33	$1.45	$1.52
Diluted Shares Outstanding	$388	399	414	452
Dividends Per Share	$0.85	$0.90	$0.95	$1.01
Dividend Yield	3.5%	3.7%	3.9%	4.1%
Dividend Payout Ratio	65%	68%	66%	66%
Equity Ratio	39%	39%	40%	41%
FFO/Net Debt	13%	13%	13%	13%
Valuation Metrics				
P/E	18.8x	18.4x	16.8x	16.0x
Price/Book	1.7x	1.6x	1.4x	1.3x
Segment EPS				
Gas Distribution	$1.05	$1.09	$1.20	$1.22
NIPSCO Electric	0.56	0.55	0.56	0.59
Parent & Other	(0.32)	(0.32)	(0.31)	(0.28)
Total EPS	**$1.30**	**$1.33**	**$1.45**	**$1.52**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2020E	2021E	2022E	2023E
Capital Spending by Segment ($M)				
Gas Distribution	$1,311	$1,496	$1,621	$1,621
Electric	455	455	1,082	1,745
Parent	25	25	25	25
Total Capex	**$1,791**	**$1,976**	**$2,728**	**$3,391**
Financings ($M)				
Total Equity Issued/(Repurchased)	$298	$298	$698	$1,048
Total Debt Issued/(Repurchased)	$150	$550	$850	$1,150

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland and Massachusetts.

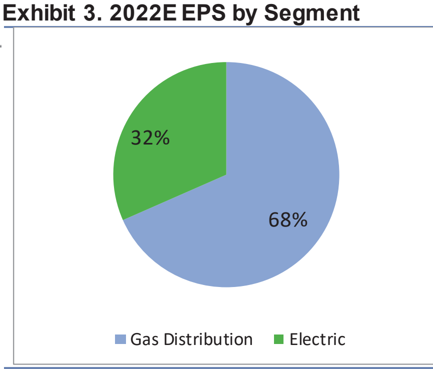
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of capital investment with recovery largely through trackers in mostly constructive regulatory environments. We see NI as a de-risking story in 2020 with solid growth prospects through its base capex program and renewable investment opportunities at NIPSCO.

Valuation

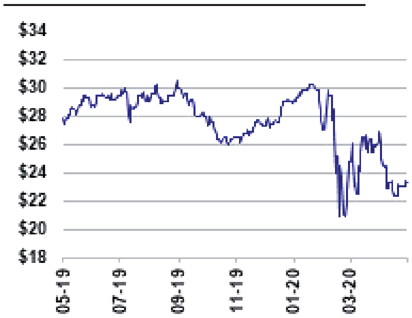
Our $27 price target is derived using a P/E multiple of 18x on NI's electric earnings and 18.5x on its gas LDC earnings – both averages. Risks for NiSource are 1) bad regulatory outcomes; 2) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer and sales growth

Exhibit 3. 2022E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: FactSet

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Investment Conclusion

We are Outperform rated on NiSource. Most of the NI's annual capex (~80%) is recovered with minimal lag via tracking mechanisms and the company has built a constructive track record with most of its state regulators. Post the sale of Columbia Gas of Massachusetts, we believe the company's plan will be a lot easier to execute on. Further, $1.8-2.0B of incremental renewable capex has now been identified for deployment across 2022 and 2023, which will help drive rate base growth of 10-12% and EPS growth in excess of 5-7%, on average, through 2024 (off 2021 base year). The dramatic shift toward renewables and fact that NI will be coal-free by 2028 is also helpful from an ESG perspective. We ultimately see exiting Massachusetts as a turning point for the company that should allow NI to re-rate closer to its historic 5-10% premium over time as it proves out the ability to execute.

Exhibit 5: Regulated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2020E	P/E 2021E	P/E 2022E	P/E 2023E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Alliant Energy	LNT	$52.87	250	$13,191	22.0x	20.7x	19.7x	18.6x	2.9%	7.0%	63%	2.4x	47%
Ameren	AEE	80.45	247	19,862	23.4x	21.5x	20.1x	19.0x	2.6%	4.0%	60%	2.5x	44%
American Electric	AEP	84.83	496	42,040	20.0x	18.3x	17.1x	16.3x	3.3%	4.5%	66%	2.2x	37%
Avangrid	AGR	48.33	309	14,934	21.4x	19.4x	17.9x	N/A	3.6%	0.0%	78%	1.0x	65%
CMS Energy	CMS	62.35	286	17,850	23.5x	21.9x	20.3x	19.0x	2.6%	6.5%	61%	3.5x	26%
Con Edison	ED	73.66	334	24,610	17.4x	16.1x	15.5x	14.9x	4.2%	3.5%	72%	1.3x	44%
Dominion	D	79.71	839	66,897	23.0x	20.7x	19.5x	18.3x	3.2%	6.0%	65%	2.4x	44%
Duke Energy	DUK	83.51	735	61,368	16.7x	16.2x	15.5x	14.5x	4.6%	2.0%	77%	1.4x	42%
Edison International	EIX	53.61	378	20,276	11.9x	11.7x	11.0x	10.2x	4.6%	0.2%	55%	1.4x	40%
Entergy	ETR	100.36	200	20,088	18.0x	16.9x	15.9x	15.2x	3.8%	2.2%	68%	1.9x	33%
Evergy	EVRG	53.53	227	12,137	17.7x	16.5x	15.9x	15.1x	3.8%	6.2%	68%	1.4x	45%
Eversource Energy	ES	88.18	343	30,206	24.2x	22.5x	21.1x	19.9x	2.6%	6.1%	62%	2.2x	46%
FirstEnergy	FE	28.94	542	15,678	11.7x	11.0x	10.5x	10.0x	5.4%	6.0%	63%	2.3x	24%
Fortis*	FTS	53.79	464	24,975	20.7x	18.9x	17.8x	16.8x	3.6%	6.0%	74%	1.4x	44%
NiSource	NI	24.36	383	9,325	18.8x	18.4x	16.8x	16.0x	3.5%	6.0%	65%	1.9x	40%
PG&E	PCG	8.88	1,941	17,240	5.5x	8.9x	7.9x	7.3x	0.0%	N/A	0%	0.9x	8%
Pinnacle West	PNW	79.74	112	8,970	16.6x	15.8x	15.3x	14.4x	4.0%	6.0%	66%	1.6x	47%
Portland General	POR	41.63	90	3,726	17.4x	16.0x	15.2x	14.7x	3.7%	1.5%	64%	1.4x	46%
PPL Corp.	PPL	26.61	769	20,457	11.3x	10.8x	9.9x	N/A	6.2%	0.6%	71%	1.5x	36%
Southern Company	SO	53.40	1,056	56,397	16.9x	16.2x	14.9x	13.8x	4.8%	3.2%	81%	2.0x	36%
WEC Energy Group	WEC	93.31	315	29,433	24.9x	23.4x	21.9x	20.5x	2.7%	7.2%	68%	2.8x	45%
Xcel Energy	XEL	69.79	525	36,664	25.1x	23.6x	22.3x	21.1x	2.5%	6.2%	62%	2.7x	37%
Average					**18.6x**	**17.5x**	**16.5x**	**15.8x**	**3.6%**	**4.3%**	**64%**	**1.9x**	**40%**
Average (ex EIX, PCG, PPL)					**20.0x**	**18.6x**	**17.5x**	**16.6x**	**3.5%**	**4.7%**	**68%**	**2.0x**	**42%**

Source: Wolfe Research, FactSet

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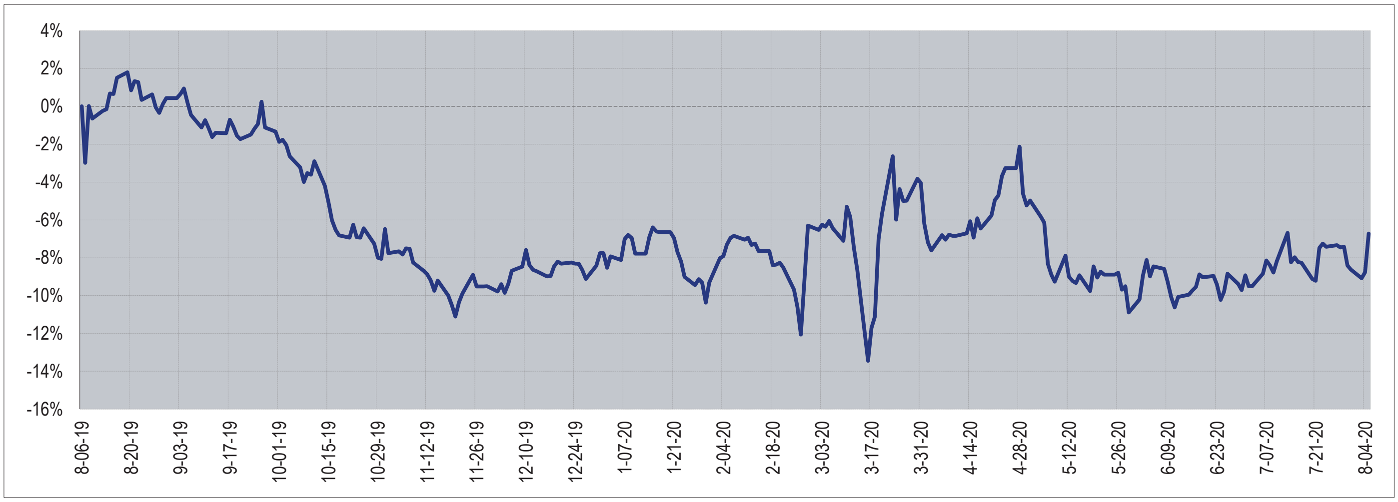
Exhibit 6: NI vs the Regulated Average



Source: Wolfe Research, FactSet

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NiSource

August 5, 2020

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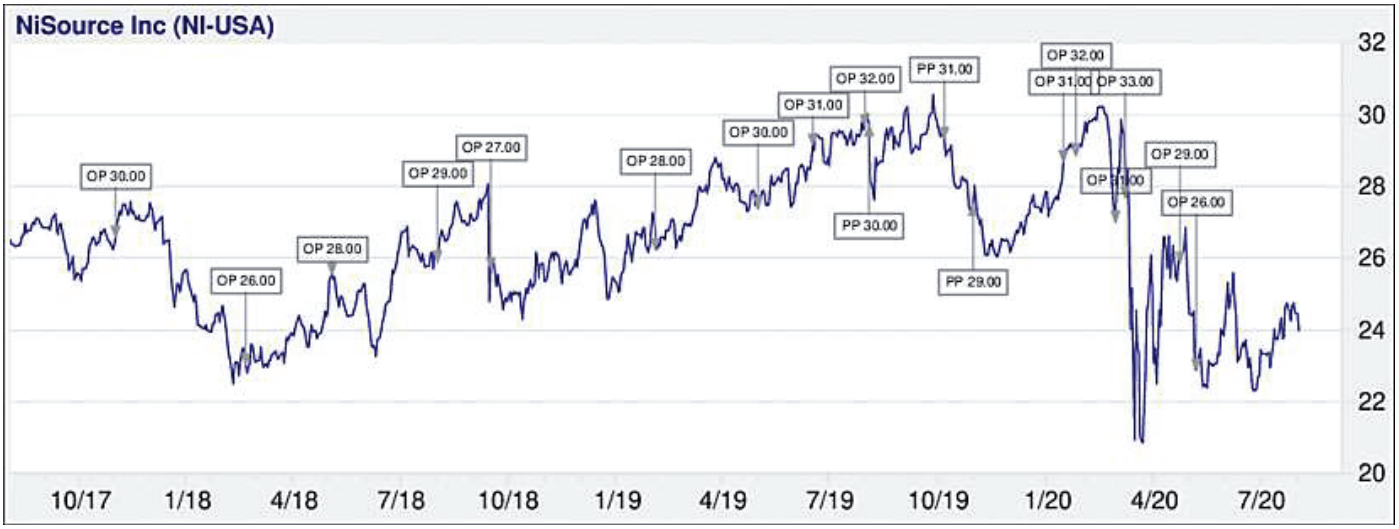
Important Disclosures:

Price Chart(s) with Ratings and Target Price History



Note: OP = Outperform; PP = Peer Perform; UP = Underperform

Wolfe Research, LLC Fundamental Valuation Methodology:

Company:	Fundamental Valuation Methodology:
NI US Equity	Forward P/E

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:	Risks That May Impede Achievement of the Recommendation, Rating or Target Price:
NI US Equity	Economy, regulatory outcomes, project execution, pipeline safety accidents

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
NI US Equity	None

Other Disclosures:

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Peer Perform (PP):	The security is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.
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Market Underweight (MU):	Expect the industry to underperform the primary market index for the region (S&P 500 in the U.S.) by at least 10% over the next 12 months.

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BofA GLOBAL RESEARCH

BofA SECURITIES

NiSource Inc

Renewable light at the end of the tunnel

Reiterate Rating: NEUTRAL | PO: 26.00 USD | Price: 24.36 USD

06 August 2020

Equity

New LT rate base growth CAGR better than expected...

Alongside reporting a 2Q beat, NI initiated '21 EPS guidance of $1.28-1.36 (vs consensus of $1.36) and a '21-'24 LT rate base growth CAGR of +10-12%, inclusive of the company's renewable strategy (50% BOT JVs funded with ~33% tax equity) adding an incremental $1.8-2.0bn of capex in '22 and '23 (vs our prior assumption of $1.5bn). Mgmt. further highlighted the new rate base CAGR translates into LT EPS growth '21-'24 in *excess* of the company's previous +5-7% EPS CAGR (using the new '21 guidance as the base yr). On our new estimates, the new rate base CAGR does imply an impressive +11.6% EPS CAGR '21-'24, but we stress that this is shorter than the typical 5-yr CAGR. While much more detail is expected on the company's renewable strategy at the 9/29 investor day with most renewable commercial deals will be completed by then, we highlight NI likely uses equity linked hybrids to finance part of the deal (we assume $500mn in converts issued in '22 and converted in '25) in addition to common equity to support NI's '22 and '23 incremental renewable capex. Critically, we expect an explicit EPS growth CAGR to be disclosed at the investor day with potential outlook beyond '24.

...but partially offset by lower '21 guide & '22 implications

While we applaud NI for providing further clarity into '21 by establishing new '21 guidance, we stress the new guidance implied negative EPS revisions to '21 and '22 even with base case COVID impact of (-$0.05) baked into the guide. Assuming this negative impact rolls off completely in '22, the guidance also suggests '22 consensus is likely too high. Although the rate base CAGR guidance along with EPS growth >5-7% '21-'24 are both positive for NI, we perceive the implied negative revisions to EPS for the next two years mostly offsets this as the majority of the uptick in forecasted rate base and EPS occurs outside of most investors' valuation window (typically 2022). Hence, we lower our '20 / '21 / '22 EPS estimates by about 4 cents/yr, while raising '23/ '24 EPS by 3 / 6 cents to account for higher than previously contemplated BOT renewables where we expect NI to earn a full yr of earnings starting in '24 (~14c per year vs prior 10c). Reit Neutral given NT uncertainty and revision risk & raise PO to $26 (from $25) as mtm and raise premiums in SOTP for both gas and electric.

Estimates (Dec)

(US$)	2018A	2019A	2020E	2021E	2022E
EPS	1.30	1.32	1.24	1.31	1.42
GAAP EPS	1.30	1.32	1.24	1.31	1.42
EPS Change (YoY)	7.4%	1.5%	-6.1%	5.6%	8.4%
Consensus EPS (Bloomberg)			1.28	1.36	1.46
DPS	0.79	0.83	0.88	0.94	0.99

Valuation (Dec)

	2018A	2019A	2020E	2021E	2022E
P/E	18.7x	18.5x	19.6x	18.6x	17.2x
GAAP P/E	18.7x	18.5x	19.6x	18.6x	17.2x
Dividend Yield	3.2%	3.4%	3.6%	3.9%	4.1%
EV / EBITDA*	15.8x	13.7x	13.5x	12.6x	11.7x
Free Cash Flow Yield*	-13.7%	-2.3%	-6.5%	-6.6%	-13.7%

* For full definitions of *iQmethod*SM measures, see page 8.

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Refer to important disclosures on page 9 to 11. Analyst Certification on page 6. Price Objective Basis/Risk on page 6. 12175985

Key Changes

(US$)	Previous	Current
Price Obj.	25.00	26.00
2020E EPS	1.28	1.24
2021E EPS	1.35	1.31
2022E EPS	1.46	1.42
2020E EBITDA (m)	1,804.7	1,795.1
2021E EBITDA (m)	1,927.0	1,918.7
2022E EBITDA (m)	2,059.8	2,059.2

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Stock Data

Price	24.36 USD
Price Objective	26.00 USD
Date Established	6-Aug-2020
Investment Opinion	B-2-7
52-Week Range	19.56 USD - 30.67 USD
Mrkt Val (mn) / Shares Out (mn)	9,330 USD / 383.0
Average Daily Value (mn)	75.22 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2020E)	9.0%
Net Dbt to Eqty (Dec-2019A)	158.6%

iQprofile℠ NiSource Inc

iQmethod ℠ – Bus Performance*

(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Return on Capital Employed	3.9%	4.3%	4.0%	4.2%	4.2%
Return on Equity	10.1%	9.9%	9.0%	9.0%	9.2%
Operating Margin	18.3%	20.2%	19.7%	20.5%	21.5%
Free Cash Flow	(1,278)	(219)	(602)	(612)	(1,274)

iQmethod ℠ – Quality of Earnings*

(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Cash Realization Ratio	1.2x	3.2x	2.4x	2.4x	2.3x
Asset Replacement Ratio	3.0x	2.5x	2.4x	2.4x	3.2x
Tax Rate	19.7%	17.1%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	156.7%	158.6%	142.4%	143.1%	141.5%
Interest Cover	2.6x	2.8x	2.8x	2.8x	3.0x

Income Statement Data (Dec)

(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Sales	5,084	5,184	5,351	5,529	5,726
% Change	4.3%	2.0%	3.2%	3.3%	3.6%
Gross Profit	3,325	3,649	3,762	3,917	4,089
% Change	-0.9%	9.8%	3.1%	4.1%	4.4%
EBITDA	1,531	1,764	1,795	1,919	2,059
% Change	3.4%	15.2%	1.8%	6.9%	7.3%
Net Interest & Other Income	(335)	(384)	(379)	(410)	(417)
Net Income (Adjusted)	**463**	**495**	**479**	**519**	**590**
% Change	**16.6%**	**6.8%**	**-3.2%**	**8.4%**	**13.7%**

Free Cash Flow Data (Dec)

(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Net Income from Cont Operations (GAAP)	463	495	479	519	590
Depreciation & Amortization	600	717	742	783	827
Change in Working Capital	110	(75)	(186)	(186)	(186)
Deferred Taxation Charge	(188)	118	113	122	103
Other Adjustments, Net	(445)	328	0	0	0
Capital Expenditure	(1,818)	(1,802)	(1,750)	(1,850)	(2,609)
Free Cash Flow	**-1,278**	**-219**	**-602**	**-612**	**-1,274**
% Change	**-34.0%**	**82.9%**	**-174.9%**	**-1.6%**	**-108.3%**

Balance Sheet Data (Dec)

(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Cash & Equivalents	121	148	165	181	197
Trade Receivables	1,147	905	1,092	1,278	1,464
Other Current Assets	787	800	800	800	800
Property, Plant & Equipment	15,543	16,912	16,921	17,987	19,769
Other Non-Current Assets	4,206	3,894	3,894	3,894	3,894
Total Assets	**21,804**	**22,660**	**22,871**	**24,140**	**26,124**
Short-Term Debt	2,027	1,787	2,185	2,350	2,600
Other Current Liabilities	2,010	1,959	1,959	1,959	1,959
Long-Term Debt	7,105	7,856	7,120	7,658	8,471
Other Non-Current Liabilities	4,911	5,071	5,184	5,306	5,409
Total Liabilities	**16,053**	**16,673**	**16,449**	**17,274**	**18,439**
Total Equity	**5,751**	**5,987**	**6,421**	**6,866**	**7,685**
Total Equity & Liabilities	**21,804**	**22,660**	**22,871**	**24,140**	**26,124**

* For full definitions of *iQmethod*℠ measures, see page 8.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

NI's positives include 5-7% dividend growth and >5-7% EPS growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries. We have factored in resolution of overhang from the MA incident as the company will likely sell 3Q. However, NI has C&I demand risk from COVID, which will be difficult to offset with O&M cuts due to promises already around cost cuts to balance CMA sale. We see shares valued appropriately and rate Neutral.

Stock Data

Average Daily Volume	3,087,733

Quarterly Earnings Estimates

	2019	2020
Q1	0.82A	0.76A
Q2	-0.75A	0.13A
Q3	0A	-0.03E
Q4	1.24A	-1.50E

Reconciling new LT rate base and EPS growth

NiSource announced an impressive LT rate base growth CAGR of +10-12% for 2021-2024 as the company provided more details around its evolving renewable strategy. The increase in the rate base CAGR is attributed to NiSource's renewable strategy where it plans to spend an incremental $1.8-2.0bn of capex on build-own-transfer renewable JVs in '22 and '23, and additional opportunities through 2028. This compares to our previous assumption for incremental renewable capex added to rate base of $1.5bn in '22 and '23. The higher capex assumption in the out years equates to higher EPS from renewables in '24 where we now model about $0.14/year of EPS generated by renewables in '24 and beyond. Note we estimate '24 is the first full year of renewable earnings. Note NI expects the BOT JV ownership to be composed of roughly 33% tax equity investment or ~$1bn of tax equity investment compared to NI's $1.8-2.0bn investment – a lower percentage tax equity than anticipated driving RB estimates higher. This also implies the remaining renewable RFPs awarded are likely Solar given the capital structure solar has a lower proportion owned by tax equity (30%) vs wind at 50%.

We forecast that the higher rate base CAGR of +10-12% through 2024 will translate to similar EPS growth of +11.3% over the same time period. Excluding the BOT renewable capex, we estimate an EPS CAGR '21-'23 of about 8.4%, about 300bps below the former. As of today, consensus is only reflecting 6.8% LT EPS growth as some of the street likely have yet to incorporate the incremental renewable capex. See the table below for comparison. Also, see estimate section below to compare rate base growth vs EPS growth compared to guidance.

Table 1: EPS estimates and CAGR including Renewables vs excluding renewables vs consensus

	2020	2021	2022	2023	2024	2025
Incremental EPS from Renewables RFPs	$0.00	$0.00	($0.01)	$0.06	$0.14	$0.14
EPS - Including Renewables BOT from RFP 1 & 2	$1.24	$1.31	$1.42	$1.63	$1.80	$1.84
EPS - Excluding Renewables BOT from RFP 1 & 2	$1.24	$1.31	$1.44	$1.58	$1.67	$1.70
EPS CAGR - Including Renewables RFPs - 2021-2024					*11.3%*	
EPS CAGR - Excluding Renewables - 2021-2024					*8.4%*	
Consensus EPS CAGR - 2021-2024					6.8%	

Source: BofA Global Research estimates, company report, Bloomberg

Estimates: Lower EPS in near term, but raise in long term

We lower our EPS estimates in '20 / '21 / '22 given the newly initiated lower than expected '21 guidance, but raise our EPS in '23 and '24 to account for incremental renewable capex (~$1.8-2.0bn) added to electric rate base that is higher than our previous assumption of roughly $1.5bn. After adjusting our estimates, our implied '21-'24 EPS CAGR comes out to 11.3%, which is well in excess of NI's previously articulated 5-7% EPS CAGR. We do emphasize that this 11.3% is a shorter 3-yr CAGR and we do not foresee this as a sustainable rate over the long term as the company will benefit from a significant uptick in EPS from the renewable program beginning in 2024 off of a lower base coming out of COVID. With the 5c negative COVID impact added back to the midpoint of the new '21 EPS guidance and assuming our 2024 EPS estimate of 1.80, this equates to a 9.6% EPS CAGR from '21-'24 – still strong, but again padded by the one-time uptick of $1.8-2.0bn of renewable capex in '22/'23 translating to EPS in '24.

In the EPS estimates table below, we include a number of LT EPS CAGRs below to compare the LT growth off different base years. We would highlight that '19-'23 and '19-'24 still fall within NI's previous LT EPS growth CAGR of +5-7%, albeit the latter CAGR is towards the high end. With these CAGRs below off the '19 base still consistent with the previous EPS CAGR guidance of +5-7%, we question why NI chose to re-base.

Table 2: NI EPS estimates/CAGRs vs Rate Base estimates/CAGRs

NI EPS Estimates	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Gas	1.04	1.04	1.11	1.14	1.16	1.19	1.24
Electric	0.59	0.52	0.51	0.58	0.75	0.88	0.86
Electric - BOTs from RFP 1 & 2	0.00	0.00	0.00	-0.01	0.06	0.14	0.14

Table 2: NI EPS estimates/CAGRs vs Rate Base estimates/CAGRs

NI EPS Estimates		2019A	2020E	2021E	2022E	2023E	2024E	2025E
Parent/Other		-0.32	-0.32	-0.31	-0.30	-0.28	-0.27	-0.26
BofA EPS		**1.32**	**1.24**	**1.31**	**1.42**	**1.63**	**1.80**	**1.84**
Previous EPS		1.32	1.28	1.35	1.46	1.60	1.74	1.78
Guidance		**1.27-1.33**		**1.28-1.36**				
Consensus		1.30	1.28	1.36	1.45	1.57	1.66	
Consensus '21-'24 EPS CAGR	6.9%							
BofA '21-'24 EPS CAGR	11.3%							
BofA '20-'24 EPS CAGR	9.8%							
BofA '19-'23 EPS CAGR	5.6%							
BofA '19-'24 EPS CAGR	6.5%							
New Guidance '21-24 EPS CAGR	>5-7%							
Previous Guidance off '19 guidance range	5-7%							
Prior +5%-7% EPS CAGR off new '21 guidance range	High End			1.36	1.46	1.56	1.67	1.78
	Mid-Point			1.32	1.40	1.48	1.57	1.67
	Low End			1.28	1.34	1.41	1.48	1.56
Share Count (mn shares)		**376**	**386**	**397**	**415**	**439**	**464**	**479**

NI Rate Base Growth		2019	2020E	2021E	2022E	2023E	2024E	2025E
Gas Rate Base		9,197	9,032	10,065	11,126	12,135	13,160	13,969
Electric Rate Base		4,935	4,872	5,027	5,977	7,262	7,535	7,601
Total Rate Base (year-end)		**14,132**	**13,904**	**15,091**	**17,103**	**19,397**	**20,694**	**21,570**
Guidance excluding MA (year-end)			13,900	15,100	17,100	19,400	20,700	
BofA Implied CAGR ('21-'24)	*11.1%*							
Guidance excluding MA ('21-'24)	*10-12%*							

Source: BofA Global Research estimates, company report, Bloomberg

Valuation

We raise our PO to $26 (from $25) as we mark to market our SOTP valuation with peer multiples of 15.8x (from 15.5x) for gas and 16.9x (unchanged) for electric. We also raise our electric premium by 1x to 2x to account for incremental renewable earnings growth long-term, and now capitalize all of NI's gas subsidiaries at a 1x premium to account for mitigated COVID concern with improved visibility into '21. We do note that under our SOTP valuation, which capitalizes '22 EPS across the subsidiaries, NiSource's incremental renewable capex and EPS currently lands *outside* of the valuation window.

Clear uncertainty remains in the near term with 2020 EPS guidance suspended, and lack of clarity on '21 lag (with subsequent gyrations around '22) as keeping premiums to peers relatively modest. We perceive a positive backdrop for shares into the coming months update, with '24 EPS the key metric (even '23 will be partially impacted by lag and remains relatively opaque). Expect more explicit guidance of what this '24 outlook will be (once benefitting from FY run-rate of EPS uplift with renewable investment and next rate case to earn ROE once more).

Meanwhile, given the large investments and backdrop of recent larger rate case, expect bill headroom and pressure to remain a relevant factor to consider in execution of proposed plan.

We raise our PO to $26 (from $25) and maintain our Neutral rating. We perceive a clear positive backdrop, but with our ests still below Street on '21/'22 and with ambiguity on '23 don't expect a re-rating to the 'next' ESG stock. Perceive consistency in execution on O&M plan to limit future EPS revisions is key (after numerous quarters of consecutive gyrations in expectations).

Table 3: NI SOTP Valuation

NI SOP Valuation		
	Metric	P/E Multiple

Table 3: NI SOTP Valuation

NI SOP Valuation										
	2022E EPS	Low	Peer	Prem/ Discount	Base	High		Low	Base	High
Group Peer Multiple - Gas	-	-	15.8x	-	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Gas	-	-	5.10%	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Gas Utilities		- -	16.6x	-	-	-	-	-	-	-
Columbia Gas of OH	$0.52	16.6x	16.6x	**1.0x**	17.6x	18.6x		$8.69	$9.22	$9.74
Columbia Gas of PA	$0.26	16.6x	16.6x	**1.0x**	17.6x	18.6x		$4.36	$4.63	$4.89
NIPSCO Gas	$0.21	16.6x	16.6x	**1.0x**	17.6x	18.6x		$3.46	$3.67	$3.88
Columbia Gas of VA	$0.08	16.6x	16.6x	**1.0x**	17.6x	18.6x		$1.38	$1.46	$1.54
Columbia Gas of KY	$0.05	16.6x	16.6x	**1.0x**	17.6x	18.6x		$0.75	$0.80	$0.85
Columbia Gas of MD	$0.02	16.6x	16.6x	**1.0x**	17.6x	18.6x		$0.32	$0.34	$0.35
Group Peer Multiple - Electric			16.9x							
Group EPS '18-'22 CAGR - Electric			5.00%							
Electric Utilities			17.7x							
NIPSCO Electric	$0.58	18.7x	17.7x	**2.0x**	19.7x	20.7x		$10.86	$11.44	$12.02
Total Utility	**$1.72**	*17.3x*			*18.3x*	*19.3x*		**$29.83**	**$31.55**	**$33.27**
-Parent EPS Drag (ex-Interest Expense)	-$0.09	17.3x	0.0x		17.7x	18.7x		-$1.53	-$1.56	-$1.64
Total EPS *(incl. debt drag)*	**$1.42**									
Midpoint of 5-7% EPS	*$1.40*									
Holdco Debt @ Parent, *not* allocated to Utilities										
(50% Netting out Debt)				-$2,000	50%			-$1,000	-$1,000	-$1,000
(50% P/E multiple on Interest Exp)				5.5%	50%			-$753	-$796	-$840
Grand Total Equity Value								**$24.08**	**$25.67**	**$27.19**
Shares Outstanding 2022E									415	
Total Equity Value								**$24.00**	**$26.00**	**$27.00**
Implied Consolidated P/E										
Current Price									$24.36	
Dividend Yield (2020E)									3.6%	
Total Expected Return									**10.4%**	

Source: BofA Global Research estimates, company report, Bloomberg

Price objective basis & risk

NiSource Inc (NI)

Our $26 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2022 forward P/E multiples of 15.8x for gas utilities and 16.9x for electric utilities with a 1x premium for gas utilities given partially mitigated COVID impact and visibility into '21, and a 2.0x premium for the electric utility's strong growth rates and increamental renewable buildout with capex beginning in '22, but acknowledgendustrial risk (prev 1x). We note that electric / gas peer P/E multiples are grossed up by 5% / 5.1% to reflect capital appreciation across the sector. We strip value from Columbia Gas of MA given the pending sale to close in 3Q20. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
NEUTRAL				
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	Northwest Natural Holdings	NWN	NWN US	Richard Ciciarelli, CFA

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith

***iQ*method℠ Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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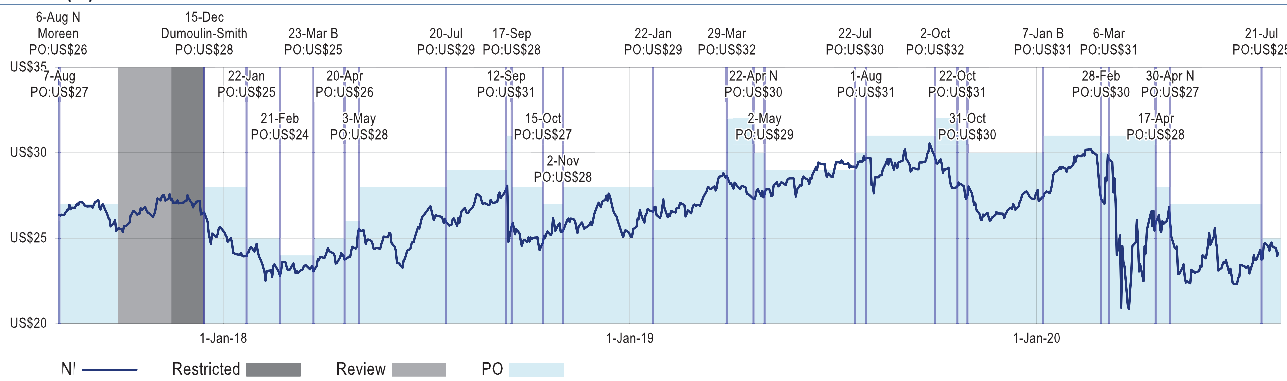
Disclosures

Important Disclosures

NiSource Inc (NI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Energy Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	69	43.40%	Buy	52	75.36%
Hold	48	30.19%	Hold	34	70.83%
Sell	42	26.42%	Sell	24	57.14%

Equity Investment Rating Distribution: Utilities Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	76	51.01%	Buy	56	73.68%
Hold	33	22.15%	Hold	22	66.67%
Sell	40	26.85%	Sell	29	72.50%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1632	52.21%	Buy	1031	63.17%
Hold	711	22.74%	Hold	444	62.45%
Sell	783	25.05%	Sell	407	51.98%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Price charts for the securities referenced in this research report are available at https://pricecharts.baml.com, or call 1-800-MERRILL to have them mailed.
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Pipelines & Gas Utilities
North America | United States

NiSource Inc (NI)

Ahead of Columbia Deal Closing and Analyst Day, New '21 Guidance and Renewable Spending Plan Revealed

- **Analyst Day Preview:** Unexpectedly, NiSource previewed its 10-12% rate base and 5-7% EPS growth guidance for the next planning period. Formal Virtual Analyst Day is in late September and likely after the Columbia sale is expected to close.

- **2021 EPS Guidance Announced Ahead of Schedule:** Into the release, we were expecting NiSource to highlight different sensitivities around 2021 EPS but not provide a formal 2021 guidance until the virtual analyst day in September. We along with the Street were expecting ~$1.37/share guide, but investor feedback was the Street was too high into the announcement. On the release, management guided 2021 EPS of $1.28 to $1.36 (or $1.33 to $1.41 adjusted for COVID-19) which establishes a new bar. In our view, this is a positive development as it reduces investor uncertainty even though the EPS range was below our and Street's expectations largely on the very conservative COVID-19 assumption.

- **New Renewable Investments Plan:** NiSource announced a 50/50 ownership / PPA plan for renewables, which includes a planned NiSource $1.8-2.0B renewable investment plan ($2.8-$3.0B with tax equity). Of this plan, ~$0.4B is already approved by regulators and an addition $1.4-1.6B in the regulatory filings but hasn't been formally approved yet.

- **Financing Plan:** NiSource indicated that they have strong liquidity for the next 1-2 years, but a formal financing plan will be announced at analyst day in September.

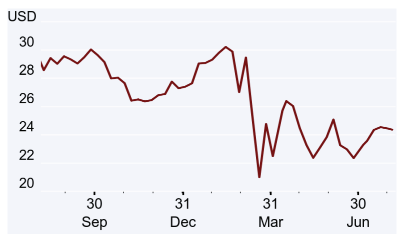
- **Q2 Result:** EPS of $0.13 modestly beat Citi's $0.11 as COVID-19 impacts of ~$0.06 were largely offset by cost management and regulatory solutions in Q2.

- **Estimate Revisions:** We updated our estimates for Q2 actuals, guidance, and current business outlook.

■ Estimate Change

Neutral	2
Price (05 Aug 20 16:00)	US$24.36
Target price	US$24.00
Expected share price return	-1.5%
Expected dividend yield	3.3%
Expected total return	**1.8%**
Market Cap	US$9,325M

Price Performance
(RIC: NI.N, BB: NI US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2019A	0.82A	0.06A	0.00A	0.45A	1.32A	1.32A	0.87A
2020E	**0.76A**	**0.13A**	**0.06E**	**0.36E**	**1.32E**	**1.29E**	**1.32E**
Previous	0.76A	0.11E	0.06E	0.36E	1.27E	na	na
2021E	**na**	**na**	**na**	**na**	**1.39E**	**1.36E**	**1.37E**
Previous	na	na	na	na	1.37E	na	na
2022E	**na**	**na**	**na**	**na**	**1.48E**	**1.46E**	**1.45E**
Previous	na	na	na	na	1.46E	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus. VA Cons: Visible Alpha Consensus.
Click here for Visible Alpha consensus data

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

NI.N: Fiscal year end 31-Dec — Price: US$24.36; TP: US$24.00; Market Cap: US$9,325m; Recomm: Neutral

Profit & Loss (US$m)	2018	2019	2020E	2021E	2022E
Sales revenue	5,115	5,209	4,793	4,835	5,035
Cost of sales	-2,361	-2,252	-1,935	-1,868	-1,948
Gross profit	2,754	2,957	2,859	2,967	3,087
Gross Margin (%)	53.8	56.8	59.6	61.4	61.3
EBITDA (Adj)	**724**	**1,275**	**1,453**	**1,837**	**2,002**
EBITDA Margin (Adj) (%)	14.2	24.5	30.3	38.0	39.8
Depreciation	-600	-717	-674	-594	-652
Amortisation	0	0	0	0	0
EBIT (Adj)	**125**	**557**	**779**	**1,243**	**1,350**
EBIT Margin (Adj) (%)	2.4	10.7	16.3	25.7	26.8
Net interest	-353	-379	-388	-385	-410
Associates	0	0	0	0	0
Non-Op/Except/Other Adj	44	-5	25	26	26
Pre-tax profit	**-185**	**173**	**416**	**884**	**966**
Tax	180	-56	-79	-273	-301
Extraord./Min.Int./Pref.div.	-15	-55	-55	-55	-55
Reported net profit	**-20**	**63**	**282**	**555**	**610**
Net Margin (%)	-0.4	1.2	5.9	11.5	12.1
Core NPAT	462	495	511	555	610
Per share data	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Reported EPS ($)	-0.06	0.17	0.73	1.39	1.48
Core EPS ($)	1.29	1.32	1.32	1.39	1.48
DPS ($)	0.78	0.80	0.83	0.84	0.86
CFPS ($)	1.64	3.51	1.90	2.93	3.11
FCFPS ($)	-3.45	-1.29	-2.42	-1.45	-1.15
BVPS ($)	13.67	13.63	12.89	13.71	14.57
Wtd avg ord shares (m)	347	366	377	390	402
Wtd avg diluted shares (m)	357	376	387	400	411
Growth rates	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Sales revenue (%)	4.9	1.8	-8.0	0.9	4.1
EBIT (Adj) (%)	-86.3	346.8	39.8	59.5	8.6
Core NPAT (%)	16.2	7.3	3.1	8.7	10.0
Core EPS (%)	6.9	1.9	0.1	5.2	6.8
Balance Sheet (US$m)	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Cash & cash equiv.	121	148	154	154	154
Accounts receivables	1,059	857	734	763	795
Inventory	423	425	386	398	412
Net fixed & other tangibles	17,631	19,090	17,318	18,474	19,572
Goodwill & intangibles	1,911	1,486	1,486	1,486	1,486
Financial & other assets	659	654	2,087	2,094	2,101
Total assets	**21,804**	**22,660**	**22,165**	**23,368**	**24,519**
Accounts payable	884	666	498	507	515
Short-term debt	2,027	1,787	737	832	853
Long-term debt	7,105	7,856	9,060	9,660	10,260
Provisions & other liab	6,037	6,364	6,007	6,011	6,016
Total liabilities	**16,053**	**16,673**	**16,302**	**17,010**	**17,645**
Shareholders' equity	5,751	5,987	5,863	6,357	6,874
Minority interests	0	0	0	0	0
Total equity	**5,751**	**5,987**	**5,863**	**6,357**	**6,874**
Net debt (Adj)	**9,012**	**9,494**	**9,643**	**10,339**	**10,960**
Net debt to equity (Adj) (%)	156.7	158.6	164.5	162.6	159.4

Valuation ratios	2018	2019	2020E	2021E	2022E
PE (x)	18.8	18.5	18.5	17.5	16.4
PB (x)	1.8	1.8	1.9	1.8	1.7
EV/EBITDA (x)	30.2	17.6	15.5	12.4	11.7
FCF yield (%)	-14.2	-5.3	-9.9	-6.0	-4.7
Dividend yield (%)	3.2	3.3	3.4	3.5	3.5
Payout ratio (%)	60	61	63	61	58
ROE (%)	-0.4	1.3	5.6	10.6	10.6
Cashflow (US$m)	**2018**	**2019**	**2020E**	**2021E**	**2022E**
EBITDA	724	1,275	1,453	1,837	2,002
Working capital	110	-75	-638	-34	-40
Other	-249	118	-81	-632	-685
Operating cashflow	**586**	**1,318**	**733**	**1,170**	**1,278**
Capex	-1,818	-1,802	-1,668	-1,750	-1,750
Net acq/disposals	-104	-113	1,033	0	0
Other	-4	-7	-1	0	0
Investing cashflow	**-1,926**	**-1,922**	**-635**	**-1,750**	**-1,750**
Dividends paid	-273	-299	-325	-352	-385
Financing cashflow	**1,480**	**423**	**55**	**643**	**536**
Net change in cash	**140**	**-182**	**153**	**64**	**64**
Free cashflow to s/holders	**-1,233**	**-485**	**-935**	**-580**	**-472**

For definitions of the items in this table, please click here.

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NiSource Inc

Company description

NiSource Inc (NI) is primarily a regulated utility with an integrated network of gas distribution in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana. The company serves around 4 million customers across seven states through its two main business segments, including: 1) Gas Distribution, which delivers natural gas in several states; 2) Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCO).

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). We believe NI's long-term earnings are relatively stable due to diverse operations areas and constructive regulatory jurisdictions. Our estimates do not include: 1) Substantial industrial load growth at the utilities; 2) Colder-than-normal weather and faster than average customer growth; or 3) Slower than typical timeline in regulatory filing and approval process for new infrastructure projects and cost recovery mechanisms.

Valuation

We average multiple valuation methodologies to derive our $24 target price. Our NAV yields a value of $21. We value regulated assets at a multiple of 1.3x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $30 per share. Our P/E and EV/EBITDA analyses yield values of $23 per share.

Risks

The key risks to our investment thesis are: (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates. (2) Weather – Changes in weather impact the stability of earnings. (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. (4) Capital Markets — Access to cheap capital markets could be limited due to the size of the company. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target. (5) There is a risk that there will be negative political, financial, and regulatory backlash from the recent events in New England.

Appendix A-1

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NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research

Analyst: Ryan Levine
Covered since March 27 2018

	Date	Rating	Target Price	Closing Price
1	17-Nov-17 13:17:37	1	*31.00	27.08
2	27-Mar-18 05:03:46	*2	*25.00	23.79
3	28-Nov-18 16:01:00	2	*26.00	25.76
4	03-May-19 06:40:08	2	*28.00	27.86
5	23-Oct-19 22:00:00	2	*30.00	28.15
6	23-Apr-20 03:00:00	2	*29.00	25.85
7	01-Jul-20 14:08:34	2	*24.00	23.46

*Indicates Change

Rating/target price changes above reflect Eastern Time

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	12 Month Rating			*Catalyst Watch*		
Data current as of 30 Jun 2020	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	54%	34%	11%	20%	71%	9%
% of companies in each rating category that are investment banking clients	66%	64%	60%	70%	63%	66%

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NiSource Inc NI (XNYS)

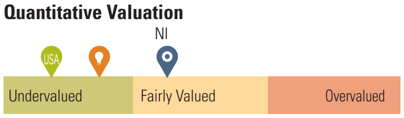
Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 06 Aug 2020 15:59, UTC	23.96 USD 06 Aug 2020	27.00 USD 06 Aug 2020 15:53, UTC	0.89	3.41 06 Aug 2020	3.45 06 Aug 2020	9.33 06 Aug 2020	Utilities - Regulated Gas	Standard

Morningstar Pillars

	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★★★	Fairly Valued
Uncertainty	Low	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.01	1.05	0.89	0.83
Price/Earnings	50.8	34.0	14.8	20.1
Forward P/E	19.1	—	13.7	13.9
Price/Cash Flow	5.9	9.8	6.5	13.1
Price/Free Cash Flow	—	75.8	13.1	19.5
Trailing Dividend Yield%	3.41	3.16	3.68	2.35

Source: Morningstar

Bulls Say

- We expect annual dividend growth to accelerate to about 7% after the impact of COVID-19 fades and earnings increase from renewable energy and gas pipeline investment.
- We believe the separation of Columbia Pipeline Group from NiSource was good shareholder stewardship, as the market valued the individual businesses more highly at the time of the separation.
- New legislation has improved the regulatory framework in Indiana for NiSource's electric and natural gas distribution utilities.

Bears Say

- Industrial customers account for over half of NiSource's electric sales, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- NiSource's electric and natural gas distribution businesses have substantial commercial and industrial customer exposure, increasing the impact of the COVID-19 pandemic.
- NiSource issued almost $2 billion of common and preferred shares in 2018 and 2019. The additional shares will be a headwind to EPS growth.

NiSource Plans to Increase Renewable Energy Investment by $2 Billion

Business Strategy and Outlook

Charles Fishman, CFA, Eq. Analyst, 06 August 2020

NiSource completed its separation from Columbia Pipeline Group in 2015 and now derives all of its operating revenue from its regulated electric and natural gas distribution utilities. About 60% of operating income comes from its six natural gas distribution utilities. The remaining 40% comes from its electric utility business in Indiana.

NiSource's utilities have regulatory frameworks that include automatic rate tracker mechanisms, with almost 80% of planned capital expenditures, providing recovery of investments in less than 18 months. As a result of the favorable regulation, we expect NiSource to step up its capital expenditures to almost $2 billion per year over the next five years. This is an investment level almost double the previous five years.

Over the next 20 years, NiSource plans to invest about $30 billion in infrastructure improvements. Over 50% of these investments are modernization programs for replacing steel and cast-iron pipe with plastic at its natural gas distribution utilities. Almost all of these investments receive rate tracker treatment. This allows NiSource to earn returns on these investments near allowed returns and consistently above its cost of capital.

In September 2018, a natural gas explosion killed one person north of Boston on NiSource's Columbia Gas of Massachusetts system. Insurance should cover roughly one half of the almost $2 billion of claims, penalties and other expenses, but the event was a public relations nightmare. On Feb. 27, 2020, NiSource announced the sale of the Massachusetts utility for $1.1 billion. The transaction will avoid a planned $500 million of equity issuances.

Although the economic impact from the COVID-19 pandemic will pressure earnings in 2020 due in large part to NiSource's high share of commercial and industrial customers, we expect a rebound in average annual earnings per share growth of 7.3% from 2021 to 2024, in line with management's target. We estimate dividend growth accelerating to 7% per year in 2023 and 2024 after the economic impact of COVID-19 dissipates and investments in renewables and safety-related capital investments are incorporated into rates.

Analyst Note

Charles Fishman, CFA, Eq. Analyst, 06 August 2020

We are increasing our fair value estimate to $27 per share from $26 after NiSource reported 2020 second-quarter operating earnings per share of $0.13 versus $0.05 last year, initiated 2021 earnings guidance, and announced plans to invest an additional $1.8 billion-$2 billion in renewable energy through 2023.

The results were solid in what is normally a weak quarter for a utility that derives over 60% of its operating earnings from natural gas distribution.

We increased our five-year capital expenditure forecast by $2.9 billion, to $12.1 billion, based in large part on NiSource's projecting that its combined gas and electric rate base will increase to $20.7 billion by 2024 from $13.9 billion at the end of this year. We are a little more conservative than management and estimate a 2024 year-end rate base of $19.9 billion, but this would still represent an impressive average annual growth rate of 9.4% over the four-year period.

NiSource management had previously announced it would close its last Indiana coal-fired power plant in 2028, but the almost $2 billion investment in renewable energy through 2024 was more than we had anticipated. We had assumed the majority of the needed generating capacity to replace the retiring coal units would come from purchased power agreements. However, NiSource plans to have joint venture ownership in 50% of the additional renewable capacity, requiring the larger investment and driving rate base growth.

NiSource initiated a 2021 EPS guidance range of $1.28-$1.36, with a midpoint higher than our estimate of $1.30. We increased our 2021 EPS estimate to $1.32, the midpoint of the range, and also increased our 2022-24 estimates by $0.02-$0.09 per share. The increase in our

NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 06 Aug 2020 15:59, UTC	23.96 USD 06 Aug 2020	27.00 USD 06 Aug 2020 15:53, UTC	0.89	3.41 06 Aug 2020	3.45 06 Aug 2020	9.33 06 Aug 2020	Utilities - Regulated Gas	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Xcel Energy Inc XEL	USD	36,664	11,208	18.60	26.11
WEC Energy Group Inc WEC	USD	29,433	7,254	22.27	25.19
CMS Energy Corp CMS	USD	17,850	6,648	19.60	23.64
Alliant Energy Corp LNT	USD	13,191	3,576	22.07	21.14

earnings estimates were due to the higher rate base projections and was the primary driver of our higher fair value estimate.

Economic Moat

Charles Fishman, Eq. Analyst, 06 August 2020

Service territory monopolies and efficient scale advantages are the primary moat sources for NiSource's regulated utilities. State and federal regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their infrastructure. In exchange for regulated utilities' service territory monopolies, state and federal regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow NiSource's regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing.

NiSource derives roughly 60% of its operating earnings from the regulated distribution of natural gas. For natural gas distribution service, regulators set distribution rates and the commodity price for customers purchasing natural gas from NiSource. NiSource recovers its costs for natural gas that it sells with a pass-through charge to customers. Thus, NiSource has no commodity price risk that could weaken its moat. Customers may elect to purchase natural gas from independent retail energy suppliers and use and pay for distribution services only. NiSource exited the no-moat retail energy supply business in 2010.

Electricity generation, which contributes about 40% of operating earnings, is from operations in Indiana and is also regulated. The rates for this service are combined with regulated customer rates for transmission and distribution service. In exchange for its monopoly position, state and federal regulators set NiSource's electric rates.

Fair Value & Profit Drivers

Charles Fishman, Eq. Analyst, 06 August 2020

We increased our fair value estimate to $27 per share from $26 after NiSource reported second-quarter operating earnings per share of $0.13 versus $0.05 last year, initiated 2021 earnings guidance, and announced plans to invest an additional $1.8 billion-$2 billion in renewable energy through 2023.

We increased our five-year capital expenditure forecast by $2.9 billion, to $12.1 billion, based in large part on NiSource projecting that its combined gas and electric rate base will increase to $20.7 billion by 2024 from $13.9 billion at the end of this year. We are a little more conservative than management and estimate a 2024 year-end rate base of $19.9 billion, but this would still represent an impressive average annual growth rate of 9.4% over the four-year period.

NiSource had previously announced it would close its last Indiana coal-fired power plant in 2028, but the almost $2 billion investment in renewable energy through 2024 was more than we had anticipated. We had assumed the majority of the needed generating capacity to replace the retiring coal units would come from purchased power agreements. However, NiSource plans to have joint venture ownership in 50% of the additional renewable capacity, requiring the larger investment and driving rate base growth.

NiSource initiated a 2021 EPS guidance range of $1.28-$1.36, with a midpoint higher than our estimate of $1.30. We increased our 2021 earnings estimate to $1.32 per share, the midpoint of the range, and also increased our 2022-24 estimates by $0.02-$0.09 per share.

We use a 6% cost of capital in our discounted cash flow valuation, which incorporates a 7.5% cost of equity. Our cost of equity is lower than the 9% rate of return we expect investors will demand of a diversified equity portfolio. We believe our cost of equity reflects the risk associated with regulated electric and natural gas distribution utilities operating in states that have average to above-average regulatory frameworks.

Our pretax cost of debt assumption is 5.8%, as we incorporate a normalized long-term real rate environment and normalized credit spreads. A 2.25% long-term

NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	23.96 USD	27.00 USD	0.89	3.41	3.45	9.33	Utilities - Regulated Gas	Standard
06 Aug 2020 15:59, UTC	06 Aug 2020	06 Aug 2020 15:53, UTC		06 Aug 2020	06 Aug 2020	06 Aug 2020		

inflation outlook underpins our capital cost assumptions.

Our fair value estimate implies a 20.5 times multiple on 2021 earnings. This is a modest discount to peer electric and gas distribution utilities trading at price/earnings ratios of about 22 times in early August.

Risk & Uncertainty

Charles Fishman, Eq. Analyst, 06 August 2020

Regulatory risk remains the key uncertainty; however, NiSource's regulatory exposure is diversified, owing to operations in seven states and its federal-regulated electric transmission system. NiSource has reduced some of the regulatory uncertainty related to its planned natural gas distribution and electric utilities investments by securing preapprovals and favorable rate mechanisms that provide for automatic rate increases as infrastructure investments are made.

In 2018, NiSource announced it would eliminate all coal-fired generation from its power plant fleet within 10 years. This transition will require signing power purchase agreements for renewable energy, building new solar and wind farms, and making modifications to its electric grid. There is a modest amount of execution risk to this dramatic transition from coal.

Stewardship

Charles Fishman, Eq. Analyst, 06 August 2020

We assign NiSource a Standard stewardship rating. We think management's decision to form Columbia Pipeline Partners and execute Columbia Pipeline Group's tax-free separation exhibited Exemplary stewardship of shareholder capital. However, the CEO who probably drove those decisions left NiSource to go with CPG before he retired.

The National Transportation Safety Board found NiSource responsible for the gas explosion north of Boston. The incident had a negative effect on shareholder value and has been a public relations nightmare. The good news is that management found a buyer for the utility at an attractive purchase price. We believe this was good stewardship of shareholder capital following a tragic accident. We expect the transaction to close in late 2020.

Joe Hamrock became CEO following the separation. He has been with NiSource since 2012 and previously ran the natural gas distribution business. Before joining NiSource, he was with American Electric Power. CFO Donald Brown joined NiSource in April 2015. Previously, he was with UGI Utilities and Constellation Energy. These individuals have significant utility experience, and we believe they will not stray from the strategy that has benefited shareholders.

Most of the members of NiSource's board of directors were involved in the separation of CPG and oversight of investment decisions. Given this, we are confident that the solid stewardship of shareholder capital is likely to continue.

NiSource Inc NI (XNYS)

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Analyst Notes Archive

We Like NiSource's Decision to Sell Columbia Gas of Massachusetts

Charles Fishman, Eq. Analyst, 28 February 2020

We are reaffirming our $27.50 per share fair value estimate after narrow-moat NiSource reported solid 2019 operating EPS, announced the sale of Columbia Gas of Massachusetts, and pulled its 2020 earnings guidance. Eversource Energy is acquiring the Massachusetts gas distribution utility for $1.1 billion, a price we estimate is roughly 24 times normalized earnings and in line with recent natural gas distribution transactions.

However, we doubt the utility has come anywhere near this level of earnings contribution following the tragic natural gas explosion that killed one person north of Boston in September 2018. The incident has resulted in close to $2 billion of claims, penalties and other expenses (roughly one-half of the costs should be covered by insurance) and has been a significant distraction for management and a public relations nightmare.

In our opinion, the decision to sell the Massachusetts utility was good stewardship of shareholder capital as regulatory, political and customer relationships would likely be strained for years. The roughly $1 billion of proceeds will allow NiSource to forgo a $500 million block equity issuance that had been planned for later this year.

Although pulling earnings guidance, management was confident that the company could return to its long-term target of 5%-7% EPS growth, off a new 2021 earnings base, following the completion of the transaction. Our revised earnings estimates result in approximately 6% EPS growth from 2021-2024.

On January 31, NiSource increased its dividend by 5% and we expect increases in line with EPS growth for the foreseeable future. In our opinion, the dividend is secure and provides a yield of approximately 3% at the February 27 market closing price.

COVID-19 Could Slow Utilities' Near-Term Growth but Long-Term Outlook Still Bright

Travis Miller, Strategist, 26 March 2020

After assessing COVID-19 data and commentary from utilities this week, we still believe the sector offers buying opportunities for defensive, income-seeking investors. U.S. utilities trade at a median 10% discount to our fair value estimates and 3.5% yield even after rallying 23% on March 24-26.

Although some utilities reaffirmed their outlooks this week, we think 2020 earnings for many utilities will be at the low end or below management guidance ranges due to COVID-19 issues. We expect near-term lower commercial and industrial energy demand, tighter financing, growth project delays, and higher expenses. We are reaffirming our moat and moat trend ratings.

Utilities with a large share of C&I customers, usage-based rates, and less-adaptive ratemaking have the most near-term risk. Among these are Southern Company, Entergy, American Electric Power, Duke Energy, Evergy, and Ameren. Utilities with non-utility businesses such as DTE Energy, CenterPoint, and OGE also could face weaker near-term earnings. Our updates led to 2%-5% fair value estimate cuts.

Utilities with more residential customers, usage-decoupled rates, and forward-looking rate structures are less at risk. These include Edison International, Eversource Energy, NextEra Energy, and American Water Works.

We expect most utilities to shift 5%-10% of their 2020 growth investments into 2021-22 due to tight capital and labor markets. In general, this shift has little or no impact on our fair value estimates or long-term outlooks. We don't believe COVID-19 will impact utilities' policy-based investments in safety, clean energy, and grid modernization that support our long-term growth outlooks.

COVID-19 shutdowns might reduce U.S. C&I electricity demand more than the record 5.5% drop in mid-2009. In China, government data suggests electricity demand is down more than 8% year to date. European countries reported 2%-7% drops in electricity use last week. C&I demand is about 60% of total U.S. electricity use.

Trouble For U.S. Gas Utilities Has Been Simmering; New York Just Made it Worse

Travis Miller, Strategist, 29 March 2020

Policymakers--not COVID-19 or global energy markets--are becoming the biggest threat for gas distribution utilities.

Earlier this month, New York regulators asked the state's

NiSource Inc NI (XNYS)

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utilities to review ways to reduce or eliminate gas infrastructure. Areas of California have banned new gas service. If anti-gas policies like these spread, it could hurt the industry's long-term growth.

Total returns for U.S. utilities with sizable gas operations are down 19% during the last six months, compared with 14% down for the Morningstar U.S. utilities index. New Jersey Resources, CenterPoint Energy, Atmos Energy, NiSource, and DTE Energy recently traded well below our fair value estimates.

We think states with aggressive clean energy policies are most likely to push customers away from gas. Sixteen states have 100% clean energy targets. We expect renewable energy to grow 8% annually during the next decade.

We believe New Jersey Resources faces the most risk since the bulk of its earnings come from residential gas service in a state with aggressive clean energy policy. New Jersey policymakers support gas use for now, but we anticipate that could change in the next decade. We recently cut our long-term growth rate assumption for NJR to 3% from 4%, lowering our fair value estimate to $37 per share from $39.

New York City's Consolidated Edison and California utilities Sempra Energy and PG&E also face risk but have larger electric distribution businesses that could benefit from electric growth. We think there is less risk for gas utilities in the Southeast and Midwest where Republicans in five states have proposed legislation that would prohibit gas bans.

Acquisition premiums that had inflated gas utilities' valuations also have faded. Eversource Energy recently paid 24 times earnings for Columbia Gas. This is still rich but below deal values for Piedmont (30 P/E), Peoples Gas (30 P/E), and WGL (26 P/E). M&A premiums don't affect our fair value estimates.

NISource's Heavy C&I Customer Exposure Increases Impact Of COVID-19

Charles Fishman, Eq. Analyst, 30 March 2020

We are reducing our fair value estimate to $27 per share from $27.50 for NiSource due to the impact of COVID-19 on earnings and capital investment. On Feb. 28, NiSource pulled earnings guidance following the agreement to sell its troubled Columbia Gas of Massachusetts unit. However, management expressed confidence it could achieve 5%-7% EPS growth off a new 2021 base when guidance was reestablished.

We expect earnings growth to rebound to near the top end of guidance from 2022-2024. However, COVID-19 changes our estimate of the 2021 EPS base, which we lowered by $0.08, to $1.35.

Supply chain disruptions and staffing issues will make it difficult for NiSource to fully execute our five-year, $10 billion capital expenditures estimate and we reduced it by 5%, or $500 million. Less investment translates into lower-rate base growth and earnings.

Northern Indiana Public Service Company, contributing about 40% of earnings and heavily dependent on commercial and industrial, or C&I, customers, will experience significantly reduced sales following Indiana's stay-at-home order. In 2019, C&I customers represented about 78% of retail electric sales.

NiSource's gas utilities, about 60% of earnings, will also be affected by stay-at-home orders in Ohio, Pennsylvania, and Indiana. In 2019, C&I sales represented about 70% of sales and transportation volumes.

Bad debt/uncollectible expense will also pressure near-term earnings. On March 19, the Edison Electric Institute announced that all members have suspended electricity disconnections. NiSource is a member of EEI.

Operating expenses will increase as safety measures are instituted. Maintaining minimum staffing levels could be challenging and the increase in overtime costs. We expect most, but not necessarily all, expenses related to COVID-19 to eventually be recovered in rates. If COVID-19 costs become significant, regulators might allow cost-recovery deferrals or securitization, similar to large weather-related expenses.

Coronavirus and Utilities: Listening For Answers

Andrew Bischof, Sr. Eq. Analyst, 22 April 2020

Utilities' first-quarter earnings rarely offer much excitement, but this year will be different. We expect lively coronavirus commentary from utilities starting this week. We are maintaining our fair value estimates, moats, and moat trends.

NiSource Inc NI (XNYS)

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We expect to hear commentary from management teams on numerous COVID-19 concerns. Utilities with large commercial-industrial customers could see record-breaking demand drops. Rate structures are critical, and we expect earnings cuts for utilities with usage-based rates. Utilities have issued a surge of debt in March, providing plenty of near-term liquidity, but investors will look to see if it is enough to get them through the year. Dividends appear secure throughout the sector and offer good income value relative to fixed-income alternatives. Capital programs are key drivers for utility growth amid stalled supply chains, workforce shortages, or financing. Renewable energy programs are the least at risk in our view. Finally, higher operating costs will likely affect utilities. The key will be which regulators adapt their natural disaster recovery programs for COVID-19 costs.

We highlight two lists of utilities that investors should watch this earnings season, value and quality. Atypical volatility among utilities stocks during the last month has created a wide spread between the overloved and the underloved. Value stocks could get an outsize lift if management commentary pushes the market toward our more positive outlook. We highlight AES, Edison International, Duke Energy, Vistra Energy, and First Solar as value stocks to watch.

We expect the most consistency from high-quality utilities; if the market were to turn down, like in mid-March, investors should be ready to pounce. We think high-quality Dominion Energy, NextEra Energy, Southern Co., and WEC Energy Group are the best positioned to weather COVID-19.

Safety-Related O&M, COVID-19, and Weak Industrial Demand Pressure NiSource's Earnings Growth

Charles Fishman, Eq. Analyst, 07 May 2020

We are reducing our fair value estimate to $26 per share from $27 after NiSource reported 2020 first-quarter operating EPS of $0.76 versus $0.82 last year, reduced its 2020 capital expenditure forecast by $100 million, and made comments less supportive of future earnings growth.

The weak results were due in large part to higher safety-related operating and maintenance costs, mild weather, and weaker industrial electricity demand. COVID-19-related costs were not material in the recently ended quarter.

In March, we reduced our five-year capital expenditure estimate by $500 million, approximately 5%, to $9.5 billion due to our assumption of the impact of COVID-19 on investment. Driven by the lower 2020 guidance and our assumption of the continuing impact of COVID-19, we reduced our five-year investment forecast by another $250 million, to approximately $9.25 billion.

Although NiSource had previously indicated earnings guidance would not be provided until after the closing of the Columbia of Massachusetts transaction later this year, it was disappointing that management declined to support previous comments that 2021 operating earnings would be at least equal to the lower end of the previous range for 2020, or $1.36 per share.

Driven by lower capital investment and our assumption that higher O&M and weak industrial electricity demand will drag into next year, we reduced our 2021 EPS estimate to $1.30 from $1.35. Management did reaffirm that when 2021 guidance is established later this year, it will be the base for long-term annual EPS growth of 5%-7%. We estimate annual EPS growth of 6% from our new 2021 estimate, in line with this guidance.

However, starting from a lower 2021 earnings base reduces our annual earnings growth for 2019-24 to 3.3% from our previous estimate of 4.8%. This lower earnings growth was the primary driver for our lower fair value estimate.

NiSource Plans to Increase Renewable Energy Investment by $2 Billion

Charles Fishman, Eq. Analyst, 06 August 2020

We are increasing our fair value estimate to $27 per share from $26 after NiSource reported 2020 second-quarter operating earnings per share of $0.13 versus $0.05 last year, initiated 2021 earnings guidance, and announced plans to invest an additional $1.8 billion-$2 billion in renewable energy through 2023.

The results were solid in what is normally a weak quarter for a utility that derives over 60% of its operating earnings from natural gas distribution.

We increased our five-year capital expenditure forecast

NiSource Inc NI (XNYS)

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by $2.9 billion, to $12.1 billion, based in large part on NiSource's projecting that its combined gas and electric rate base will increase to $20.7 billion by 2024 from $13.9 billion at the end of this year. We are a little more conservative than management and estimate a 2024 year-end rate base of $19.9 billion, but this would still represent an impressive average annual growth rate of 9.4% over the four-year period.

NiSource management had previously announced it would close its last Indiana coal-fired power plant in 2028, but the almost $2 billion investment in renewable energy through 2024 was more than we had anticipated. We had assumed the majority of the needed generating capacity to replace the retiring coal units would come from purchased power agreements. However, NiSource plans to have joint venture ownership in 50% of the additional renewable capacity, requiring the larger investment and driving rate base growth.

NiSource initiated a 2021 EPS guidance range of $1.28-$1.36, with a midpoint higher than our estimate of $1.30. We increased our 2021 EPS estimate to $1.32, the midpoint of the range, and also increased our 2022-24 estimates by $0.02-$0.09 per share. The increase in our earnings estimates were due to the higher rate base projections and was the primary driver of our higher fair value estimate.

Quantitative Equity Report | Release: 06 Aug 2020, 11:25 UTC | Reporting Currency: USD | Trading Currency: USD | Exchange:XNYS

NiSource Inc NI ★★★Q 06 Aug 2020 02:00 UTC

Last Close	Fair Value Q	Market Cap	Sector	Industry	Country of Domicile
05 Aug 2020	06 Aug 2020 02:00 UTC	05 Aug 2020			
24.36	24.23	9,330.4 Mil	Utilities	Utilities - Regulated Gas	USA United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewables.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	91	91	91
Valuation	Fairly Valued	17	17	26
Quantitative Uncertainty	Medium	100	96	98
Financial Health	Moderate	60	27	60

Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.01	1.05	0.89	0.83
Price/Earnings	50.8	34.0	14.8	20.1
Forward P/E	19.1	—	13.7	13.9
Price/Cash Flow	5.9	9.8	6.5	13.1
Price/Free Cash Flow	—	75.8	13.1	19.5
Trailing Dividend Yield %	3.41	3.16	3.68	2.35
Price/Book	1.9	1.9	1.4	2.4
Price/Sales	1.9	1.7	1.4	2.4

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	3.8	4.5	9.8	12.9
Return on Assets %	0.8	1.0	3.3	5.2
Revenue/Employee (K)	591.2	605.0	1,274.9	325.9

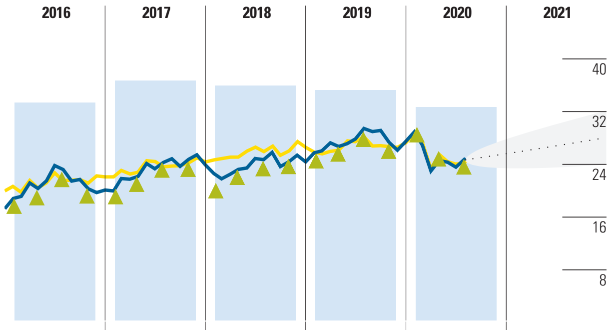
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.5	0.6	0.6	0.5
Solvency Score	764.3	—	584.9	552.4
Assets/Equity	3.8	4.3	2.6	1.7
Long-Term Debt/Equity	1.3	1.5	0.7	0.4

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	1.9	5.1	-0.2	-2.4
Operating Income %	936.7	14.7	10.5	5.0
Earnings %	—	-5.2	1.4	0.4
Dividends %	2.6	7.7	-4.7	-1.4
Book Value %	2.2	2.0	-7.3	-2.7
Stock Total Return %	-10.4	0.4	10.8	13.8

Price vs. Quantitative Fair Value



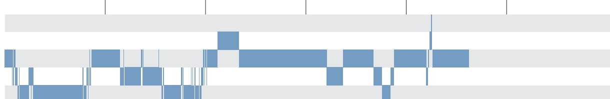
- Quantitative Fair Value Estimate
- Total Return
- Sales/Share
- Forecast Range
- Forcasted Price
- Dividend
- Split

Momentum:	Negative
Standard Deviation:	16.52
Liquidity:	High

19.56	52-Wk	30.67
16.04	5-Yr	30.67

2016	2017	2018	2019	2020	2021	
16.8	19.1	1.8	13.0	-10.2		Total Return %
4.3	-2.4	6.8	-18.2	-14.7		+/– Market (Morningstar US Index)
2.89	2.73	3.08	2.87	3.41		Trailing Dividend Yield %
2.87	2.73	3.08	2.87	3.45		Forward Dividend Yield %
23.3	31.3	-87.7	22.6	-76.3		Price/Earnings
1.7	1.7	1.8	2.0	1.9		Price/Revenue

Morningstar Rating Q

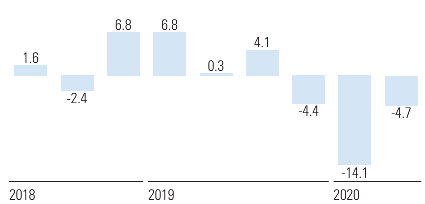


2015	2016	2017	2018	2019	TTM	Financials (Fiscal Year in Mil)
4,652	4,492	4,875	5,114	5,209	4,897	Revenue
-28.1	-3.4	8.5	4.9	1.8	-6.0	% Change
802	857	916	126	1,305	1,071	Operating Income
-32.3	6.9	6.9	-86.3	936.7	-17.9	% Change
287	332	129	-51	383	-62	Net Income
1,457	803	742	540	1,583	1,365	Operating Cash Flow
-1,361	-1,475	-1,696	-1,818	-1,802	-1,778	Capital Spending
96	-672	-954	-1,278	-219	-413	Free Cash Flow
2.1	-15.0	-19.6	-25.0	-4.2	-8.4	% Sales
0.90	1.02	0.39	-0.18	0.87	-0.32	EPS
-46.1	13.3	-61.8	-146.2	—	-136.8	% Change
-1.28	-2.26	-2.47	-1.82	-2.64	-0.92	Free Cash Flow/Share
0.83	0.64	0.70	0.78	0.80	0.82	Dividends/Share
11.91	11.79	12.95	12.57	13.00	12.70	Book Value/Share
319,110	323,160	337,016	372,364	382,136	383,023	Shares Outstanding (K)
						Profitability
5.7	8.4	3.1	-1.4	6.6	-2.4	Return on Equity %
1.4	1.8	0.7	-0.3	1.5	-0.5	Return on Assets %
6.2	7.4	2.6	-1.3	6.3	-2.4	Net Margin %
0.22	0.25	0.25	0.24	0.23	0.22	Asset Turnover
4.6	4.6	4.6	4.5	4.4	4.7	Financial Leverage
34.0	36.7	35.8	19.6	44.5	42.8	Gross Margin %
17.2	19.1	18.8	2.5	25.1	21.9	Operating Margin %
5,903	6,058	7,512	7,105	7,856	8,810	Long-Term Debt
3,844	4,071	4,320	5,751	5,987	5,662	Total Equity
0.3	0.4	0.4	0.3	0.3	0.3	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2020	1,605.5	962.7	—	—	—
2019	1,869.8	1,010.4	931.5	1,397.2	5,208.9
2018	1,750.8	1,007.0	895.0	1,461.7	5,114.5
2017	1,598.6	990.7	917.0	1,368.3	4,874.6
Earnings Per Share ()					
2020	0.16	-0.05	—	—	—
2019	0.55	0.75	-0.02	-0.41	0.87
2018	0.81	0.07	-0.95	-0.05	-0.18
2017	0.65	-0.14	0.04	-0.16	0.39

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview
At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group (“we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat
The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

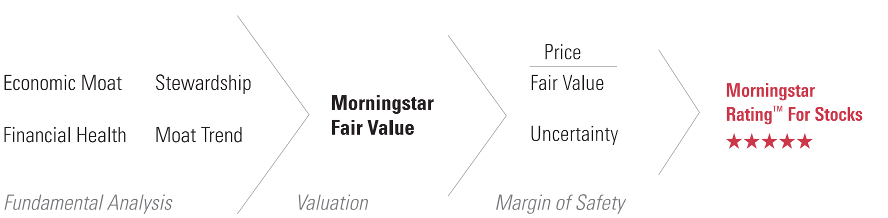
Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value
Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies



Our model is divided into three distinct stages:

Stage I: Explicit Forecast
In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

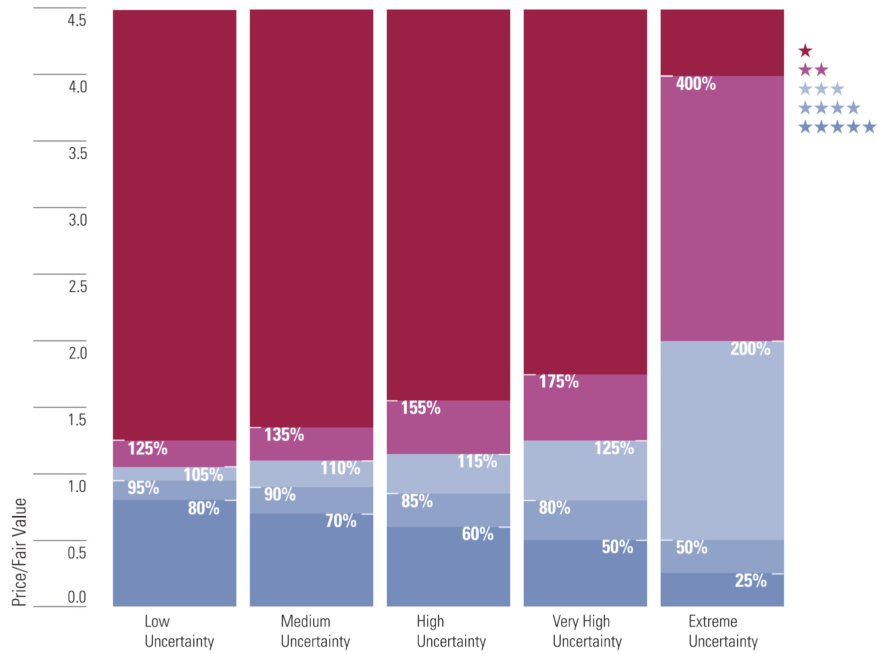
- ► Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ► Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ► High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ► Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ► Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ► Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- ► Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- ► Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview

The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings

Morningstar's quantitative equity ratings consist of:
(i) Quantitative Fair Value Estimate
(ii) Quantitative Star Rating
(iii) Quantitative Uncertainty
(iv) Quantitative Economic Moat
(v) Quantitative Financial Health
(collectively the "Quantitative Ratings").

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("“Morningstar," "we," "our") calculates Quantitative Ratings for companies whether it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the quantitative fair value estimate using a statistical model derived from the fair value estimate Morningstar's equity analysts assign to companies. Please go to https://shareholders.morningstar.com for information about fair value estimates Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- ► Narrow: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- ► Wide: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- ► None: assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as 1-Star, 2-Star, 3-Star, 4-Star, and 5-Star.

★: the stock is overvalued with a reasonable margin of safety.
Log (Quant FVE/Price)<–1*Quantitative Uncertainty

★★: the stock is somewhat overvalued.
Log (Quant FVE/Price) between (–1*Quantitative Uncertainty, –0.5*Quantitative Uncertainty)

★★★: the stock is approximately fairly valued.
Log (Quant FVE/Price) between (–0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)

★★★★: the stock is somewhat undervalued.
Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)

★★★★★: the stock is undervalued with a reasonable margin of safety. Log (Quant FVE/Price) >1*Quantitative Uncertainty

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the quantitative fair value estimate. Generally, the lower the quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

- ► Low: the interquartile range for possible fair values is less than 10%.
- ► Medium: the interquartile range for possible fair values is less than 15% but greater than 10%.
- ► High: the interquartile range for possible fair values is less than 35% but greater than 15%.
- ► Very High: the interquartile range for possible fair values is less than 80% but greater than 35%.
- ► Extreme: the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- ► Weak: assigned when Quantitative Financial Health <0.2
- ► Moderate: assigned when Quantitative Financial Health is between 0.2 and 0.7
- ► Strong: assigned when Quantitative Financial Health >0.7

Research Methodology for Valuing Companies

Other Definitions

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- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

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A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

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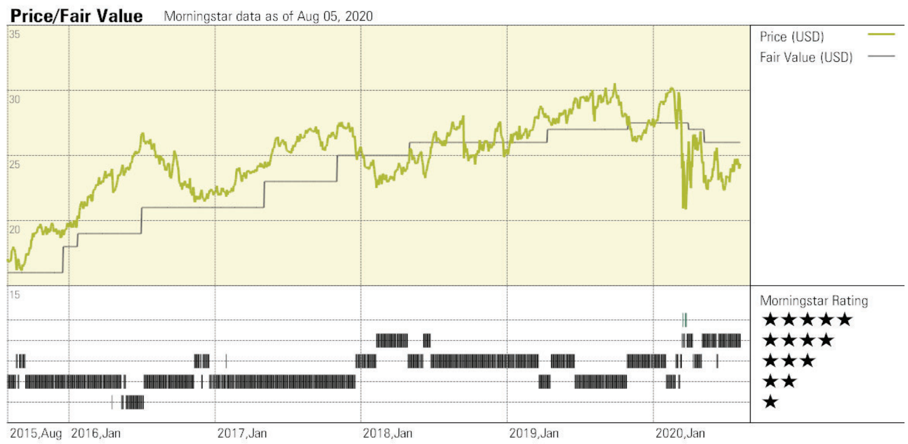
NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	23.96 USD	27.00 USD	0.89	3.41	3.45	9.33	Utilities - Regulated Gas	Standard
06 Aug 2020 15:59, UTC	06 Aug 2020	06 Aug 2020 15:53, UTC		06 Aug 2020	06 Aug 2020	06 Aug 2020		



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7 August 2020
Equity Research
Americas | United States

CREDIT SUISSE

NiSource Inc.

Turning Indiana Green

Natural Gas | Forecast Reduction

NI

Target price (12M, US$)
26.00
Outperform

- **2021 Guidance initiated at $1.28-$1.36** (CS $1.33 vs consensus $1.36) after NI reported a 2Q20 adj. EPS Beat at $0.13 vs CS/consensus $0.05/$0.08, driven by cost mitigation to offset the financial impact of COVID19**.** Our 2020 and 2021 estimates are unchanged but **we are reducing our 2022 estimate $0.07 (to $1.39) for expected drag from equity issuance and investment in Indiana renewables** that will not benefit from AFUDC nor receive a rate increase until 2024. We expect the company to attain at least the midpoint of a 5%-7% EPS CAGR (vs 2021) by 2024 once these projects are in service. Ratebase growth is also expected to grow at a 10%-12% CAGR from $13.9B in 2020 to $20.7B in 2024.
- **Investor day (virtual) planned for 9/29.** The plan is to review strategy and long-term outlook, an update on Safety Management System (SMS) progress, the transition from coal to renewables in Indiana, including $1.8-$2.0B of incremental investment in 2022/23 plus additional opportunities through 2028, an updated financial outlook and financing plans, and an ESG profile.
- **No block equity needed in 2020 and liquidity is ample for 2021, but we expect some equity in 2022 and 2023 for Indiana renewables.** Equity plans for 2020 remain $200-$300M annual ATM plus $35-$60M employee plans (no convertible or hybrid financing). We expect ~60% of $1.8-$2.0B of incremental Indiana plant investment in 2022/23 to be financed with equity, which will neither result in AFUDC (turnkey projects) nor earn a return until a forward test year ratecase is filed around early 2023 for rates effective 2024. Estimated incremental long-term debt for 2020 is $1B-$1.2B. NI continues to target FFO/Debt ~14%-15%. **2020 Capex reaffirmed at $1.7B-$1.8B**.
- **Valuation:** Our $26 TP is unchanged and based on peer 2021 P/E multiples within a SoTP. Our TP includes the value of $0.05 uplift in 2022 from the expected elimination of temporary COVID19/Columbia Gas disynergy impacts in 2021. Risks include regulatory, capital plan execution, interest rates.

Price (6 Aug 20, US$)	24.34
52-week price range	30.56 - 20.86
Enterprise value (US$ m)	18,434

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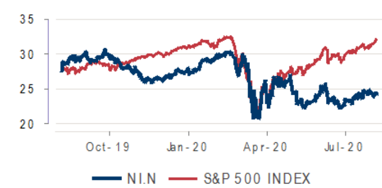
Share price performance



On 06-Aug-2020 the S&P 500 INDEX closed at 3349.16Daily Aug08, 2019 - Aug06, 2020, 08/08/19 = US$28.8

Quarterly EPS	Q1	Q2	Q3	Q4
2019A	0.82	0.05	-0.00	0.45
2020E	0.76	0.13	0.04	0.39
2021E	0.77	0.07	0.04	0.46

Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
EPS (CS adj.) (US$)	1.32	1.32	1.33	1.39
Prev. EPS (US$)	-	-	-	1.46
Revenue (US$ m)	5,184.1	6,112.6	6,219.7	6,513.9
EBITDA (US$ m)	1,764.2	1,805.6	1,836.9	1,966.3
P/OCF (x)	4.6	4.5	5.2	5.1
EV/EBITDA (current)	10.9	10.6	10.4	9.7
Net debt (US$ m)	9,504	9,111	9,503	9,728
ROIC (%)	5.50	5.51	5.10	5.15
Number of shares (m)	383.02	IC (current, US$ m)		15,490.20
Net debt (Next Qtr., US$ m)	10,097.8	Dividend (current, US$)		0.76
Net debt/tot eq (Next Qtr.,%)	177.8			

Source: Company data, Refinitiv, Credit Suisse estimates

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, LEGAL ENTITY DISCLOSURE AND THE STATUS OF NON-US ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

NiSource Inc. (NI)

Analyst: **Michael Weinstein**

Price (06 Aug 2020): **US$24.34**

Target Price: **26.00**

Rating: **Outperform**

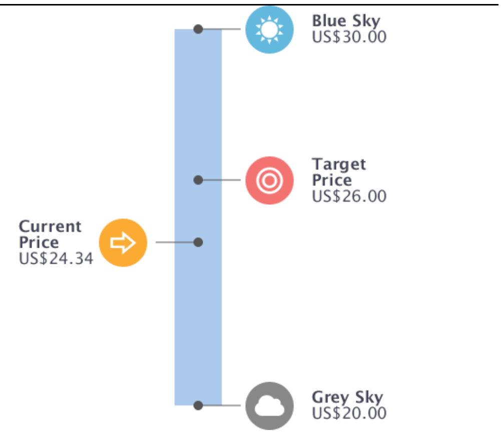
Income Statement	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Revenue (US$ m)	**5,184.1**	**6,112.6**	**6,219.7**	**6,513.9**
EBITDA (US$ m)	**1,764**	**1,806**	**1,837**	**1,966**
Depr. & amort.	(717)	(779)	(812)	(843)
EBIT (US$)	**1,047**	**1,027**	**1,025**	**1,123**
Net interest exp	(377)	(418)	(415)	(444)
PBT (US$)	**608**	**636**	**664**	**733**
Income taxes	(113)	(126)	(139)	(154)
Profit after tax	**495**	**510**	**524**	**579**
Minorities	-0	-0	-0	-0
Net profit (US$)	**495**	**510**	**524**	**579**
Reported net income (US$)	**495**	**510**	**524**	**579**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**495**	**510**	**524**	**579**
Cash Flow	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EBIT	1,047	1,027	1,025	1,123
Net interest	(377)	(418)	(415)	(444)
Change in working capital	(75)	(86)	0	0
Cash flow from operations	**2,247**	**2,061**	**1,837**	**1,966**
CAPEX	(2,167)	(2,036)	(1,725)	(2,200)
Free cashflow to the firm	**80**	**24**	**112**	**(234)**
Acquisitions	-	-	-	-
Divestments	0	1,100	0	0
Cash flow from investments	**(1,922)**	**(717)**	**(1,725)**	**(2,200)**
Net share issue(/repurchase)	244	155	295	867
Dividends paid	(355)	(335)	(299)	(314)
Changes in Net Cash/Debt	**(484)**	**393**	**(392)**	**(225)**
Balance Sheet (US$)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Assets				
Cash & cash equivalents	139	142	142	142
Account receivables	857	546	546	546
Other current assets	607	2,059	2,059	2,059
Total current assets	**1,854**	**2,860**	**2,860**	**2,860**
Total fixed assets	16,912	15,206	16,119	17,475
Investment securities	-	-	-	-
Total assets	**22,660**	**21,870**	**22,783**	**24,140**
Liabilities				
Total current liabilities	**3,746**	**3,591**	**3,983**	**4,209**
Total liabilities	**16,673**	**16,038**	**16,430**	**16,656**
Total liabilities and equity	**22,660**	**21,870**	**22,783**	**24,140**
Net debt	9,504	9,111	9,503	9,728
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
No. of shares (wtd avg)	375	385	395	415
CS adj. EPS	1.32	1.32	1.33	1.39
Prev. EPS (US$)	-	-	-	1.46
Dividend (US$)	0.76	0.80	0.85	0.90
Free cash flow per share	0.21	0.06	0.28	(0.56)
Earnings	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Sales growth (%)	(6.4)	17.9	1.8	4.7
EBIT growth (%)	12.4	(1.9)	(0.2)	9.6
Net profit growth (%)	6.8	3.1	2.9	10.3
EPS growth (%)	1.6	0.3	0.3	4.9
EBITDA margin (%)	34.0	29.5	29.5	30.2
EBIT margin (%)	20.2	16.8	16.5	17.2
Pretax margin (%)	11.7	10.4	10.7	11.2
Net margin (%)	9.5	8.3	8.4	8.9
Valuation	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EV/Sales (x)	3.63	3.02	3.03	2.92
P/E (x)	18.4	18.4	18.3	17.5
Price to book (x)	1.7	1.8	1.7	1.5
Asset turnover	0.2	0.3	0.3	0.3
Returns	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE stated-return on (%)	9.6	9.7	9.5	9.1
ROIC (%)	5.5	5.5	5.1	5.2
Gearing	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net debt/equity (%)	158.7	156.2	149.6	130.0
Interest coverage ratio (X)	2.8	2.5	2.5	2.5
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2019A	0.82	0.05	-0.00	0.45
2020E	0.76	0.13	0.04	0.39
2021E	0.77	0.07	0.04	0.46

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

NiSource Inc. is energy holding company whose subsidiaries provide natural gas, electricity & other products & services. It operates in 3 segments: Gas Distribution Operations; Gas Transmission & Storage Operations, & Electric Operations.

Blue/Grey Sky Scenario



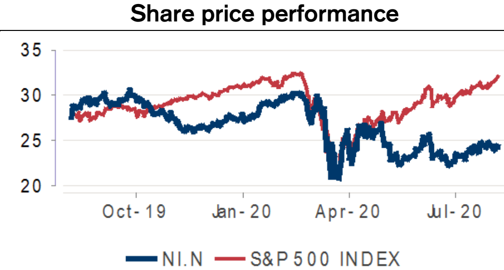
Our Blue Sky Scenario (US$) **(from 28.00) 30.00**

In our blue sky scenario we assume favorable regulatory outcomes across NI's jurisdictions, successful execution of their capital plan, and growth of infrastructure replacement program backlog. We assume that capex is at the high end of the $1.8-$1.9B and that NI is able to grow ratebase at the high end of their 8-10% range and grow earnings at the high end of their 5-7% range. We assume a 5.0x premium to the average peer 2021 P/E multiples.

Our Grey Sky Scenario (US$) **(from 21.00) 20.00**

In our grey sky scenario we assume unfavorable regulatory outcomes across NI's jurisdictions, only partial execution of their capital plan, and a decline in the infrastructure replacement program backlog. We assume that capex is at the low end of the $1.8-$1.9B and that NI is able to grow ratebase at the low end of their 8-10% range and grow earnings at the low end of their 5-7% range. We assume a -1.5x discount to the average peer 2021 P/E mult.

Share price performance



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- **See our recent reports:** 7/20 2Q20 Earnings Preview, 5/26 Left Behind but Holding Up Well, 5/11 Covid19 Adds Near-Term Uncertainty, but Long-Term Fundamentals Remain Strong, 5/5 1Q20 Earnings Preview, 2/28 Raise to Outperform on Sale of Mass, Elimination of Block Equity Plan, 1/17 2020 Earnings Preview, 2020 Outlook – Getting Meaner and Less Defensive, 11/14 EEI 2019 Financial Conference: Full Takeaways, 11/1 New Growth Trajectory after Equitizing, 10/30 3Q Miss with 2020 Guidance a Bit Light, 8/7 Downgrade to Neutral on Gas Operations Risk

- **NI reported a 2Q20 adj. EPS Beat at $0.13** vs. cons $0.08, CS $0.05, and 2Q19 $0.05 driven by cost mitigation efforts and partially offset by financial impacts of COVID19**.** The company also projects $0.10-$0.15 cost savings this year to offset COVID19 effects.

Figure 1: NI 2Q20 Earning Drivers

Gas Distribution Operations ($M)	2Q20	2Q19	Dif
Operating Revenues	606.2	608.5	-2.3
Operating Expenses	532.8	561.7	28.9
Total Adj. Earnings	**73.4**	**46.8**	**26.6**

Electric Operations ($M)	2Q20	2Q19	Dif
Operating Revenues	354.3	406.7	-52.4
Operating Expenses	264.9	320.9	56.0
Total Adj. Earnings	**89.4**	**85.8**	**3.6**

Source: Company data, Credit Suisse estimates

- **Cost management and regulatory solutions offset COVID's $30M (or ~$0.06) impact in Q2.** Gas margin impact by customer class saw a $0.7M increase in residential and a $4.7M decrease in industrial (vs 2Q19). Electric margin impacts saw a $9.2M and $3.9M decreases to industrial and commercial load respectively, partially offset with a $6.2M increase in residential vs 2Q19. COVID's impact are trending with the company's base case scenario.

Figure 2: COVID's Impact to NI in Q2

COVID impact to Gas Margin (2Q20 v 2Q19)	$(M)
Residential	0.7
Commercial	0.0
Industrial	-4.7

COVID impact to Electric Margin (2Q20 v 2Q19)	$(M)
Residential	6.2
Commercial	-3.9
Industrial	-9.2

Source: Company data, Credit Suisse estimates

- **COVID-19 annual impact to load**. Management expects lower sales volumes from commercial and industrial customers, partially offset by a potential increase in residential sales volume. Increased bad debt expenses (although recent orders in MD, VA allow for deferring the COVID-related expenses and bad debt), and sustained customer attrition. The company's sensitivity analysis continues to project that a +/- 1% change in annual sales volumes, will result in pre-tax operating earnings of $3.9M, $3.9M and $2.3M to residential, commercial and industrial on the electric side respectively, and $3.8M, $2.4M and $1.2M to residential, commercial and industrial on the Gas side respectively. The residential customer class represents 39% and 69% of the retail margins in electric and gas respectively, with commercial at 35% and 22% in electric and gas respectively.

Figure 3: COVID19 Impact to Nisource Load

Pre-tax Operating Earnings Sensitivity to +/- 1% CHG in annual sales volume	Electric	Retail Margins %
Residential	$3.9	59%
Commercial	$3.9	26%
Industrial	$2.3	15%
Total	**$10.1**	**100%**

Pre-tax Operating Earnings Sensitivity to +/- 1% CHG in annual sales volume	Gas	Retail Margins %
Residential	$3.8	69%
Commercial	$2.4	22%
Industrial	$1.2	9%
Total	**7.40**	**100%**

Source: Company data, Credit Suisse estimates

- **2020 Capex Plan Reaffirmed at $1.7B-$1.8B**. Recall the company previously reduced its capital investment plan by $100M to $1.7-$1.8B for 2020 to conserve cash in order to maintain liquidity. Recall the company lowered its capital investment plan by $100M to $1.7-$1.8B for 2020 in Q1, to conserve cash in order to maintain liquidity. Also recall that in 4Q19 management had guided annual infrastructure investment $1.8B-$1.9B for 2020 vs prior 2020 update of $1.7B-$1.8B provided in Q3. Capex for 2019 was ~$1.9B vs guided $1.7-$1.8B. Spending categories include gas pipeline transmission capital (Ohio) and higher spending for electric transmission in Indiana to support future renewables. Information Technology upgrades for grid modernization are also included. >75% of capex begins earnings in under 18 months.
- **Liquidity Update.** NI's net liquidity available is ~$2B as of June 30th, with ~$2.2B of committed facilities in place which include a ~$1.9B revolving credit facility and ~$0.3B accounts receivable securitization facilities. Debt level is ~$10B as of June 30th and includes ~$8.7B of long-term debt with a weighted average maturity of ~16 years and interest rate of 4.31%. Total debt/total capitalization stands at 63.8% in Q2 vs 61.7% in 2019.
- **COVID-related regulatory updates.** Orders received in Maryland (4/9/2020), in Virginia (4/29/2020), in Pennsylvania (5/13/2020), in Indiana (6/29/2020) and in Ohio (7/15/2020). Orders in MD, OH and VA allow deferral of COVID19 related expenses and bad debt for later recovery. Order in PA allows deferral of bad debt above amounts in base rates for later recovery, and order in IN allows deferral of suspended fees and bad debt for later recovery.
- **Columbia Gas of Massachusetts sale remains on track for regulatory approval in Q3.** On July 2, NI announced that it will pay $56M to settle and resolve the state's investigation into the 2018 Greater Lawrence incident.
  - **A federal guilty plea and the sale of Columbia Gas of Mass.** On Wednesday, 2/26, the US Department of Justice announced that NI will plead guilty to a criminal violation of the federal Natural Gas Pipeline Safety Act and pay a $53M fine in connection with the Sept 2018 gas explosion incident in Merrimack Valley, Massachusetts. NI has also agreed to sell its operations in Massachusetts to ES for $1.1B and will forfeit any profit earned from the sale (none expected, so retaining the whole $1.1B). The plea is on a corporate level; no individual officers or employees of the company were charged.
  - **Sale of Columbia Gas of Massachusetts to Eversource for $1.1B - with no gains allowed (or expected).** NI has also agreed to sell its operations in Massachusetts to ES and will forfeit any profit earned from the sale. We calculate that ES is purchasing at a 1.0x multiple of ratebase, or 19.7x 2021 P/E at the allowed 9.55% ROE – in line with the group average. However, the elimination of a previously

planned $500-$700M block equity issuance in 2020 brings the combined effect to about breakeven to a modest $0.01 accretion to 2021 expectations before accounting for -$0.05 corporate disynergies. Expect the transaction to close by the end of 3Q20. See our 7/31 ES 2Q earnings note for further detail.

- **Emphasis on safety. More updates expected at the 9/29 Investor Day.** The company continues to emphasize reducing the operational risk and enhancing gas systems safety through the implementation of the Safety Management System (SMS) and new safety system installations across all NI gas service territories. NI has rolled out a corrective action program with the hopes of providing a very clear process and technology for employees and more than 1,000 automatic shut-off devices have now been installed. NiSource is looking to advance safety new technologies, leakage sensing, smoke detectors, safety performance, and predictable models where human error could create risks.
- **Pension & OPEB. 97% funded in 2Q20** vs 94% in1Q20, and ~98% as of yearend 2019 with 52% of pension plan assets in equities (45% of OPEB assets). A 50 bps decline in the discount rate is expected to result in a $97.7M increase in projected pension obligation and a $31.8M increase in OPEB obligation, as well as a $2.6M increase in net plan expense. For a 50 bps decline in expected long-term rate of return on pension and OPEB plan assets, net expenses are expected to increase $10.1M
- **Decoupling.** Full decoupling in OH, MA, MD, VA. Weather normalization in KY, MD, VA, PA. **Bad debt handling.** Clauses for bad debt in KY, OH, MD, PA, VA, MA & IN.
- **Stimulus bill impacts:** management is still evaluating the potential benefits from NOLs and AMT credits.

Regulatory Updates

- **Gas Distribution Operations.** NI has identified ~$20B in Long-Term Infrastructure Investment Opportunities.
  - **Columbia Gas of MD** filed a new base rate case on 5/15 requesting $6.3M total revenue increase; $5M net of infrastructure trackers which supports continued replacement of aging pipelines and safety upgrades. The final order is expected in 4Q20 with new rates effective in Dec 2020.
  - **Columbia Gas of PA.** Filed a base rate case 4/24/2020 which supports continued replacement of aging pipelines as well as adoption of safety upgrades. Ratecase includes $100.4M total annual revenue increase. Order is expected in 1Q21 with new rates effective in Feb 2021.
  - **Columbia Gas of Ohio. Infrastructure Replacement Program (IRP) Annual Rider update.** Filed 2/28/2020 and order was received on 4/22/2020 and rates became effective in May. Order includes ~$234M in 2019 capital investments and IRP rider allows recovery of safety and infrastructure investments. Recall that a 2017 settlement allowing COH to continue the IRP tracker through 2022 was previously approved in Jan 2018. The IRP program covers the replacement of priority mainline pipes and targeted customer service lines.
  - **Columbia Gas of Ohio. Capital Expense Program (CEP) Annual rider update.** Filed 2/28/2020 and order is expected in 8/2020. Application includes ~185M in 2019 capital investments. The CEP rider allows recovery capital investments and deferred expenses that are related but not covered through IRP tracker. New rates expected to become effective 9/2020.
  - **NIPSCO Gas System Indiana.** Filed application on 12/31 with Indiana Utility Commission for 6-year extension to the company's long-term gas infrastructure modernization program. Proposal includes ~$950M in capex through 2025 to be recovered through semi-annual adjustments. Order is expected in July 2020.

- **Clarity from legislation in Indiana drives filing of a new gas TDSIC plan**. While the company continues to execute its approved TDSIC plans businesses through 2020 and 2022 for gas and electric, respectively, the passage of the H.B. 1470 provides clearer guidelines on items that can be included in a TDSIC plan. As result, management filed and received approval on Oct 16, 2019 for gas TDSIC10 covering $12.4M incremental capital between July 2018 and April 2019.

- **Electric Operations.** NI has identified ~10B in Long-Term Infrastructure Investment Opportunities and plans continued execution of a seven-year, ~$1.2B modernization program for electric system. New solar projects have been announced for coal replacement capacity and the company expects $1.8B-$2B incremental capital investment opportunities in 2022 and 2023.

  - **Settlement and order in Indiana ratecase for rates effective 1Q20.** A final order approving two settlements in NIPSCO's electric ratecase was issued on Dec 4, 2019, including a 9.75% authorized ROE on 47.86% equity for a $4.116B ratebase that resulted in a two-step revenue increase of $42.7M. The case was filed in Oct 2018 in conjunction with a new long-term Integrated Resource Plan (IRP). The settled portion of the case includes a revenue requirement and accelerated depreciation schedule related to early retirement of coal plants, including an agreement to reduce the book lives of $1.5B coal ratebase to match retirement plans at an average 2032 vs the prior 2030s-2040s. Non-protected accumulated deferred income tax passback amortization has also been agreed at a comfortable 10-year amortization period. It also includes a new rate structure for industrial customers that allows the utility to manage market purchases in order to keep track of capacity requirements (reduces risk of stranded assets).

  - **Renewable Generation Projects. Construction continues on Jordan Creek (400 MW) and Rosewater (100 MW) – expected to go in service by year-end**. Recall CPCN filings were made on Feb 1st, 2019 seeking approvals to develop 3 wind farms consistent with the IRP filed in the fall of 2018. Orders approving the PPAs on these filings were received on June 5, 2019 and the wind farms are expected to be built by yearend 2020. On Oct 22, 2019, a Build-Transfer Agreement BTA was filed for Indiana Crossroads (300MW) JV between NIPSCO and EDP Renewables (302 MW). FERC approved order on 2/19/2020 for sections 203 and 205 applications for Rosewater. BTA application was approved for Indiana Crossroads (300MW), a second joint venture between NIPSCO and EDP Renewables. Commercial terms reached on Brickyard Solar (200MW) and Greensboro Solar (100MW) + storage (30MW) PPAs filed. Latest RFP represents replacement ~1,400MW of coal capacity through 2023. **Tax equity partnership reached for Rosewater, Indiana Crossroads. Regulatory approval pending for Brickyard and Greensboro Solar. Altogether, the company expects about $1.0B of tax equity financing to help capitalize ~$2.8-$3.0B of JV renewable projects in Indiana from 2022-2023. The remaining $1.8-$2.0B of NI ratebase investment is expected to be financed with ~60% equity/40% debt.**

  - **Electric System Modernization** focused on electric transmission and distribution investments aimed at improving safety and reliability of system was filed 8/21/2019, final order was received on Dec 18th 2019 and rates became effective in Jan 2020. TDSIC 6 semi-annual tracker update covering $131.1M in investments from Dec 2018 – June 2019 now in rates. The program originally approved in 2016, contains ~$1.2 billion of electric infrastructure investments expected to be made through 2022. The company's latest tracker update request, covering $131.1 million in incremental capital investments made from December 2018 through June 2019 was approved by the IURC on 2/1 and rates became effective Jan 2020.

- **Integrated Resource Plan (IRP)** submitted in Oct 2018 called for 100% coal retirements by 2028 (vs. prior plan for 50% by 2023), replaced with renewables rather than natural gas. The IRP calls for retirement of 80% of the coal fleet by 2023 and 100% by 2028 (vs. prior plan 50% by 2023). The plan also points toward rapidly declining-cost renewables (wind, solar, batteries) rather than the gas-fired replacements that were planned within the last 2016 IRP. With much of the new generation in service in 2023 and beyond, the ratecase is less important as a near-term earnings driver. The rate filing also includes changes to the depreciation schedules for the IRP's planned early retirements of coal, along with rate design changes to provide more tariff flexibility to industrial customers. Discussions continue with select bidders in second round of RFPs. **Next IRP expected in 2021.**

Valuation

- **Valuation.** Our $26 TP is unchanged and based on peer 2021 P/E multiples within a SoTP. Our 2020 and 2021 estimates are unchanged but we are reducing our 2022 estimate $0.07 for expected drag from equity issuance and investment in Indiana renewables that will not benefit from AFUDC and will not receive a rate increase until 2024. We expect the company to attain at least the midpoint of a 5%-7% EPS CAGR (vs 2021) by 2024. Our TP includes the value of $0.05 uplift in 2022 from the expected elimination of temporary COVID19/Columbia Gas disynergy impacts in 2021. Risks include regulatory, capital plan execution, interest rates. We continue to apply a 1.5x premium to the gas utilities for favorable regulatory jurisdictions and lower operational risk since the explosive incident in Lawrence Mass in 2018. We continue to value the electric operation in Indiana at a 1.5x premium for excellent operations and supportive regulation. Risks include 1) ROE risk related to the ongoing ratecases, 2) continued approvals relating to infrastructure replacement/grid modernization programs, 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particularly in the non-decoupled jurisdictions, 7) weather risk, 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety, 11) COVID19 pandemic response load reduction, particularly at the electric utility.

Figure 4: NI Valuation

		BASE CASE			
	2021 EPS	Prem / Disc	Effective P/E	Equity	Equity / Sh
Electric	$0.56	2.0x	19.3x	$4,161	$10.81
Gas	$0.85	2.0x	18.5x	$6,027	$15.66
COVID19 EPS recovery in 2022 (discounted to 2021)	$0.05		18.8x	$335	$0.87
Other	($0.08)		18.8x	($579)	($1.51)
Total EPS	**$1.33**			**$9,944**	**$26.00**
Diluted Shares Outstanding					384.9
Dividend					$0.80
Implied Yield					3.1%
Current Yield					3.3%
Implied P/E					19.6x
Prem / (Disc) To Group					18.6%
Upside/ (Dow nside) to Current Price					6.7%
Total retirn					10.0%

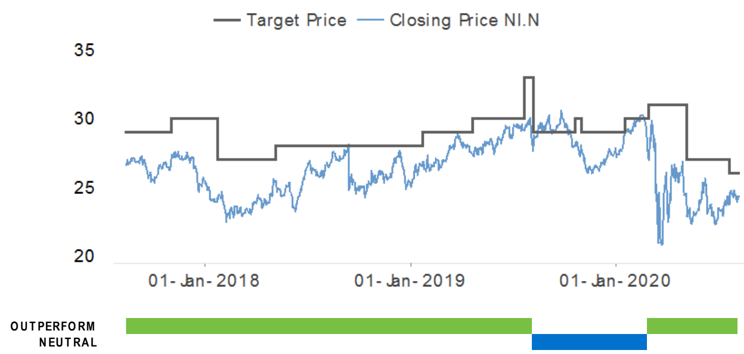
Companies Mentioned *(Price as of 06-Aug-2020)*
NiSource Inc. (NI.N, $24.34, OUTPERFORM, TP $26.0)

Disclosure Appendix

Analyst Certification
Michael Weinstein, ERP, and Andres Sheppard each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
14-Aug-17	26.64	29.00	O
02-Nov-17	26.94	30.00	
23-Jan-18	24.17	27.00	
06-May-18	25.41	28.00	
23-Jan-19	26.83	29.00	
21-Apr-19	27.56	30.00	
22-Jul-19	29.14	33.00	
07-Aug-19	27.63	29.00	N
21-Oct-19	28.05	30.00	
01-Nov-19	27.65	29.00	
17-Jan-20	29.04	30.00	
28-Feb-20	27.02	31.00	O
05-May-20	24.53	27.00	
20-Jul-20	23.75	26.00	



** Asterisk signifies initiation or assumption of coverage.*

As of December 10, 2012 Analysts' stock rating are defined as follows:
Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.
**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European (excluding Turkey) ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin America, Turkey and Asia (excluding Japan and Australia), stock ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*
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Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: We arrive at our $26 target price for NI by applying a 1.5x premium to the gas segment peer 2021 P/E to reflect the constructive regulatory environments with capex trackers in place in the jurisdictions that NI operates. We also apply a 1.5x premium to the average peer electric utility 2021 P/E multiple for NIPSCO Electric utility in Indiana to reflect the favorable ratebase growth profile and regulatory environment in the state. Our OUTPERFORM rating reflects a forecasted total return that is equal the group average.

Risk: Risks to our $26 target price and OUTPERFORM rating are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particulary in the non-decoupled jurisdictions, 7) weather risk, and 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety after the 2018 explosion incident in Mass. 11) COVID19 load reductions

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Goldman Sachs | Equity Research

10 August 2020 | 1:07AM EDT

NiSource Inc. (NI): Remain cautiously optimistic on robust LT growth plan; Buy

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We reiterate our Buy rating on NiSource (NI) after 2Q20 earnings, as we view favorably the company's renewable investment pipeline that could bolster above-average growth through 2024, albeit more back-weighted and with lower-than-expected 2021 earnings power. We remain cautiously optimistic on NI's ability to achieve consistent execution in the post-MA gas incident era, while awaiting additional details at the September virtual Analyst Day.

Robust capital from renewables to boost earnings growth…with some regulatory lag. Beyond the near 1 GW of wind projects currently planned via PPAs and JV ownership, NI expects to invest in over 2 GW of incremental renewable capacity (primarily solar) to replace the 2023 planned retirement of the 1,400 MW Schahfer coal plant, supporting an EPS CAGR above the 5-7% CAGR guided (using 2021 guidance mid-point of $1.32 as the base). Assuming 50% ownership, the company expects to spend another $1.4-$1.6bn through 2023 under this plant, or $0.15-$0.17 of EPS (~10% of 2022E EPS) assuming 9.5% ROE/48% equity ratio at NIPSCO Electric. However, we note the lack of a renewable rider mechanism combined with a potential equity/debt financing in 2022/2023 for the build/transfer projects could pressure earnings growth through mid-2023 until placed into rates via a general rate case. Our estimates currently do not embed any bulk equity in 2022 beyond the annual $250mn of ATM.

We revise our 2020-2022 EPS estimates to $1.28/$1.34/$1.43 from $1.27/$1.38/$1.49. Our changes reflect: 1) 2Q20 actuals, 2) moderate adjustments to electric demand recovery, 3) increased debt financing, and 3) timing of O&M management, reflecting ~0.7% CAGR through 2022. Finally, our model continues to include the MA gas utility operations coupled with $1bn of equity in 2020 (including $300mn of ATM), resulting in 14.0%/14.3% FFO/debt in 2021/2022, respectively (versus Moody's stated Baa2 threshold of 14%). We note that the company is in the process of selling its MA gas utility operations to Eversource.

Our $27, 12-month price target (from $28 prior) embeds 20x our revised 2021 EPS estimate of $1.34, reflecting a 13% total return versus 11% for Regulated Utilities. Our target reflects a 13% total return, with the stock currently trading at a 1x P/E (7%) discount to smid-cap peers. Key risks include (1) legal and regulatory risks, (2) earnings/cash impact due to COVID-19, (3) higher-than-expected O&M, (4) electricity demand and customer growth, and (5) financing.

NI in Exhibits

Exhibit 1: We lower our 2021-2022 estimates, reflecting a 3.4% CAGR from 2020A-2022E...

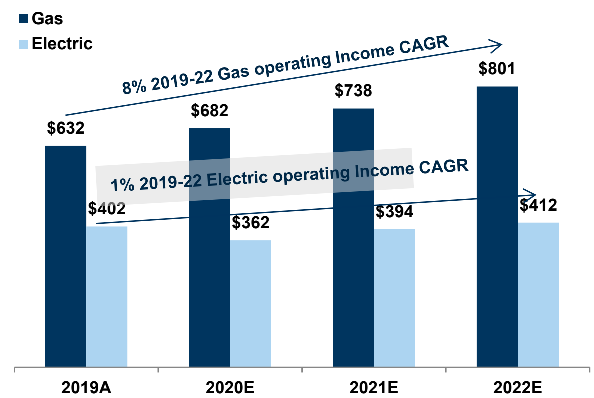
EPS New vs Old vs Consensus

	EPS Estimates			% Difference	
	GS-New	GS-Old	Cons.	vs. Old	vs. Cons.
2020E	$1.28	$1.27	$1.28	1%	0%
2021E	$1.34	$1.38	$1.35	(3%)	(1%)
2022E	$1.43	$1.49	$1.46	(4%)	(2%)
CAGR	3.6%	5.5%	4.5%	(2%)	(1%)

Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 2: ...with strong growth driven by the regulated gas businesses, although we expect planned renewable additions to bolster Electric growth beyond 2022

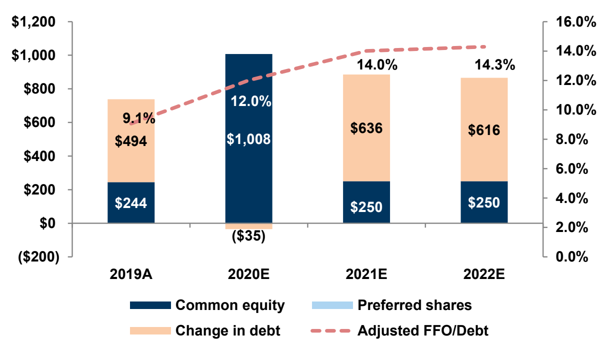
Operating Income by Segment ($mn)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 3: Our model currently embeds the MA utility in estimates, along with bulk equity assumed in 2020

Financing by type ($mn) and adjusted FFO/debt



2020 FFO/debt assumes certain one-time adjustments related to the Merrimack incident

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: We lower our price target to $27 from $28 given our lowered estimates

NI blended P/E Valuation

NI valuation			
Deriving Blended Multiple			
	Gas	Electric	Total
2021 EBIT	738.2	393.6	1,131.8
% 2021 EBIT	65.2%	34.8%	
Target Multiple	20.00x	20.00x	20.0x
Price Target			
2021 EPS			$1.34
Target Multiple			20.0x
Price Target			**$27**

Source: Goldman Sachs Global Investment Research

NI	12m Price Target: **$27.00**	Price: **$24.75**	Upside: **9.1%**

Buy

Market cap: $8.1bn
Enterprise value: $18.4bn
3m ADTV: $75.4mn
United States
America-Regulated Utilities
M&A Rank: 3

GS Forecast

	12/19	12/20E	12/21E	12/22E
Revenue ($ mn) New	**5,208.9**	**4,912.0**	**5,123.6**	**5,346.8**
Revenue ($ mn) Old	5,208.9	4,968.9	5,187.4	5,409.0
EBITDA ($ mn)	1,608.1	1,782.5	1,976.4	2,123.1
EBIT ($ mn)	890.7	1,034.5	1,161.3	1,247.0
EPS ($) New	**1.32**	**1.28**	**1.34**	**1.43**
EPS ($) Old	1.32	1.27	1.38	1.49
P/E (X)	21.3	19.3	18.5	17.4
Dividend yield (%)	2.9	3.4	3.6	3.8
Net debt/EBITDA (X)	5.9	5.3	5.1	5.1
	3/20	**6/20E**	**9/20E**	**12/20E**
EPS ($)	0.76	0.13	(0.01)	0.39

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 7 Aug 2020 close.

Disclosure Appendix

Reg AC

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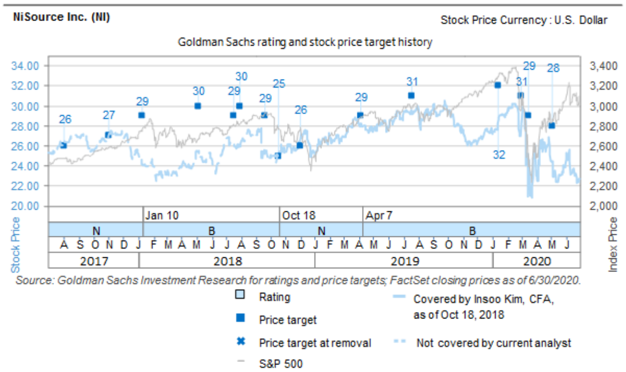

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WELLS FARGO SECURITIES

Gas LDC Round Up (Part 2): NI, NJR, NWN & SWX

Utilities

$ Ticker	Rating Curr.	Prior	Price 08/07/20	FY EPS 2020E Curr.	Prior	2021E Curr.	Prior	Price Target To	From
Natural Gas LDCs									
NI	1	NC	24.75	1.26	NC	1.32	1.34	28.00	NC
NJR	2	NC	32.37	2.06	2.10	2.22	2.25	35.00	33.00
NWN	3	NC	54.96	2.30	2.35	2.62	NC	57.00	54.00
SWX	3	NC	72.90	3.92	3.85	4.40	4.35	76.00	72.00

Source: Company data and Wells Fargo Securities, LLC estimates

1= Overweight, 2 = Equal Weight, 3 = Underweight, V = Volatile
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful

- **Summary.** The Gas LDC earnings season wrapped up on 8/7 with three of our covered companies hosting conference calls including Equal Weight-rated NJR and Underweight-rated NWN and SWX. We provide details on each herein along with Overweight-rated NI (reported on 8/5). NJR, NWN and SWX affirmed 2020 EPS guidance with NJR and NWN suggesting results could come in toward the lower end of the ranges due to pipeline delays (NJR) and COVID (NWN). NI initiated 2021 EPS guidance and provided a bullish long-term growth outlook helped by renewable capex at the electric utility. We increase our price targets for NJR, NWN and SWX on higher peer group multiples and update our EPS outlooks (SWX higher, slightly lower near-term for NI, NJR and NWN).

- **NI.** NI initiated 2021 EPS guidance of $1.28-1.36, which includes ~$0.05 of lingering COVID-19 impacts. While this was light relative to our $1.34 estimate and consensus of $1.36, the "miss" was overshadowed by the unveiling of a ***10-12% rate base CAGR, which is expected to drive EPS growth in excess of the prior 5-7% target*** (off the '21 base through '24). The disclosures served as a preview to the company's Analyst Day planned for late September and represents a positive step in reshaping the narrative. Our '20E EPS remains $1.26 and we update our '21E & '22E to/from $1.32/1.34, $1.42/1.46; our EPS CAGR through '24E (off the '21E base) is 7.0% and we see upside to our earned ROE assumptions in the high 8% range. With shares trading in-line with blended gas/electric utility peers, we ***reiterate our Overweight rating*** and $28/sh price target (19.6X our '22E).

  NI provided more color on the renewable opportunity, which is premised on a 50% ownership approach (50% PPA) using JVs whereby NI's actual investment would be ~$1.8-2.0B in 2022-2023 (tax equity assumed to contribute another ~$1.0B). Of the $1.8-2.0B, approximately $0.4B is approved with another $1.4-1.6B under negotiations (stay tuned). We expect more details on how NI intends to finance the spending plans at the Analyst Day – we currently assume 2021-2024 equity issuances totaling ~$2B, though we expect NI would strongly consider preferred and convertible structures as well. ***(Comments continue on page 2...)***

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(...NI continued) Nearer-term: (1) the CMA sale is nearing the finish line (approval expected in Q3); (2) the company has pending rate cases in PA (seeking $100.4mm) and MD ($6.3mm); (3) implementation of the Safety Management System (SMS) is ongoing with a more detailed update planned for September; and (4) NI is managing COVID-related headwinds. On the COVID front, the company saw a ($0.06) gross EPS impact in Q2, which was offset with cost management and regulatory mechanisms (deferral orders for bad debt expense in IN, PA, VA, MD and OH).

- **NJR.** The company continues to face a number of ***challenges related to pipeline approvals*** and gas marketing conditions. The latest pipeline issue resides at the utility (NJNG) where permits were suspended on the Southern Reliability Link (SRL) following inadvertent return incidents (drilling fluid spilled out of the surface). NJR has presented a risk mitigation strategy and awaits a decision from the NJ DEP. For context, over 75% of construction is complete on the $250-270mm project and the company targets a 2021 in-service date. Rounding out the pipeline projects are Adelphia Gateway, which is experiencing permitting delays at the PA DEP and still requires a Notice to Proceed from FERC (still target 2021 in-service date but capex shifted from ’20 to ’21) and PennEast, which awaits a FERC decision on the bifurcation request following a supportive EA; PennEast also has a pending appeal with SCOTUS (waiting to see if case is taken up), but that relates to the NJ phase, which we have removed from our model. As a result of the various delays, we are updating our ’20-22E to/from $2.06/2.10 (mgmt. pointed to lower end of $2.05-2.15 range), $2.22/2.25 & $2.40/2.40. We increase our price target to $35/sh (15.6X our ex-CEV ’22E EPS of $1.93 plus $4-6/sh for CEV) from $33/sh; remain Equal Weight.

  Other Updates: (1) <u>Utility</u> - Mgmt. expects to fall short of the targeted 9,800 customer additions this year due to COVID, but continues to expect robust service territory growth long-term. On the regulatory front, NJNG is preparing an energy efficiency proposal to be filed with the BPU in late September and we expect a rate case next year aligned with the in-service date of SRL. Lastly, ***COVID-related financial impacts have been immaterial*** to date. (2) <u>Energy Services</u> – NJR further revised the 2020 earnings contribution to (3)-(5)% from 0-(5)%. The company continues to take steps to reduce the risk profile and improve profitability, which should be helped by the seasonal spread opportunity into the winter months. (3) <u>CEV</u> – Mgmt. discussed the addition of three commercial solar projects representing 32 MW during fiscal Q3 including the acquisition of CEV’s first operational project (NJ Oak), which the company plans to upgrade/drive efficiencies. Finally, NJR disclosed a 48% SREC hedge position for fiscal 2023 at similar prices to ‘20/21 hedges in the high $190s.

- **NWN.** The company affirmed 2020 EPS guidance of $2.25-2.45 and continues to ***point to the lower end of the range considering COVID-related impacts.*** In Q2, the company experienced a $0.12 hit from COVID tied to lower commercial/industrial sales, lower fee revenue, higher bad debt expense and accelerated debt financings to improve liquidity. This contributed to a $0.17 loss in the quarter vs. EPS of $0.07 in Q2’19. Of note, NWN has pending applications for COVID-related cost deferrals. We lower our ‘20E EPS to $2.30 from $2.35 and maintain our ‘21E & ‘22E of $2.62 & $2.64, respectively. We are attracted to NWN’s modern gas distribution system and above-average customer growth; further, we consider the OR rate case settlement to be constructive (details below). Our Underweight rating solely reflects valuation considerations. We increase our price target to $57/sh from $54/sh on higher peer group multiples.

  Other updates: (1) **OR Rate Case** – On 7/31, parties filed a stipulation including a $45.8mm rate increase (vs. $71.4mm request), 50% equity ratio and 9.4% ROE. Assuming final approval, rates will go into effect 11/1/20. (2) **RNG** – OR finalized the rulemaking related to SB 98, which allows NWN to procure RNG on behalf of customers and sets voluntary targets for gas utilities (15% in 2030, 20% in 2035 and 30% in 2050); the law is inclusive of renewable hydrogen. The company is focused on pursuing the lowest cost projects, which could potentially include rate base opportunities. (3) **Water Strategy** – Mgmt. remains energized about the opportunity to roll-up water systems, but noted that M&A activity has slowed in the wake of COVID (appears related to travel restrictions and other temporary challenges).

- **SWX.** The company reported ***strong Q2 EPS of 0.68*** (vs. our $0.64 estimate) ***reflecting record Q2 earnings at Centuri (construction) and a $0.22 COLI gain*** (strong performance of underlying securities). Mgmt. affirmed 2020 EPS guidance of $3.75-4.00 along with most of the underlying assumptions – the only adjustments related to lower interest expense at Centuri ($10-11mm down from $12.5-13.5mm) and slightly higher capex of ~$700mm (from $650-700mm). We viewed the Q2 update favorably, particularly the strong results at Centuri given the challenging economic backdrop. We increase our '20-22E EPS to/from $3.92/3.85, $4.40/4.35 & $4.50/4.45. We also increase our price target to $76/sh (16.3X our '22E EPS blended with our SOTP) from $72/sh; remain Underweight on valuation considerations in concert with the construction exposure (25-30% of consolidated earnings) and below-average regulatory treatment vs. LDC peers.

  SWX's post-2020 earnings power is largely dependent on the outcome ***pending rate cases in AZ, NV*** and CA (in order of size), which are all expected to conclude by year-end. We consider the staff positions in AZ ($66.6mm vs. $90.6mm request) and NV ($21.5mm vs. $38.5mm) to be very reasonable. In CA, parties reached a settlement on 8/3 calling for a $6.4mm rate increase (vs. $12.8mm request).

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JV – Joint Venture
MW - Megawatt
NJNG – New Jersey Natural Gas
O&M – Operations and Maintenance
PPA – Power Purchase Agreement
RNG – Renewable Natural Gas
SB – Senate Bill
SREC – Solar Renewable Energy Credit

Rating Basis Information:

NI Thesis: We rate shares Overweight. We are attracted to NI's robust long-term infrastructure growth opportunities and supportive regulatory treatment.

NJR Thesis: We are attracted to NJR's high quality utility franchise and gas infrastructure growth opportunities. Our Equal Weight rating reflects valuation considerations in concert with non-utility risks.

NWN Thesis: We are attracted to NWN's conservative gas and water infrastructure strategy, growing service territory, and modern distribution system. Our Underweight rating solely reflects valuation considerations as shares trade at meaningful premiums to utility peers on 2020E & 2021E EPS with, at best, an in-line growth rate.

SWX Thesis: Our Underweight rating reflects valuation considerations in concert with both construction and regulatory risks. With 25-30% of consolidated earnings derived from the construction business, which we consider to be lower quality than gas utility operations, we believe a meaningful discount to gas and electric utility peers is warranted.

Price Target Information:

NI Basis and Risks: Our price target is based on a P/E multiple analysis (apply a 5-7% premium to the blended gas/electric peer group multiple of 18.5X on our '22E EPS). Risks include lower than expected sales growth, unfavorable regulatory developments, and unexpected cost pressures.

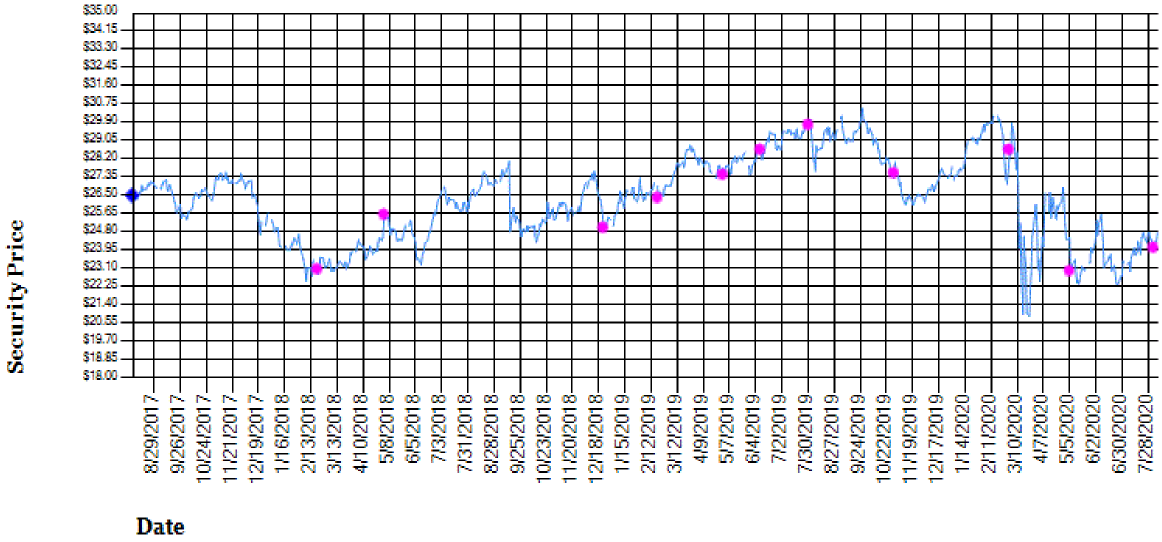
NJR Basis and Risks: Our price target is based on sum-of-the-parts analysis ($4-6/share for CEV and $33/share for the remaining segments based on an 15-20% discount to the LDC median of ~19X applied to our ex-CEV '22E of $1.93). Key risks include negative regulatory developments, risk of project delays/cancellations (PennEast and Adelphia Gateway), and competitive risks at the renewables and energy marketing segments including SREC price risk and counterparty risk.

NWN Basis and Risks: Our price target is based on our P/E multiple analysis (apply a 15% premium to the LDC peer group median of ~19X on our '22E EPS). Risks include onerous regulatory outcomes, Mist Expansion execution risks, exposure to unregulated storage operations, and inflationary cost pressures.

SWX Basis and Risks: Our price target is based on a combination of our P/E (apply a 13% discount to the '21E LDC median of ~19X on our '22E EPS) and SOTP (3-5% P/E discount to LDC peers for the regulated operations and 7.5% EV/EBITDA premium to construction comps for Centuri) analyses. Key risks include regulatory risk (rate cases in AZ, CA and NV), competitive and cyclical risks at Centuri, and risks related to high construction customer concentration.

Required Disclosures

NiSource Inc. (NI) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
	8/9/2017		Akers				
◆	8/9/2017	26.32	1	30	NE	NE	26.38
•	2/20/2018	22.99	1	26	NE	NE	23.02
•	5/3/2018	25.38	1	28	NE	NE	25.57
•	12/24/2018	26.05	1	29	NE	NE	24.89
•	2/20/2019	26.28	1	30	NE	NE	26.28
•	5/1/2019	27.41	1	31	NE	NE	27.40
•	6/9/2019	28.54	1	32	NE	NE	28.54
•	7/31/2019	29.79	1	33	NE	NE	29.69
•	10/30/2019	27.29	1	31	NE	NE	27.51
•	3/2/2020	27.02	1	30	NE	NE	28.56
•	5/6/2020	23.07	1	27	NE	NE	22.92
•	8/3/2020	23.98	1	28	NE	NE	23.98

*Effective December 7, 2019, Wells Fargo Securities' Equity Research modified its ratings definitions. Complete definitions of current ratings can be found below. For information related to prior ratings definitions, please contact equityresearch1@wellsfargo.com.

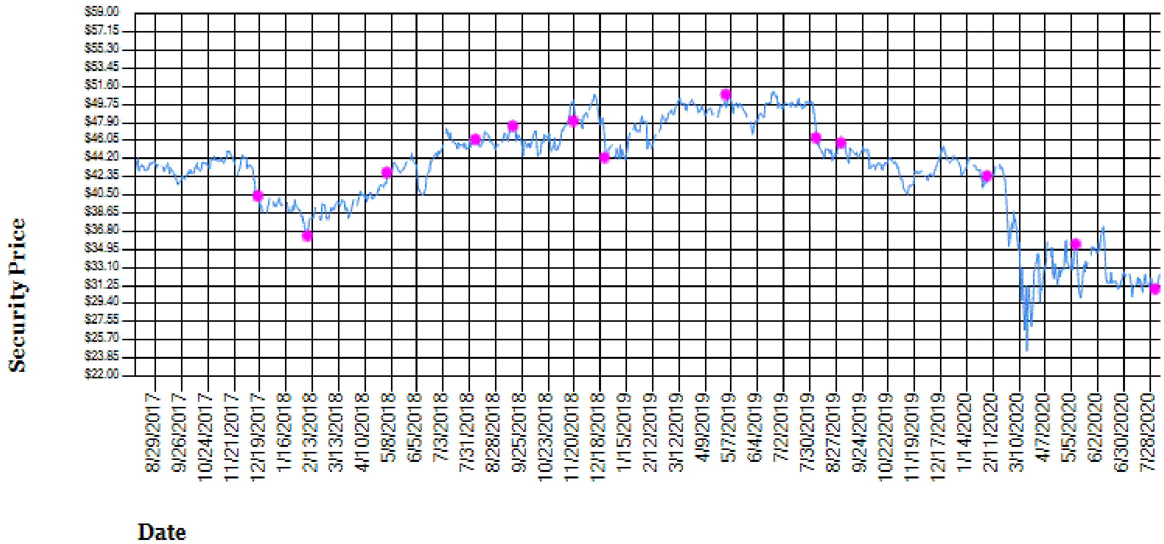
Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- • Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- □ Split Adjustment

Rating Code Key

1	Overweight/Buy	SR	Suspended
2	Equal Weight/Hold	NR	Not Rated
3	Underweight/Sell	NE	No Estimate

New Jersey Resources Corporation (NJR) 3-yr. Price Performance



Date	Published Price ($)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
8/7/2017		Akers				
8/7/2017	NA	2	44	NE	NE	42.80
12/18/2017	40.95	2	41	NE	NE	40.30
2/8/2018	36.85	2	38	NE	NE	36.25
5/4/2018	42.60	2	41	NE	NE	42.60
8/7/2018	45.65	2	45	NE	NE	46.05
9/16/2018	47.40	2	47	NE	NE	47.40
11/21/2018	49.03	2	50	NE	NE	47.85
12/24/2018	47.68	2	47	NE	NE	44.22
5/3/2019	50.67	2	51	NE	NE	50.67
8/6/2019	46.24	2	48	NE	NE	46.24
9/2/2019	45.74	2	46	NE	NE	45.74
2/6/2020	42.32	2	45	NE	NE	42.32
5/10/2020	35.31	2	38	NE	NE	35.31
8/3/2020	30.80	2	33	NE	NE	30.80

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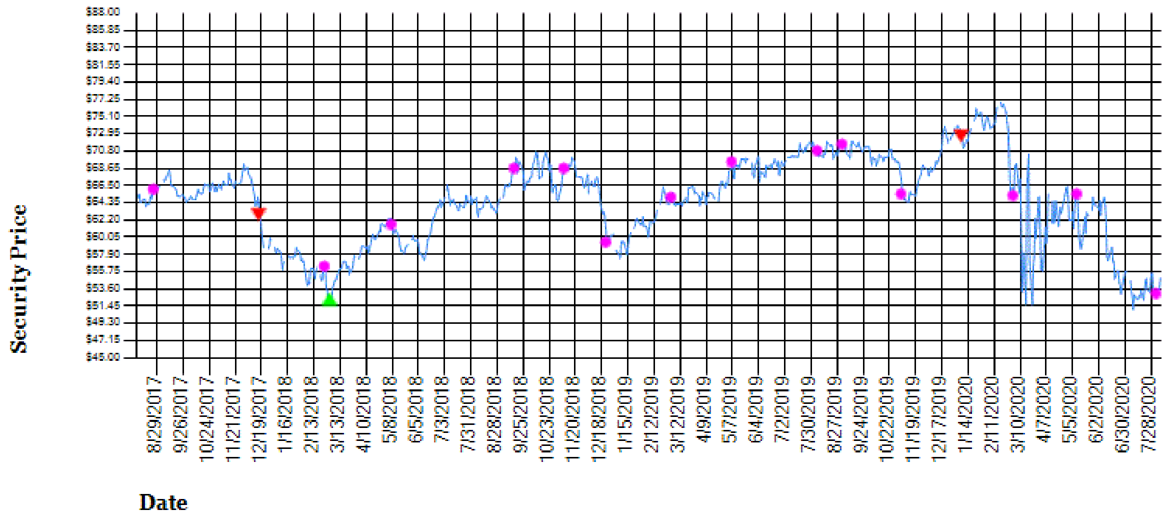
- ❐ Split Adjustment

Rating Code Key

1	Overweight/Buy	SR	Suspended
2	Equal Weight/Hold	NR	Not Rated
3	Underweight/Sell	NE	No Estimate

Northwest Natural Holding Co. (NWN) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
	8/7/2017		Akers				
	8/7/2017	NA	2	67	NE	NE	64.75
●	8/27/2017	65.75	2	68	NE	NE	65.75
▼●	12/18/2017	65.05	3	62	NE	NE	62.50
●	2/25/2018	56.30	3	52	NE	NE	56.30
▲	3/4/2018	51.95	2	52	NE	NE	51.95
●	5/8/2018	61.40	2	58	NE	NE	61.40
●	9/16/2018	68.45	2	65	NE	NE	68.45
●	11/8/2018	68.00	2	66	NE	NE	68.46
●	12/24/2018	63.09	2	65	NE	NE	59.17
●	3/3/2019	64.90	2	67	NE	NE	64.90
●	5/7/2019	69.32	2	69	NE	NE	69.32
●	8/6/2019	70.74	2	67	NE	NE	70.74
●	9/2/2019	71.36	2	68	NE	NE	71.36
●	11/5/2019	64.00	2	64	NE	NE	65.24
▼●	1/8/2020	72.36	3	66	NE	NE	72.36
●	3/3/2020	66.27	3	63	NE	NE	65.02
●	5/10/2020	65.16	3	60	NE	NE	65.16
●	8/3/2020	52.90	3	54	NE	NE	52.90

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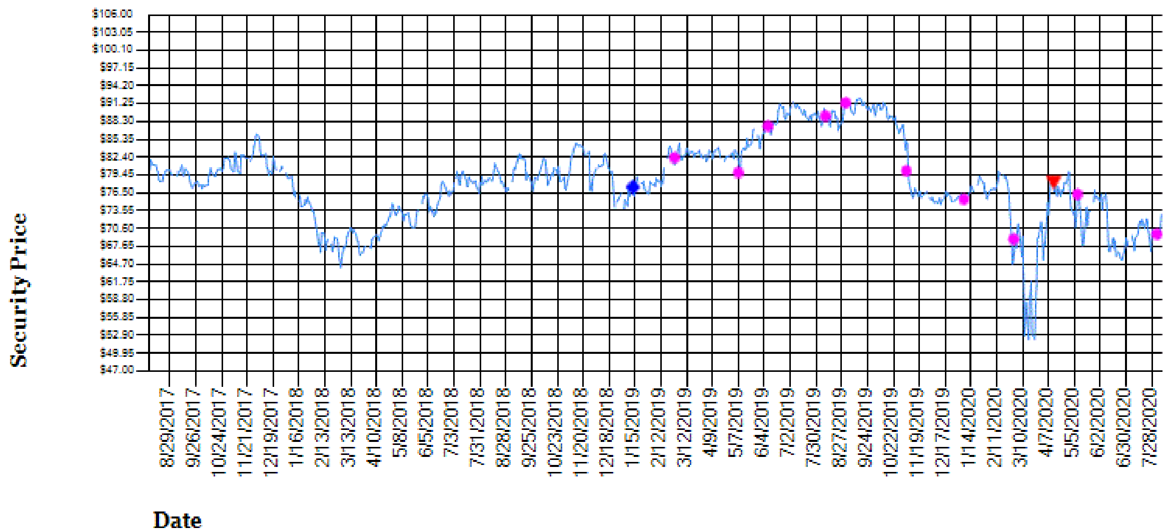
- ■ Analyst Change
- □ Split Adjustment

Rating Code Key

1	Overweight/Buy	SR	Suspended
2	Equal Weight/Hold	NR	Not Rated
3	Underweight/Sell	NE	No Estimate

Southwest Gas Holdings, Inc. (SWX) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
	1/15/2019		Akers				
◆	1/15/2019	75.93	2	83	NE	NE	77.04
●	2/28/2019	81.94	2	87	NE	NE	81.94
●	5/9/2019	79.59	2	88	NE	NE	79.59
●	6/9/2019	87.39	2	92	NE	NE	87.39
●	8/11/2019	89.05	2	90	NE	NE	89.05
●	9/2/2019	91.23	2	93	NE	NE	91.23
●	11/7/2019	79.73	2	86	NE	NE	79.73
●	1/8/2020	75.12	2	80	NE	NE	75.12
●	3/2/2020	64.68	2	71	NE	NE	68.47
▼●	4/14/2020	76.64	3	73	NE	NE	77.82
●	5/10/2020	76.05	3	75	NE	NE	76.05
●	8/3/2020	69.30	3	72	NE	NE	69.30

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Additional Information Available Upon Request

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NI: Risks include lower than expected sales growth, unfavorable regulatory developments, and unexpected cost pressures.
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NWN: Risks include onerous regulatory outcomes, Mist Expansion execution risks, exposure to unregulated storage operations, and inflationary cost pressures.
SWX: Key risks include regulatory risk (rate cases in AZ, CA and NV), competitive and cyclical risks at Centuri, and risks related to high construction customer concentration.

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2=Equal Weight: Total return on stock expected to be 0-10% over the next 12 months. HOLD
3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

VOLATILITY RATING
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As of: August 9, 2020

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Jefferies

EQUITY RESEARCH
NiSource Inc. (NI)

NiSource Inc.
Poised for a Positive Pivot, Upgrade to Buy

September 23, 2020

Key Takeaway

NI will hold an Investor Day 9.29, its first since 2017, to discuss strategic initiatives, review operations, and profile guidance. With the TCJA, Greater Lawrence Incident, and COVID-19 providing recent challenges, we expect a future-focused pivot with discussion of system modernizations & renewable energy investments. In Aug., NI offered $1.28-$1.36 2021 EPS guidance & noted a 2021-24 CAGR above its prior 5-7% rate. With >17% TR, we upgrade to Buy, from Hold.

Event goals. We expect the Investor Day agenda includes exploring 1) NIPSCO's renewable transition as $1.8-$2.0B of incremental 2021-23 investment opportunities remain under evaluation and the conversion from coal will deliver an estimated ~90% reduction in NI's 2005-30 GHG emissions; 2) capex plans which underpin a 10-12% 2021-24 rate base CAGR; 3) its $1.28-$1.36 2021 non-GAAP EPS guidance, including COVID impacts, and the unveiling of a new 2021-24 EPS CAGR; and 4) updating its SMS & strategic realignment initiatives.

Moving past MA incident with sale to Eversource. In Sept. 2018, excessive pressure in gas lines owned by Columbia Gas of MA (CGMA) caused a series of explosions and fires in the Greater Lawrence Area which resulted in one fatality, a number of injuries, evacuations, and the interruption of service for ~7500 meters. NI replaced the cast iron & bare steel lines in the system and restored service to the region, pled guilty to violating the Natural Gas Pipeline Safety Act, recorded ~$1.73B in total incident-related costs to date, implemented a slew of safety-related changes, and, in Feb., agreed to sell CGMA to Eversource for $1.1B in cash. The deal is set to close soon and, we hope, will allow NI to move past the incident.

Differentiated renewable investment opportunities. In 2020, US gas utilities have been swept up in the anti-hydrocarbon sentiment which earlier infected upstream & midstream valuation dynamics, producing a swift compression in group multiples. Amid this backdrop, NI has an opportunity to shine by focusing on the significant renewable investments opportunity it has in transitioning NIPSCO's generation portfolio fully away from coal by 2028. With system & generation modernization, NI has identified ~$10B on LT infrastructure investment opportunities.

Updating growth forecasts, affirming the value proposition. While the combination of the Tax Cuts & Jobs Act (TJCA), Greater Lawrence Incident, and COVID-19 negatively impacted NI's growth profile, leaving 2018-21 EPS essentially flat at the 2021 outlook mid-point, the sale of CGMA & punctuated renewable spending opportunity allow investors to refocus on the future. Mgmt has noted its new 2021-24 EPS CAGR will accelerate from its prior 5-7% range, underpinned by a projected 10-12% rate base CAGR.

Upgrading to Buy. At current price, NI implies ~16.5x 2021 consensus EPS, an approx. 2 STD (3x) discount to its trailing 5-yr avg. and its ~3.8% dividend yield is ~2.5 STD above its 5-yr avg. despite the YTD crash in rates. With accelerating EPS growth through 2024 (~7.1% JEFe CAGR), the pending CGMA sale, significant renewable investment opportunities, and a BBB+ rated BS, we see an attractive entry & upgrade to Buy.

Rating | Target | Estimate Change

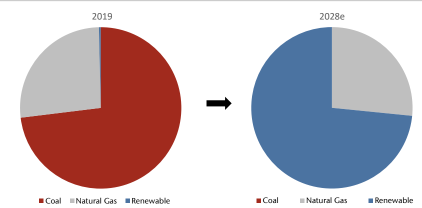
USA | Utilities

RATING	BUY (FROM HOLD)
PRICE	$22.20^
MARKET CAP	$8.5B
PRICE TARGET (PT)	$25.00 (FROM $26.00)
UPSIDE SCENARIO PT	$30.00
DOWNSIDE SCENARIO PT	$15.00

^Prior trading day's closing price unless otherwise noted.

FY Dec USD	2019A	2020E	2021E	2022E
EPS	1.32	1.28	1.35	1.42
Prev.		*1.26*		*1.43*
FY P/E	16.9x	17.4x	16.4x	15.6x

Exhibit 1 - NIPSCO Generation Transition



Source: JEFe, assuming all planned coal retirements are replaced with renewables.

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Jefferies

EQUITY RESEARCH
NiSource Inc. (NI)

NISOURCE INC. (NI)

Estimates				
USD	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA (MM)	1,759.3	↑ 1,838.2	↑ 1,922.8	↑ 2,058.0
Previous		1,785.3	1,879.9	2,011.7
DPS	0.80	0.84	0.88	0.93
Previous				
Consensus EPS	1.32	↑ 1.31	↓ 1.34	↓ 1.43
Previous		1.30	1.36	1.46
EPS				
Q1	0.82	0.76A	-	-
Previous				
Q2	0.05	↑ 0.13A	-	-
Previous		*0.06*		
Q3	(0.00)	↓ 0.00	-	-
Previous		*0.03*		
Q4	0.45	↓ 0.39	-	-
Previous		*0.42*		
FY Dec	1.32	↑ 1.28	1.35	↓ 1.42
Previous		*1.26*		*1.43*

Valuation				
	2019A	**2020E**	**2021E**	**2022E**
EV/EBITDA	10.7x	10.2x	9.8x	9.1x
FY P/E	16.9x	17.4x	16.4x	15.6x

Market Data	
52-Week Range:	$30.67 - $19.56
Total Entprs. Value	$18.8B
Avg. Daily Value MM (USD)	67.01
Float (%)	99.5%

Financial Summary	
Net Debt/Capital	61.2%
Long-Term Debt (MM)	$8,810.2
Dividend Yield	3.9%

The Long View

Scenarios

Base Case

- Infrastructure modernization programs to generate steady growth & returns across all segments for several decades
- CGMA sale, NIPSCO renewable investments & a continuation of tracked infrastructure investments punctuated by rate case activity.
- ~5.8% dividend CAGR from 2019-24; ~4.7% EPS CAGR from 2019-24
- Combination of Target P/E, Target Yield, DDM, and DCF Analysis. 2022 Adj. EPS: $1.42; 2021 dividend: $0.88/share; PT $25

Upside Scenario

- Customer growth grows faster than projected ~0.5% per year assumption and alternative source of regulated revenues are secured
- NI spends above the high-end of its guidance range, growing rate base faster than anticipated
- Cash flow outperformance yields reduced debt load, generating interest cost savings
- Combination of Target P/E, Target Yield, DDM, and DCF Analysis. 2022 Adj. EPS: $1.50; 2021 dividend: $0.90/share; PT $30

Downside Scenario

- Customer growth is slower than projected ~0.5% per year assumption, or negative
- NI spends below the low-end of its guidance range, and rate base growth is slower than anticipated
- Cost overruns and rising debt loads weigh on EPS
- Adverse regulatory and rate case outcomes
- Combination of Target P/E, Target Yield, DDM, and DCF Analysis. 2022 Adj. EPS: $1.30; 2021 dividend: $0.45/share; PT $15

Investment Thesis / Where We Differ

- Infrastructure modernization programs to generate steady growth & returns across all segments for several decades
- CGMA sale, NIPSCO renewable investments & a continuation of tracked infrastructure investments punctuated by rate case activity.
- ~5.8% dividend CAGR from 2019-24; ~4.7% EPS CAGR from 2019-24
- Combination of Target P/E, Target Yield, DDM, and DCF Analysis. 2022 Adj. EPS: $1.42; 2021 dividend: $0.88/share; PT $25

Catalysts

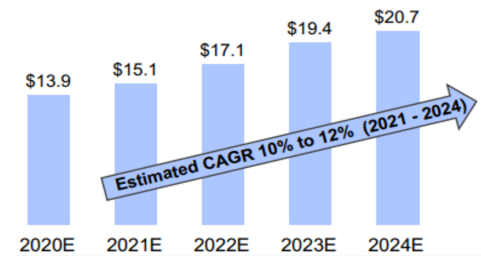
- 2020 Investor Day (Sept. 29th)
- Continued regulatory progress and reduction in regulatory lag could improve earnings growth
- Extension or expansion of modernization programs across any/all service territories
- Increased revenue-normalization efforts and reduction in volumetric sensitivities
- Sale of Columbia Gas of Mass. & removal of the overhang that comes with the Greater Lawrence Incident; NI remains liable for additional costs incurred
- Evidence of cost mitigation efforts in response to COVID-19 demand destruction in-line with guidance.

By the Numbers

With 2Q results, NI affirmed its $1.7-$1.8B 2020 capital program and plans to use Columbia Gas of MA sale proceeds to repay its $850mm term loan, expiring in March. As of June 30th, NI had ~$2.0B of net liquidity and a total debt/capital ratio of 63.8%; while a goodwill test was performed in 2Q, it did not result in any impairments. Management still anticipates $235-$360mm of 2020 equity through its ATM, ESPP, and 401K programs, implying $227-$352mm to be raised in 2H, and continues to target long-term AFFO/Debt of 14-15%.

NI expects to execute on an estimate $30B in total long-term regulated utility infrastructure investments and we expect a ramp-up in annual 2021-23 spending as NIPSCO renewable investments are pursued. Financing will be provided by operating cash flow (~$1.5-$1.7B/year JEFe), a combination of new debt and equity issuances, and project-level tax equity investments. Management estimates it will begin earning on >75% of its capital investments within 18 months and has historically identified $235-$360mm of annual common equity placement via its ATM, ESPP, DRIP, and 401K programs, to be opportunistically supplemented by common, preferred, or forward-sale equity placements, as needed. We flag NI's $1.25B issuance of 0.95% 5-year Senior Notes and $750mm placement of 1.70% 10-year Senior Notes last month as evidence of its open and attractively-priced access to credit capital markets. Excluding the sale of Columbia Gas of MA, NI expects its capital investments to drive an estimated 10-12% 2021-24 rate base CAGR, with projected 2024 rate base approaching $21B.

Chart 1 - NI Projected Rate Base ($B)



Source: NI reports; Note: Excludes CGMA given pending sale to Eversource

In August, management guided 2021 non-GAAP EPS of $1.28-$1.36, which includes 5¢ of anticipated COVID-related headwinds, and noted that its updated 2021-24 EPS CAGR, to be unveiled at the Investor Day, would exceed its previous 5-7%. We formally model 2021 EPS of $1.35 and a 2021-24 EPS CAGR of ~7.1%, with 2021-24 DPS of 6.4%, and $1.225B of aggregate 2021-24 equity issuance. Given a reduction in peer multiples and a continued rise in regressed beta, we trim our price target, derived via a combination of DCF, DDM, P/E, and Target Yield approaches, to $25, from $26; however, we upgrade shares to Buy, from Hold, as we see ~17% total return potential.

A Differentiated Renewable Investment Opportunity

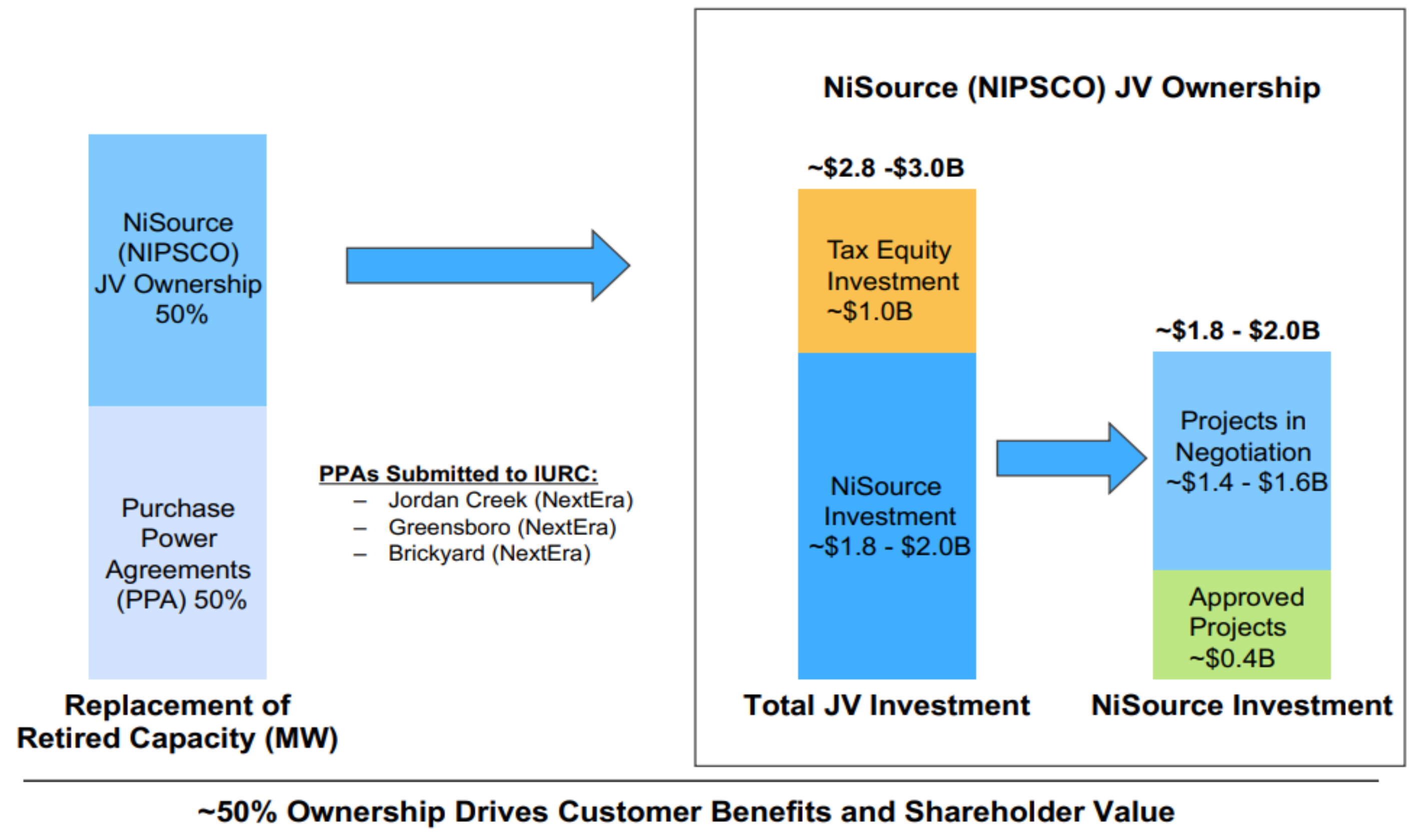
With its 2018 Integrated Resource Plan, NI outlined an initiative to retire NIPSCO's fleet of coal-fired electric generation facilities on an accelerated schedule, with its R.M. Schahfer Generation Station being retired by 2023 and its Michigan City Generating Station shuttered by 2028. In aggregate these units represent over 70% of NIPSCO's generation capacity and all of its remaining coal-fired output. During the second quarter, the Midcontinent Independent System Operator (MISO) approved NIPSCO's plan to retire the R.M. Schahfer units in 2023, which constitute 1.4 GW of capacity, creating the opportunity to deploy an incremental $1.8-$2.0B on replacement renewable generation, primarily in 2022-23.

NI has estimated the transition of NIPSCO's generation portfolio from coal to renewable sources will drive an industry-leading 90% reduction in greenhouse gas emission from 2005-2030. Management has outlined plans to tackle its replaced generation needs via a combination of Purchase Power Agreements (PPAs), in which it simply purchases power from 3rd-party owned facilities, and Build Transfer Agreements (BTAs), in which it constructs renewable assets via a JV with developers and tax equity investors, and then takes full ownership once the tax credits of the facility are fully monetized.

Thus far, NI has entered into the following capacity replacement agreements:

- PPAs:
    - **Jordan Creek:** 400 MW approved wind facility, under construction, with a YE20 targeted in-service.
    - **Brickyard:** 200 MW solar facility, filed July 2020, 2Q23 targeted in-service
    - **Greensboro:** 130 MW solar facility, filed July 2020, 2Q23 targeted in-service
- BTAs:
    - **Rosewater:** 100 MW approved wind facility with WFC as tax-equity partner, under construction, with a YE20 in-service target.
    - **Indiana Crossroads**: 300 MW approved wind facility with construction beginning 2H20 and in-service targeted for YE21.

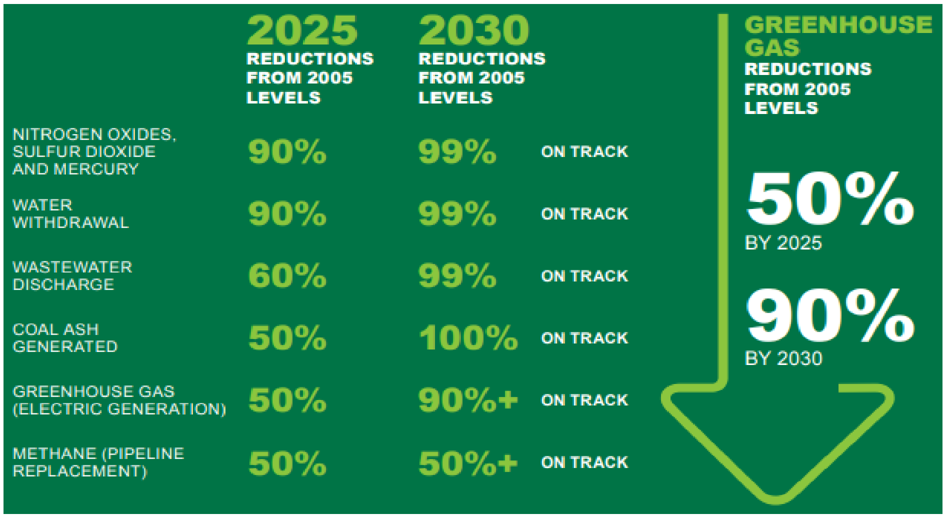
Exhibit 2 - NI Renewable Investment Opportunity



Source: Company presentations

Though shareholders would likely prefer NIPSCO's replacement generation needs all be met with BTAs, given the opportunity to eventually fully own the asset, management must be mindful of the cadence of its generation needs, its ability to finance large-scale and chucky renewable investments given other committed investments across its portfolio, and the impact on customer bills. We expect a detailed discussion of these dynamics, as well as its environmental impact targets, as management explores additional opportunities at next week's event.

Exhibit 3 - NI Environmental Impact Targets



Source: NI 2019 Annual Report

Finally, we expect a detailed discussion of how NI's Safety Management System (SMS) is evolving to reshape operational programs and better prioritize risks across its portfolio. If good ultimately comes from the Greater Lawrence Incident and management's efforts to rebuild stakeholder trust, we think it is most likely to appear in its enhanced risk modeling tools and more dynamic approach to infrastructure replacement than the traditional FIFO or materials-based approach. In 2019, NI formed a Quality Review Board, chaired by former Secretary of Transportation Ray LaHood, to provide oversight and governance of the company's SMS implementation; as next week's event is the first Investor Day in several years, it provides management an ideal forum to showcase the impact of the QRB on its SMS refresh.

LDC Headwinds: Rising Betas & Hydrocarbon Bucketing

For those of us who regularly update financial models, and assess the reasonableness of assumptions embedded in various valuation frameworks, including calculated capital costs, the significant jump in regressed betas (vs. the S&P 500) across the utility group in recent months has stood out. We suspect COVID-19 and the increasing market weight of technology and biotechnology stocks is largely to blame, as normal human activity has been severely upended during the pandemic, visibility regarding a return to 'normal' life remains elusive, and instead we are all stuck at home reliant on technology and thinking about potential pandemic-ending vaccines. As the WSJ flagged in a mid-July article, the average beta of the technology sector dropped from 1.37 to 1.10 over the spring while the beta of the NYSE Arca Pharmaceutical Index fell to 0.81, from 1.11, over the same period. Meanwhile, the average betas of the real estate and utilities sectors of the S&P 500 have risen to 1.16 and 1.05 this year, respectively, from 0.43 and 0.27 in 2019. For NI specifically, its adjusted regressed one-year beta of 1.11 vs. the S&P 500 is far higher than its five-year mark of 0.85.

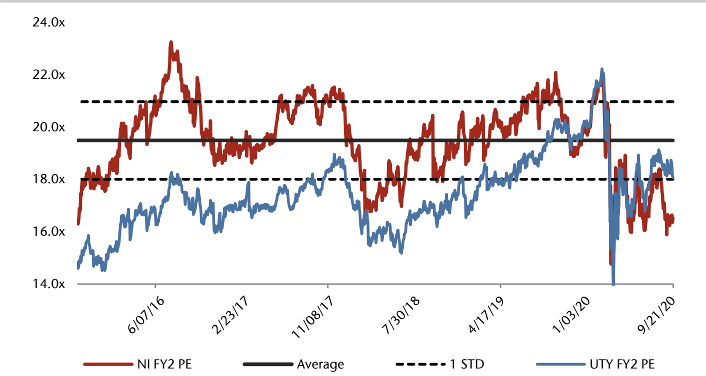
As elevated betas magnify the equity risk premium in a Capital Asset Pricing Model (CAPM), they raise the calculated costs of equity capital and weighted average costs of capital (WACC) for the utility names we cover, which in turn lowers discounted cash flow and dividend valuations. Many of our price target revisions for covered utilities YTD, including for NI, have been impacted by this dynamic. Add this to the litany of things which appear upside down in a COVID world: at least as represented by regressed betas, biotech stocks appear safe/defensive while regulated, IG-rated monopolistic utilities now appear risky.

In addition, US gas utilities have been swept up this year in the anti-hydrocarbon sentiment which earlier infected upstream & midstream valuation dynamics, producing a swift compression in group multiples. To some extent this is logical: if investors penalize E&P companies for producing hydrocarbons and midstream companies for enabling the E&Ps to do so, then why omit the penalty for utilities which distribute methane for end-use consumption? While gas utilities have several avenues to soften the anti-hydrocarbon rhetoric now stacking against them (renewable natural gas, clean hydrogen) the pathways are not seemingly straightforward or immediate. Hence, we believe NI has an opportunity to shine by focusing on the significant renewable investments opportunity it has in transitioning NIPSCO's generation portfolio fully away from coal by 2028. Though this focus on cleaner electric generation does nothing to diminish the hydrocarbon challenges of its gas franchise, it provides a more potent environmental talking point than its peers as the natural gas solutions materialize. With system and generation modernization, NI has identified ~$10B of LT infrastructure investment opportunities.

Current Valuation Indicates >2 STD Moves

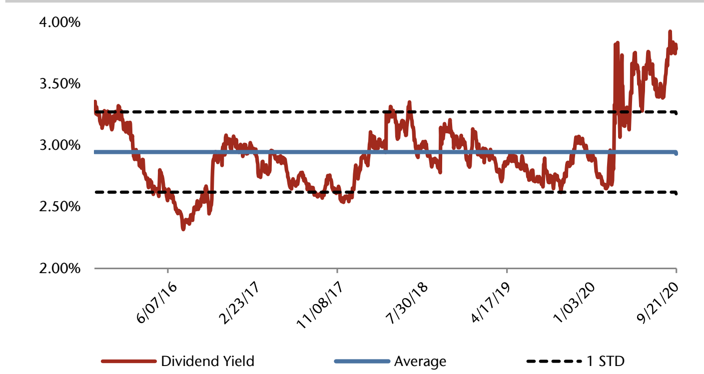
At current price, NI shares implies ~16.5x 2021 consensus EPS, an approximate 2 standard deviation (or 3x) discount to its trailing 5-year average and its ~3.8% dividend yield is ~2.5 standard deviations above its 5-year average despite the YTD crash in rates. With accelerating EPS growth through 2024 (~7.1% JEFe CAGR), the pending Columbia Gas of MA sale, significant renewable investment opportunities, a BBB+ rated balance sheet, a ~97% funded qualified pension, and Federal Reserve plans to leave rates low for the foreseeable future, we see an attractive entry point.

Chart 2 - NI FY2 PE vs. UTY FY2 PE (5-Years)



Source: FactSet

Chart 3 - NI Dividend Yield (5-Years)



Source: FactSet

COVID Update

Despite their defensive, rate-regulated business models, utilities are not fully insulated from COVID-19 related impacts. In May, NI provided an update on the operating climate, warning investors that weakness in commercial and industrial demand would be only partially offset by increased residential sales and that increased bad debt expense due to job loss and the moratorium on disconnects could further weigh on results. Fortunately, over the subsequent months, NI has received orders from regulators in MD, VA, PA, IN and OH allowing some form of COVID-related deferral for later recovery (COVID-related expenses, bad debt, suspended fees, etc.). That said, the COVID-related 2Q EPS impact was 6¢ as lower sales, reduced other revenues, such as late payment and reconnection fees, and increased expenses weighed on performance. In addition, with 2Q results, mgmt initiated 2021 EPS guidance at $1.28-1.36, including 5¢ related to COVID-19 (midpoint) as NI's base case continues to contemplate a gradual recovery in demand into 1H21. Separately, NI has seen minimal impact to its supply chain and/or modernization programs and does not expect the capital markets to present a problem given recent financing activity and proceeds from the Columbia Gas of MA transaction, though the potential for a slight delay to the Rosewater project was flagged.

NI's Gas & Electric Business Mix

NiSource derives substantially all of its revenues and earnings from its two rate-regulated businesses, NiSource Gas Distribution, a natural gas distribution holding company, and Northern Indiana Public Service Company (NIPSCO), a gas and electric company.

Exhibit 4 - NI Distribution Operations

Source: Company reports

NiSource Gas Distribution

NiSource Gas Distribution (NGD) provides supplies of domestic natural gas to more than 3.5 million residential, commercial, & industrial customers through ~60K miles of pipeline & related facilities. It owns various subsidiaries that operate independently within each state: Columbia Gas of Kentucky, Columbia Gas of Maryland, Columbia Gas of Ohio, Columbia Gas of Massachusetts, Columbia Gas of Pennsylvania, Columbia Gas of Virginia, and NIPSCO (Northern Indiana Public Service Co.). NIPSCO is an Indiana utility providing both natural gas and electricity distribution services to the northern part of the state. NiSource's

Gas Distribution segment is collectively one of the largest distributors in the US. As of YE19, more than 3.2 million of NGD's ~3.5 million customers were residential rate payers, though this group compromises only ~26% of total volume. In contrast, industrial users comprise only ~6K of NGD's customers, but represent more than 50% of total gas volumes sold. Commercial customers comprise the remaining ~280K customers and ~20% of sales. Of note, we have included statistics for Columbia Gas of Massachusetts as it is still formally part of the NiSource portfolio; however, earlier this year NiSource agreed to sell the business to Eversource for $1.1B in cash and the transaction is expected to close soon. Columbia Gas of MA represents ~9% of NGD's customer count and approximately 12% of its rate base.

Modernization Programs, Rate Cases, Normalization Mechanisms & More. NGD has a platform for sustainable earnings growth through a variety of infrastructure replacement programs across its seven jurisdictions.

- Indiana (~$1.7B rate base): Northern Indiana Public Supply's (NIPSCO) gas division has an estimated $1.7B rate base with a six-year, $950mm infrastructure replacement program extending through 2025. The latest replacement program was approved in July 2020 and allows for recovery through semi-annual adjustments to the existing TDSIC tracker, which has been in place since 2014. NIPSCO does not partake in any sort of revenue decoupling, including weather normalization.

- Kentucky (~$327mm rate base): Columbia Gas of Kentucky, headquartered in Lexington, provides services to 30 counties, has >135K customers and an estimated $327mm rate base. On Nov. 7th, 2019, CG of KY received approval from the Kentucky PSC to amend and expand its AMRP (now SMRP) to include for recovery of system safety investments, including low-pressure project spend; CG of KY's tracker program was approved in 2009 and any investments related to SMRP are reflected in rate base through an annual fixed monthly rate rider filed in Oct. Most recently, on Dec. 20th, 2019, CG of KY received an order covering $40.4mm for 2020 capital investments related to its SMRP; new rates are effective Jan. 2020 and CG of KY expects to invest $35-$40mm annually in its modernization program. Separately, CG of KY enjoys a weather normalization mechanism for its residential and commercial customers.

- Maryland (~$149mm rate base): Columbia Gas of Maryland, headquartered in Canonsburg, PA, has >33K customers, an estimated $149mm rate base and expects to invest $18-$25mm annually in its modernization program. CG of MD's 5-year STRIDE plan renewal for 2019-2023 is focused on replacing 1) existing cast iron and bare steel mains, 2) associated services and meters and 3) identified prone-to-failure vintage plastic piping. The STRIDE program became possible when the Governor of MD signed Senate Bill 8 into law on May 2nd, 2013, authorizing gas companies to accelerate recovery of eligible infrastructure replacement through an annual surcharge (IRIS) as approved by the MD PSC. On May 15th, 2020, CG of MD filed a base rate case requesting an additional $6.3mm in annual revenue, $5mm net of infrastructure trackers; the order is expected in 4Q20 and new rates would be effective Dec. 2020. Separately, CG of MD has a revenue normalization adjustment in place for residential customers and a weather normalization mechanism in place for residential and commercial customers.

- Massachusetts (~$1.1B rate base): Columbia Gas of Massachusetts, headquartered in Westborough, has ~320K customers, an estimated $1.1B rate base and expects to invest $75-$120mm annually in its modernization program; CG of MA has had the ability to leverage its tracker program (GSEP) since 2015. On Sept. 19th, 2018, CG of MA withdrew its most recent rate case filing, a $43.8mm rate base increase, to focus solely on the restoration efforts required after the Greater Lawrence incident; rate case activity has remained on hold since that time. Separately, CG of MA has enacted revenue decoupling across all customers, but has no weather normalization program in place.

  In February, NI announced a definitive agreement to sell Columbia Gas of MA to Eversource (ES) for $1.1B; mgmt noted the loss in CGMA earnings will be mostly offset by the elimination of its block equity issuance ($500-$700mm) with the possibility for some dilution as it de-consolidates the MA franchise. On July 2nd, 2020, NI and ES filed a joint petition with the MA DPU seeking approval for the transaction while also proposing a settlement with the Attorney General's Office and the Dept. of Energy Resources of all remaining state investigations related to the 2018 Greater Lawrence event; in lieu of penalties, NI has agreed to pay $56mm into an Energy Relief Fund to settle & resolve all pending matters. According to the transaction details, NI does remain liable for any fines imposed as part of criminal proceedings related to the Greater Lawrence incident and/or any civil claims made prior to the close of the transaction; in its most recent 10-Q, NI cited Pipeline Replacement & Restoration costs of $258mm, 3rd-Party Claims, Fines, Penalties & Settlements of $1.04-$1.055B, and Other Expenses of $445-$455mm. That said, as of 2Q earnings, the sale remains on-track to receive regulatory approval by quarter end and is expected to close thereafter; proceeds from the sale are expected to repay NI's $850mm term loan due March 21st, 2021.

- Ohio (~$3.2B rate base): Columbia Gas of Ohio, headquartered in Columbus, is NI's largest service territory with ~1.4mm customers, a ~$3.2B rate base and an estimated $435-$550mm in annual tracker program investments. CG of OH last received approval for its 5-year IRP plan on Jan. 31st, 2018, authorizing the program through 2022, while the CEP, which allows the company to recover capex and related deferred expenses not included in its IRP tracker, was first approved in late 2018. Annual rider updates for the IRP and CEP were filed on Feb 28th, 2020; the IRP received an order on April 22nd, covering ~$243mm in 2019 capex, while the CEP, which filed a ~$185mm application related to its 2019 capital investments, expected an order in Aug. CG of OH incorporates straight fixed variable rates for residential and small commercial customers, but does not use a weather normalization mechanism.

- Pennsylvania (~$1.9B rate base) – Columbia Gas of Pennsylvania, headquartered in Canonsburg, has ~436K customers, a ~$1.9B rate base and an estimated $250-$296mm in annual tracker program investments. CG of PA's DSIC was established on April 1st, 2013, is authorized to recover the cost of eligible capex associated with repair, replacement or improvement that was not previously reflected in rate base and has been placed in service during the applicable 3-month period, is updated quarterly and cannot exceed 5% of distribution revenues. Most recently, CG of PA had an outstanding rate case requesting an annual revenue increase of $100.4mm; the order is expected in 1Q21 and new rates effective Feb. 2021. Separately, CG of PA leverages weather normalization for residential customers but has no other revenue decoupling measures in place.

- Virginia (~$850mm rate base) - Columbia Gas of Virginia, headquartered in Chesterfield County, has >265K customers, a ~$850mm rate base and an estimated $46-$65mm in annual tracker program investments. CG of VA's current 5-year SAVE plan was approved by the VSCC in 2016, amended in 2017 for the years 2016-2020 and amended in 2019 for 2020; the SAVE modernization program has been in effect since 2010. Recent rate activity includes a unanimous settlement for $9.5mm in incremental annual revenue, $1.3mm net of infrastructure trackers, with rates effective July 2019. Separately, CG of VA has a revenue normalization adjustment in place for residential customers and a weather normalization mechanism in place for residential and commercial customers.

NiSource Electric Operations

The NiSource Electric Operations segment houses the electricity business of NIPSCO and serves ~476,000 customers across 20 counties in Northern Indiana. The segment's overall operations include power generation, transmission, and local distribution which are part of the Midcontinent Independent System Operator (MISO) transmission organization in the Midwestern portion of the United States. The supply assets incorporate traditional and renewable generation equipment, including natural gas, hydroelectric, CCGT, and coal generated supplies with a total system generation capability of 2,847 MW. Residential customers represent ~87% of NIPSCO's total electric customers, but account for only ~26% of total GWh volumes. Industrial customers comprise <1% of the customer base, but are responsible for ~46% of volumes. Commercial customers represent 12% of total customers but ~26% of total usage. Wholesale users comprise the remainder of both the customer base and transportation volumes.

Exhibit 5 - NIPSCO Service Territory

Source: NIPSCO website

Modernization & Tracker Programs. Similar to NIPSCO's gas distribution business, the electric operations also have long term infrastructure modernization and expense tracker programs:

- TDSIC: On April 30th, 2013, the Indiana Governor signed Senate Enrolled Act 560, known as the TDSIC statute, into law, allowing public utilities to recover costs outside of a base rate proceeding for new/replacement electric and gas transmission, distribution & storage projects that are intended for safety, reliability, system modernization or economic development. Revisions related to the TDSIC statute became effective July 1st, 2019, which, among other things, permits flexibility in TDSIC Plans between 5 & 7 years in length, requires the utility to file a base rate case at some point during the term of each TDSIC plan and provides that the 2% revenue cap applies to the aggregate of approved TDSIC Plans. NIPSCO electrics most recent semi-annual tracker update covered $131.1mm in capital investments from Dec. 2018 - June 2019; the order was received Dec. 18th, 2019 and rates went into effect Jan. 2020.

- ECRM: NIPSCO received approval from the IURC to recover certain environmental related costs, including 1) AFUDC and a return on the capital spent to implement environmental compliance plan projects and 2) related O&M and depreciation expense once the environmental facilities enter service.
- FMCA: Provides for the recovery of costs, outside of a base rate proceeding, for projected federally mandated costs, including a return on investment, mandated O&M expenses, depreciation and property taxes. Once a plan is approved by the IURC, 80% of eligible costs can be recovered using a periodic rate adjustment mechanism while the remaining 20% are deferred for future recovery in NIPSCO's next general rate case.

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EQUITY RESEARCH
NiSource Inc. (NI)

Exhibit 6 - NI Valuation Analysis

Jefferies

NiSource (NI)

Target P/E Analysis	
2022 EPS	$1.42
Average 2022 P/E	17.2x
Implied Price Target	**$24.40**

Target Yield Analysis	
4Q21 Dividend	$0.88
Average 5-Year Yield	2.95%
Target Yield	3.50%
Implied Price Target	**$25.10**

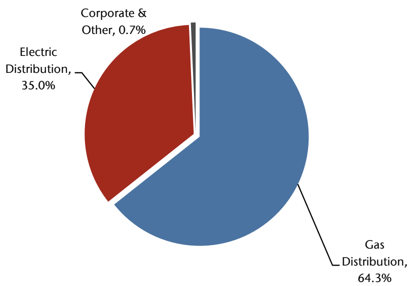
Assumptions	
EPS CAGR 2019-2024	4.7%
Dividend CAGR 2019-2024	5.8%
Terminal Growth Rate	2.25%
Stable Period Payout Ratio	64.6%
Stable Period ROE	10.2%
Implied 2021 EV/EBITDA	10.2x
Implied 2021 P/E	15.9x

WACC Calculations	
Risk Free Rate	2.5%
Beta	1.05
Equity Risk Premium	5.0%
Cost of Equity	7.8%
Cost of New Debt	3.75%
Tax Rate	18.5%
WACC	5.1%

Capital Structure	
Total Debt	$10,439
Market Cap	$8,235
Debt/Cap	55.9%
Equity/Cap	44.1%

Terminal Growth Capex	$525.0
5-Year ROE	8.2%
Implied Contribution	$43.1
2024E EBT + DD&A	$1,884.1
Implied Growth Rate	2.3%

2020E EBIT Composition



Average Price Target	**$25.00**

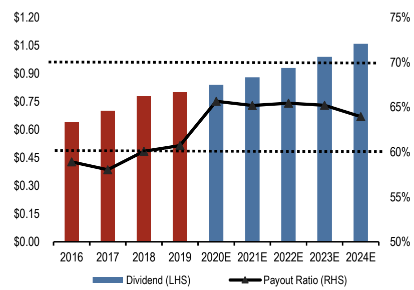
Total Return Expectations	
NI Current Price	**$21.50**
Appreciation to PT	16.3%
Yield over 12-months	4.0%
Total Return Potential	**20.3%**

Dividend Expectations		
2016	$0.64	59%
2017	$0.70	58%
2018	$0.78	60%
2019	$0.80	61%
2020E	$0.84	66%
2021E	$0.88	65%
2022E	$0.93	65%
2023E	$0.99	65%
2024E	$1.06	64%

	Price	**PT**	**3-Yr Avg**
2020 P/E	16.8x	19.5x	20.7x
2021 P/E	15.9x	18.5x	
2022 P/E	15.1x	17.6x	

2020 EBIT Contribution		
Gas Distribution	$674.3	64.3%
Electric Distribution	$366.4	35.0%
Corporate & Other	$7.4	0.7%
Total	$1,048.2	100.0%

Terminal WACC Calculations	
Risk Free Rate	3.5%
Adjusted Beta	0.90
Equity Risk Premium	5.0%
Terminal Cost of Equity	8.0%
Terminal Cost of New Debt	5.0%
Terminal WACC	5.8%
Terminal Cash Flow Growth Rate	2.25%
Terminal Dividend Growth Rate	3.00%



DIVIDEND DISCOUNT MODEL	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Dividend Per Share	$0.84	$0.88	$0.93	$0.99	$1.06
Payout Ratio	*65.7%*	*65.2%*	*65.5%*	*65.2%*	*63.9%*
Terminal Value					$21.84
PV of Dividends	$0.21	$0.82	$0.81	$0.80	$0.79
Sum of PV of Dividends per Share	$3.43				
PV of Terminal Value	$19.26				
Equity Value per Share	$22.69				
Implied Equity Value per Share*	**$23.50**				

Discounted Cash Flow	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
EBIT	$1,048	$1,099	$1,207	$1,332	$1,471
Other	$12	$8	$5	$8	$7
(Cash Taxes on EBIT)	($10)	($18)	($24)	($35)	($132)
NOPAT	**$1,049**	**$1,089**	**$1,188**	**$1,305**	**$1,346**
D&A	$778	$815	$846	$878	$905
(Capex)	($1,750)	($1,850)	($2,100)	($2,050)	($1,430)
Other & Changes in NWC	$457	($13)	($5)	($4)	$1
Free Cash Flow to the Firm	**$534**	**$42**	**($71)**	**$129**	**$822**
Terminal Value					$23,638
PV of Cash Flows	$521.3	$38.6	($62.3)	$108.5	$19,779
Implied Enterprise Value	20,385				
(Net Debt. Including Preferred Equity)	(10,431)				
(Pension & Operating Lease)	(245)				
Implied Equity Value	9,709				
Shares Outstanding	391.2				
Implied Equity Value per Share*	**$25.70**				

Source: NI reports & JEF ests; Note: 2022 Target P/E is blend of gas & electric utility avgs. Target Yield is ~50 bps wide of trailing 3-yr avg, and we assume a ~15% terminal cash tax rate.

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EQUITY RESEARCH
NiSource Inc. (NI)

Exhibit 7 - NI Consolidated Income Statement

Consolidated Income Statement	2015	2016	2017	2018	1Q	2Q	3Q	4Q	2019	1Q	2Q	3QE	4QE	2020E	1QE	2QE	3QE	4QE	2021E	2022E	2023E	2024E
Revenues	$4,593.6	$4,504.9	$4,902.6	$5,084.0	$1,858.9	$1,011.9	$927.9	$1,385.4	$5,184.1	$1,631.8	$957.4	$955.9	$1,403.0	$4,948.1	$1,678.0	$1,011.3	$992.4	$1,452.4	$5,134.1	$5,303.2	$5,506.2	$5,744.5
(Cost of Sales)	($1,569.9)	($1,390.2)	($1,518.7)	($1,759.4)	($680.3)	($253.5)	($196.7)	($404.3)	($1,534.8)	($462.4)	($188.4)	($204.4)	($392.5)	($1,247.7)	($490.0)	($219.9)	($207.5)	($401.8)	($1,319.2)	($1,327.4)	($1,351.5)	($1,398.0)
Net Revenue	$3,023.7	$3,114.7	$3,383.9	$3,324.6	$1,178.6	$758.4	$731.2	$981.1	$3,649.3	$1,169.4	$769.0	$751.4	$1,010.6	$3,700.4	$1,188.0	$791.4	$784.9	$1,050.6	$3,814.9	$3,975.8	$4,154.7	$4,346.5
(Operating & Maintenance Expenses)	($1,409.3)	($1,429.1)	($1,589.2)	($1,519.4)	($418.8)	($382.7)	($373.4)	($413.4)	($1,588.3)	($436.5)	($338.1)	($374.0)	($423.9)	($1,572.5)	($434.9)	($345.3)	($378.0)	($428.5)	($1,586.7)	($1,595.1)	($1,601.5)	($1,610.2)
(Depreciation & Amortization)	($524.4)	($547.1)	($570.3)	($599.6)	($175.1)	($177.9)	($182.2)	($182.2)	($717.4)	($184.3)	($197.4)	($197.0)	($199.8)	($778.5)	($201.2)	($204.0)	($203.7)	($206.6)	($815.5)	($846.4)	($877.9)	($904.5)
(Other Taxes)	($256.1)	($244.3)	($257.2)	($274.4)	($87.6)	($66.4)	($67.9)	($74.9)	($296.8)	($85.9)	($68.2)	($69.4)	($77.8)	($301.2)	($88.2)	($70.6)	($73.8)	($81.1)	($313.6)	($327.6)	($343.3)	($360.9)
(Gain on Sale of Assets)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
OPERATING INCOME BY DIVISION																						
Gas Distribution	$567.8	$597.6	$589.7	$561.4	$394.4	$43.5	($26.4)	$213.9	$625.4	$388.6	$73.4	($17.7)	$230.0	$674.3	$385.0	$79.6	($2.4)	$252.5	$714.7	$804.0	$908.0	$1,030.1
Electric Operations	$279.5	$302.3	$375.3	$369.1	$95.2	$85.6	$135.4	$84.9	$401.1	$79.8	$89.4	$125.7	$71.5	$366.4	$78.5	$91.6	$128.8	$75.4	$374.3	$394.6	$415.4	$433.0
Corporate & Eliminations	($13.4)	($5.7)	$2.2	$0.7	$7.5	$2.3	($1.3)	$11.8	$20.3	($5.7)	$2.5	$3.1	$7.5	$7.4	$0.2	$0.3	$3.0	$6.5	$10.1	$8.2	$8.5	$7.8
Total Recurring Operating Income	**$833.9**	**$894.2**	**$967.2**	**$931.2**	**$497.1**	**$131.4**	**$107.7**	**$310.6**	**$1,046.8**	**$462.7**	**$165.3**	**$111.0**	**$309.1**	**$1,048.2**	**$463.7**	**$171.6**	**$129.4**	**$334.4**	**$1,099.1**	**$1,206.7**	**$1,332.0**	**$1,470.8**
Other Income / (Loss)	$25.2	$1.5	($2.8)	$18.0	($0.7)	$0.0	$1.3	($5.5)	($4.9)	$5.4	$6.5	$4.9	($5.3)	$11.5	$4.9	$6.4	$4.9	($8.1)	$8.2	$4.9	$8.2	$7.1
Interest Expense - Net	($417.3)	($349.5)	($353.2)	($353.3)	($95.6)	($94.1)	($95.9)	($93.3)	($378.9)	($92.9)	($97.0)	($99.8)	($95.9)	($385.6)	($91.9)	($93.1)	($95.0)	($96.0)	($375.8)	($409.1)	($460.5)	($498.4)
Pretax Income	$684.2	$546.2	$611.2	$595.9	$400.8	$37.3	$13.1	$211.8	$663.0	$375.2	$74.8	$16.2	$207.9	$674.1	$376.8	$85.0	$39.4	$230.3	$731.5	$802.6	$879.7	$979.6
(Provision)/Benefit for Income Taxes	($250.3)	($195.0)	($212.3)	($117.6)	($79.3)	($4.4)	($1.0)	($28.5)	($113.2)	($70.5)	($10.8)	($2.4)	($41.4)	($125.0)	($73.5)	($12.9)	($5.5)	($43.8)	($135.7)	($151.1)	($167.9)	($188.9)
Effective Tax Rate	*36.6%*	*35.7%*	*34.7%*	*19.7%*	*19.8%*	*11.8%*	*7.6%*	*13.5%*	*17.1%*	*18.8%*	*14.4%*	*14.6%*	*19.9%*	*18.5%*	*19.5%*	*15.2%*	*13.9%*	*19.0%*	*18.6%*	*18.8%*	*19.1%*	*19.3%*
Net Income	$433.9	$351.2	$398.9	$478.3	$321.5	$32.9	$12.1	$183.3	$549.8	$304.7	$64.0	$13.8	$166.6	$549.1	$303.3	$72.0	$33.9	$186.5	$595.8	$651.5	$711.8	$790.7
Preferred Interest				($15.0)	($13.8)	($13.8)	($13.8)	($13.7)	($55.1)	($13.8)	($13.8)	($13.8)	($13.8)	($55.2)	($13.8)	($13.8)	($13.8)	($13.8)	($55.1)	($55.1)	($55.1)	($55.1)
Net Income (from Continuing Operations)	$298.9	$351.2	$398.9	$463.3	$307.7	$19.1	($1.7)	$169.6	$494.7	$290.9	$50.2	$0.0	$152.8	$493.9	$289.5	$58.3	$20.1	$172.8	$540.7	$596.4	$656.7	$735.6
Recurring Diluted EPS	**$0.94**	**$1.09**	**$1.21**	**$1.30**	$0.82	$0.05	($0.00)	$0.45	**$1.32**	$0.76	$0.13	$0.00	$0.39	**$1.28**	$0.73	$0.15	$0.05	$0.43	**$1.35**	**$1.42**	**$1.52**	**$1.66**
Average # of diluted shares outstanding	319.4	323.3	330.7	357.0	374.7	375.2	374.1	378.3	375.6	384.1	384.5	384.7	391.2	386.1	398.7	398.9	399.1	405.8	400.6	419.8	432.7	443.8
Average # of basic shares outstanding	317.8	321.8	329.4	356.5	373.4	373.9	374.1	377.2	374.7	383.1	383.5	383.7	390.2	385.1	397.7	397.9	398.1	404.8	399.6	418.8	431.7	442.8
Dividends per Share	**$0.83**	**$0.64**	**$0.70**	**$0.78**	$0.20	$0.20	$0.20	$0.20	**$0.80**	$0.21	$0.21	$0.21	$0.21	**$0.84**	$0.22	$0.22	$0.22	$0.22	**$0.88**	**$0.93**	**$0.99**	**$1.06**
Payout Ratio	**89%**	**59%**	**58%**	**60%**	24%	393%	-4401%	45%	**61%**	28%	161%	288866%	54%	**66%**	30%	151%	436%	52%	**65%**	**65%**	**65%**	**64%**

Source: NI reports; Jefferies estimates

Jefferies

EQUITY RESEARCH

NiSource Inc. (NI)

Exhibit 8 - NI Consolidated Balance Sheet

Consolidated Balance Sheet ($MM)	2015	2016	2017	2018	1Q	2Q	3Q	4Q	2019	1Q	2Q	3QE	4QE	2020E	1QE	2QE	3QE	4QE	2021E	2022E	2023E	2024E
Cash & equivalents	16	26	29	113	151	24	28	139	139	204	142	43	47	47	46	42	43	47	47	47	48	48
Accounts receivable	660	847	899	1,059	1,132	870	539	857	857	717	546	519	839	839	932	556	539	868	868	872	905	942
Inventory	537	494	471	423	216	319	449	425	425	254	312	467	405	405	272	362	451	415	415	436	444	458
Other current assets	365	394	364	462	417	366	362	433	433	2,051	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860
Total current assets	**1,577**	**1,762**	**1,763**	**2,055**	**1,916**	**1,578**	**1,378**	**1,854**	**1,854**	**3,225**	**2,860**	**2,889**	**3,150**	**3,150**	**3,110**	**2,820**	**2,893**	**3,190**	**3,190**	**3,215**	**3,257**	**3,308**
Tangible fixed assets	**12,112**	**13,068**	**14,360**	**15,543**	**15,741**	**16,134**	**16,481**	**16,912**	**16,912**	**15,587**	**15,772**	**16,025**	**15,427**	**15,427**	**15,646**	**15,888**	**16,162**	**16,462**	**16,462**	**17,715**	**18,888**	**19,783**
Goodwill	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486
Other intangible fixed assets	254	243	232	221	218	215	213	0	0	0	163	163	163	163	163	163	163	163	163	163	163	163
Investment in affiliates	195	200	210	206	211	218	220	230	230	212	229	229	229	229	229	229	229	229	229	229	229	229
Other investments	1,665	1,729	1,707	2,089	2,113	2,139	2,150	2,178	2,178	2,082	1,926	1,955	1,967	1,967	1,994	2,026	2,055	2,074	2,074	2,183	2,291	2,399
Non-Current Assets	**3,804**	**3,862**	**3,839**	**4,206**	**4,233**	**4,262**	**4,273**	**3,894**	**3,894**	**3,780**	**3,805**	**3,834**	**3,845**	**3,845**	**3,873**	**3,904**	**3,933**	**3,952**	**3,952**	**4,061**	**4,169**	**4,277**
Total assets	**17,493**	**18,692**	**19,962**	**21,804**	**21,890**	**21,974**	**22,132**	**22,660**	**22,660**	**22,593**	**22,437**	**22,748**	**22,423**	**22,423**	**22,629**	**22,612**	**22,987**	**23,604**	**23,604**	**24,992**	**26,314**	**27,368**
Trade payables and other ST liabilities	1,656	1,601	1,688	2,060	1,884	1,722	1,714	1,973	1,973	2,108	1,599	1,778	2,026	2,026	1,824	1,691	1,804	2,052	2,052	2,073	2,111	2,162
Short term debt	1,001	1,851	1,490	1,977	2,131	2,092	1,626	1,773	1,773	2,054	1,629	1,537	1,600	1,600	1,537	1,537	1,537	1,537	1,537	600	0	0
Total current liabilities	**2,658**	**3,452**	**3,178**	**4,037**	**4,015**	**3,814**	**3,340**	**3,746**	**3,746**	**4,162**	**3,228**	**3,314**	**3,626**	**3,626**	**3,361**	**3,228**	**3,341**	**3,589**	**3,589**	**2,673**	**2,111**	**2,162**
Long term debt	5,949	6,058	7,512	7,105	7,110	7,110	7,854	7,856	7,856	7,818	8,810	9,103	7,951	7,951	8,145	8,281	8,595	8,512	8,512	10,157	11,379	11,731
Debt deemed provisions (e.g. pensions)	760	713	337	474	462	455	451	455	455	442	437	437	437	437	437	437	437	437	437	437	437	437
Deferred taxes (Revenue)	2,365	2,528	1,293	1,342	1,402	1,483	1,477	1,495	1,495	1,461	1,487	1,488	1,525	1,525	1,589	1,599	1,604	1,642	1,642	1,769	1,902	2,037
Other long term liabilities	1,918	1,869	3,321	3,096	3,121	3,136	3,163	3,121	3,121	2,969	2,814	2,814	2,943	2,943	2,943	2,943	2,943	2,943	2,943	2,943	2,943	2,943
Total liabilities	**13,649**	**14,621**	**15,642**	**16,053**	**16,110**	**15,998**	**16,284**	**16,673**	**16,673**	**16,851**	**16,775**	**17,156**	**16,481**	**16,481**	**16,474**	**16,487**	**16,919**	**17,123**	**17,123**	**17,978**	**18,770**	**19,308**
Common equity	3,844	4,071	4,320	4,871	4,900	5,096	4,969	5,107	5,107	4,861	4,782	4,712	5,062	5,062	5,275	5,245	5,188	5,601	5,601	6,134	6,663	7,180
Preferred equity	0	0	0	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	**3,844**	**4,071**	**4,320**	**5,751**	**5,780**	**5,976**	**5,849**	**5,987**	**5,987**	**5,741**	**5,662**	**5,592**	**5,942**	**5,942**	**6,155**	**6,125**	**6,068**	**6,481**	**6,481**	**7,014**	**7,543**	**8,060**
Total liabilities and equity	**17,493**	**18,692**	**19,962**	**21,804**	**21,890**	**21,974**	**22,132**	**22,660**	**22,660**	**22,593**	**22,437**	**22,748**	**22,423**	**22,423**	**22,629**	**22,612**	**22,987**	**23,604**	**23,604**	**24,992**	**26,314**	**27,368**
Check	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Balance Sheet Assumptions	2015	2016	2017	2018	1Q	2Q	3Q	4Q	2019	1Q	2Q	3QE	4QE	2020E	1QE	2QE	3QE	4QE	2021E	2022E	2023E	2024E
Accounts receivable (as % of EBIT)	77%	95%	93%	112%	228%	662%	495%	281%	82%	153%	318%	448%	276%	79%	199%	312%	401%	266%	78%	72%	68%	64%
Inventory (as % of operating expenses)	38%	35%	30%	28%	52%	83%	120%	103%	27%	58%	92%	125%	96%	26%	63%	105%	119%	97%	26%	27%	28%	28%
Trade payable & other S.T. liabilities (as % of opg. Exp.)	118%	112%	106%	136%	450%	450%	459%	477%	124%	483%	473%	475%	478%	129%	419%	490%	477%	479%	129%	130%	132%	134%
Working Capital	(95)	135	46	(117)	(119.0)	(167.7)	(363.4)	(258.0)	(258)	914.1	1,118.8	1,068.4	1,077.6	1,078	1,240.3	1,086.7	1,046.1	1,090.6	1,091	1,095	1,099	1,098
Changes in Working Capital	**146.9**	**(292.1)**	**(416.4)**	**110.2**	(53.0)	(29.7)	117.7	(110.1)	**(75.1)**	(158.2)	72.3	50.4	(9.2)	**(44.7)**	(162.7)	153.6	40.5	(44.4)	**(13.0)**	**(4.6)**	**(3.6)**	**0.7**
Average Collection Period	**52**	**69**	**67**	**76**	55	78	53	57	**60**	40	52	50	55	**62**	50	50	50	55	**62**	**60**	**60**	**60**
Inventory Days	**125**	**130**	**113**	**88**	29	114	210	97	**101**	50	151	210	95	**119**	50	150	200	95	**115**	**120**	**120**	**120**
Average Payable Period	**385**	**422**	**406**	**427**	249	618	802	449	**469**	415	772	800	475	**594**	335	700	800	470	**568**	**570**	**570**	**566**

Cash	16	26	29	113	151	24	28	139	139	204	142	43	47	47	46	42	43	47	47	47	48	48
Total Debt	6,950	7,909	9,002	9,083	9,242	9,201	9,480	9,629	9,629	9,872	10,439	10,639	9,551	9,551	9,682	9,817	10,132	10,049	10,049	10,757	11,379	11,731
Total Net Debt	**6,934**	**7,883**	**8,973**	**8,970**	9,091	9,178	9,452	9,490	**9,490**	9,668	10,297	10,597	9,504	**9,504**	9,636	9,775	10,089	10,002	**10,002**	**10,710**	**11,331**	**11,682**
Preferred Securities	0	0	0	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880
Shareholders' Equity	3,844	4,071	4,320	5,751	5,780	5,976	5,849	5,987	5,987	5,741	5,662	5,592	5,942	5,942	6,155	6,125	6,068	6,481	6,481	7,014	7,543	8,060
Net Debt/Capital	**64.3%**	**65.9%**	**67.5%**	**57.5%**	57.7%	57.2%	58.4%	58.0%	**58.0%**	59.4%	61.2%	62.1%	58.2%	**58.2%**	57.8%	58.3%	59.2%	57.6%	**57.6%**	**57.6%**	**57.4%**	**56.6%**
	4%	2%	2%	-15%					1%					0%					-1%	0%	0%	-1%
Invested capital	10,778	11,954	13,293	14,721	14,870	15,154	15,300	15,477	15,477	15,410	15,959	16,188	15,446	15,446	15,791	15,900	16,157	16,483	16,483	17,723	18,874	19,742
ROIC	8.3%	7.9%	7.6%	6.8%	3.8%	7.1%	6.8%	6.9%	6.9%	3.6%	6.8%	6.7%	6.7%	6.7%	3.7%	6.7%	6.9%	6.9%	6.9%	7.1%	7.3%	7.7%
ROE	5.3%	9.0%	9.4%	8.9%	9.3%	8.9%	10.7%	8.4%	8.4%	8.1%	8.8%	8.9%	12.0%	8.6%	8.4%	8.4%	8.6%	12.1%	8.7%	8.8%	9.0%	9.4%
EBITDA	1,384	1,443	1,535	1,549	672	309	291	487	1,759	652	369	313	504	1,838	670	382	338	533	1,923	2,058	2,218	2,382
Net Debt/EBITDA (50% pref equity treatment)	**4.1x**	**5.5x**	**5.8x**	**6.1x**	5.7x	5.6x	5.8x	5.6x	**5.6x**	5.8x	6.0x	6.1x	5.4x	**5.4x**	5.4x	5.5x	5.6x	5.4x	**5.4x**	**5.4x**	**5.3x**	**5.1x**

Source: NI reports, Jefferies estimates

Jefferies

EQUITY RESEARCH

NiSource Inc. (NI)

Exhibit 9 - NI Consolidated Cash Flow Statement

Consolidated Statement of Cash Flows ($MM)	2015	2016	2017	2018	1Q	2Q	3Q	4Q	2019	1Q	2Q	3QE	4QE	2020E	1QE	2QE	3QE	4QE	2021E	2022E	2023E	2024E
Operating activities																						
Net income	302	332	129	(51)	219	297	7	(139)	383	76	(5)	14	167	251	303	72	34	187	596	652	712	791
Depreciation, amortization & decommissioning	524	547	570	600	175	178	182	182	717	184	178	197	200	759	201	204	204	207	815	846	878	905
Deferred taxes	135	182	307	(188)	52	75	(6)	(2)	118	(20)	9	2	36	27	64	11	4	38	117	127	133	135
Net change in working capital	147	(292)	(416)	110	(53)	(30)	118	(110)	(75)	(158)	72	50	(9)	(45)	(163)	154	41	(44)	(13)	(5)	(4)	1
Other, including changes in provisions and other liabilities	348	35	153	69	7	7	5	421	440	288	84	0	129	501	0	0	0	0	0	0	0	0
Cash from operating activities	**1,457**	**803**	**742**	**540**	**399**	**527**	**306**	**352**	**1,583**	**370**	**338**	**263**	**522**	**1,493**	**406**	**440**	**283**	**387**	**1,516**	**1,620**	**1,719**	**1,831**
Investing activities																						
Capital expenditure - tangible fixed assets	(1,361)	(1,475)	(1,696)	(1,818)	(354)	(490)	(467)	(492)	(1,802)	(452)	(367)	(450)	(481)	(1,750)	(420)	(446)	(477)	(507)	(1,850)	(2,100)	(2,050)	(1,800)
Investment in affiliates	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net disposals/(acquisitions)	3,803	0	0	(8)	0	0	0	(8)	(8)	2	(2)	0	879	879	0	0	0	0	0	0	0	0
Other investment	(497)	(108)	(113)	(100)	(22)	(33)	(29)	(28)	(112)	(34)	(33)	(29)	(12)	(108)	(27)	(32)	(28)	(19)	(107)	(109)	(108)	(108)
Cash from investing activities	**1,945**	**(1,583)**	**(1,809)**	**(1,926)**	**(375)**	**(523)**	**(496)**	**(529)**	**(1,922)**	**(485)**	**(402)**	**(479)**	**386**	**(979)**	**(447)**	**(478)**	**(506)**	**(526)**	**(1,957)**	**(2,209)**	**(2,158)**	**(1,908)**
Financing activities																						
Inc./(dec.) in short term debt	(936)	921	(282)	772	103	1	(466)	158	(204)	273	(883)	(93)	64	(639)	(64)	0	0	0	(64)	(937)	(600)	0
Inc./(dec.) in long term debt	(2,092)	65	1,395	(696)	(2)	(44)	748	(3)	698	(4)	996	293	(1,152)	133	195	135	315	(83)	562	1,645	1,222	352
Inc./(dec.) in equity	2	14	337	848	3	4	4	234	244	4	4	5	285	298	5	5	5	335	350	325	300	250
Common stock dividends paid	(263)	(206)	(229)	(273)	(75)	(75)	(75)	(75)	(299)	(80)	(80)	(81)	(82)	(323)	(87)	(88)	(88)	(89)	(352)	(389)	(427)	(469)
Other cash from financing	(122)	(4)	(152)	(62)	(4)	(0)	(8)	(6)	(18)	(5)	(13)	0	0	(18)	0	0	0	0	0	0	0	0
Inc./(dec.) in preffered equity	0	0	0	880	(9)	(19)	(8)	(19)	(56)	(8)	(20)	(8)	(19)	(55)	(8)	(19)	(8)	(19)	(55)	(55)	(55)	(55)
Cash from financing activities	**(3,412)**	**791**	**1,068.7**	**1,469**	**16**	**(133)**	**195**	**289**	**366**	**179**	**5**	**116**	**(905)**	**(604)**	**40**	**33**	**224**	**144**	**442**	**589**	**440**	**77**
Cash flow increase/(decrease) in cash	(10)	11	2.4	83	40	(128)	5	111	27.3	65	(59)	(100)	4	(90)	(1)	(4)	1	4	1	0	0	1
Non-cash movements in cash	0	0	0	1	(2)	1	(0)	(0)	(1)	(0)	(2)	0	0	(2)	0	0	0	0	0	0	0	0
Forex Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net change in cash	**(10)**	**11**	**2.6**	**84**	38	(127)	4	111	**27**	64	(62)	(100)	4	**(93)**	(1)	(4)	1	4	**1**	**0**	**0**	**1**
Cash at the beginning of the year	**25**	**16**	**26**	**29**	113	151	24	28	**113**	139	204	142	43	**139**	47	46	42	43	**47**	**47**	**47**	**48**
Cash at the end of the year	**16**	**26**	**29**	**113**	151	24	28	139	**139**	204	142	43	47	**47**	46	42	43	47	**47**	**47**	**48**	**48**
Cash paid for income taxes	**21**	**8**	**6**	**3**	5	0	0	6	**11**	5	0	0	5	**10**	9	2	1	6	**18**	**24**	**35**	**54**
Cash Interest paid, net of amount capitalized	**390**	**338**	**340**	**354**	162	47	42	99	**350**	171	50	37	82	**339**	142	37	33	77	**290**	**354**	**369**	**385**
Accounting Free Cash Flow (CFO-CAPEX-Dividend)	(167)	(877)	(1183)	(1551)	(29)	(37)	(236)	(216)	(518)	(163)	(110)	(275)	(60)	(635)	(109)	(113)	(290)	(229)	(741)	(924)	(814)	(493)
Free Cash Flow (NI+D&A-WC-CAPEX-DIV)	(945)	(510)	(810)	(1653)	19	(60)	(470)	(414)	(925)	(114)	(347)	(378)	(207)	(1074)	152	(431)	(376)	(178)	(832)	(1042)	(939)	(630)

Source: NI reports, Jefferies estimates

Company Description

NiSource Inc.

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to roughly 4mm US customers. The Company operates two business segments: Gas Distribution and Electric. The Gas Distribution operations provide natural gas service and transportation to ~3.5mm residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts; NI has agreed to sell its Massachusetts operations to Eversource for $1.1B, a transaction expected to close in 2H20. The Electric Operations segment provides electric service to ~480K customers across 20 counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

Company Valuation/Risks

NiSource Inc.

Our $25 PT and Buy recommendation are derived via Target P/E, Target Yield, DCF, and DDM approaches. Unexpected regulatory outcomes, deviations in customer growth, and project execution present risks to our estimates & PT.

Analyst Certification:

I, Christopher Sighinolfi, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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(Article 3(1)e and Article 7 of MAR)

Recommendation Published	September 23, 2020 , 04:15 ET.
Recommendation Distributed	September 23, 2020 , 04:15 ET.

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Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

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Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

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Other Companies Mentioned in This Report

- NiSource Inc. (NI: $22.20, BUY)

Rating and Price Target History for: NiSource Inc. (NI) as of 09-22-2020

Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1443	56.48%	129	8.94%	11	0.76%
HOLD	965	37.77%	25	2.59%	5	0.52%
UNDERPERFORM	147	5.75%	0	0.00%	0	0.00%

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J.P.Morgan

North America Equity Research
21 September 2020

NiSource Inc.

Model Update

We are updating our model to account for 2Q earnings results. Please see changes below.

Overweight

NI, NI US

Price (18 Sep 20): $21.98

▼ **Price Target (Dec-21): $25.00**
Prior (Dec-20): $26.00

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J.P. Morgan Securities LLC

Key Changes (FYE Dec)

	Prev	Cur
Adj. EPS - 20E ($)	1.27	1.30
Adj. EPS - 21E ($)	1.41	1.36

Quarterly Forecasts (FYE Dec)

Adj. EPS ($)

	2019A	2020E	2021E
Q1	0.82	0.76A	
Q2	0.05	0.13A	
Q3	(0.00)	0.01	
Q4	0.45	0.39	
FY	1.32	1.30	1.36

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	45	56	53	55	11
Growth	64	56	85	81	71
Momentum	76	40	37	32	89
Quality	67	35	55	49	54
Low Vol	9	3	11	7	97
ESGQ	14	82	94	11	8

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

See page 5 for analyst certification and important disclosures.

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Price Performance

	YTD	1m	3m	12m
Abs	-21.0%	-6.8%	-7.4%	-25.4%
Rel	-23.7%	-4.7%	-14.0%	-35.8%

Company Data

Shares O/S (mn)	383
52-week range ($)	30.67-19.56
Market cap ($ mn)	8,420.54
Exchange rate	1.00
Free float(%)	99.5%
3M - Avg daily vol (mn)	2.99
3M - Avg daily val ($ mn)	69.6
Volatility (90 Day)	27
Index	S&P 500
BBG BUY|HOLD|SELL	9|5|0

Key Metrics (FYE Dec)

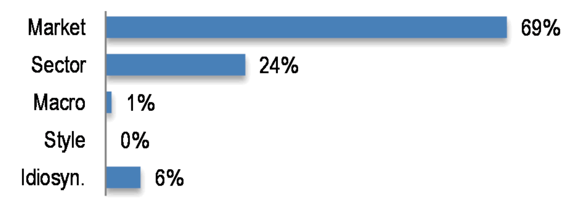
$ in millions	FY19A	FY20E	FY21E	FY22E
Financial Estimates				
Revenue	5,184	5,066	5,563	5,693
Adj. EBITDA	1,759	1,801	1,842	1,984
Adj. EBIT	1,042	1,070	1,141	1,254
Adj. net income	495	501	545	608
Adj. EPS	1.32	1.30	1.36	1.47
BBG EPS	1.30	1.29	1.34	1.43
Cashflow from operations	1,583	1,346	1,289	1,449
FCFF	95	(61)	(259)	(74)
Margins and Growth				
Revenue growth	2.0%	(2.3%)	9.8%	2.3%
EBITDA margin	33.9%	35.5%	33.1%	34.9%
EBITDA growth	13.6%	2.3%	2.3%	7.7%
EBIT margin	20.1%	21.1%	20.5%	22.0%
Net margin	9.5%	9.9%	9.8%	10.7%
Adj. EPS growth	1.6%	(1.8%)	4.6%	8.8%
Ratios				
Adj. tax rate	17.1%	19.7%	23.6%	23.4%
Interest cover	4.6	4.8	5.2	5.1
Net debt/Equity	1.6	1.4	1.5	1.5
Net debt/EBITDA	5.4	4.7	5.2	5.0
ROCE	5.7%	5.7%	5.8%	5.9%
ROE	8.4%	8.4%	8.8%	9.2%
Valuation				
FCFF yield	1.2%	(0.7%)	(2.9%)	(0.8%)
Dividend yield	3.6%	3.8%	4.1%	4.3%
EV/EBITDA	9.3	8.9	9.1	8.8
Adj. P/E	16.6	17.0	16.2	14.9

Summary Investment Thesis and Valuation

NiSource's heavy capital investment program drives rate base growth of at least ~7.5% over the next 3 years, with upside should the mid-or-high end of the capex guided ranges materialize. Declining O&M spending versus current elevated levels should improve earned ROE's at the utilities over coming quarters and additional cost discipline could further support growth. With an agreement in place to divest Bay State Gas, NI has reduced 2020 equity funding needs and will reestablish LT growth guidance post 2021. NiSource continues to offer top-tier rate base growth, which we see supporting long term earnings growth of 5-7% through 2022.

We base our December 2021 price target of $25/per share on a sum-of-the-parts analysis using our 2022 electric and gas segment EPS forecasts. We value the gas and electric segments using 15.4x and 19.5x P/E multiples, respectively.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.86	0.83
Sect: Utilities	0.89	0.87
Ind: Utilities	0.89	0.87
Macro:		
US 10yr yield	-0.47	-0.45
Crude Oil	-0.46	-0.40
Economic Surprise	-0.07	-0.06
Quant Styles:		
Growth	-0.31	-0.18
LowVol	-0.01	0.08
Value	0.13	-0.01

Source: J.P. Morgan Quantitative and Derivatives Strategy for Performance Drivers; company data, Bloomberg and J.P. Morgan estimates for all other tables.

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Investment Thesis, Valuation and Risks

NiSource Inc. *(Overweight; Price Target: $25.00)*

Investment Thesis

NiSource's heavy capital investment program drives rate base growth of at least ~7.5% over the next 3 years, with upside should the mid-or-high end of the capex guided ranges materialize. Declining O&M spending versus current elevated levels should improve earned ROEs at the utilities over coming quarters and additional cost discipline could further support growth. With an agreement in place to divest Bay State Gas, NI has reduced 2020 equity funding needs and will reestablish LT growth guidance post 2021. NiSource continues to offer top-tier rate base growth, which we see supporting long term earnings growth of 5-7% through 2022.

Valuation

We introduce our December 2021 price target of $25/share. We base our price target on a sum-of-the-parts analysis using our 2022 electric and gas segment EPS forecasts. We value the gas and electric segments using 15.4x and 19.5x P/E multiples, respectively. The electric multiple is a slight premium to peers on account of NI's coal generation transition, incremental renewables investment, and above average growth as a result. The gas multiple is in line with LDC peers.

Risk to Rating and Price Target

- Regulated electric transmission and distribution earnings are vulnerable to mild weather, as regulated revenues are calculated based on energy volumes sold. Extreme or mild temperatures may cause future earnings to differ materially from our current forecasts.
- Achievement of NiSource's long-term rate base and EPS CAGR targets are heavily dependent on robust capital investments, regulatory support, and favorable ratemaking mechanism. Any deferral of spending could put the company at risk of falling short of the LT rate base and earnings growth CAGR in any one year.
- Regulated electric and gas utilities are subject to federal and state regulations, including determinations of allowed revenues. Positive or negative changes to the regulatory environments may cause future earnings potential to differ materially from current expectations.

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NiSource Inc.: Summary of Financials

Income Statement - Annual	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**5,084**	**5,184**	**5,066**	**5,563**	**5,693**
COGS	(1,759)	(1,535)	(1,373)	(1,760)	(1,760)
Gross profit	**3,325**	**3,649**	**3,693**	**3,803**	**3,933**
SG&A	(1,794)	(1,885)	**(1,904)**	**(1,931)**	**(1,949)**
Adj. EBITDA	**1,549**	**1,759**	**1,801**	**1,842**	**1,984**
D&A	(600)	(717)	(731)	(700)	(730)
Adj. EBIT	**949**	**1,042**	**1,070**	**1,141**	**1,254**
Net Interest	(353)	(379)	(377)	(357)	(389)
Adj. PBT	**596**	**663**	**693**	**785**	**865**
Tax	(118)	(113)	(136)	(185)	(202)
Minority Interest	(15)	(55)	(55)	(55)	(55)
Adj. Net Income	**463**	**495**	**501**	**545**	**608**
Reported EPS	1.30	1.32	1.30	1.36	1.47
Adj. EPS	**1.30**	**1.32**	**1.30**	**1.36**	**1.47**
DPS	**0.78**	**0.80**	**0.84**	**0.89**	**0.94**
Payout ratio	60.0%	60.6%	64.8%	65.7%	64.0%
Shares outstanding	357	375	386	402	412

Income Statement - Quarterly	1Q20A	2Q20A	3Q20E	4Q20E
Revenue	**1,632A**	**957A**	**987**	**1,489**
COGS	(462)A	(188)A	(222)	(500)
Gross profit	**1,169A**	**769A**	**765**	**989**
SG&A	(522)A	(406)A	(466)	(509)
Adj. EBITDA	**652A**	**369A**	**299**	**480**
D&A	(184)A	(197)A	(179)	(170)
Adj. EBIT	**468A**	**172A**	**120**	**309**
Net Interest	(93)A	(97)A	(99)	(89)
Adj. PBT	**375A**	**75A**	**22**	**221**
Tax	(71)A	(11)A	(3)	(52)
Minority Interest	(14)A	(14)A	(14)	(14)
Adj. Net Income	**291A**	**50A**	**5**	**155**
Reported EPS	0.76A	0.13A	0.01	0.39
Adj. EPS	**0.76A**	**0.13A**	**0.01**	**0.39**
DPS	**0.21A**	**0.21A**	**0.21**	**0.21**
Payout ratio	27.7%A	160.4%A	1700.3%	53.2%
Shares outstanding	383A	384A	386	393

Balance Sheet & Cash Flow Statement	FY18A	FY19A	FY20E	FY21E	FY22E
Cash and cash equivalents	121	148	0	0	0
Accounts receivable	1,059	857	546	546	546
Other current assets	876	849	2,205	2,296	2,387
Current assets	**2,055**	**1,854**	**2,751**	**2,842**	**2,933**
PP&E	15,543	16,912	16,313	17,434	18,525
Other non current assets	4,206	3,894	2,586	2,636	2,636
Total assets	**21,804**	**22,660**	**21,650**	**22,911**	**24,094**
Short term borrowings	1,977	1,773	598	819	1,336
Payables	884	666	403	403	403
Other short term liabilities	1,176	1,307	2,071	1,646	1,646
Current liabilities	**4,037**	**3,746**	**3,071**	**2,867**	**3,385**
Long-term debt	7,105	7,856	7,832	8,682	8,682
Other long term liabilities	4,911	5,071	4,792	4,977	5,179
Total liabilities	**16,053**	**16,673**	**15,696**	**16,526**	**17,246**
Shareholders' equity	5,751	5,987	5,954	6,385	6,848
Minority interests	-	-	-	-	-
Total liabilities & equity	**21,804**	**22,660**	**21,650**	**22,911**	**24,094**
BVPS	**15.44**	**15.67**	**15.02**	**15.69**	**16.41**
y/y Growth	*20.5%*	*1.4%*	*(4.1%)*	*4.4%*	*4.6%*
Net debt/(cash)	8,962	9,481	8,430	9,501	10,019
Cash flow from operating activities	**540**	**1,583**	**1,346**	**1,289**	**1,449**
o/w Depreciation & amortization	600	717	711	700	730
o/w Changes in working capital	110	(75)	(130)	(91)	(91)
Cash flow from investing activities	**(1,926)**	**(1,922)**	**(677)**	**(1,821)**	**(1,821)**
o/w Capital expenditure	(1,818)	(1,802)	(1,710)	(1,821)	(1,821)
as % of sales	*35.8%*	*34.8%*	*33.7%*	*32.7%*	*32.0%*
Cash flow from financing activities	**1,469**	**366**	**(252)**	**311**	**(145)**
o/w Dividends paid	(273)	(299)	(353)	(359)	(390)
o/w Net debt issued/(repaid)	75	494	(186)	425	0
Net change in cash	**83**	**27**	**417**	**(221)**	**(517)**
Adj. Free cash flow to firm	**(995)**	**95**	**(61)**	**(259)**	**(74)**
y/y Growth	*37.6%*	*(109.6%)*	*(163.7%)*	*328.3%*	*(71.5%)*

Ratio Analysis	FY18A	FY19A	FY20E	FY21E	FY22E
Gross margin	65.4%	70.4%	72.9%	68.4%	69.1%
EBITDA margin	30.5%	33.9%	35.5%	33.1%	34.9%
EBIT margin	18.7%	20.1%	21.1%	20.5%	22.0%
Net profit margin	9.1%	9.5%	9.9%	9.8%	10.7%
ROE	9.2%	8.4%	8.4%	8.8%	9.2%
ROA	2.2%	2.2%	2.3%	2.4%	2.6%
ROCE	5.5%	5.7%	5.7%	5.8%	5.9%
SG&A/Sales	35.3%	36.4%	37.6%	34.7%	34.2%
Net debt/equity	1.6	1.6	1.4	1.5	1.5
P/E (x)	16.9	16.6	17.0	16.2	14.9
P/BV (x)	1.4	1.4	1.5	1.4	1.3
EV/EBITDA (x)	10.1	9.3	8.9	9.1	8.8
Dividend Yield	3.5%	3.6%	3.8%	4.1%	4.3%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	4.4	4.6	4.8	5.2	5.1
Operating leverage	(33.9%)	496.0%	(116.4%)	68.4%	423.0%
Revenue y/y Growth	3.7%	2.0%	(2.3%)	9.8%	2.3%
EBITDA y/y Growth	1.1%	13.6%	2.3%	2.3%	7.7%
Tax rate	19.7%	17.1%	19.7%	23.6%	23.4%
Adj. Net Income y/y Growth	16.6%	6.8%	1.3%	8.7%	11.6%
EPS y/y Growth	7.7%	1.6%	(1.8%)	4.6%	8.8%
DPS y/y Growth	11.4%	2.6%	5.0%	6.0%	6.0%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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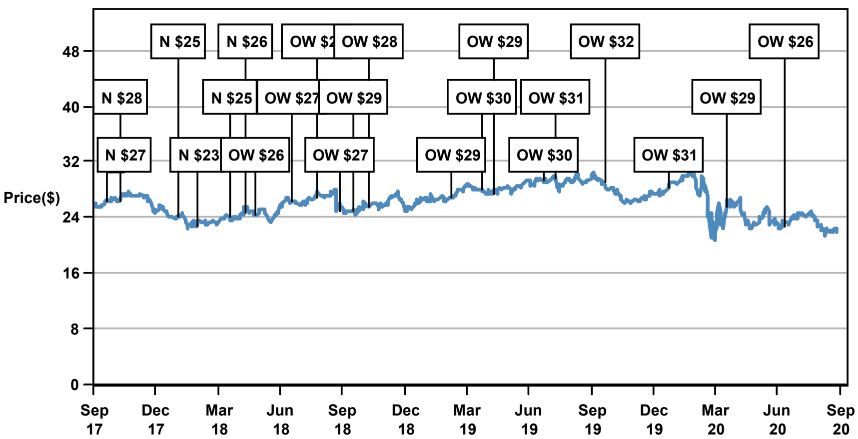
NiSource Inc. (NI, NI US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
12-Oct-17	N	26.42	27
01-Nov-17	N	26.37	28
24-Jan-18	N	24.17	25
22-Feb-18	N	22.80	23
10-Apr-18	N	24.15	25
02-May-18	N	24.52	26
17-May-18	OW	24.40	26
11-Jul-18	OW	26.24	27
15-Aug-18	OW	26.96	28
17-Sep-18	OW	24.79	27
09-Oct-18	OW	25.05	29
01-Nov-18	OW	25.36	28
01-Mar-19	OW	26.98	29
15-Apr-19	OW	28.07	30
02-May-19	OW	27.40	29
15-Jul-19	OW	29.34	30
01-Aug-19	OW	29.69	31
13-Oct-19	OW	29.14	32
15-Jan-20	OW	28.18	31
09-Apr-20	OW	25.47	29
01-Jul-20	OW	22.74	26

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BofA GLOBAL RESEARCH

BofA SECURITIES

NiSource Inc

What is the Street really fearing at these levels?

Reiterate Rating: NEUTRAL | PO: 25.00 USD | Price: 22.59 USD

Stock U/P excessive vs revisions; revisit equity financing

Until yesterday, where NI outperformed (NI +4.2% vs gas LDCs +2.0%; XLU +3.1%), NI shares were -12.2% since its 2Q update on 8/5, considerably lagging gas LDCs (-6.7%) and XLU (-2.5%) over that timeframe. We acknowledge NI's new 2021 EPS guidance implied about 3% negative revisions to consensus at midpt and gas utility de-rating (gas now ~2x discount vs electrics), but the stock's underperformance still seems excessive relative to both revisions and gas peers. While we stress there has been no change to NI's messaging since the 2Q update, we conservatively revisit the assumptions in our model *given perceived risk of over-equitization vs expectations* or possibly earlier than expected equity financing for the renewables build out. Hence, we tweak the equity capital structure slightly higher for the $1.8-2.0bn of renewables financing to reflect about 60% equity/40% debt, lowering our EPS estimates by just ~1c in '23 and 2c in '24. This reflects a higher equity capital structure compared to what the broader company historically tracked given the different risk profile of renewables vs traditional electric and gas utilities. After mtm our SOTP with peers at 14.9x (from 16.2x) for gas and 16.8x (from 17.0x) for electric, our PO decreases to $25 (from $26). Despite 16.2% total return (incl. 4% div yield) implied by our SOTP, we reiterate Neutral given near-term uncertainty with regard to the equity overhang and light '22/'23 on an earned ROE basis.

Clarity coming via Sept 29 investor day; favorable Indiana

We expect the upcoming Investor day (9/29) to yield clarity around NI's renewables financing plan in Indiana as concerns around timing of equity and over-equitization linger. We still assume the timing of the equity issuance to be in line with our assumption of renewable capex deployment (40% in 2022 and 60% in 2023). Further, we expect NI likely uses equity-linked hybrids to finance part of the deal with $500mn in converts issued in '22 and converted in '25 in addition to common equity. Critically, we expect an explicit EPS growth CAGR to be disclosed at the investor day with potential outlook beyond '24. Lastly, we highlight our recent conversations with Indiana stakeholders indicate coal retirements and renewable RFPs in Indiana are largely intact for NI and even CNP. We note recent outperformance of CNP likely a positive read to NI.

Estimates (Dec)

(US$)	2018A	2019A	2020E	2021E	2022E
EPS	1.30	1.32	1.25	1.32	1.43
GAAP EPS	1.30	1.32	1.25	1.32	1.43
EPS Change (YoY)	7.4%	1.5%	-5.3%	5.6%	8.3%
Consensus EPS (Bloomberg)			1.29	1.36	1.44
DPS	0.79	0.83	0.88	0.94	0.99

Valuation (Dec)

	2018A	2019A	2020E	2021E	2022E
P/E	17.4x	17.1x	18.1x	17.1x	15.8x
GAAP P/E	17.4x	17.1x	18.1x	17.1x	15.8x
Dividend Yield	3.5%	3.7%	3.9%	4.2%	4.4%
EV / EBITDA*	15.3x	13.3x	13.2x	12.6x	11.8x
Free Cash Flow Yield*	-14.8%	-2.5%	-6.9%	-7.0%	-14.9%

* For full definitions of *iQmethod*SM measures, see page 8.

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Refer to important disclosures on page 9 to 11. Analyst Certification on page 6. Price Objective Basis/Risk on page 6. 12185555

03 September 2020

Equity

Key Changes

(US$)	Previous	Current
Price Obj.	26.00	25.00
2022E EBITDA (m)	1,996.2	1,997.2

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Stock Data

Price	22.59 USD
Price Objective	25.00 USD
Date Established	3-Sep-2020
Investment Opinion	B-2-7
52-Week Range	19.56 USD - 30.67 USD
Mrkt Val (mn) / Shares Out (mn)	8,652 USD / 383.0
Average Daily Value (mn)	61.19 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2020E)	9.0%
Net Dbt to Eqty (Dec-2019A)	158.6%

iQprofile℠ NiSource Inc

iQmethod ℠ – Bus Performance*					
(US$ Millions)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on Capital Employed	3.9%	4.3%	3.9%	3.9%	4.0%
Return on Equity	10.1%	9.9%	9.0%	9.1%	9.2%
Operating Margin	18.3%	20.2%	19.5%	19.7%	20.7%
Free Cash Flow	(1,278)	(219)	(599)	(606)	(1,286)

iQmethod ℠ – Quality of Earnings*					
(US$ Millions)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Cash Realization Ratio	1.2x	3.2x	2.4x	2.4x	2.3x
Asset Replacement Ratio	3.0x	2.5x	2.4x	2.4x	3.2x
Tax Rate	19.7%	17.1%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	156.7%	158.6%	142.3%	142.9%	137.8%
Interest Cover	2.6x	2.8x	2.9x	3.1x	3.4x

Income Statement Data (Dec)					
(US$ Millions)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales	5,084	5,184	5,337	5,469	5,664
% Change	4.3%	2.0%	2.9%	2.5%	3.6%
Gross Profit	3,325	3,649	3,748	3,857	4,027
% Change	-0.9%	9.8%	2.7%	2.9%	4.4%
EBITDA	1,531	1,764	1,781	1,858	1,997
% Change	3.4%	15.2%	1.0%	4.3%	7.5%
Net Interest & Other Income	(335)	(384)	(362)	(344)	(348)
Net Income (Adjusted)	**463**	**495**	**481**	**524**	**596**
% Change	**16.6%**	**6.8%**	**-2.7%**	**8.8%**	**13.7%**

Free Cash Flow Data (Dec)					
(US$ Millions)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Net Income from Cont Operations (GAAP)	463	495	481	524	596
Depreciation & Amortization	600	717	742	783	827
Change in Working Capital	110	(75)	(186)	(186)	(186)
Deferred Taxation Charge	(188)	118	114	123	104
Other Adjustments, Net	(445)	328	0	0	0
Capital Expenditure	(1,818)	(1,802)	(1,750)	(1,850)	(2,626)
Free Cash Flow	**-1,278**	**-219**	**-599**	**-606**	**-1,286**
% Change	**-34.0%**	**82.9%**	**-173.6%**	**-1.2%**	**-112.1%**

Balance Sheet Data (Dec)					
(US$ Millions)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Cash & Equivalents	121	148	165	181	197
Trade Receivables	1,147	905	1,092	1,278	1,464
Other Current Assets	787	800	800	800	800
Property, Plant & Equipment	15,543	16,912	16,921	17,987	19,786
Other Non-Current Assets	4,206	3,894	3,894	3,894	3,894
Total Assets	**21,804**	**22,660**	**22,871**	**24,140**	**26,141**
Short-Term Debt	2,027	1,787	2,184	2,348	2,574
Other Current Liabilities	2,010	1,959	1,959	1,959	1,959
Long-Term Debt	7,105	7,856	7,118	7,652	8,386
Other Non-Current Liabilities	4,911	5,071	5,185	5,308	5,411
Total Liabilities	**16,053**	**16,673**	**16,447**	**17,267**	**18,331**
Total Equity	**5,751**	**5,987**	**6,424**	**6,873**	**7,810**
Total Equity & Liabilities	**21,804**	**22,660**	**22,871**	**24,140**	**26,141**

* For full definitions of iQmethod℠ measures, see page 8.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

NI's positives include 5-7% dividend growth and >5-7% EPS growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries. We have factored in resolution of overhang from the MA incident as the company will likely sell 3Q. However, NI has C&I demand risk from COVID, which will be difficult to offset with O&M cuts due to promises already around cost cuts to balance CMA sale. We see shares valued appropriately and rate Neutral.

Stock Data

Average Daily Volume	2,708,582

Quarterly Earnings Estimates

	2019	2020
Q1	0.82A	0.76A
Q2	-0.75A	0.13A
Q3	0A	-0.02E
Q4	1.24A	-1.48E

Framing the debate from here…

Against the backdrop of a consistently cautious set of datapoints in recent months, and with concerns still lingering on interim years of its latest EPS CAGR (focus shifting from weakness on '21 to '22 and '23, prior to big uptick in '24 with new renewables), shares have underperformed. While investors remain fearful of yet another weak set of updates, we find it difficult for this to be the case. The higher equity than earlier contemplated is admittedly a bit cautious (but just a tad); timing of the equity could indeed prove another cautious element to these interim years ('22 & '23) as cash flow expectations could also drive a slightly accelerated need for equity as well. Looking through all of this, we find a positive skew to estimates and expectations with shares offering some of the best EPS growth cumulatively through '24 and trading with a slight discount today at current levels vs. hybrid electric/gas peer group. With sale of its Mass gas LDC biz poised to close imminently and updates on renewables, we find it difficult for shares to prove further discounted off already cautious investor expectations. We view challenges ahead as possible in Indiana, but with Centerpoint (CNP) already trading back up despite this more acute overhang (which more directly impacts their generation replacement strategy rather than NI), the read-through here remains appealing to us. Finally, we appreciate that recent under-performance represents more than just lower confidence on EPS and balance sheet, but rather a wider concern on mgmt. execution. On balance reiterate Neutral, reduce EPS and PO a tad, and see a positive setup into 9/29 Analyst Day.

EPS estimates: equity focus remains lingering question

We update by adjusting our assumption of the equity capital structure higher for the renewables financing to 60% equity and 40% debt, our EPS estimates were driven slightly lower in '23-'25. We see the 60% 'over-equitization' as potentially a bit akin to how AEP has framed its own equity needs for its similar large Build-own-transfer renewable project.

Since we assume the equity issuances take place at the end of '22 and '23, the EPS impact of incremental equity with higher equity capital structure flows through in '23 and '24. We continue to believe '21 EPS guidance of $1.28-1.36 is de-risked following the recent debt refinancing that was pulled forward as our '21 EPS estimate still lands at the midpoint.

On our updated EPS estimates, our implied '21-'24 EPS CAGR comes out to 10.5% (vs previous 11%), We emphasize that this 10.5% is a shorter 3-yr CAGR and we do not foresee this as a sustainable long term rate as the company benefits from a significant uptick in EPS from the renewable program beginning in 2024 off of a lower base coming out of COVID-19. With the 5c negative base case COVID-19 impact added back to the midpoint of the '21 EPS guidance announced alongside 2Q and assuming our 2024 EPS estimate of 1.77, this would equate to a 9.1% EPS CAGR from '21-'24 – still strong, but again padded by the one-time uptick of $1.8-2.0bn of renewable capex in '22/'23 translating to EPS in '24.

We look for more timing around the incoming renewable capex and associated earnings on the 9/29 investor day. We currently assume 40% of the capex hits in '22 and the remaining 60% is in '23. We estimate this renewable capex generates $0.06 of EPS in '23 and roughly $0.14 of EPS in '24. See our estimates below vs guidance and consensus. We also include a number of CAGRs to compare along with our rate base estimates vs guidance.

Table 1: NiSource (NI) EPS Estimates

NI EPS Estimates		2019A	2020E	2021E	2022E	2023E	2024E	2025E
Gas		1.04	1.04	1.11	1.14	1.15	1.17	1.21
Electric		0.59	0.53	0.52	0.59	0.75	0.87	0.85
Electric - BOTs from RFP 1 & 2 (incl. in Electric EPS)		0.00	0.00	0.00	-0.03	0.02	0.11	0.11
Parent/Other		-0.32	-0.32	-0.31	-0.30	-0.28	-0.26	-0.25
BofA EPS		**1.32**	**1.25**	**1.32**	**1.43**	**1.62**	**1.78**	**1.81**
% Growth		1.2%	-5.3%	5.9%	8.6%	13.0%	10.0%	1.8%
Previous EPS		1.32	1.25	1.32	1.43	1.63	1.80	1.84
Guidance		**1.27-1.33**		**1.28-1.36**				
Consensus		1.30	1.29	1.36	1.44	1.55	1.66	
Consensus '21-'24 EPS CAGR	6.9%							
BofA '21-'24 EPS CAGR	10.5%							
BofA '20-'24 EPS CAGR	9.3%							
BofA '19-'23 EPS CAGR	5.3%							
BofA '19-'24 EPS CAGR	6.2%							
New Guidance '21-24 EPS CAGR	>5-7%							
Previous Guidance off '19 guidance range	5-7%							
Prior +5%-7% EPS CAGR off new '21 guidance range	High End			1.36	1.46	1.56	1.67	1.78
	Mid-Point			1.32	1.40	1.48	1.57	1.67
	Low End			1.28	1.34	1.41	1.48	1.56
Share Count (mn shares)		**376**	**386**	**397**	**416**	**445**	**474**	**490**

Source: BofA Global Research estimates, company report, Bloomberg

Valuation

Our PO is lowered to $25 (from $26) as we mark to market our SOTP valuation only slightly higher with peer multiples of 14.9x (from 16.2x) for gas and 16.8x (from 17.0x) for electric. We assign a 2x premium to our electric peers to account for incremental renewable earnings growth long-term. Also, we capitalize all of NI's gas subsidiaries at a 1x premium to account for mitigated COVID-19 concern with improved visibility into '21.

Note in our SOTP valuation, which capitalizes '22 EPS across all the subsidiaries, the company's incremental renewable capex and EPS currently lands outside of the valuation window. With '21 largely de-risked given refinancing '21 consensus EPS mostly reset with lower than expected guidance, '22 EPS is in focus and equity timing will be critical.

We see a positive backdrop for shares into the September 29th investor day update, with '24 EPS being the key metric (even '23 will be partially impacted by lag and remains relatively opaque). We still expect more explicit guidance of what this '24 outlook will be (benefitting from FY run-rate of EPS uplift with renewable investment and next rate case to earn ROE once more). Meanwhile, given the large investments and backdrop of recent larger rate case, we expect bill headroom and pressure to remain a relevant factor to consider in execution of proposed plan. We see an improving overall backdrop for NI, but with our estimates still slightly below Street on '21/'22 and with ambiguity on '23 with timing and size of equity, we still do not expect a re-rating to the 'next' ESG stock. We think the Analyst Day should prove constructive vs expectations, but still watch closely commentary on interim years reflected within the CAGR.

Table 2: NI SOTP Valuation: attractive into Analyst Day, but risks on '22/23 linger

NI SOP Valuation	Metric	P/E Multiple								
	2022E EPS	Low	Peer	Prem/ Discount	Base	High		Low	Base	High
Group Peer Multiple - Gas	-	-	14.9x	-	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Gas	-	-	5.10%	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Gas Utilities		- -	15.7x	-	-	-	-	-	-	-
Columbia Gas of OH	$0.52	15.7x	15.7x	**1.0x**	16.7x	17.7x		$8.18	$8.70	$9.22
Columbia Gas of PA	$0.27	15.7x	15.7x	**1.0x**	16.7x	17.7x		$4.17	$4.44	$4.70
NIPSCO Gas	$0.21	15.7x	15.7x	**1.0x**	16.7x	17.7x		$3.25	$3.46	$3.67
Columbia Gas of VA	$0.08	15.7x	15.7x	**1.0x**	16.7x	17.7x		$1.30	$1.38	$1.46
Columbia Gas of KY	$0.05	15.7x	15.7x	**1.0x**	16.7x	17.7x		$0.71	$0.76	$0.80
Columbia Gas of MD	$0.02	15.7x	15.7x	**1.0x**	16.7x	17.7x		$0.30	$0.32	$0.34
Group Peer Multiple - Electric			16.8x							
Group EPS '18-'22 CAGR - Electric			5.00%							
Electric Utilities			17.6x							
NIPSCO Electric	$0.59	18.6x	17.6x	**2.0x**	19.6x	20.6x		$10.93	$11.52	$12.10
Total Utility	**$1.73**	*16.7x*			*17.7x*	*18.7x*		**$28.84**	**$30.57**	**$32.30**
-Parent EPS Drag (ex-Interest Expense)	-$0.09	16.7x	0.0x		17.0x	18.0x		-$1.46	-$1.49	-$1.58
Total EPS *(incl. debt drag)*	**$1.43**									
Midpoint of 5-7% EPS	*$1.40*									
Holdco Debt @ Parent, *not* allocated to Utilities										
(50% Netting out Debt)				-$2,000	50%			-$1,000	-$1,000	-$1,000
(50% P/E multiple on Interest Exp)				5.5%	50%			-$724	-$768	-$811
Grand Total Equity Value								**$23.22**	**$24.82**	**$26.36**
Shares Outstanding 2022E									416	
Total Equity Value								**$23.00**	**$25.00**	**$26.00**
Implied Consolidated P/E										
Current Price									$22.27	
Dividend Yield (2020E)									4.0%	
Total Return									**16.2%**	

Source: BofA Global Research estimates, company report, Bloomberg

Price objective basis & risk

NiSource Inc (NI)

Our $25 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2022 forward P/E multiples of 14.9x for gas utilities and 16.8x for electric utilities with a 1x premium for gas utilities given partially mitigated COVID impact and visibility into '21, and a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex beginning in '22, but acknowledge industrial risk. We note that electric / gas peer P/E multiples are grossed up by 5% / 5.1% to reflect capital appreciation across the sector. We strip value from Columbia Gas of MA given the pending sale to close in 3Q20. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
NEUTRAL				
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Richard Ciciarelli, CFA
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Northwest Natural Holdings	NWN	NWN US	Richard Ciciarelli, CFA
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith

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Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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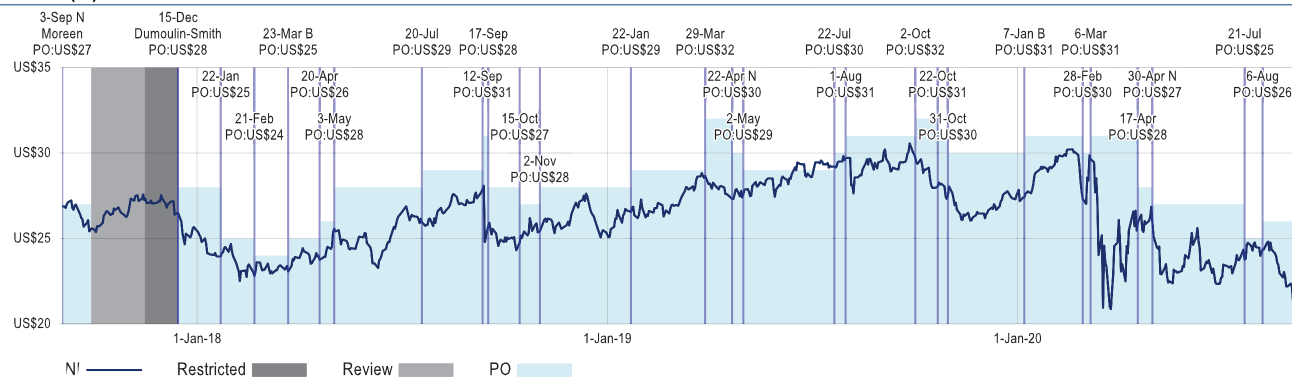
NiSource Inc (NI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Energy Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	69	43.40%	Buy	52	75.36%
Hold	48	30.19%	Hold	34	70.83%
Sell	42	26.42%	Sell	24	57.14%

Equity Investment Rating Distribution: Utilities Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	76	51.01%	Buy	56	73.68%
Hold	33	22.15%	Hold	22	66.67%
Sell	40	26.85%	Sell	29	72.50%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1632	52.21%	Buy	1031	63.17%
Hold	711	22.74%	Hold	444	62.45%
Sell	783	25.05%	Sell	407	51.98%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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BofA GLOBAL RESEARCH

BofA SECURITIES

NiSource Inc

How Much Can a Debt Refi Clear the Path for the September Investor Day?

Reiterate Rating: NEUTRAL | PO: 26.00 USD | Price: 24.35 USD

Debt refinancing adds confidence in ’21 EPS outlook

NiSource (NI) announced cash tender offers for certain outstanding notes and a $2bn debt issuance ($1.25bn of 0.95% 2025 notes + $750mn 1.7% 2031 notes) where we estimate NI will use the newly issued debt to redeem about $1.6bn of certain notes outstanding at a roughly $200mn premium. This equates to about $1.8mn total use of proceeds for tender offers with a remaining $200mn used for general corporate purposes. The tender offer includes any and all of the total $1.164bn of more near term notes –2021 4.45% notes, 2.65% 2022 notes, and 2023 notes (3.85% and 3.65% notes). In addition, the tender also includes up to $150mn maximum aggregate repurchase of its outstanding 6.25% 2040 notes due 2040, 5.95% 2041 notes, 5.80% 2042 notes, 5.65% 2045 notes and 5.25% 2043 notes. Given the lower interest rates on the new debt, we estimate these transactions will generate roughly $35mn of annualized interest expense savings, which equates to around $0.07 of EPS next year without adjustments. We stress this refinancing was already baked into NI’s ’21 guidance and long term plan, but likely is a bit pulled forward in terms of timing, which helps cleanup the ’21 guide and puts focus on cost mitigation. We tweak our interest expense $35mn lower to reflect refinancing, and increase EPS slightly in ’20-’22. Despite estimates slightly higher and this announcement somewhat de-risking ’21 EPS guidance (and adds some ’22 clarity), we retain Neutral given near term uncertainty from COVID-19 and cost mitigation execution risk. PO stays at $26 after mtm with peers at 16.2x (from 15.8x) for gas and 17.0x (from 16.9x) for electric.

Removes refinancing risk thru the new gen planning cycle

We highlight that NI’s completion of this debt refinancing will be positive for the company to have in the rearview (tender offers expire 8/18 and 9/9). This removes refinancing risk ahead of the company’s upcoming new renewable financing planning cycle and leaves plenty of time for mgmt. to strategize ahead of the 9/29 renewables-focused investor day – expect an explicit LT EPS CAGR announced here (vs ambiguous of above 5-7% CAGR noted on 2Q call). Additionally, although this refinancing was included in the NI latest guidance, we perceive the sooner than later timing makes for a cleaner ’21 with all focus on cost mitigation and renewable strategy.

Estimates (Dec)

(US$)	2018A	2019A	2020E	2021E	2022E
EPS	1.30	1.32	1.25	1.32	1.43
GAAP EPS	1.30	1.32	1.25	1.32	1.43
EPS Change (YoY)	7.4%	1.5%	-5.3%	5.6%	8.3%
Consensus EPS (Bloomberg)			1.29	1.36	1.44
DPS	0.79	0.83	0.88	0.94	0.99

Valuation (Dec)

	2018A	2019A	2020E	2021E	2022E
P/E	18.7x	18.4x	19.5x	18.4x	17.0x
GAAP P/E	18.7x	18.4x	19.5x	18.4x	17.0x
Dividend Yield	3.2%	3.4%	3.6%	3.9%	4.1%
EV / EBITDA*	15.8x	13.7x	13.6x	13.0x	12.1x
Free Cash Flow Yield*	-13.7%	-2.3%	-6.4%	-6.5%	-13.6%

* For full definitions of *iQmethod* SM measures, see page 8.

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Refer to important disclosures on page 9 to 11. Analyst Certification on page 6. Price Objective Basis/Risk on page 6. 12179469

14 August 2020

Equity

Key Changes

(US$)	Previous	Current
2020E EPS	1.24	1.25
2021E EPS	1.31	1.32
2022E EPS	1.42	1.43
2020E EBITDA (m)	1,795.1	1,781.1
2021E EBITDA (m)	1,918.7	1,858.3
2022E EBITDA (m)	2,059.2	1,996.2

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Stock Data

Price	24.35 USD
Price Objective	26.00 USD
Date Established	6-Aug-2020
Investment Opinion	B-2-7
52-Week Range	19.56 USD - 30.67 USD
Mrkt Val (mn) / Shares Out (mn)	9,327 USD / 383.0
Average Daily Value (mn)	72.13 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2020E)	9.0%
Net Dbt to Eqty (Dec-2019A)	158.6%

iQprofile℠ NiSource Inc

iQmethod ℠ – Bus Performance*					
(US$ Millions)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on Capital Employed	3.9%	4.3%	3.9%	3.9%	4.0%
Return on Equity	10.1%	9.9%	9.0%	9.1%	9.3%
Operating Margin	18.3%	20.2%	19.5%	19.7%	20.6%
Free Cash Flow	(1,278)	(219)	(599)	(606)	(1,269)

iQmethod ℠ – Quality of Earnings*					
(US$ Millions)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Cash Realization Ratio	1.2x	3.2x	2.4x	2.4x	2.3x
Asset Replacement Ratio	3.0x	2.5x	2.4x	2.4x	3.2x
Tax Rate	19.7%	17.1%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	156.7%	158.6%	142.3%	142.9%	141.1%
Interest Cover	2.6x	2.8x	2.9x	3.1x	3.4x

Income Statement Data (Dec)					
(US$ Millions)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales	5,084	5,184	5,337	5,469	5,663
% Change	4.3%	2.0%	2.9%	2.5%	3.5%
Gross Profit	3,325	3,649	3,748	3,857	4,026
% Change	-0.9%	9.8%	2.7%	2.9%	4.4%
EBITDA	1,531	1,764	1,781	1,858	1,996
% Change	3.4%	15.2%	1.0%	4.3%	7.4%
Net Interest & Other Income	(335)	(384)	(362)	(344)	(348)
Net Income (Adjusted)	**463**	**495**	**481**	**524**	**595**
% Change	**16.6%**	**6.8%**	**-2.7%**	**8.8%**	**13.5%**

Free Cash Flow Data (Dec)					
(US$ Millions)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Net Income from Cont Operations (GAAP)	463	495	481	524	595
Depreciation & Amortization	600	717	742	783	827
Change in Working Capital	110	(75)	(186)	(186)	(186)
Deferred Taxation Charge	(188)	118	114	123	103
Other Adjustments, Net	(445)	328	0	0	0
Capital Expenditure	(1,818)	(1,802)	(1,750)	(1,850)	(2,609)
Free Cash Flow	**-1,278**	**-219**	**-599**	**-606**	**-1,269**
% Change	**-34.0%**	**82.9%**	**-173.6%**	**-1.2%**	**-109.4%**

Balance Sheet Data (Dec)					
(US$ Millions)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Cash & Equivalents	121	148	165	181	197
Trade Receivables	1,147	905	1,092	1,278	1,464
Other Current Assets	787	800	800	800	800
Property, Plant & Equipment	15,543	16,912	16,921	17,987	19,769
Other Non-Current Assets	4,206	3,894	3,894	3,894	3,894
Total Assets	**21,804**	**22,660**	**22,871**	**24,140**	**26,124**
Short-Term Debt	2,027	1,787	2,184	2,348	2,596
Other Current Liabilities	2,010	1,959	1,959	1,959	1,959
Long-Term Debt	7,105	7,856	7,118	7,652	8,460
Other Non-Current Liabilities	4,911	5,071	5,185	5,308	5,411
Total Liabilities	**16,053**	**16,673**	**16,447**	**17,267**	**18,427**
Total Equity	**5,751**	**5,987**	**6,424**	**6,873**	**7,696**
Total Equity & Liabilities	**21,804**	**22,660**	**22,871**	**24,140**	**26,124**

* For full definitions of iQmethod℠ measures, see page 8.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

NI's positives include 5-7% dividend growth and >5-7% EPS growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries. We have factored in resolution of overhang from the MA incident as the company will likely sell 3Q. However, NI has C&I demand risk from COVID, which will be difficult to offset with O&M cuts due to promises already around cost cuts to balance CMA sale. We see shares valued appropriately and rate Neutral.

Stock Data

Average Daily Volume	2,908,509

Quarterly Earnings Estimates

	2019	2020
Q1	0.82A	0.76A
Q2	-0.75A	0.13A
Q3	0A	-0.02E
Q4	1.24A	-1.48E

Estimates: see a positive skew, but how much expected?

After adjusting our interest expense lower to account for the refinancing, our earned ROEs are driven slightly *higher* and our EPS estimates move slightly higher as we add a penny of EPS to each '20, '21, and '22 (likely *more*, but unclear how this jives with prior cost cutting efforts). Our 2021 EPS estimate now lands exactly at the mid-point of NI's recently initiated '21 EPS guidance of $1.28-1.36 as we perceive '21 EPS is incrementally de-risked with the debt refinancing pulled forward. Given our specific concerns on lag until new rates in '24, we see the refinancing of corporate debt (which is subsequently allocated down to utility subsidiaries given its financing structure) should enable a step-change in reduced lag. This is among the most critical EPS drivers into '21. Given the step-change from '20 onwards, we still anticipate the cadence from '21 into '22 and '23 (the further critical years with lag) will prove relatively *unchanged*.

As we update estimates, our implied '21-'24 EPS CAGR comes out to 11.0%, which continues to be well in excess of NI's previously articulated 5-7% EPS CAGR (although the new baseline is *critical* to keep in mind). We emphasize that this 11.0% is a shorter three-year CAGR and we do not foresee this as a sustainable rate over the long term as the company will benefit from a significant uptick in EPS from the renewable program beginning in 2024 off of a lower base coming out of COVID-19. With the 5c negative base case COVID-19 impact added back to the midpoint of the new '21 EPS guidance and assuming our 2024 EPS estimate of 1.80, this would equate to a 9.6% EPS CAGR from '21-'24 – still strong, but again padded by the one-time uptick of $1.8-2.0bn of renewable capex in '22/'23 translating to EPS in '24.

We look for more timing around the incoming renewable capex and associated earnings on the 9/29 investor day. We currently assume 40% of the capex hits in '22 and the remaining 60% is in '23. We estimate this renewable capex generates $0.06 of EPS in '23 and roughly $0.14 of EPS in '24.

See our estimates below vs guidance and consensus. We also include a number of CAGRs to compare along with our rate base estimates vs guidance.

Table 1: NiSource (NI) EPS Estimates: it's difficult to tell just how much of a tailwind this provides… but clearly is a big part of meeting the delta

NI EPS Estimates		2019A	2020E	2021E	2022E	2023E	2024E	2025E
Gas		1.04	1.04	1.11	1.15	1.16	1.19	1.24
Electric		0.59	0.53	0.52	0.59	0.75	0.88	0.86
Electric - BOTs from RFP 1 & 2 (incl. in Electric EPS)		0.00	0.00	0.00	-0.01	0.06	0.14	0.14
Parent/Other		-0.32	-0.32	-0.31	-0.30	-0.28	-0.27	-0.26
BofA EPS		**1.32**	**1.25**	**1.32**	**1.43**	**1.63**	**1.80**	**1.84**
% Growth		1.2%	-5.3%	5.9%	8.7%	13.9%	10.4%	1.8%
Previous EPS		1.32	1.24	1.31	1.42	1.63	1.80	1.84
Guidance		**1.27-1.33**		**1.28-1.36**				
Consensus		1.30	1.29	1.36	1.44	1.55	1.66	
Consensus '21-'24 EPS CAGR	6.9%							
BofA '21-'24 EPS CAGR	11.0%							
BofA '20-'24 EPS CAGR	9.7%							
BofA '19-'23 EPS CAGR	5.6%							
BofA '19-'24 EPS CAGR	6.5%							
New Guidance '21-24 EPS CAGR	>5-7%							
Previous Guidance off '19 guidance range	5-7%							
Prior +5%-7% EPS CAGR off new '21 guidance range	High End			1.36	1.46	1.56	1.67	1.78
	Mid-Point			1.32	1.40	1.48	1.57	1.67
	Low End			1.28	1.34	1.41	1.48	1.56
Share Count (mn shares)		**376**	**386**	**397**	**415**	**439**	**464**	**479**

NI Rate Base Growth		2019	2020E	2021E	2022E	2023E	2024E	2025E
Gas Rate Base		9,197	9,032	10,065	11,126	12,135	13,160	13,969
Electric Rate Base		4,935	4,872	5,027	5,977	7,262	7,535	7,601
Total Rate Base (year-end)		**14,132**	**13,904**	**15,091**	**17,103**	**19,397**	**20,694**	**21,570**
Guidance excluding MA (year-end)			13,900	15,100	17,100	19,400	20,700	
BofA Implied CAGR ('21-'24)	*11.1%*							
Guidance excluding MA ('21-'24)	*10-12%*							

Source: BofA Global Research estimates, company report, Bloomberg

Valuation

Our PO stays at $26 as we mark to market our SOTP valuation only slightly higher with peer multiples of 16.2x (from 15.8x) for gas and 17.0 x (from 16.9x) for electric. We assign a 2x premium to our electric peers to account for incremental renewable earnings growth long-term. Also, we capitalize all of NI's gas subsidiaries at a 1x premium to account for mitigated COVID-19 concern with improved visibility into '21. We do note that under our SOTP valuation, which capitalizes '22 EPS across the subsidiaries, NiSource's incremental renewable capex and EPS currently lands outside of the valuation window.

Clear uncertainty remains in the near term with 2020 EPS guidance suspended, but lack of clarity on '21 lag is somewhat improved with refinancing in place providing more support into '22. We perceive a positive backdrop for shares into the coming months update, with '24 EPS the key metric (even '23 will be partially impacted by lag and remains relatively opaque). Expect more explicit guidance of what this '24 outlook will be (once benefitting from FY run-rate of EPS uplift with renewable investment and next rate case to earn ROE once more).

Meanwhile, given the large investments and backdrop of recent larger rate case, we expect bill headroom and pressure to remain a relevant factor to consider in execution of proposed plan.

We perceive a clear positive backdrop, but with our estimates still below Street on '21/'22 and with ambiguity on '23, we do not expect a re-rating to the 'next' ESG stock. Additionally, we see consistency in execution on O&M plan to limit future EPS revisions as key (after numerous quarters of consecutive gyrations in expectations). We think the Analyst Day should prove constructive vs expectations, but watch closely commentary on *interim years reflected within the CAGR.*

Table 2: NI SOTP Valuation: attractive into Analyst Day, but risks on '22/23 linger

NI SOP Valuation	Metric	P/E Multiple								
	2022E EPS	Low	Peer	Prem/ Discount	Base	High		Low	Base	High
Group Peer Multiple - Gas	-	-	**16.2x**	-	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Gas	-	-	**5.10%**	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Gas Utilities	-	-	**17.0x**	-	-	-	-	-	-	-
Columbia Gas of OH	$0.52	17.0x	17.0x	**1.0x**	18.0x	19.0x		$8.91	$9.44	$9.96
Columbia Gas of PA	$0.27	17.0x	17.0x	**1.0x**	18.0x	19.0x		$4.55	$4.81	$5.08
NIPSCO Gas	$0.21	17.0x	17.0x	**1.0x**	18.0x	19.0x		$3.55	$3.76	$3.96
Columbia Gas of VA	$0.08	17.0x	17.0x	**1.0x**	18.0x	19.0x		$1.41	$1.50	$1.58
Columbia Gas of KY	$0.05	17.0x	17.0x	**1.0x**	18.0x	19.0x		$0.77	$0.82	$0.86
Columbia Gas of MD	$0.02	17.0x	17.0x	**1.0x**	18.0x	19.0x		$0.32	$0.34	$0.36
Group Peer Multiple - Electric			**17.0x**							
Group EPS '18-'22 CAGR - Electric			**5.00%**							
Electric Utilities			**17.9x**							
NIPSCO Electric	$0.59	18.9x	17.9x	**2.0x**	19.9x	20.9x		$11.05	$11.63	$12.22
Total Utility	**$1.73**	*17.6x*			*18.6x*	*19.6x*		**$30.56**	**$32.30**	**$34.03**
-Parent EPS Drag (ex-Interest Expense)	-$0.09	17.6x	0.0x		18.0x	19.0x		-$1.55	-$1.58	-$1.67
Total EPS *(incl. debt drag)*	**$1.43**									
Midpoint of 5-7% EPS	*$1.40*									
Holdco Debt @ Parent, *not* allocated to Utilities										
(50% Netting out Debt)				-$2,000	50%			-$1,000	-$1,000	-$1,000
(50% P/E multiple on Interest Exp)				5.5%	50%			-$767	-$810	-$853
Grand Total Equity Value								**$24.75**	**$26.35**	**$27.89**
Shares Outstanding 2022E									415	
Total Equity Value								**$25.00**	**$26.00**	**$28.00**
Implied Consolidated P/E										
Current Price									$24.35	
Dividend Yield (2020E)									3.6%	
Total Return									**10.4%**	

Source: BofA Global Research estimates, company report, Bloomberg

Price objective basis & risk

NiSource Inc (NI)

Our $26 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2022 forward P/E multiples of 16.2x for gas utilities and 17.0x for electric utilities with a 1x premium for gas utilities given partially mitigated COVID impact and visibility into '21, and a 2.0x premium for the electric utility's strong growth rates and increamental renewable buildout with capex beginning in '22, but acknowledgendustrial risk (prev 1x). We note that electric / gas peer P/E multiples are grossed up by 5% / 5.1% to reflect capital appreciation across the sector. We strip value from Columbia Gas of MA given the pending sale to close in 3Q20. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
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	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
NEUTRAL				
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
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	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	Northwest Natural Holdings	NWN	NWN US	Richard Ciciarelli, CFA

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith

***iQ**method*[SM] **Measures Definitions**

Business Performance	**Numerator**	**Denominator**
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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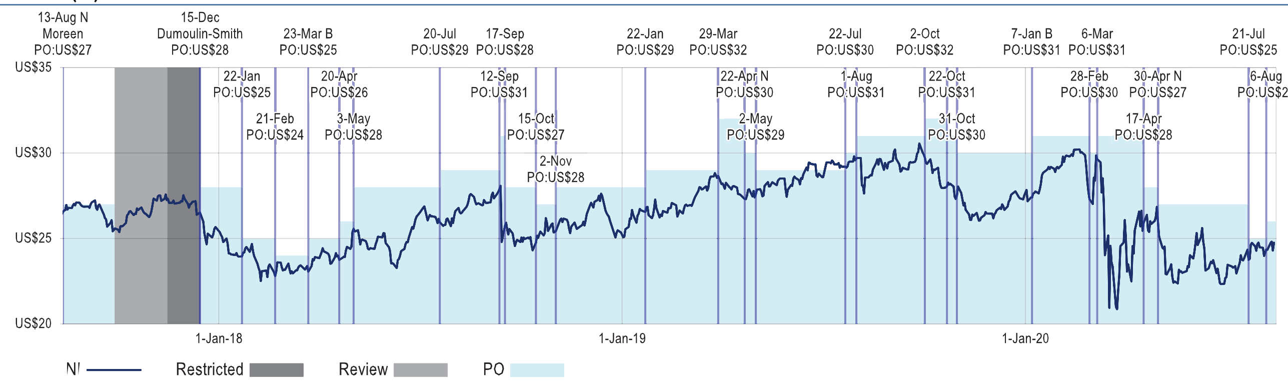
NiSource Inc (NI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Energy Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	69	43.40%	Buy	52	75.36%
Hold	48	30.19%	Hold	34	70.83%
Sell	42	26.42%	Sell	24	57.14%

Equity Investment Rating Distribution: Utilities Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	76	51.01%	Buy	56	73.68%
Hold	33	22.15%	Hold	22	66.67%
Sell	40	26.85%	Sell	29	72.50%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1632	52.21%	Buy	1031	63.17%
Hold	711	22.74%	Hold	444	62.45%
Sell	783	25.05%	Sell	407	51.98%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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Power & Utilities | North America Power & Utilities
30 September 2020

NiSource, Inc.

A Post-Investor Day Recap

At its Investor Day, NI rolled forward its capital plan and established guidance through 2024. Management established a 2021-2024 CAGR for adj EPS in the range of 7–9%, with interim targets in the range of 5–7% annual growth for 2021-2023. Under our new methodology, we give NI a 5% premium to the group average PE multiple to reflect our new expectations of above-average growth. We update our price target to $25 and reiterate our Equal Weight rating.

Our refreshed rate base math exercise now reflects a 7.6% 2021-2024 CAGR (vs. 7.1% under the previous iteration), before considering any incremental O&M flexibility, thus supporting management commentary. Updates include slight revisions to rate base guidance vs. the Q2 call (+$500m in 2024) and the expectation that financing for the $1.8-$2.0bn in renewables generation will have a 60% equity ratio (vs. 50% under the previous analysis).

Risks: Downside risks include federal policies to limit fracking that could inflate natural gas prices, tax reform that could impact customer bill headroom, a higher proportion of renewable generation through PPAs than anticipated, and higher-than-expected financing costs. Upside risks include cash from litigation of the pending property insurance claim that could offset equity needs, and the ability of NI to sustain an above-average growth trajectory in the long term.

NI: Quarterly and Annual EPS (USD)

	2019	2020			2021			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2020	2021
Q1	0.82A	0.76A	0.76A	0.76A	N/A	N/A	0.81E	-7%	N/A
Q2	0.05A	0.07E	0.13A	0.13A	N/A	N/A	0.29E	160%	N/A
Q3	0.00A	0.05E	0.03E	0.02E	N/A	N/A	0.07E	3%	N/A
Q4	0.42A	0.45E	0.41E	0.38E	N/A	N/A	0.42E	-2%	N/A
Year	1.32A	1.33E	1.33E	1.29E	1.33E	1.33E	1.35E	0.76%	0%
P/E	16.7		16.5			16.5			

Source: Barclays Research.
Consensus numbers are from Bloomberg received on 29-Sep-2020; 12:50 GMT

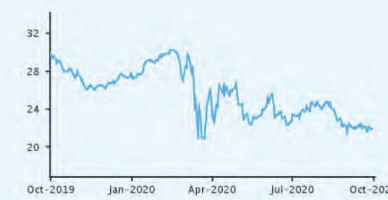
Stock Rating	EQUAL WEIGHT
	Unchanged
Industry View	POSITIVE
	Unchanged
Price Target	USD 25.00
	raised 4% from USD 24.00

Price (29-Sep-2020)	USD 21.96
Potential Upside/Downside	+13.8%
Tickers	NI

Market Cap (USD mn)	8411
Shares Outstanding (mn)	383.02
Free Float (%)	99.53
52 Wk Avg Daily Volume (mn)	3.5
Dividend Yield (%)	3.83
Return on Equity TTM (%)	-2.37
Current BVPS (USD)	12.49

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 30.46-19.56



Source: IDC; Link to Barclays Live for interactive charting

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 5.

North America Power & Utilities — **Industry View: POSITIVE**

NiSource, Inc. (NI)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	5,209	5,355	5,303	5,485	1.7%
EBITDA (adj)	2,028	1,929	1,998	2,160	2.1%
EBIT (adj)	1,316	1,180	1,204	1,319	0.1%
Pre-tax income (adj)	507	769	790	857	19.2%
Net income (adj)	495	516	532	582	5.5%
EPS (adj) ($)	1.32	1.33	1.33	1.42	2.7%
Diluted shares (mn)	376.0	388.7	398.8	408.5	2.8%
DPS ($)	0.80	0.85	0.90	0.95	6.0%

Margin and return data					Average
EBITDA (adj) margin (%)	38.9	36.0	37.7	39.4	38.0
EBIT (adj) margin (%)	17.1	21.8	22.5	23.9	21.3
Pre-tax (adj) margin (%)	9.7	14.4	14.9	15.6	13.7
Net (adj) margin (%)	9.5	9.6	10.0	10.6	9.9
ROIC (%)	5.7	7.2	7.4	7.4	6.9
ROA (%)	2.3	2.3	2.3	2.4	2.3
ROE (%)	8.6	8.6	8.2	8.3	8.4

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	16,912	18,120	19,284	20,402	6.5%
Cash and equivalents	139	-362	-874	-326	N/A
Total assets	22,660	23,367	24,019	25,684	4.3%
Short and long-term debt	9,629	9,656	9,256	10,186	1.9%
Other long-term liabilities	5,071	5,189	5,307	5,425	2.3%
Total liabilities	16,673	16,876	17,039	18,195	3.0%
Shareholders' equity	5,987	6,491	6,981	7,489	7.7%
Net debt/(funds)	9,490	10,018	10,130	10,512	3.5%
Change in working capital	89	364	-956	439	69.9%
Cash flow from operations	1,583	1,471	1,531	1,627	0.9%
Capital expenditure	-1,802	-1,850	-1,850	-1,850	N/A
Free cash flow	-219	-379	-319	-223	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	16.7	16.5	16.5	15.4	16.3
EV/EBITDA (adj) (x)	8.7	9.4	9.2	8.7	9.0
EV/EBIT (adj) (x)	13.4	15.4	15.2	14.2	14.6
FCF yield (%)	-1.2	-2.1	-1.7	-1.2	-1.6
P/BV (x)	1.4	1.3	1.3	1.2	1.3
Dividend yield (%)	3.6	3.9	4.1	4.3	4.0
Net debt/EBITDA (adj) (x)	4.7	5.2	5.1	4.9	5.0

Selected operating metrics					Average
Payout ratio (%)	60.8	63.8	67.4	66.9	64.7
Interest cover (x)	2.4	3.0	3.0	2.9	2.8
Regulated (%)	100.0	100.0	100.0	100.0	100.0

Price (29-Sep-2020)	USD 21.96
Price Target	USD 25.00

Why Equal Weight? We view NI as a quality utility with a well-defined rate base growth strategy from gas and electric infrastructure modernization, which we see as relatively low risk. However, because of premium valuation we do not see material upside to our price target.

Upside case USD 27.00

Our upside case reflects a 10% premium to the 2022 utility group average P/E multiple applied to higher earnings driven by additional rate base growth and favorable rate case outcomes and reduced financing needs.

Downside case USD 20.00

Our downside case reflects a 15% discount to the 2022 utility group average P/E multiple applied to lower earnings driven by slower rate base growth, unfavorable rate case outcomes, and capital restrictions due to a lack of customer bill headroom.

Upside/Downside scenarios

Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

What We Learned

We summarize our key takeaways from the Investor Day in the following bullets:

- 7% to 9% adj EPS CAGR from 2021-2024; 10-12% rate base CAGR
  - 5% to 7% target for annual growth from 2021-2023
- Expected to finance renewables capex at a 60% equity / 40% debt split
- 8% O&M reduction in 2021 relative to 2020; "relatively flat" from 2021-2024
- $40 billion infrastructure investment opportunity set (up from previous $30bn)
- $9.9-$10.5 billion investment pipeline from 2021-2024 (20% renewables, 20% electric infrastructure mod, 60% gas infrastructure mod)
  - $1.9-$2.2 billion annual capex in growth, safety & modernization (75% gas, 25% electric) through 2024
  - Incremental $1.8-$2.0bn capex over 2021-2023 for renewables generation
- The NI Next initiative strives to achieve cost savings, efficiency and digitization, a flatter organization with more empowered middle management, annual run rate savings targets, and improved customer trust and interactions

Our Rate Base Math, Refreshed

Our previous exercise in rate base math, found last week's note "*A Preliminary Investor Day Analysis*" (9/24/20), resulted in a 7.1% CAGR from 2021-2024, before considering the impact of any incremental O&M flexibility. We refresh our math to account for the following changes to rate base guidance at the investor day vs the Q2 call:

FIGURE 1
Rate Base Guidance Refresh ($bn)

	2020	2021	2022	2023	2024
Q2 Earnings Call	13.9	15.1	17.1	19.4	20.7
9/29 Investor Day	13.9	15.2	17.0	19.8	21.2
Δ	0	0.1	(0.1)	0.4	0.5

Source: Barclays Research, Company Reports

After incorporating this update to rate base guidance *and* the expectation that financing will be done with 60% equity (vs. our previous 50% assumption), the same exercise in rate base math results in a 7.6% CAGR from 2021-2024. Thus, we have confidence NI can achieve an EPS CAGR within the stated 7-9% range, particularly when we consider additional cost contingencies available that were not included in this guidance. See our previously referenced note for more information regarding this analysis.

Valuation

We revise our methodology to incorporate a 5% premium to the group average P/E multiple in order to reflect our new expectations of above-average growth in the medium-term driven by rate base investments for RM Schahfer replacement power.

Our current $25 price target is premised upon a 5% premium to the group average P/E multiple of 17x applied to the Barclays 2022E EPS estimate of $1.42.

Our previous $24 price target is premised upon the group average P/E multiple of 17x applied to the Barclays 2022E EPS estimate of $1.42.

Future Focus

We highlight the following drivers for future focus:

- Financing – timing and methods
- RFP negotiations and approval
- Proportion of Build-Transfer Agreements vs. PPAs
- Information on cost savings following RM Schahfer retirement
- The impact to bill headroom from potential Biden Administration policies (e.g. higher corporate taxes and restrictions on fracking that could inflate natural gas prices)
- The appearance of legislation in Indiana that would prolong the life of coal generation
    - Alternatively, the appearance of policy in Indiana to increase the Renewable Portfolio Standard
- The extent to which renewables replacement power increases the opportunity for reliability or T&D spending

September 29, 2020 | 20:57 ET | 20:57 ET~

NiSource Inc

NI-NYSE	Rating	Price: Sep-29	Target	Total Rtn
	Outperform	$21.96	$24.00	13%

NI's Analyst Day Post View: Visible Growth at a Reasonable Price

Bottom Line:

NI held its virtual analyst day on September 29, which, as expected, included the extension of its financial outlook through 2024 to incorporate its renewable investment plan at NIPSCO. The company's outlook was mostly in line with expectations with a NOEPS CAGR of 5-7% from 2021 to 2023, rising to 7-9% including the full-year impact of its renewable investment in the rate base in 2024. Our base case 2021, 2022, and 2023 EPS estimates are $1.33, $1.38, and $1.52, respectively, and we introduce our 2024 estimate of $1.66, which suggests a comparable 7.7% CAGR.

Key Points

Growth and drivers in line with expectations. As discussed in our Preview, with its expected 2021-24 rate base outlook already previewed on the 2Q20 conference call (+10-12% CAGR), the primary drivers behind the company's long-term growth will be the cadence of capital additions, timing of rate relief, cost control (including that to facilitate new investment), and financing plan. **Management laid out its expectations for a NOEPS CAGR of 5-7% from 2021 to 2023 and a 7-9% NOEPS CAGR for 2021-24 including the full-year impact of renewable investments in the rate base in 2024.** This multi-year outlook was supported by a slightly higher baseline investment, 70%+ tracked investment recovery, periodic GRCs in PA, OH, and IN, a new cost control program, and a flexible financing program. Our estimates assume two-step rate increases at NIPSCO in 2023-24.

Baseline growth rate supported by higher spending. NI outlined a baseline capital program of ~$1.9-2.2bn underpinning its safety and asset modernization programs, up modestly from the $1.8-1.9bn trend seen in 2018-20, and supports the 5-7% base growth outlook through 2023 (guidance toward midpoint). Included in this annual outlook is roughly $400-600mm of spending at NIPSCO electric (nonrenewables) and ~ $1,400-1,700mm at gas infrastructure.

New cost control program to support growth. Management launched the NiSource Next initiative, which is expected to contribute to an approximately 8% reduction in O&M costs in 2021 and will offset future inflationary pressure to keep O&M costs relatively flat through 2024, enabling rate headroom.

Financing plan removes near-term fear and incorporates flexibility. Management expects to issue total equity of approximately $1.2bn from 2021 to 2024 to finance ~60% of the $1.8-2.0bn investment in renewables. Our base case now assumes $600mm in hybrids in 2021 and $300mm of block equity in 2022 and 2023.

We maintain our Outperform rating and $24 target price.

Key Changes		
Estimates	2020E	2021E
EBIT	$1,102	$1,172
Previous	*$1,087*	*$1,155*

Please refer to pages 5 to 8 for Important Disclosures, including Analyst's Certification.

BMO Capital Markets — IN Fact

Utilities, Power & Renewables

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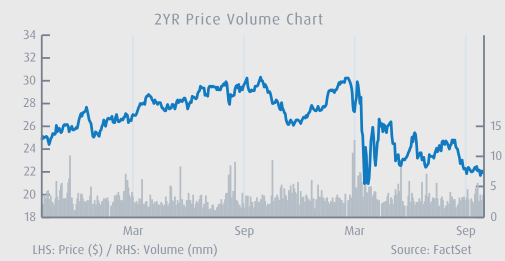


Company Data			in $
Dividend	$0.84	Shares O/S (mm)	383.0
Yield	3.8%	Market Cap (mm)	$8,411
P/BV	1.7x	Net Debt (mm)	$9,606

BMO Estimates			in $
(FY-Dec.)	2019A	2020E	2021E
EPS	$1.32	$1.30	$1.33
DPS	$0.80	$0.84	$0.89
EBIT	$1,042	$1,102↑	$1,172↑
EBITDA	1,759	1,849↑	1,945↑

Consensus Estimates			
	2019A	2020E	2021E
EPS		$1.29	$1.34

Valuation			
	2019A	2020E	2021E
P/E	16.7x	16.9x	16.5x
Div. Yield (%)	3.6%	3.8%	4.1%

QTR. EPS	Q1	Q2	Q3	Q4
2019A	$0.82	$0.05	$0.00	$0.45
2020E	$0.76a	$0.13a	$0.05	$0.36
2021E	$0.81	$0.06	$0.05	$0.41

Our Thesis

We like several aspects of NI following the sale of Columbia Gas of Massachusetts and removal of the previously guided $500-700mm equity issuance overhang, which we believe meaningfully de-risked the story.

BMO Capital Markets

NiSource - Block Summary Model

Income Statement	2019A	2020E	2021E
Electric Operations	402	418	440
Gas Distribution	632	676	723
Parent & Other	13	13	13
Consolidated EBIT	1,042	1,102	1,172
Depreciation & Amortization	717	747	773
EBITDA	1,759	1,849	1,945
Interest Expense	379	411	408
Income Tax	113	123	135
Income from continuing operations	495	503	533
Weighted Average Shares Outstanding	376	388	400
Diluted Operating EPS	$1.32	$1.30	$1.33
Dividends per Share	$0.80	$0.84	$0.89
Cash Flow Statement	**2019A**	**2020E**	**2021E**
Operating Cash Flow	1,750	1,417	1,366
Investing Cash Flow	(1,988)	(670)	(2,050)
Financing Cash Flow	154	519	513
Net Change in Cash Flow	(84)	1,266	(171)
EOP Cash on Balance Sheet	37	1,303	1,132
Common stock (net)	34	360	948
Net debt issued/(repaid)	494	500	(64)
Dividends paid	(301)	(326)	(356)
Balance Sheet	**2019A**	**2020E**	**2021E**
Common Equity	5,327	6,044	7,249
Preferred Equity	880	880	880
Total Debt	9,643	10,143	10,079
Enterprise Value	$20,207	$20,353	$20,800
Common equity %	33.6%	35.4%	39.8%
Preferred equity %	5.6%	5.2%	4.8%
Total Debt %	60.8%	59.4%	55.4%
Book Value per Share	$16.51	$17.84	$20.33

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

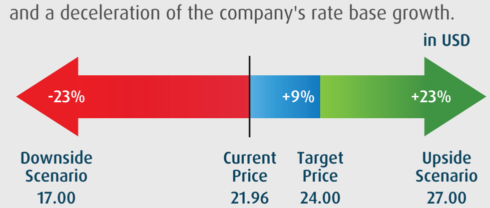
Our $24 target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2022E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook. For NI, we have removed EPS for its MA gas business from our P/E valuation and instead include only the asset value (1x equity rate base) in our SOTP framework.

Upside Scenario $27.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile.

Downside Scenario $17.00

Our downside scenario reflects a tightening monetary policy and a deceleration of the company's rate base growth.



Key Catalysts

Initial indicative pricing in its second renewable RFP in IN. Completing the sale of Columbia Gas of Massachusetts to Eversource. Potentially, capital spending and growth rate update in 2H20 given clarity in the aforementioned RFP and recent rate orders in MA and IN.

Company Description

NiSource, Inc. is a regulated utility holding company, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states. Through its Columbia Gas and NIPSCO brands, it provides natural gas, electricity, and other products and services. The company was founded in 1987 and is headquartered in Merrillville, Indiana.

NI-NYSE Research

Glossary

Company Models

BMO Capital Markets

Exhibit 1: Model Summary

NI Model Summary	2019	2020	2021	2022	2023	2024	5-Year
EPS By Segment							
Electric Operations	$0.78	$0.79	$0.81	$0.87	$0.97	$1.12	*7%*
Gas Distribution	$1.12	$1.15	$1.14	$1.18	$1.18	$1.20	*1%*
Corporate & Other	($0.58)	($0.64)	($0.62)	($0.66)	($0.64)	($0.65)	*2%*
Consolidated E.P.S.	**$1.32**	**$1.30**	**$1.33**	**$1.38**	**$1.52**	**$1.66**	***5%***
Dividend per share	**$0.80**	**$0.84**	**$0.89**	**$0.94**	**$1.00**	**$1.06**	
Payout Ratio total	60.8%	64.8%	66.8%	68.3%	66.0%	63.7%	
Dividend Yield	2.9%	2.9%	3.0%	3.2%	3.4%	3.6%	
Valuation Metrics							
Price to Earnings	21.2x	22.6x	22.0x	21.2x	19.3x	17.6x	
Price to Book Value	1.7x	1.6x	1.4x	1.3x	1.3x	1.3x	
Funding Sources							
Cash Flow from Operations	$1,750	$1,417	$1,366	$1,447	$1,577	$1,834	*0.9%*
Total Debt Financings	$750	$500	$0	$1,300	$700	$600	
Total Equity Financings	$34	$360	$948	$648	$648	$348	

Source: BMO Capital Markets, Company Filings

Exhibit 2: Model Assumptions

Key Model Assumptions	2019	2020	2021	2022	2023	2024	5-Year
Total Capital Expenditures by Segment							
Electric Operations	$469	$500	$500	$500	$500	$500	**$2,500**
Gas Distribution	$1,380	$1,270	$1,400	$1,400	$1,700	$1,500	**$7,270**
Consolidated Capital Expenditures	**$1,849**	**$1,770**	**$1,900**	**$1,900**	**$2,200**	**$2,000**	**$9,770**
YE Rate Base Estimates							
NIPSCO Electric	$4,866	$5,357	$5,901	$6,704	$8,038	$8,188	*11.0%*
Columbia Gas of Ohio	$3,106	$3,401	$3,782	$4,150	$4,632	$5,003	*10.0%*
Columbia Gas of Pennsylvania	$1,883	$2,062	$2,293	$2,517	$2,808	$3,034	*10.0%*
NIPSCO Gas	$1,660	$1,818	$2,022	$2,219	$2,476	$2,675	*10.0%*
Columbia Gas of Massachusetts	$1,098	$1,203	$0	$0	$0	$0	
Columbia Gas of Virginia	$789	$864	$961	$1,055	$1,177	$1,271	*10.0%*
Columbia Gas of Kentucky	$338	$369	$411	$451	$503	$543	*10.0%*
Columbia Gas of Maryland	$136	$150	$166	$183	$204	$220	*10.1%*
Total Rate Base	**$13,876**	**$15,224**	**$15,536**	**$17,279**	**$19,838**	**$20,933**	***8.6%***

Source: BMO Capital Markets, Company Filings

BMO Capital Markets

Exhibit 3: SOTP Valuation

Regulated, Corporate & Other	Valuation Metric	2022E EPS	Sector Comp	Sector Multiple	Prem/ (Discount)	Base Multiple	BMO Low Case P/E Multiple	BMO Low Case Implied Value ($ MM)	BMO Base Case P/E Multiple	BMO Base Case Implied Value ($ MM)	BMO High Case P/E Multiple	BMO High Case Implied Value ($ MM)
Electric Operations	EPS	$0.87	Electric	17.4x	+5.0%	18.3x	14.4x	$13	18.3x	$16	20.3x	$18
Gas Distribution	EPS	$1.18	Natural Gas	14.1x	+5.0%	14.8x	11.1x	$13	14.8x	$17	16.8x	$20
Coporate & Other	EPS	($0.66)	Blend	15.5x	+0.0%	15.5x	15.5x	($10)	15.5x	($10)	17.5x	($12)
Utility & Parent Value		**$1.38**					11.1x	**$15**	16.7x	**$23**	18.7x	**$26**
		'19 Rate Base	Equity %	Equity								
Columbia Gas of Massachusetts		$1,100	47%	$517		1.0x	1.0x	$1.24	1.0x	$1.24	1.0x	$1.24
Total NiSource Inc.								**$17**		**$24**		**$27**
Upside/(Downside)								-24.7%		10.5%		23.1%
Current Yield								2.9%		2.9%		2.9%
Total Return								**-21.9%**		**13.3%**		**25.9%**

Source: BMO Capital Markets, Company Filings

BofA GLOBAL RESEARCH

BofA SECURITIES

NiSource Inc

Indeed, What We Expected On First Look: A Conservative EPS to Reset Their Cred

Maintain Rating: NEUTRAL | PO: 23.00 USD | Price: 21.85 USD

Analyst Day yields 7-9% EPS outlook with 5-7% interim

As expected from 2Q disclosures mgmt. guided to 7-9% EPS growth from '21-'24 with interim target of 5-7% in '22 and '23. While admittedly less than our bottoms up EPS forecast, we perceive this as largely tied to financing costs in the interim to achieve (previously stated) 11% ratebase growth CAGR. While not surprising as an outcome, we look to understand the pieces reconciling to this EPS outlook, particularly considering commitment to flat non-fuel O&M thru forecast period off '21 levels as well as 12% and 16% jumps in ratebase in '22 and '23, respectively. While we appreciate added lag from non-recovery of renewables at NISPCO electric until the subsequent rate case results in full-year benefit in '24, 5-7% commitment remains conservative in our view as *other* gas utilities appear to be able to & projected to earn their ROE. *Bottom line, it would appear a clearly conservative update as it would appear that even if you took the 5c impact from Covid, once could still hold the 7-9% EPS (our EPS of $1.76 in '24 implies 10.3% or even 9% without the -5c hit as baseline of $1.32 vs $1.37 for '21).* We see rebuild conservative mantra in EPS targets as behind the lower EPS outlook in near-term. Maintain our Neutral rating and $23 PO and would like more clarity on reconciling the 5-7% EPS outlook. Expect the stock to have a in-line reaction today on this news.

Equity is another key point of focus too in plan

Total equity disclosures were predictably on higher end given pressures otherwise with common equity block range of $500-700 Mn in '22/'23 time period along with $600Mn-$1Bn convertible raise in the 2021 period. While we had already reflected $800 Mn convert, the equity block is admittedly $200 Mn higher than anticipated (slight negative) but not unexpected given slightly lower EPS outlook than we had forecast as well. We also note this appears slightly more than Street expected as well. This all reconciles as well with the 14-15% FFO/debt note that the $600-$1Bn convertible placeholder could be preferred issuance such that equity dilution is not necessarily at he full mid-point of $1.4 Bn otherwise implied. *This would appear a key point of flexibility in the plan & a critical point for shares to inflect off of next year depending on financing approach taken for this issuance. Coupon, tenor, and equity treatment (whether convertible or preferred) remain of critical importance beyond just addressing capital market 'overhang' into '21.*

More definition of renewables coming too

While capex is unchanged on total renewable opportunity, mgmt. remains confident on total build. The specific projects appear on track be detailed in short order. We see continued execution on novel tax equity structure for renewables in ratebase as critical to industry development of solar at large: *as such a key point to watch for industry positioning on ratebase prospects.*

29 September 2020

Equity

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Stock Data

Price	21.85 USD
Price Objective	23.00 USD
Date Established	15-Sep-2020
Investment Opinion	B-2-7
52-Week Range	19.56 USD - 30.46 USD
Mrkt Val (mn) / Shares Out (mn)	8,369 USD / 383.0
Average Daily Value (mn)	66.21 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2020E)	9.1%
Net Dbt to Eqty (Dec-2019A)	158.6%

Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2. 12192830

Price objective basis & risk

NiSource Inc (NI)

Our $23 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2022 forward P/E multiples (disc. back to '21) of 14.2x for gas utilities and 16.3x for electric utilities with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex beginning in '22, but acknowledge industrial risk. We note that electric / gas peer P/E multiples are grossed up by 5% / 5.1% to reflect capital appreciation across the sector. We strip value from Columbia Gas of MA given the pending sale to close in 3Q20. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Citi Research
Equities

29 Sep 2020 18:53:01 ET │ 11 pages

Pipelines & Gas Utilities
North America │ United States

NiSource Inc (NI)

Signals Openness to LDC Sale at Virtual Analyst Day

- **Citi Take:** During the Virtual Analyst Day, NiSource reiterated its 10-12% rate base CAGR, 7-9% EPS CAGR for 2021-2024 (5-7% CAGR for 2021-2023), and 60-70% payout ratio. NI expects an 8% decline in O&M in 2021 (sale expected to close in October) and then relatively flat O&M costs through 2024. More importantly, NiSource provided details on its renewable investments plan and associated financing plan, and signaled an openness to monetizing LDC assets at the right price.

- **Strategic Alternatives Signaled:** NiSource made an effort to signal to the market that it is open to selling part of its LDC portfolio for the right price. This is a bullish signal for the electric utility industry and bearish for the LDC space given NiSource's unique portfolio (remember they sold pipeline business a few years ago).

- **Flexible Financing Plan:** The current financing plan is flexible around strategic alternative decision-making with $500-$700M of block equity as a placeholder and 7-9% EPS growth in base plan. At the midpoint, management expects $1.2B of total equity-linked financing for '22-23 to coincide with renewable capex and credit metrics.

- **New Renewable Investments Plan:** NiSource is targeting a $1.8-2.0B renewable investment plan for 2021-2023 with most capex weighted towards late 2022- early 2023 ($2.8-$3.0B with tax equity for the PPA JV ownership plan). $0.4B already has regulatory approval and an additional $1.4-$1.6B was filed but not yet formally approved. The project relies on ~$1.0B of tax equity at ~7% IRRs, which seems likely given sponsor, and consists of Rosewater's $94M, Crossroad's $250M and ~$700M for future solar JVs (~30% tax equity). Solar, storage, and wind projects are in late stage negotiations. NI plans a 2H23 GRC to recover renewable investment.

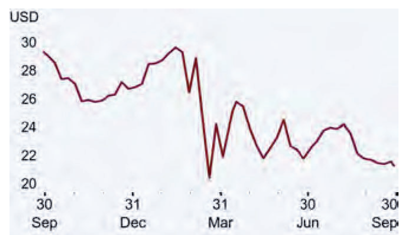
- **Capex Guidance:** NiSource is targeting $9.9-$10.5B of capex investments from 2021-2024. Aside from $1.8-$2.0B of renewable investments through 2023, NI guides $1.9-$2.2B of annual capex for planned safety & modernization investments. Management expects to start recovery of ~75% of investments within 18 months with customer bill impact of low to mid-single digits per year.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2019A	0.82A	0.06A	0.00A	0.45A	1.32A	1.32A	0.87A
2020E	**0.76A**	**0.13A**	**0.06E**	**0.36E**	**1.32E**	**1.29E**	**1.15E**
Previous	0.76A	0.13A	0.06E	0.36E	1.32E	na	na
2021E	**na**	**na**	**na**	**na**	**1.39E**	**1.34E**	**1.35E**
Previous	na	na	na	na	1.39E	na	na
2022E	**na**	**na**	**na**	**na**	**1.48E**	**1.43E**	**1.43E**
Previous	na	na	na	na	1.48E	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus. VA Cons: Visible Alpha Consensus. Click here for Visible Alpha consensus data

Neutral	**2**
Price (29 Sep 20 16:00)	US$21.96
Target price	US$24.00
Expected share price return	9.3%
Expected dividend yield	3.7%
Expected total return	**12.9%**
Market Cap	US$8,411M

Price Performance
(RIC: NI.N, BB: NI US)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

NI.N: Fiscal year end 31-Dec					
Profit & Loss (US$m)	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Sales revenue	5,115	5,209	4,793	4,835	5,035
Cost of sales	-2,361	-2,252	-1,935	-1,868	-1,948
Gross profit	2,754	2,957	2,859	2,967	3,087
Gross Margin (%)	53.8	56.8	59.6	61.4	61.3
EBITDA (Adj)	**724**	**1,275**	**1,453**	**1,837**	**2,002**
EBITDA Margin (Adj) (%)	14.2	24.5	30.3	38.0	39.8
Depreciation	-600	-717	-674	-594	-652
Amortisation	0	0	0	0	0
EBIT (Adj)	**125**	**557**	**779**	**1,243**	**1,350**
EBIT Margin (Adj) (%)	2.4	10.7	16.3	25.7	26.8
Net interest	-353	-379	-388	-385	-410
Associates	0	0	0	0	0
Non-Op/Except/Other Adj	44	-5	25	26	26
Pre-tax profit	**-185**	**173**	**416**	**884**	**966**
Tax	180	-56	-79	-273	-301
Extraord./Min.Int./Pref.div.	-15	-55	-55	-55	-55
Reported net profit	**-20**	**63**	**282**	**555**	**610**
Net Margin (%)	-0.4	1.2	5.9	11.5	12.1
Core NPAT	462	495	511	555	610
Per share data	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Reported EPS ($)	-0.06	0.17	0.73	1.39	1.48
Core EPS ($)	1.29	1.32	1.32	1.39	1.48
DPS ($)	0.78	0.80	0.83	0.84	0.86
CFPS ($)	1.64	3.51	1.90	2.93	3.11
FCFPS ($)	-3.45	-1.29	-2.42	-1.45	-1.15
BVPS ($)	13.67	13.63	12.89	13.71	14.57
Wtd avg ord shares (m)	347	366	377	390	402
Wtd avg diluted shares (m)	357	376	387	400	411
Growth rates	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Sales revenue (%)	4.9	1.8	-8.0	0.9	4.1
EBIT (Adj) (%)	-86.3	346.8	39.8	59.5	8.6
Core NPAT (%)	16.2	7.3	3.1	8.7	10.0
Core EPS (%)	6.9	1.9	0.1	5.2	6.8
Balance Sheet (US$m)	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Cash & cash equiv.	121	148	154	154	154
Accounts receivables	1,059	857	734	763	795
Inventory	423	425	386	398	412
Net fixed & other tangibles	17,631	19,090	17,318	18,474	19,572
Goodwill & intangibles	1,911	1,486	1,486	1,486	1,486
Financial & other assets	659	654	2,087	2,094	2,101
Total assets	**21,804**	**22,660**	**22,165**	**23,368**	**24,519**
Accounts payable	884	666	498	507	515
Short-term debt	2,027	1,787	737	832	853
Long-term debt	7,105	7,856	9,060	9,660	10,260
Provisions & other liab	6,037	6,364	6,007	6,011	6,016
Total liabilities	**16,053**	**16,673**	**16,302**	**17,010**	**17,645**
Shareholders' equity	5,751	5,987	5,863	6,357	6,874
Minority interests	0	0	0	0	0
Total equity	**5,751**	**5,987**	**5,863**	**6,357**	**6,874**
Net debt (Adj)	**9,012**	**9,494**	**9,643**	**10,339**	**10,960**
Net debt to equity (Adj) (%)	156.7	158.6	164.5	162.6	159.4

Price: US$21.96; TP: US$24.00; Market Cap: US$8,411m; Recomm: Neutral

Valuation ratios	**2018**	**2019**	**2020E**	**2021E**	**2022E**
PE (x)	17.0	16.7	16.6	15.8	14.8
PB (x)	1.6	1.6	1.7	1.6	1.5
EV/EBITDA (x)	28.9	16.9	14.9	11.9	11.2
FCF yield (%)	-15.7	-5.9	-11.0	-6.6	-5.2
Dividend yield (%)	3.6	3.6	3.8	3.8	3.9
Payout ratio (%)	60	61	63	61	58
ROE (%)	-0.4	1.3	5.6	10.6	10.6
Cashflow (US$m)	**2018**	**2019**	**2020E**	**2021E**	**2022E**
EBITDA	724	1,275	1,453	1,837	2,002
Working capital	110	-75	-638	-34	-40
Other	-249	118	-81	-632	-685
Operating cashflow	**586**	**1,318**	**733**	**1,170**	**1,278**
Capex	-1,818	-1,802	-1,668	-1,750	-1,750
Net acq/disposals	-104	-113	1,033	0	0
Other	-4	-7	-1	0	0
Investing cashflow	**-1,926**	**-1,922**	**-635**	**-1,750**	**-1,750**
Dividends paid	-273	-299	-325	-352	-385
Financing cashflow	**1,480**	**423**	**55**	**643**	**536**
Net change in cash	**140**	**-182**	**153**	**64**	**64**
Free cashflow to s/holders	**-1,233**	**-485**	**-935**	**-580**	**-472**

For definitions of the items in this table, please click here.

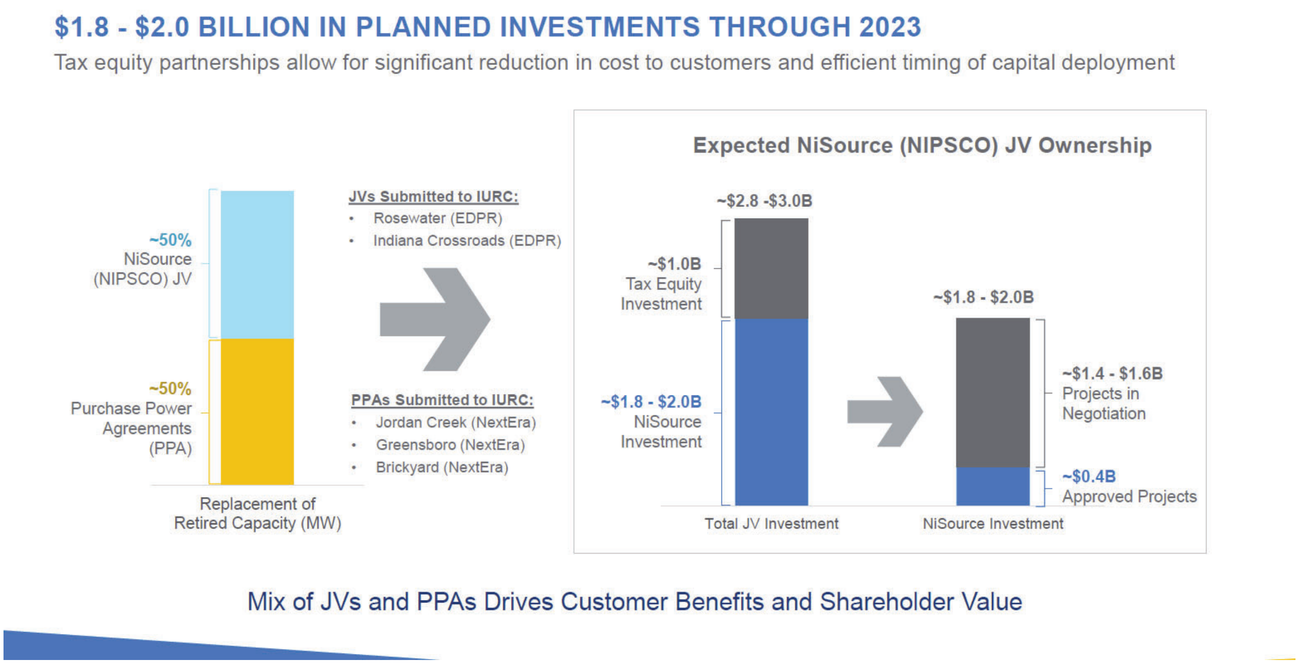
Powered by: dataCentral

Takeaways

Below we highlight three key investor slide from the analyst day this morning.

Key Slides:

Figure 1. JV Ownership Details



Source: NI Presentation

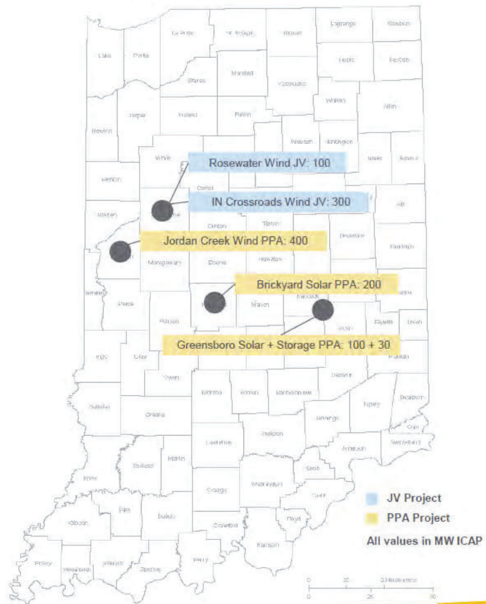
Figure 2. Renewable Investments

ROBUST RENEWABLE INVESTMENTS IN INDIANA

Project	Structure	NIPSCO Investment ($M)	In Service	Status
Executed Projects:				
Rosewater Wind *(EDPR)*	JV	~$100	'20	Under Construction
Jordan Creek Wind *(NextEra)*	PPA	N/A	'20	Under Construction
Indiana Crossroads Wind *(EDPR)*	JV	~$300	'21	Under Construction
Brickyard Solar *(NextEra)*	PPA	N/A	'22	Pending Approval
Greensboro Solar + Storage *(NextEra)*	PPA	N/A	'22	Pending Approval
In Process Projects:				
Solar (+ Storage) Projects[1]	JV	~$1,400 – $1,600	'22–'23	Advanced Commercial Negotiations
Solar & Wind Projects	PPA	N/A	'23	Advanced Commercial Negotiations
Total		**$1,800 – $2,000**		

[1]Includes transmission projects included in IRP which will be fully owned by NIPSCO

Renewable Projects in Execution



Source: NI Presentation

Figure 3. Financing Strategy

2021E – 2024E FINANCING STRATEGY[1]

($ millions)	2021E	2022E	2023E	2024E
Planned Annual Safety & Modernization Investments				
Equity				
ATM (At-the-Market)	$200 - $300 Annually (2021E–2023E)			
ESPP/401K/Other	$30 - $50 Annually (2021E–2024E)			
Long-Term Debt				
Incremental Long-Term Debt		$500 - $700 Annually (2022E–2024E)		
Planned Renewable Generation Investments (Targeting 60% Equity)				
Equity				
Common Equity Block		$500 - $700 Total (2022E–2023E)		
Long-Term Debt				
Incremental Long-Term Debt		$500 - $700 Total (2022E–2023E)		
Other Financing				
Hybrids, Convertibles, etc.	$600 - $1,000 Total			

Current Financing Plan ...

- All financing is included on our long-term growth commitments
- Reflects our focus on maintaining current investment grade credit rating
- Targets renewable investment financing (60% Equity / 40% Debt)
- Doesn't include potential portfolio optimization opportunities

Financing strategy targets long-term Adj. FFO[2]/total debt of ~14%-15%

[1]Current financing plan may change based on business developments
[2]Adjusted funds from operations (FFO); represents Net Income adjusted for depreciation and amortization, loss on early extinguishment of debt and deferred taxes

Source: NI Presentation

NiSource Inc

Company description

NiSource Inc (NI) is primarily a regulated utility with an integrated network of gas distribution in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana. The company serves around 4 million customers across seven states through its two main business segments, including: 1) Gas Distribution, which delivers natural gas in several states; 2) Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCO).

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). We believe NI's long-term earnings are relatively stable due to diverse operations areas and constructive regulatory jurisdictions. Our estimates do not include: 1) Substantial industrial load growth at the utilities; 2) Colder-than-normal weather and faster than average customer growth; or 3) Slower than typical timeline in regulatory filing and approval process for new infrastructure projects and cost recovery mechanisms.

Valuation

We average multiple valuation methodologies to derive our $24 target price. Our NAV yields a value of $21. We value regulated assets at a multiple of 1.3x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $30 per share. Our P/E and EV/EBITDA analyses yield values of $23 per share.

Risks

The key risks to our investment thesis are: (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates. (2) Weather – Changes in weather impact the stability of earnings. (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. (4) Capital Markets — Access to cheap capital markets could be limited due to the size of the company. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target. (5) There is a risk that there will be negative political, financial, and regulatory backlash from the recent events in New England.

Appendix A-1

Analyst Certification

The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by "AC" in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst is certifying with respect to the entire research report other than (a) content attributable to another AC certifying analyst listed in bold alongside the content and (b) views expressed solely with respect to a specific issuer which are attributable to another AC certifying analyst identified in the price charts or rating history tables for that issuer shown below. Each of these analysts certify, with respect to the sections of the report for which they are responsible: (1) that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc. and its affiliates; and (2) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

EVERCORE ISI

Energy | Power & Utilities

September 29, 2020

NiSource Inc
NI | $21.85
Outperform | TARGET PRICE: $26.00
Company Update

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Company Statistics

Market Capitalization (M)	$11,128
Shares Outstanding (M)	383
Dividend	0.80
Dividend Yield	2.8%
Payout Ratio	63.6%
Expected Total Return	(7.8)%
Fiscal Year End	Dec

Earnings Summary

	2020E	2021E	2022E
EPS	$1.26	$1.34	$1.41
P/E	23.1	21.7	20.7
EPS vs Consensus	(5.9)%	(5.0)%	(6.7)%
Consensus EPS	$1.34	$1.41	$1.51
Consensus P/E	21.7	20.6	19.3

1 Year Price History

Source: FactSet

The Eagle Has Landed

Maintaining Outperform rating and price target of $26/share.

Today's Investor Day update sets a solid foundation for higher than expected long term growth. NiSource announced $40 billion in infrastructure investment opportunities over the next 20 years, an increase of $10 billion over previous expectations. The company outlined a $9.9-10.5 billion capital plan in 2021 through 2024, which is expected to drive 10-12% rate base CAGR and a back-end loaded 7-9% EPS CAGR. Notably, the annual EPS growth is forecasted to be 5-7% in 2021 through 2023. The five-year EPS growth outlook was expected to be back-end loaded and greater than 5-7%, but the 7-9% CAGR announced today is higher than our expectations and materially above industry average projected EPS growth rate of 5%. NiSource continues to target long-term 14-15% FFO to debt, as expected. The company's newly disclosed financing plan includes $200-300 million of ATM equity annually in 2021-2023, $500-700 million of total block equity in 2022-2023, $600-1,000 million of hybrids/convertibles/other in 2021, plus employee equity programs and long-term debt (see inside for more detail). The planned $1.8-2.0 billion of renewables replacement power capex was reaffirmed today, and is expected to be financed with 60% equity, with recovery of investment sought through a 2023 rate case. The amount of equity in the financing plan to achieve its targeted credit metrics was largely to be expected given that we see NI trending towards 13% FFO to debt this year. NiSource said the financing plan does not include any potential "portfolio optimization" opportunities to enhance shareholder value or $300 million of potential property insurance from the Mass. incident. NiSource now projects an 8% reduction in O&M costs in 2021 from 2020 levels with subsequent O&M expected to be "relatively flat" in 2021 through 2024. The sustainable outlook for O&M savings is positive news given that some of the COVID mitigation measures for the near term are expected to be one-time in nature. NiSource anticipates moderate annual rate increases in the low-to-mid single digits thanks to the O&M management and a changing supply mix (i.e. renewables replacing coal). The company is targeting a 60-70% dividend pay-out ratio over the long term; we are at 68% this year. Lastly, the Columbia Gas of Massachusetts divestiture is on track to close in October this year.

We now see even more support for a compelling re-rate story. NI has struggled with EPS growth since the Massachusetts incident and EPS is expected to be essentially flat between 2018 and 2021. We expect the stock to re-rate with the Massachusetts divestiture soon behind NiSource and now that strong growth expectations have been reset off of a 2021 baseline. NI has historically traded at a premium (call it merger-related or gas LDC) and is now at a ~10% discount.

Risk / reward is palatable. We are maintaining our 2020-2022 EPS forecast of $1.26 / $1.34 / $1.41 and our price target of $26/share using our SOTP analysis inside. We believe the underperformance in the stock the last five months presents an attractive entry point with a total return profile of ~20% at our price target. Our bear case derives a $21 target (close to current trading price) while our bull case is $28/share.

2020 Investor Day Highlights

EPS growth and dividend forecast: NiSource now expects to deliver a back-end loaded 7-9% net operating EPS CAGR in 2021 through 2024. Notably, the annual EPS growth is forecasted to be 5-7% in 2021 through 2023. The company is targeting a long-term 60-70% dividend pay-out ratio.

Capital program and rate base growth: NiSource announced $40 billion in infrastructure investment opportunities over 20 years, an increase of $10 billion over prior expectations. The company outlined a $9.9-10.5 billion capital plan in 2021 through 2024, which is expected to drive a 10-12% rate base CAGR. Gas currently represents roughly 65% of rate base while electric is 35%, but the mix is expected to shift more towards electric over the coming years with $400-600 million of base electric investments and $1.8-2.0 billion of renewable generation opportunities primarily in 2022 and 2023. The capital forecast is comprised of 60% gas infrastructure & asset modernization, 20% renewable investments and 20% electric infrastructure & asset modernization. Specifically, NI's capex forecast for 2021-2024 is $2.0-2.3 / $2.4-2.7 / $3.3-3.6 / $1.9-2.2 billion, which has a meaningful increase in 2023 due to the renewable investments. Roughly $5.5-5.7 billion is expected to be recovered through tracker mechanisms in less than 18 months, $1.9-2.0 billion on maintenance/other to be recovered through periodic rate cases and $0.7-0.8 billion of growth investment to be recovered in less than 3 months. The renewables investment is expected to be recovered in a 2023 electric rate case with rates anticipate to be effective in 2H 2023.

O&M forecast: NiSource's "Next" initiative and the Columbia Gas of Massachusetts sale are projected to drive an 8% reduction in O&M costs in 2021 from 2020. Subsequently, O&M is expected to be "relatively flat" in 2021 through 2024. Cost initiatives under way include voluntary separation program savings and the following improvements identified: streamlined organization structure, evolved business services, work standardization, greater field mobility and connected customer experience. Modernization-driven fuel and cost reductions are also under way.

Rate increases: NiSource is targeting moderate annual rate increases in the low-to-mid single digit percentage thanks to O&M management and the changing generation mix (i.e. replacing coal with renewables).

Financing strategy: NiSource continues to target a long-term adjusted FFO to debt of 14-15% through a combination of block equity, ATM equity, employee equity, hybrid/convertibles and long-term debt in 2021-2024. The company is targeting renewable investment financing at 60% equity. There are no major debt maturities through the planning horizon in 2021-2024.

Exhibit 1: NiSource financing plan

($ millions)	2021E	2022E	2023E	2024E
Planned Annual Safety & Modernization Investments				
Equity				
ATM (At-the-Market)	$200 - $300 Annually			
ESPP/401K/Other	$30 - $50 Annually			
Long-Term Debt				
Incremental Long-Term Debt		$500 - $700 Annually		
Planned Renewable Generation Investments (Targeting 60% Equity)				
Equity				
Common Equity Block		$500 - $700 Total		
Long-Term Debt				
Incremental Long-Term Debt		$500 - $700 Total		
Other Financing				
Hybrids, Convertibles, etc.	$600 - $1,000 Total			

Source: NiSource Analyst Day 2020 Presentation, 9/29/20

Long-term supply mix: As outlined in the 2018 IRP, NiSource is targeting a replacement of 80% of coal capacity by 2023, primarily with renewables, and plans to retire all coal by 2028. The company's current generation mix includes 70% coal, 25% gas, 4% other (includes DSM) and 1% renewables. By 2023, NiSource plans to transform the mix to 15% coal, 25% gas, 7% other (includes DSM) and 53% renewables. By 2028, the mix is expected to be comprised of 0% coal, 24% gas and 12% other (includes DSM). The retirement of coal and the mix of renewable joint ventures and purchase power agreements are expected to drive $4 billion of customer savings over 30 years, including a $105 in average annual savings per household. Roughly $400 million of the $1.8-2.0 billion renewable investments planned through 2023 are approved projects with the remaining $1.4-1.6 billion under negotiation. Greenhouse gas emissions are anticipated to be reduced by 90% by 2030 when compared to a 2005 baseline.

Estimates and Price Target Derivation

Maintaining our 2020-2022 EPS estimates and price target: Our 2020-2022 EPS forecast remains $1.26 / $1.34 / $1.41. Recall that NiSource rescinded 2020 EPS guidance with the sale of Massachusetts and has not reissued it. Our 2021 EPS estimate is slightly above the midpoint of $1.28-1.36 guidance and our 2022 EPS forecast is within the 5-7% annual growth forecast through 2023. Specifically, we assume NIPSCO electric takes the brunt of the COVID impact and earns an 8.9% ROE this year, increasing to 9.4% next year before modestly under-earning its authorized 9.75% by 2022. For the gas segment, we assume the company modestly under-earns its blended ~10% ROE in 2020 through 2022.

Our price target of $26/share is unchanged. Our bear case derives a $21 target (close to current trading price) while our bull case is $28/share. Below is a summary of our base, bull and bear case scenarios. See Exhibit 2 on the next page.

- Our base case assumes 2022 EPS of $1.41/share. For the electric business, we assign a 10% premium to our anchor 2022 P/E target multiple of 17.5x. For the gas segment, we apply a 17.7x P/E multiple, an in line multiple current comparable LDC trading multiples. We apply a blended multiple for parent drag.
- Our bull case assumes 2022 EPS of $1.46/share, which is 7% growth over the high end of 2021 guidance. For the electric business, we continue to apply a 10% premium multiple to our anchor 2022 P/E target multiple of 17.5x. For the gas segment, we apply a 19.5x multiple, a 10% premium to current comparable LDC trading multiples. We apply a blended multiple for parent drag.
- Our bear case assumes 2022 EPS of $1.34/share, which is 5% growth over the low end of 2021 guidance. For the electric business, we apply an in line multiple to our anchor 2022 P/E target multiple of 17.5x. For the gas segment, we apply a 14.4x multiple, an in line multiple with a broader group of LDC trading multiples. We apply a blended multiple for parent drag.

Exhibit 2: SOTP Valuation: Base, Bull and Bear Cases

Base Case	'22 EPS	P/E	Val/Shr
Gas EPS	$1.16	17.7x	$20.55
Electric EPS	$0.59	19.3x	$11.37
Parent/Other	($0.34)	18.2x	($6.24)
Consolidated 2022 EPS	**$1.41**	18.2x	**$25.67**

Bull Case	'22 EPS	P/E	Val/Shr
Gas EPS	$1.19	19.5x	$23.21
Electric EPS	$0.61	19.3x	$11.67
Parent/Other	($0.34)	19.4x	($6.64)
Consolidated 2022 EPS	**$1.46**	19.4x	**$28.23**

Bear Case	'22 EPS	P/E	Val/Shr
Gas EPS	$1.12	14.4x	$16.07
Electric EPS	$0.57	17.5x	$9.96
Parent/Other	($0.34)	15.4x	($5.29)
Consolidated 2022 EPS	**$1.34**	15.4x	**$20.74**

Source: EVRISI Research

Goldman Sachs | Equity Research

29 September 2020 | 7:52AM EDT

NiSource Inc. (NI): First Take: Analyst Day details robust growth plan; Buy

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NiSource (NI, Buy) released its Analyst Day presentation this morning ahead of the 11am event, with the company guiding to a 7%-9% adjusted EPS CAGR from 2021-2024. We view this as largely in-line with our expectations highlighted in our preview note.

We list below some key highlights from the slides:

- **EPS growth trajectory:** 5-7% CAGR from 2021-2023, 7-9% from 2021-2024. We note management had previously discussed growth through 2024 as relatively back-end loaded given the financing/regulatory lag associated with the incremental ~$1.4-$1.6bn of renewable investments.
- **Financing:** 2021: **$600mn-$1bn** of hybrids/convertibles; 2022-2023: **$500-$700mn** of block equity. Management targets 60% equity financing of future projects, with the financing plan included in the EPS growth forecast. We had anticipated equity in the ~$750mn range; we see NI's plan moderately higher from an "equity credit" perspective.
- **O&M growth:** Expect 8% lower O&M in 2021 vs 2020, and flat O&M CAGR from 2021-2024.
- **Annual capital investments:** 2021: $2.0-$2.3bn, 2022: $2.4-$2.7bn, 2023: $3.3-$3.6bn, 2024: $1.9-$2.2bn.
- **NIPSCO Indiana rate case preview:** Expects revenue requirement in the 2023 rate case to be flat or lower versus current rates, with increased rate base from renewables offset by lower fuel/variable costs and fixed costs.
- **Other items (reiterated from 2Q earnings):** 10-12% rate base CAGR, $1.4-$1.6bn of incremental renewable investments (excluding $400mn of approved projects),

We expect the discussion and Q&A to focus on EPS growth expectations in 2022, additional thoughts on mix of financing for the renewable investments, and long-term strategic thoughts on its gas utility businesses.

Our $27, 12-month price target embeds our industry base target P/E multiple of 20x to 2021 EPS estimate of $1.34. Key risks include (1) legal and regulatory risks, (2) earnings/cash impact due to COVID-19, (3) higher-than-expected O&M, (4) electricity demand and customer growth, and (5) financing.

Financial advidory disclosures

Goldman Sachs and/or one of its affiliates is acting as a financial advisor in connection with an announced strategic matter involving the following company or one of its affiliates: Nisource Inc.

NI	12m Price Target: **$27.00**	Price: **$21.85**	Upside: **23.6%**

Buy

Market cap: $7.1bn
Enterprise value: $17.5bn
3m ADTV: $69.1mn
United States
Americas Utilities
M&A Rank: 3

GS Forecast

	12/19	12/20E	12/21E	12/22E
Revenue ($ mn)	5,208.9	4,912.0	5,123.6	5,346.8
EBITDA ($ mn)	1,608.1	1,782.5	1,976.4	2,123.1
EBIT ($ mn)	890.7	1,034.5	1,161.3	1,247.0
EPS ($)	1.32	1.28	1.34	1.43
P/E (X)	21.3	17.0	16.3	15.3
EV/EBITDA (X)	13.0	10.6	10.3	9.9
FCF yield (%)	(2.1)	(6.1)	(5.2)	(3.9)
Dividend yield (%)	2.9	3.8	4.1	4.3
Net debt/EBITDA (X)	5.9	5.3	5.1	5.1

	3/20	6/20E	9/20E	12/20E
EPS ($)	0.76	0.13	(0.01)	0.39

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 28 Sep 2020 close.

GUGGENHEIM

FLASH NOTE

September 29, 2020

NI Investor Day – Robust Update, Though Mostly In Line with Expectations

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NI BUY

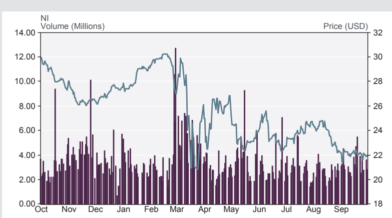
NiSource Inc.
Sector: Power, Utilities & Alternative Energy

Company Update

Share Price	$21.96

Market Data

52-Week Range	$19.56 - $30.46
Dividend	$0.74
Dividend Yield	3.4%
Market Cap (M)	$8,411
Enterprise Value (M)	$21,092
Shares Out (M)	383.0
ADV (3 mo; 000)	2,984



Key Message: NiSource held an investor day building off of the second quarter announcement of the results of NIPSCO's RFP. The LT EPS CAGR guidance was updated and will now be top decile among peers as renewable investments are rolled into rates. The update to growth guidance should not be a surprise to many as mgmt. had previously provided rate base CAGR and forecasted investment allowing investors to extrapolate a range of growth figures. Mgmt. updated the capital plan to include the renewables dictated by the IRP as well as continued investments in the core business. Mgmt. also updated their financing plan, adding necessary issuances for renewables and the base spend. We remain BUY-rated ($27 PT) given robust earnings growth and favorable valuation. Though NI is trading at a ~1.5x premium to regulated gas peers, it is trading at a ~1x discount to regulated electric peers and an even larger discount to those with similar growth.

LT EPS CAGR guidance up to 7-9% – well within investors' expectations given the second quarter preview of rate base CAGR and capital spending on renewables pursuant to the goals outlined in the 2018 IRP. Though robust, the market was pricing in an increase in the growth rate of this magnitude, i.e., step function increase through the current trajectory (only outperforming UTY by 57bps). Mgmt. expects growth will remain at the pre-CMA sale rate of 5-7% from 2021-2023 but plans to file a rate case in 2022 to roll renewable investments into rates in 2023. They expect the new rates drive growth of 7-9% from 2021-2024. Mgmt. updated their 2021-2024 capital plan to include $1.8B-$2.0B in spending on wind, solar, and storage through 2023 and provided insight on LT capital spending opportunities, $40B over 20 years or ~3x current rate base. Eight to ten renewables projects are in advanced negotiations and a majority are 80-90% through the process. We expect an update on the negotiations on the third quarter call. Mgmt. plans to finance the renewables investment with 60% equity and 40% debt, equating to roughly $1.2B in equity through block issuance and equity-like issuances (i.e., convertible, hybrid, etc.). Though the plan does not include any assumptions on portfolio optimization, mgmt. continuously evaluates opportunities to create shareholder value, in our view, potentially through further LDC sales or non-core segment divestitures. Mgmt. announced "NiSource Next" initiatives that build on the SMS program adding focus on streamlined organizational structure and business services, operational work standardization, field mobility, and better leveraging scale. These initiatives coupled with fuel and maintenance cost savings from the retirement of Schahfer Generating Station drive mgmt.'s expectation of relatively flat O&M from 2021-2024.

Why the step change in growth rate after rolling forward to 2024? Two-stage growth driven by the need for a rate case to roll in robust investment in renewables. Mgmt. refreshed its capital plan that now totals ~$9.9B-$10.5B from 2021-2024 vs. our current live estimate of $6.8B from 2021-2023. Most of the $1.8B-$2.0B in spending on renewables will take place in late 2022 and early 2023 to prepare for Schahfer's retirement in mid-2023. Mgmt. expects to file a rate case in 2022 with a 2023 test year to include all of the spending on renewables in rates and pass O&M savings to customers. We do not expect the rate case to be contentious as NI receives regulatory approval for the projects through a CPCN prior to starting construction. Mgmt. targets customer bill increases in the low-to-mid single digits supported by cost structure improvements. **Mgmt. expects EPS CAGR from 2021-2023 and 2021-2024 will be in the range of 5-7% and 7-9%, respectively, with the step change driven by new rates.**

No new projects were announced during this update – eight to ten projects in advanced negotiations. NI has $0.4B in approved projects with $1.4B-$1.6B in projects still in negotiations. The tax equity investment totals ~$1.0B and will be additive to rate base over time as the tax equity partners farm out the benefits. Since the 2Q20 call,

See pages 3 - 4 for analyst certification and important disclosures.

Indiana Crossroads, the 300 MW build transfer wind project, has commenced construction. Rosewater and Jordan Creek are still under construction and mgmt. expects them to be in-service by the end of the year. Brickyard Solar, 200 MW PPA, and Greensboro Solar, 130 MW, are still awaiting regulatory approval. There are eight to ten projects in advanced negotiations, mostly solar, and NI is 80-90% through the process with a majority of them. We look forward to an update on additional projects during the 3Q20 call.

2021 IRP could potentially support an extended runway of renewable generation spending. The upcoming 2021 IRP could support additional renewable spending in years outside of the forecast as NI moves to retire its remaining coal capacity at Michigan City Generating Station by 2028. The IRP process will kick off in the spring of 2021 and mgmt. expects it will conclude in Oct. 2021. While mgmt. thought it premature to speculate on the content of the IRP, we believe that it is likely to include incremental renewables as the state advances its clean energy goals. Mgmt. forecasts a generation mix of 53% renewables, 25% natural gas, 15% coal, and 7% other by 2023 moving to 64% renewables, 24% natural gas, and 12% other by 2028. Mgmt. also highlighted its goal to decrease GHG emissions by 90% from 2005 levels by 2030 supported by the retirement of 80% of NIPSCO's coal by 2023 and the remaining 20% by 2028.

Base capital plan remains strong, with a majority of the investment recovered within 18 months. The updated capital plan includes spending on safety and modernization of $8.1B-$8.5B from 2021-2024, or $1.9B-$2.2B annually vs. our estimate of $1.8B. Over 75% of these investments start earning in less than 18 months due to favorable regulatory mechanisms in NI's service territories.

Financing plan put together with investment grade credit metrics in mind – flexibility built into plan. Mgmt. updated its financing plan, breaking down capital needs between core investments in safety and modernization and investments in renewables. Mgmt. assumes issuing $230M-$350M annually between 2021 and 2023 through ATM and ESPP/401K/Other and $500M-$700M in LT debt annually from 2022-2024 to support core capex. The renewables investments will be funded by $600M-$1,000M in hybrids, convertibles, etc. in 2021, block equity issuance of $500M-$700M total in 2022-2023, and LT debt of $500M-700M total in 2022-2023. Though the midpoints of the renewables equity stipulate $1.4B, mgmt. confirmed that they are targeting $1.2B, or ~60%. The capital structure of the issuances gives us some insight into what NI may ask for in the 2023 rate case. **Mgmt. stated they have flexibility in the financing plan to potentially look at a forward equity issuance to remove the pricing overhang.** LT adj. FFO/total debt target ~14-15% and investment grade credit metrics continue to be a focus for mgmt. Liquidity is sufficient and there are no significant refinancing needs over the plan.

What about portfolio optimization? Mgmt. continuously reviews its assets and would not be opposed to divesting additional LDCs if it is accretive for shareholders. Mgmt. does not assume any portfolio optimization in its financing plan but additional LDC and noncore asset sales could offset some financing needs. Mgmt. stated that any sale would have to be value-add to shareholders and, in our view, this may be a tall task given where LDCs trade at this time, however, certain players may be willing to pay up. If mgmt. were to divest any of its gas operations, they would essentially be swapping gas for electric which could be multiple accretive in this market. **CMA transaction to close "very soon," according to mgmt.** As a reminder, both companies targeted Oct. for the closing date.

Streamlining and optimizing operations while maintaining safety and reliability the focal point of NiSource Next. The Voluntary Separation Program and the CMA sale are the main drivers behind mgmt.'s expectation of an ~8% reduction in O&M costs in 2021. From 2021-2024, mgmt. forecasts relatively flat annual O&M driven by fuel and maintenance cost reductions from the retirement of the Schahfer Generating Station. Other initiatives build on the SMS program adding focus on streamlined organizational structure and business services, operational work standardization, field mobility, and better leveraging scale.

Additional opportunities for decarbonizing the gas segment? Mgmt. is keeping a close eye on hydrogen and RNG while focusing on more near-term efforts like leak mitigation. Mgmt. touched briefly on the opportunity for blending natural gas with RNG and hydrogen. They are expecting to learn a lot more about these opportunities in the coming years. In the meantime, mgmt. is continuing to focus on bare steel and cast iron pipe replacement, excess flow and automatic shutoff valves, pipeline over pressurization protection, inline pipeline inspections upgrades, and Picarro advanced leak detection. These efforts advance safety and sustainability, a core focus for mgmt.

ANALYST CERTIFICATION

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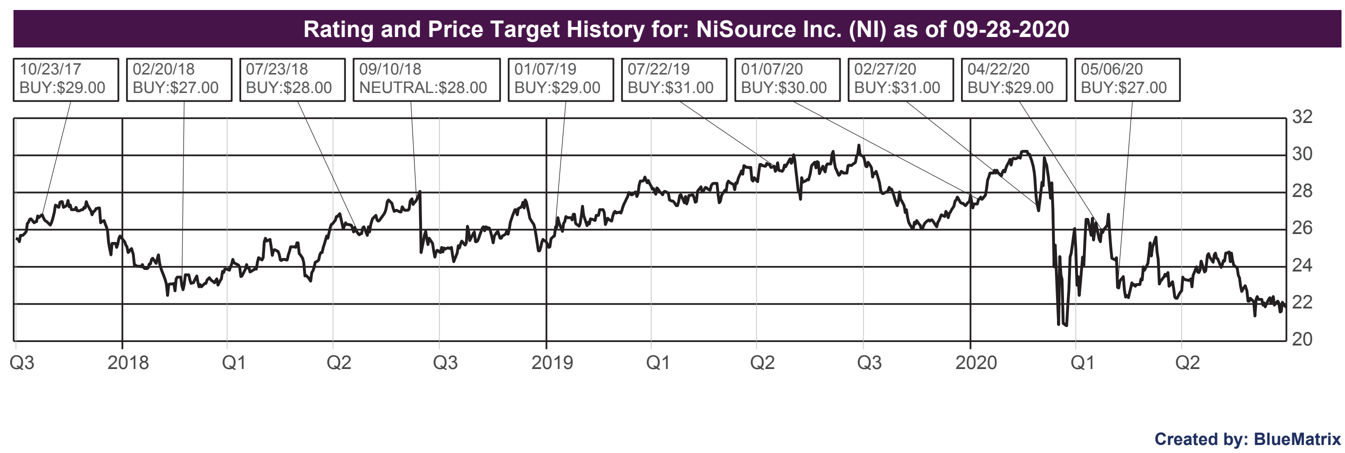
Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from NiSource Inc. in the next 3 months.

Please refer to this website for company-specific disclosures referenced in this report: https://guggenheimsecurities.bluematrix.com/sellside/Disclosures.action. Disclosure information is also available from Compliance, 330 Madison Avenue, New York, NY 10017.



RATINGS EXPLANATION AND GUIDELINES

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of between plus 10% and minus 10% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

CS - Coverage Suspended. Guggenheim Securities, LLC has suspended coverage of this company.

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Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Under Review (UR) - Following the release of significant news from this company, the rating has been temporarily placed under review until sufficient information has been obtained and assessed by the analyst.

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Price targets are assigned for Buy- and Sell-rated stocks. Price targets for Neutral-rated stocks are provided at the discretion of the analyst.

J.P.Morgan

North America Equity Research
29 September 2020

NiSource Inc.

Investor Day Takeaways: It's Good to be Green as Generation Transition, New Renewables Drive Attractive Growth Outlook

Overweight

NI, NI US

Price: $21.96

29 Sep 2020

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J.P. Morgan Securities LLC

Today, NiSource hosted its 2020 investor day, refreshing the company's 2021-2024 outlook for substantial new renewable generation investments and continued system safety & modernization upgrades initially previewed during 2Q earnings. Raised growth targets now include 7-9% annual NOEPS growth and a 10-12% rate base CAGR through 2024. Plan elements incorporate an implied back-end weighting to earnings under 5-7% near-term growth expectations and up to $1.2bn equity needs for renewables investments. Growth, however, remains attractive relative to peers and subject to manageable execution risk as NI seeks CPCNs for new renewables under its 2018 IRP. We remain constructive on NI's long-term outlook and relative positioning vs LDC peers and reiterate our OW rating.

- **Attractive growth outlook with manageable execution risk under NI's generation transition.** NI's new $9.9-10.5bn five year capital plan includes $1.8-2.0bn of renewables capex initially previewed during 2Q20 earnings. Targeted 7-9% annual NOEPS growth and 10-12% rate base CAGR stand at the high end of SMID peers and appear to bake in conservative funding outcomes across base capex and renewables-related equity. While work remains to secure NI's remaining $1.4-1.6bn of renewables subject to commercial negotiations and commission CPCNs for final investment, we see initial steps from the company's 2018 IRP and 2018 rate case boosting efforts and expect steady de-risking as individual projects progress through commercial and regulatory hurdles. We note that NI expects timing elements to limit near-term growth to 5-7% until the full benefit of targeted new renewables boosts earnings in 2023-2024.

- **Funding plan retains some flexibility despite significant equity for renewables, with portfolio optimization upside.** Plan equity includes $200-300mm annual ATM funding through 2023, $500-700mm block equity in 2022 or 2023, and a $600-1,000mm equity-like hybrids or converts issuance in 2021 to support targeted 14-15% FFO/debt. We see the company retaining adequate flexibility to complete associated financing before final 2023 rate base investment despite significant equity for targeted 60%/40% equity/debt funding of NI's renewables investment, or $1.2bn of equity at the top end of the $1.8-2.0bn opportunity. While management commentary indicated no active portfolio optimization efforts, potential opportunities could mitigate a significant amount of plan equity and further de-risk financing needs.

- **Overall positioning is unique with renewables-driven growth in 'LDC bucket'.** With renewables driving ~20% of the five-year capex plan, NI's 'green growth' stands unique among LDCs. We expect this dynamic to capture increased attention going forward should LDC weakness persist and electric vs gas multiples continue to diverge. Additionally, potential portfolio optimization efforts could accelerate a relative re-weighting toward NI's electric operations should the company divest a smaller LDC jurisdiction to fund renewables investment. This represents a powerful tool despite standing outside NI's current plan.

See page 2 for analyst certification and important disclosures.

UBS

First Read

NiSource Inc.

Highlights from NI's Long-Term Growth Strategy

Equities

Americas
Gas Utilities

12-month rating	**Neutral**
12m price target	**US$27.00**
Price (28 Sep 2020)	**US$21.85**

RIC: NI.N **BBG:** NI US

Trading data and key metrics

52-wk range	US$30.21-20.86
Market cap.	US$8.38b
Shares o/s	384m (COM)
Free float	99%
Avg. daily volume ('000)	889
Avg. daily value (m)	US$20.6
Common s/h equity(12/20E)	US$5.05b
P/BV(12/20E)	1.7x
Net debt to EBITDA(12/20E)	5.4x

EPS (UBS, diluted) (US$)

	12/20E	
	UBS	Cons.
Q1	0.76	0.76
Q2	0.13	0.13
Q3E	0.03	0.02
Q4E	0.40	0.20
12/20E	1.32	1.29
12/21E	1.37	1.34
12/22E	1.45	1.43

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NI Sees Strong Growth with $40B of Investments Over the Next 20 years

NI published its long-term growth strategy and presentation ahead of the Investor Day call at 11am ET. NI expects '21-'24 EPS growth of 7-9% (roughly in line with UBSe of 7.7%) driven by 10-12% rate base growth. We expect investors will appreciate the higher growth rate (above historical growth profile of 5-7%) and it compares favorably to the EPS growth profile of its gas utility peer group at 5.7%. That said, we note that the EPS growth is back loaded with near-term EPS growth of 5-7% through 2023 and an acceleration in mid-2023/2024 as NI expects rate case to recover its renewable capex effective in mid-2023. Management also announced a $40B capex opportunity over the next 20 years, with $9.9-10.5B over 2021-2024 (above UBSe of $9.3B) fueling the view that growth can continue beyond the forecast period. That said, to fund the renewable capex NI is targeting 60% equity and an incremental $500-700MM of equity in 2022-2023 above the typical $200-300MM annual ATM program (roughly $550MM of annual equity in '22-'23 above UBSe of $450MM). NI also expects $600-1,000MM of hybrids/convertibles in '21. Notably, management announced NiSource Next initiatives to identify cost efficiency improvements and NI expects to reduce O&M costs by 8% in 2021 vs. 2020 and expects to keep costs roughly flat through 2024. Overall, we believe cost reductions will be well received by investors as, together with modernization & safety capex, they should drive near-term earnings growth and offset the dilution from funding of renewable capex before the earnings acceleration in 2023-2024.

What Do We Expect During the Call?

During the call at 11am ET, management will likely provide more details on the funding plan of the accelerated capex. Based on the slides, NI expects long-term adj FFO/debt of 14-15%. We also expect discussion on the cost savings and renewable generation transition (100% coal generation to be retired by 2028). Due to the pipeline replacement program, NI expects to reduce its methane emissions from natgas pipelines by 50% by 2025 vs 2005 base.

Highlights (US$m)	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
Revenues	4,905	5,095	5,184	4,984	5,309	5,519	5,779	6,060
EBIT (UBS)	964	942	1,047	1,066	1,113	1,203	1,330	1,469
Net earnings (UBS)	398	463	495	510	546	596	663	745
EPS (UBS, diluted) (US$)	1.21	1.30	1.32	1.32	1.37	1.45	1.56	1.71
DPS (net) (US$)	0.72	0.79	0.84	0.89	0.95	1.01	1.07	1.13
Net (debt) / cash	(8,973)	(9,892)	(10,374)	(9,890)	(10,411)	(11,584)	(12,695)	(13,321)
Profitability/valuation	**12/17**	**12/18**	**12/19**	**12/20E**	**12/21E**	**12/22E**	**12/23E**	**12/24E**
EBIT (UBS) margin %	19.7	18.5	20.2	21.4	21.0	21.8	23.0	24.2
ROIC (EBIT) %	8.6	7.7	7.9	7.9	8.1	8.0	7.8	7.9
EV/EBITDA (UBS core) x	9.8	10.6	10.6	9.2	8.8	8.6	8.0	7.4
P/E (UBS, diluted) x	20.9	19.4	21.2	16.7	16.2	15.3	14.2	13.0
Equity FCF (UBS) yield %	(11.6)	(14.5)	(1.6)	(4.6)	15.9	526.8	14,389.7	383,253.4
Dividend yield (net) %	2.9	3.1	3.0	4.0	4.3	4.5	4.8	5.1

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$ 21.85 on 28-Sep-2020

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Forecast returns

Forecast price appreciation	+23.6%
Forecast dividend yield	4.3%
Forecast stock return	+27.8%
Market return assumption	5.1%
Forecast excess return	+22.7%

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. We use comparable company multiples in our sum-of-the-parts EV/EBITDA and P/E valuations. Our price target is derived using an average of sum-of-the-parts EV/EBITDA and P/E valuations and DDM.

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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.	49%	32%
Neutral	FSR is between -6% and 6% of the MRA.	39%	30%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<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 30 June 2020.
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.

KEY DEFINITIONS: Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. In some cases, this yield may be based on accrued dividends. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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September 29, 2020 | Equity Research

WELLS FARGO SECURITIES

NiSource Inc.

NI: Investor Day Provides Roadmap For Growth

Overweight/$25

Natural Gas LDCs

Company Note

- **Summary.** NI rolled out a robust growth plan at the 9/29 Investor Day including the newly unveiled 7-9% EPS CAGR through '24E (off the '21E base). Despite the top decile growth rate, shares trade at 4% P/E discounts to blended gas/electric peers, which we think reflects a combination of execution risk and an equity overhang. We see a path to positive re-rating should management deliver on near-term financial targets and begin executing the financing plan. We reiterate our Overweight rating and $25/share price target (apply a 5% premium to the gas/electric '21 P/E of ~17.5X on our '22E). Our '20-22E EPS remain $1.26, $1.32 & $1.40; we increase our '23E & '24E EPS to/from $1.50/1.47 & $1.66/1.62.

- **Execution is Key.** NI's 7-9% EPS growth plan is well above the group average of ~6%. That said, we believe the company's recent track record has been disappointing as EPS has not grown since 2018 due, in large part, to costs stemming from the September 2018 Merrimack Valley incident. The new plan, which uses 2021 as the base year, looks to resume growth including a 5-7% annual trajectory through '23 with a meaningful step up in '24 resulting in a 7-9% CAGR overall. Management also commented that if the '21E guidance base of $1.28-1.36 was adjusted to exclude an anticipated ~$0.05 COVID hit, the company would still feel comfortable in the 7-9% range, which suggests a high degree of confidence. That sentiment is backed by the numbers, in our view, as we see a path to a nearly 10% CAGR (our '24E of $1.66 implies an earned ROE of 8.9% on a rate base that is $450mm shy of NI's forecast – could prove conservative).

- **Equity Overhang Persists.** NI provided details on baseline equity needs along with plans to fund the renewable investment, which are designed to maintain a 14-15% FFO/Debt ratio. Consistent with prior communications, the base plan includes $200-300mm annual ATM issuances along with $30-50mm/year via retirement and other plans. Further, the company intends to finance 60% of the $1.8-2.0B renewable spend with equity. That includes $600-1,000mm of hybrids/convertibles in 2021 (we assume $600mm of perpetual preferred equity and $300mm of convertibles) along with a $500-700mm common offering during the period 2022-2023 (we assume 2022; could also utilize a forward). By 2024, our model results in $1.2B of equity content tied to the renewables assuming full conversion and 50% equity content for the perpetual preferreds. Of note, the company specified that the financing plan does not include potential portfolio optimization opportunities, which we expect leaves the door open for small LDC sales. For context, the company's three smallest gas systems are MD, KY and VA (followed by MA, which is targeted to close in October).

- **Comments continue on page 2.**

$ EPS	2019A	2020E Curr.	2020E Prior	2021E Curr.	2021E Prior
Q1 (Mar.)	0.82	0.76 A	NC	NE	
Q2 (June)	0.05	0.13 A	NC	NE	
Q3 (Sep.)	0.00	0.02	NC	NE	
Q4 (Dec.)	0.45	0.35	NC	NE	
FY	1.32	1.26	NC	1.32	NC
CY	1.32	1.26		1.32	
FY P/EPS	16.6x	17.4x		16.6x	
Rev.(MM)	5,184	5,283		5,101	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile
non gaap

Ticker	NI
Price Target/Prior:	**$25/NC**
Price (09/29/2020)	**$21.96**
52-Week Range:	$19-31
Shares Outstanding: (MM)	382.8
Market Cap.: (MM)	$8,406.3
S&P 500:	3,335.47
Avg. Daily Vol.:	3,239,640
Dividend/Yield:	$0.84/3.8%
LT Debt: (MM)	$8,810.2
LT Debt/Total Cap.:	53.3%
ROE:	9.0%
3-5 Yr. Est. Growth Rate:	7.0%
CY 2020 Est. P/EPS-to-Growth:	2.5x
Last Reporting Date:	08/06/2020 Before Open

NC = No Change
Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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- **Other Takeaways.** (1) Cost Controls – Following a projected 8% decline in O&M in '21E (helped by the sale of CMA), NI expects to keep O&M largely flat through '24. (2) Rate Increases – Mgmt. forecasts rate increases in the low to mid-single digits during the planning period. (3) Renewable Projects – NIPSO has already secured regulatory approval for two build-transfer projects representing ~$400mm of direct investment; the company is in advanced commercial negotiations for another $1.4-1.6B of investments along with PPA agreements – we expect announcements to commence in the near future. (4) Electric Rate Case – The company plans to file a 2023 test year rate case (aligns with both renewable projects and savings from R.M. Schahfer coal retirement) with new rates effective in 2H'23. (5) Post-2024 – NI will go through the IRP process again in 2021, which could shed light on replacement plans for the 2028 Michigan City coal retirement, which we expect will include another round of renewable projects. On that note, NI updated the company-wide 20-year investment opportunity to $40B, a $10B increase from the prior outlook.
- **Environmental Plan.** On the electric side (~40% of business), NI is on track to retire all coal assets by 2028 in support of a 90% reduction in GHGs by 2030 (from 2005 levels). On the gas side (~60%), the immediate focus is on lower leaks (50% reduction in methane from pipes by 2025 vs. 2005 levels) via pipe replacement/new equipment and advanced leak detection. Mgmt. indicated that the company is closely watching developments on new technologies and alternative gas streams, noting that there is a chapter beyond leak reduction including RNG and, possibly, hydrogen.

Acronyms
ATM – At-the-Meter
CMA – Columbia Gas of Massachusetts
GHG – Greenhouse Gas
FFO – Funds from Operations
IRP – Integrated Resource Plan
LDC – Local Distribution Company
PPA – Power Purchase Agreement
RNG – Renewable Natural Gas

Price Target

Price Target: $25 from NC

Our price target is based on a P/E multiple analysis (apply a 5% premium to the blended gas/electric peer group multiple of ~17.5X on our '22E EPS). Risks include lower than expected sales growth, unfavorable regulatory developments, and unexpected cost pressures.

Investment Thesis

We rate shares Overweight. We are attracted to NI's robust long-term infrastructure growth opportunities and supportive regulatory treatment.

Company Description

Based in Merrillville, Indiana, NiSource, Inc. is a holding company with regulated gas (64%) and electric (36%) utility operations across seven states. The company's Gas Distribution Operations serve 3.5 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. The Electric Operations consist of a vertically-integrated utility serving approximately 500 thousand customers in northern Indiana. On July 1, 2015, NiSource completed the separation of Columbia Pipeline Group (CPG) from NiSource via the distribution of one share of CPG common stock for every share of NI common stock.

Utilities & Power

Regulateds – Market Overweight
Gas/Power Infrastructure – Market Overweight

September 29, 2020

NiSource

(NI US Equity – $21.96 – Outperform)

No debate on NI growth potential; Analyst Day takeaways

Analyst Day solid as expected; all about execution. The punchline of the AD was a more defined EPS CAGR of 7-9% through 2024 (off 2021), expectation for annual EPS growth of 5-7% in the interim (2021-23) and more color on financing plans for NIPSCO's renewable investments. The 7-9% EPS CAGR is underpinned by a 10-12% rate base CAGR, placing NI among the best growth stories in the sector. These updates were in-line with our expectation which we detailed in a preview note last week (here). From here, the ability for NI's stock to re-rate back toward a sector average or its historic premium is dependent on management's ability to execute under the new plan. We ultimately believe this is achievable over time as the path forward post-CMA is much lower risk – reiterate Outperform and $25 PT.

Likely some cushion in EPS target. We believe NI's 7-9% EPS CAGR is pretty doable using fairly conservative assumptions, which includes 30-40bps of lag across NI's businesses. We see 2024 EPS of $1.68, which implies a CAGR slightly above NI's midpoint. An important variable is the price/cost of financings for the renewables. While this could cut both ways, we would argue a bias toward their being potential upside to our numbers as NI is currently trading at a ~2x discount which is well below where it has traded historically. This of course is predicated on NI's ability to execute going forward.

More color on the renewables financing plan. NI is targeting ~60% equity financing for the $1.8-2.0B of renewables capex. The first tranche is expected in 2021 where NI plans to issue $600M-$1B of hybrids or converts. The second tranche is $500-700M of common equity through a block in 2022 or 2023. All the financing is baked into guidance under several scenarios and mgmt. noted that it remains flexible in terms of what shape it ultimately takes. We were encouraged to hear that mgmt. is also open to asset sales as a potential financing alternative; we believe swapping gas LDC rate base for renewables would be value enhancing in an ESG-focused world.

Rate impact from renewables build out will be modest. This was encouraging to hear given the importance of the 2023 rate case as fuel savings are expected to mostly offset the return on the renewable investments.

Tweaking estimates. A summary is listed in the table on the right. This comes after revising our capex and financing assumptions to match NI's update.

View Full Note [PDF]

View Full Note [PDF]

View NI US Equity Model [XLS]

Trading and Fundamental Data	
Price Target	**$ 25**
Current Price	21.96
52-Week Range	$20-$31
Market Cap. (MM)	8,410
Enterprise Value (MM)	19,130
Shares Out. (MM)	383.0
Dividend Yield	3.86%
Dividend Payout Ratio	65.6%
ROE	6.6%
Debt to Cap	63.8%
Avg. Daily Vol. (000)	3,136

Price Performance	YTD	LTM
NI US Equity	-21%	-27%
Utility Index	-7%	-7%
S&P 500	3%	13%

Source: FactSet/Wolfe Research

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BofA GLOBAL RESEARCH

BofA SECURITIES

NiSource Inc

Could an inflection come in '21?

Reiterate Rating: NEUTRAL | PO: 23.00 USD | Price: 21.96 USD

Affirming higher EPS confidence at Analyst Day

Following an Investor Day update largely in line with expectations, NI closed +0.5% slightly outperforming XLU (flat) and Gas LDC peers (-0.1%). As we expected, NI guided to a +7-9% EPS CAGR ('21-'24) with near-term ('21-'23) EPS CAGR of +5-7%. This compares to its reiterated +10-12% rate base CAGR ('21-'24) – a 3% delta b/w EPS and rate base growth (in line vs history). We perceive these EPS CAGRs are explicitly conservative given the '21 base year has a -5c COVID impact baked into guidance, and '24 is buoyed by one-time EPS step up from renewables. Both of our comparable EPS CAGRs fall within the guidance ranges if the -5c COVID added back to '21, but above high-end when baked in (see inside for CAGR comparisons). Hence, we believe NI's rather conservative EPS outlook combined with an enhanced implementation of its Safety Management System is in attempt re-gain investor credibility; a prudent angle by mgmt. Critically, mgmt.'s ultimate decision on the type of equity-linked hybrid issuance next year to finance renewables (i.e. converts or perpetual preferreds) alongside completing the '21 Indiana legislative session (largely cautious headlines expected) will be key to de-risking outlook and may present inflection. Reiterate Neutral. We lower '22 / '23 EPS slightly as adjust capex /RB in line with guidance and increase parent drag on financing costs of converts. Added confidence to '24 EPS of $1.76 (way above guided range). After mtm SOTP with peers on '23 EPS (vs prior '22) at 13.2x for gas and 15.3x for electric, our PO remains at $23. We assign a +2x premium to the electric utility to account for renewable EPS growth outside the valuation window. Lastly, NI's 100% coal retirement by 2028 target will also create incremental renewable beyond 2024.

$1.2bn equity overhang, but have some flexibility

NI was clear the $1.8-2bn renewables strategy would be funded with 60% equity, which is a maximum of $1.2bn of equity with guided flexibility of $600-1,000mn of equity-linked hybrids and $500-700mn of traditional equity. We assume $700mn converts (issue/convert '21/'24) and $500mn traditional equity in 2023. If NI chooses converts over preferreds (both 50% equity treatment), this adds to eventual dilution, but presumably due to confidence on outlook. Tweaks EPS modestly.

Estimates (Dec)

(US$)	2018A	2019A	2020E	2021E	2022E
EPS	1.30	1.32	1.25	1.32	1.42
GAAP EPS	1.30	1.32	1.25	1.32	1.42
EPS Change (YoY)	7.4%	1.5%	-5.3%	5.6%	7.6%
Consensus EPS (Bloomberg)			1.29	1.35	1.43
DPS	0.79	0.83	0.88	0.94	0.99

Valuation (Dec)

	2018A	2019A	2020E	2021E	2022E
P/E	16.9x	16.6x	17.6x	16.6x	15.5x
GAAP P/E	16.9x	16.6x	17.6x	16.6x	15.5x
Dividend Yield	3.6%	3.8%	4.0%	4.3%	4.5%
EV / EBITDA*	15.1x	13.1x	12.9x	12.4x	11.5x
Free Cash Flow Yield*	-15.2%	-2.6%	-4.9%	-8.5%	-12.0%

* For full definitions of *iQmethod*SM measures, see page 9.

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Refer to important disclosures on page 10 to 12. Analyst Certification on page 7. Price Objective Basis/Risk on page 7. 12193174

30 September 2020

Equity

Key Changes

(US$)	Previous	Current
2022E EPS	1.47	1.42
2021E EBITDA (m)	1,862.3	1,863.5
2022E EBITDA (m)	2,044.3	2,013.4

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Stock Data

Price	21.96 USD
Price Objective	23.00 USD
Date Established	15-Sep-2020
Investment Opinion	B-2-7
52-Week Range	19.56 USD - 30.46 USD
Mrkt Val (mn) / Shares Out (mn)	8,411 USD / 383.0
Average Daily Value (mn)	68.82 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2020E)	9.1%
Net Dbt to Eqty (Dec-2019A)	158.6%

iQprofile[SM] NiSource Inc

iQmethod SM – Bus Performance*					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Return on Capital Employed	3.9%	4.3%	4.0%	3.9%	4.0%
Return on Equity	10.1%	9.9%	9.1%	9.2%	9.6%
Operating Margin	18.3%	20.2%	19.5%	19.9%	21.1%
Free Cash Flow	(1,278)	(219)	(412)	(712)	(1,009)

iQmethod SM – Quality of Earnings*					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Cash Realization Ratio	1.2x	3.2x	2.8x	2.7x	2.6x
Asset Replacement Ratio	3.0x	2.5x	2.4x	2.7x	3.1x
Tax Rate	19.7%	17.1%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	156.7%	158.6%	139.3%	141.7%	147.9%
Interest Cover	2.6x	2.8x	2.9x	3.1x	3.3x

Income Statement Data (Dec)					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Sales	5,084	5,184	5,326	5,439	5,632
% Change	4.3%	2.0%	2.7%	2.1%	3.6%
Gross Profit	3,325	3,649	3,738	3,827	3,996
% Change	-0.9%	9.8%	2.4%	2.4%	4.4%
EBITDA	1,531	1,764	1,782	1,863	2,013
% Change	3.4%	15.2%	1.0%	4.6%	8.0%
Net Interest & Other Income	(335)	(384)	(362)	(344)	(364)
Net Income (Adjusted)	**463**	**495**	**482**	**528**	**596**
% Change	**16.6%**	**6.8%**	**-2.5%**	**9.5%**	**12.8%**

Free Cash Flow Data (Dec)					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Net Income from Cont Operations (GAAP)	463	495	482	528	596
Depreciation & Amortization	600	717	742	783	827
Change in Working Capital	110	(75)	0	0	0
Deferred Taxation Charge	(188)	118	114	124	104
Other Adjustments, Net	(445)	328	0	0	0
Capital Expenditure	(1,818)	(1,802)	(1,750)	(2,147)	(2,535)
Free Cash Flow	**-1,278**	**-219**	**-412**	**-712**	**-1,009**
% Change	**-34.0%**	**82.9%**	**-88.1%**	**-72.8%**	**-41.6%**

Balance Sheet Data (Dec)					
(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Cash & Equivalents	121	148	148	898	148
Trade Receivables	1,147	905	905	905	905
Other Current Assets	787	800	800	800	800
Property, Plant & Equipment	15,543	16,912	16,921	18,284	19,992
Other Non-Current Assets	4,206	3,894	3,894	3,894	3,894
Total Assets	**21,804**	**22,660**	**22,668**	**24,782**	**25,740**
Short-Term Debt	2,027	1,787	2,137	2,499	2,587
Other Current Liabilities	2,010	1,959	1,959	1,959	1,959
Long-Term Debt	7,105	7,856	6,963	8,141	8,430
Other Non-Current Liabilities	4,911	5,071	5,185	5,309	5,412
Total Liabilities	**16,053**	**16,673**	**16,244**	**17,908**	**18,389**
Total Equity	**5,751**	**5,987**	**6,424**	**6,874**	**7,351**
Total Equity & Liabilities	**21,804**	**22,660**	**22,668**	**24,782**	**25,740**

* For full definitions of iQmethod[SM] measures, see page 9.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

NI's positives include 5-7% dividend growth and >5-7% EPS growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries. We have factored in resolution of overhang from the MA incident as the company will likely sell 3Q. However, NI has C&I demand risk from COVID, which will be difficult to offset with O&M cuts due to promises already around cost cuts to balance CMA sale. We see shares valued appropriately and rate Neutral.

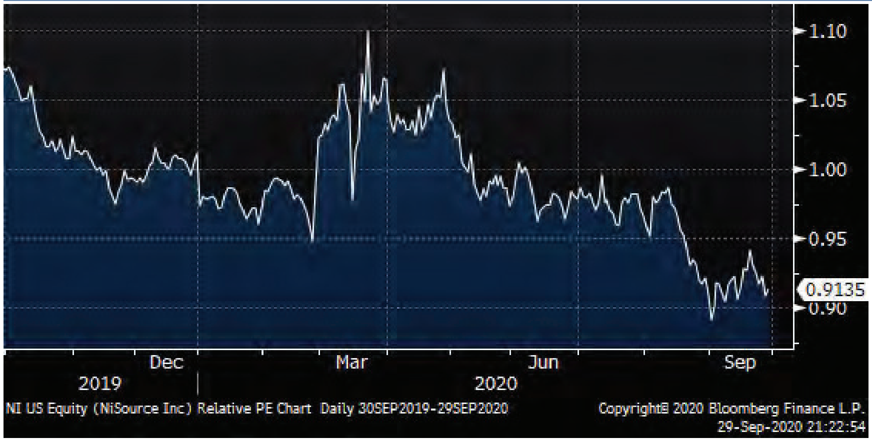
Stock Data

Average Daily Volume	3,133,902

Quarterly Earnings Estimates

	2019	2020
Q1	0.82A	0.76A
Q2	-0.75A	0.13A
Q3	0A	-0.02E
Q4	1.24A	-1.47E

Exhibit 1: NI FY1 P/E relative to IXU



Source: BofA Global Research, Bloomberg

On our '22 EPS, NI is currently trading roughly 1x higher than the average of its Gas LDC peer group, but about a 1x below the average electric utility group. With more clarity around financing its $1.8-2.0bn (plus $1bn of tax equity) renewable strategy through 2023, NI provided the path to becoming even more of a hybrid between a gas LDC and an electric utility, which is illustrated by its relative multiple. NI's current valuation is seemingly balanced given it is trading almost exactly between the two peer groups and considering its roughly 40%/60% mix of electric/gas earnings with the mix shifting more towards electric over time via renewables. Shares continue to trade at discount to the broader utility group (IXU) given the de-rating of gas utilities over the last six months, but we do see potential for NI to re-rate higher over time as NI grows its electric earnings mix, which can be capitalized at a higher multiple.

Could more divestments emerge too?

Meanwhile among the angles to fund growth raised (surprisingly) is further divestment of gas LDCs effectively to fund its growing electric biz. With an equity raise bordering on 30% of its market cap, we perceive any range of smaller LDCs as eligible to fit this spending program. Recall NI has smaller gas utilities (as measured in ratebase) in Kentucky (~$300 Mn), Virginia (~$700 Mn), and Maryland (~$100 MN). It remains unclear just what kind of a *premium* to RAB can be realized in any sale, seeing few gas LDCs transactions of late. A sale would accelerate upside & our perceptions of an inflection as this would seemingly immediately alleviate convertible/2021 financing needs. We presume the lack of definition around *just how* 2021 needs are funded ties back into this potential sale dynamic.

Awaiting the renewable details soon on the first batch

While we note NI has not announced any new renewable commercial deals since July, management highlighted the company is currently in advanced negotiations on about 8-10 solar projects. We question whether difficulty finding sufficient tax equity investors may be hurdle in closing these deals, but we believe NI will eventually complete this renewable procurement this year. We look for NI shares to potentially inflect next year pending the company's choice around its $600-1,000mn equity-linked hybrids (i.e. converts or perpetual preferreds) along with putting the (hopefully successful) '21 Indiana legislative session in the rearview. If mgmt. chooses converts over perpetual preferreds, we perceive this would be a positive read into mgmt.'s confidence in the earnings outlook such that it can offset the ultimate dilution in 2024.

But don't confuse the next round of procurement too coming up

Also, in the long term, NI will have incremental renewable generation opportunities in the queue to replace the retirement of its Michigan City coal plant. Look for another RFP in the coming year (by this time next year) presumably enabling another round of investment in the 2026-2028 period.

Another positive we would point out is NI's new '21-'24 capex excluding renewables strategy of $1.9-2.2bn actually added incremental capex vs NI's previous '21/'22 guidance of $1.7-2.0bn/yr, We viewed this as a constructive datapoint particularly after guiding down '20 capex in 1Q20. Bottom line, although we perceive the Investor Day update to be largely constructive, we remain on the sidelines at Neutral due to the equity overhang and limited total return at 8.8% (including 4% div yield.

Renewable opportunity after '24 & portfolio optimization

Under NI's current renewable strategy, the company will retire 80% of its coal capacity by 2023 (1,400 MW) and replace the lost capacity with the current renewable procurement for 3,500 MW (roughly 1,700 BOT Capacity; 33% tax equity owned) that is underway. By 2028, NiSource plans to retire 100% of the company's coal capacity through the retirement of its 469 MW Michigan City coal plant. Albeit a smaller amount of coal capacity to replace, NI does have line of sight to incremental renewable (rate base) opportunities beyond '24.

Also, we would emphasize management commentary around portfolio optimization. The company's current financing strategy does not include potential portfolio optimization opportunities, but any asset sale would intuitively replace a portion of the equity financing. Recall, NI has a track record of portfolio optimization such as the company's spin-off of its pipeline business in 2015 and the recent sale of Columbia Gas of Massachusetts to Eversource. Management stated it will always look to optimize the portfolio to enhance shareholder value. Note NI has a number of small non-core gas utilities such as Columbia Gas of VA, KY, and MD, which have current rate base values of about $850mn, $330mn, and $149mn, respectively. If NiSource were to sell one of these assets it would effectively be swapping gas for electric rate base. We believe a gas LDC asset sale would potentially pull forward an inflection in shares and help break through the current '21 equity overhang.

Estimates & Comparing EPS CAGRs

On our updated EPS estimates, when the -5c COVID impact backed into '21 guidance is added back to the base year, both our '21-'23 and '21-'24 EPS CAGRs land within the guidance ranges of 5-7% and 7-9%, respectively. However, when using the '21 EPS guidance midpoint as the base year, we derive a '21-'23 EPS CAGR of 8.3% and '21-'24 EPS CAGR of 10.3%. See all of the EPS CAGRs compared in the table below. We also lay out the implied EPS guidance by year on the new EPS CAGR guidance of +7-9%. This compares to NI's rate base CAGR guidance of 10-12% ('21-'24). Our rate base estimates are included below our earnings estimates table.

We would highlight that using the mid-point of the near-term 5-7% EPS CAGR ('21-'23) off of '21 guidance (base year) implies '23 EPS of only $1.48. This is far lighter than consensus / BofAe $1.54 / $1.55 as we perceive NI will be earning nearly at its authorized ROE across most of its gas utilities in '22 and '23 given the timing of its rate cases. We expect to see the most lag this year, slightly better in '21 (lag spread about evenly across the utilities with those lacking decoupling being hit slightly harder), and then lag should generally recover in 2022 where we expect NI to earn nearly at its authorized ROE aside from slight incremental parent interest drag from higher coupon rate on the assumed converts. Following regulatory lag plus some timing lag from renewables in '23 and a portion remaining in '24, we expect NIPSCO electric to recover earning close to the authorized beyond 2024.

We adjusted the timing of our capex estimates and rate base growth cadence to better align with company guidance. Additionally, we added incremental parent drag to account for incremental financing costs of the equity-linked hybrid issuance expected next year (we assume $700mn of converts). After these adjustments our EPS estimates are mostly unchanged aside from a 5c decrease in 2022 and 2023 *entirely from higher parent, which* *is more about a parent 'placeholder' of higher expense reconcile with their updated view rather than anything fundamentally concerned around utilities.* We now firmly see a positive bias to both near-term and longer-term EPS estimates, assuming execution at core utilities. We believe our '24 EPS offers the most indicative earnings power of the company and as such increasingly see greater validity for a premium valuation on '22/'23 EPS regardless of perceived credibility in execution relative to the group.

We stress clear upside to EPS estimates as we perceive management as capable of hitting (well above) its guidance range. While the Analyst Day could be perceived cautiously given the very low bar established, we reaffirm our underlying confidence on ultimate '24 EPS upon realization of full earnings potential from renewables (and no lag from delayed financing to address accelerated spend).

Table 1: NiSource EPS Estimates: tweaking lower '22 & '23 on higher parent 'placeholder': we're still above top end of guide… keeping '24 intact

NI EPS Estimates		2019A	2020E	2021E	2022E	2023E	2024E	2025E
Gas		1.04	1.02	1.14	1.22	1.24	1.24	1.30
Electric		0.59	0.54	0.54	0.61	0.67	0.85	0.86
Parent/Other		-0.33	-0.32	-0.36	-0.40	-0.37	-0.33	-0.27
BofA EPS		**1.32**	**1.25**	**1.32**	**1.42**	**1.55**	**1.76**	**1.88**
Previous EPS		1.32	1.25	1.32	1.47	1.60	1.76	
Guidance		**1.27-1.33**		**1.28-1.36**				
Consensus		1.30	1.29	1.35	1.43	1.54	N/A	
BofA '21-'24 EPS CAGR (including negative COVID impact in base yr)	10.2%							
BofA '21-'24 EPS CAGR (adding back -5c COVID impact in '21 guidance)	8.8%							
New Guidance '21-24 EPS CAGR	7-9%							
BofA '21-'23 EPS CAGR (including negative COVID impact in base yr)	8.3%							
BofA '21-'23 EPS CAGR (adding back -5c COVID impact in '21 guidance)	6.3%							
New Near Term Guidance '21-'23 EPS CAGR	5-7%							
Previous Guidance off '19 guidance range	5-7%							
BofA '20-'24 EPS CAGR	9.1%							
BofA '19-'23 EPS CAGR	4.1%							
BofA '19-'24 EPS CAGR	6.0%							
Implied EPS Guidance by Yr given New +7-9% EPS CAGR ('21-'24)	High End			1.36	1.48	1.62	1.76	1.92
	Mid-Point			1.32	1.43	1.54	1.66	1.80
	Low End			1.28	1.37	1.47	1.57	1.68
Share Count (mn shares)		**376**	**387**	**400**	**419**	**455**	**500**	**514**

Source: BofA Global Research estimates, company report, Bloomberg

Table 2: NiSource Rate Base Growth Estimates vs guidance

NI Rate Base Growth		2019	2020E	2021E	2022E	2023E	2024E	2025E
Gas Rate Base		9,197	9,032	10,125	11,266	12,465	13,640	14,449
Electric Rate Base		4,935	4,872	5,084	5,740	7,335	7,558	7,624
Total Rate Base (year-end)		**14,132**	**13,904**	**15,208**	**17,006**	**19,800**	**21,197**	**22,073**
Guidance excluding MA (year-end)			13,900	15,200	17,000	19,800	21,200	
BofA Implied CAGR ('21-'24)	*11.7%*							
Guidance excluding MA ('21-'24)	*10-12%*							

Source: BofA Global Research estimates, company report

Valuation: seeing more of a positive skew emerging

Our PO stays at $23 as we mark to market our SOTP valuation on peer '23 multiples (vs previous '22) of 13.2x for gas and 15.3x for electric. We assign a 2x premium to our electric peers to account for incremental renewable earnings growth long-term. In addition, we net out 50% the incremental assumed converts (and interest) associated with the renewables strategy by including it in the netting out of parent debt and interest expense in our SOTP below. Reiterate neutral as limited upside in our SOTP valuation of 8.8% (including a 4% dividend yield) and near term equity uncertainties offset the strong EPS growth through the forecast period via the renewable strategy.

Table 3: NiSource SOTP Analysis

NI SOTP Valuation										
	Metric	P/E Multiple								
	2023E EPS	Low	Peer	Prem/ Discount	Base	High		Low	Base	High
Group Peer Multiple - Gas	-	-	**13.2x**	-	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Gas	-	-	**5.10%**	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Gas Utilities	-	-	**13.9x**	-	-	-	-	-	-	-
Columbia Gas of OH	$0.57	12.9x	13.9x	**0.0x**	13.9x	14.9x		$7.30	$7.87	$8.44
Columbia Gas of PA	$0.29	12.9x	13.9x	**0.0x**	13.9x	14.9x		$3.69	$3.98	$4.27
NIPSCO Gas	$0.23	12.9x	13.9x	**0.0x**	13.9x	14.9x		$3.02	$3.25	$3.49
Columbia Gas of VA	$0.09	12.9x	13.9x	**0.0x**	13.9x	14.9x		$1.12	$1.21	$1.30
Columbia Gas of KY	$0.05	12.9x	13.9x	**0.0x**	13.9x	14.9x		$0.63	$0.68	$0.73
Columbia Gas of MD	$0.02	12.9x	13.9x	**0.0x**	13.9x	14.9x		$0.25	$0.27	$0.28
Group Peer Multiple - Electric			**15.3x**							
Group EPS '18-'22 CAGR - Electric			**5.00%**							
Electric Utilities			**16.1x**							
NIPSCO Electric	$0.67	17.1x	16.1x	**2.0x**	18.1x	19.1x		$11.47	$12.15	$12.82
Total Utility	**$1.92**	*14.3x*			*15.3x*	*16.3x*		**$27.50**	**$29.42**	**$31.33**
-Parent EPS Drag (ex-Interest Expense)	-$0.15	14.3x	0.0x		14.6x	15.6x		-$2.12	-$2.16	-$2.31
Total EPS *(incl. debt drag)*	**$1.42**									
Holdco Debt @ Parent, *not* allocated to Utilities										
(50% Netting out parent debt + assumed converts)				-$2,300	50%			-$1,150	-$1,150	-$1,150
(50% P/E multiple on Interest Exp)				5.6%	50%			-$730	-$781	-$831
Grand Total Equity Value								**$21.25**	**$23.01**	**$24.67**
Shares Outstanding 2023E									455	
Total Equity Value								**$21.00**	**$23.00**	**$25.00**
Implied Consolidated P/E										
Current Price									$21.96	
Dividend Yield (2020E)									4.0%	
Total Expected Return									**8.8%**	

Source: BofA Global Research estimates, company report, Bloomberg

Price objective basis & risk

NiSource Inc (NI)

Our $23 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2023 forward P/E multiples of 13.2x for gas utilities and 15.3x for electric utilities with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex beginning in '22, but acknowledge industrial risk. We note that electric / gas peer P/E multiples are grossed up by 5% / 5.1% to reflect capital appreciation across the sector. We strip value from Columbia Gas of MA given the pending sale to close in 3Q20. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

30 September 2020
Equity Research
Americas | United States

CREDIT SUISSE

NiSource Inc.

Investor Day Takeaways

Natural Gas | Company Update

NI

Target price (12M, US$)
26.00
Outperform

- **Investor day (virtual) takeaways.** NI hosted its investor day on Tuesday 9/29, which was mostly in-line with our previewed expectations. Among the biggest takeaways, the company reiterated 7%-9% EPS CAGR with a jump in 2024 (only 5%-7% through 2023) after Indiana renewables come in service (build-own-transfer so no AFUDC). The 2024 ratebase projection of $21.2B is $0.5B higher than the prior forecast. Equity: $500-$700M in 2022/23 for 60% of $1.8-$2.0B renewables capex (in line with CS). Flat annual O&M. FFO/D target unchanged at 14-15%. Broadly, the company discussed long-term growth strategy, cost structure refinements, equity needs, renewable generation including transition from coal to renewables, as well as updates to their Safety Management System (SMS) progress. We expect the company to attain at least the midpoint of a 5%-7% EPS CAGR (vs 2021) by 2024 after renewables are in service.
- **2021 Guidance Reaffirmed.** The company reaffirmed its 2021 NOEPS guidance of $1.28- $1.36 (CS $1.33 vs. consensus $1.34), which includes $0.00-$0.10 improvement from COVID-19 drag and Columbia Gas synergy impacts in 2020.
- **~$9.9B- $10.5B capital plan 2021-2024.** NI identified total expected investment opportunities of ~$9.9B- $10.5B from 2021-2024 of which ~20% is expected for renewables Investment, ~20% for electric infrastructure and asset modernization, and ~60% for gas infrastructure and asset modernization. This includes $1.9-$2.2B of growth, safety & modernization investments, with 75% of this covered by rates within 18 months. Longer-term, the company notes ~$40B incremental investment opportunity beyond 2024.
- **No block equity needed in 2020 and liquidity is ample for 2021, but equity is planned for 2022 and 2023 for Indiana renewables.** Equity plans for 2020 remain $200-$300M annual ATM plus $30-50M employee plans (no convertible or hybrid financing). Columbia Gas of Massachusetts sale to ES expected to close in October.
- **Valuation:** Our estimates and $26 TP are unchanged and based on peer 2022 P/E multiples within a SoTP. Our TP includes the discounted value of $0.19 uplift in 2024 (worth $3/sh) from expected earnings from Indiana renewables. Risks include regulatory, capital plan execution, interest rates.

Price (29 Sep 20, US$)	21.96
52-week price range	30.21 - 20.86
Enterprise value (US$ m)	17,522

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Share price performance

On 29-Sep-2020 the S&P 500 INDEX closed at 3335.47Daily Sep30, 2019 - Sep29, 2020, 09/30/19 = US$29.92

Quarterly EPS	Q1	Q2	Q3	Q4
2019A	0.82	0.05	-0.00	0.45
2020E	0.76	0.13	0.04	0.39
2021E	0.77	0.07	0.04	0.46

Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
EPS (CS adj.) (US$)	1.32	1.32	1.33	1.39
Prev. EPS (US$)	-	-	-	-
Revenue (US$ m)	5,184.1	6,112.6	6,219.7	6,513.9
EBITDA (US$ m)	1,764.2	1,805.6	1,836.9	1,966.3
P/OCF (x)	4.6	4.1	4.7	4.6
EV/EBITDA (current)	10.3	10.1	9.9	9.3
Net debt (US$ m)	9,504	9,111	9,503	9,728
ROIC (%)	5.50	5.51	5.10	5.15

Number of shares (m)	383.02	IC (current, US$ m)	15,490.20
Net debt (Next Qtr., US$ m)	10,097.8	Dividend (current, US$)	0.76
Net debt/tot eq (Next Qtr.,%)	177.8		

Source: Company data, Refinitiv, Credit Suisse estimates

CREDIT SUISSE

NiSource Inc. (NI)

Price (29 Sep 2020): **US$21.96** Target Price: **26.00**

Analyst: **Michael Weinstein**
Rating: **Outperform**

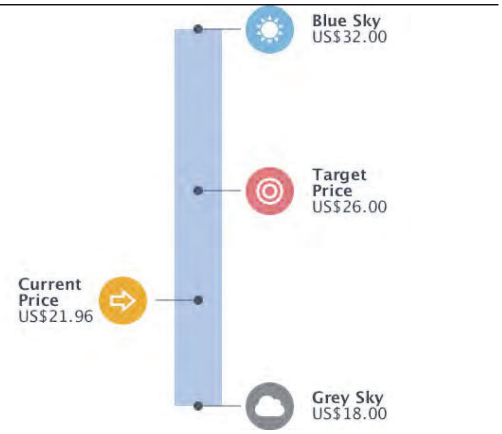
Income Statement	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Revenue (US$ m)	**5,184.1**	**6,112.6**	**6,219.7**	**6,513.9**
EBITDA (US$ m)	**1,764**	**1,806**	**1,837**	**1,966**
Depr. & amort.	(717)	(779)	(812)	(843)
EBIT (US$)	**1,047**	**1,027**	**1,025**	**1,123**
Net interest exp	(377)	(418)	(415)	(444)
PBT (US$)	**608**	**636**	**664**	**733**
Income taxes	(113)	(126)	(139)	(154)
Profit after tax	**495**	**510**	**524**	**579**
Minorities	-0	-0	-0	-0
Net profit (US$)	**495**	**510**	**524**	**579**
Reported net income (US$)	**495**	**510**	**524**	**579**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**495**	**510**	**524**	**579**
Cash Flow	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EBIT	1,047	1,027	1,025	1,123
Net interest	(377)	(418)	(415)	(444)
Change in working capital	(75)	(86)	0	0
Cash flow from operations	**2,247**	**2,061**	**1,837**	**1,966**
CAPEX	(2,167)	(2,036)	(1,725)	(2,200)
Free cashflow to the firm	**80**	**24**	**112**	**(234)**
Acquisitions	-	-	-	-
Divestments	0	1,100	0	0
Cash flow from investments	**(1,922)**	**(717)**	**(1,725)**	**(2,200)**
Net share issue(/repurchase)	244	155	295	867
Dividends paid	(355)	(335)	(299)	(314)
Changes in Net Cash/Debt	**(484)**	**393**	**(392)**	**(225)**
Balance Sheet (US$)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Assets				
Cash & cash equivalents	139	142	142	142
Account receivables	857	546	546	546
Other current assets	607	2,059	2,059	2,059
Total current assets	**1,854**	**2,860**	**2,860**	**2,860**
Total fixed assets	16,912	15,206	16,119	17,475
Investment securities	-	-	-	-
Total assets	**22,660**	**21,870**	**22,783**	**24,140**
Liabilities				
Total current liabilities	**3,746**	**3,591**	**3,983**	**4,209**
Total liabilities	**16,673**	**16,038**	**16,430**	**16,656**
Total liabilities and equity	**22,660**	**21,870**	**22,783**	**24,140**
Net debt	9,504	9,111	9,503	9,728
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
No. of shares (wtd avg)	375	385	395	415
CS adj. EPS	1.32	1.32	1.33	1.39
Prev. EPS (US$)	-	-	-	-
Dividend (US$)	0.76	0.80	0.85	0.90
Free cash flow per share	0.21	0.06	0.28	(0.56)
Earnings	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Sales growth (%)	(6.4)	17.9	1.8	4.7
EBIT growth (%)	12.4	(1.9)	(0.2)	9.6
Net profit growth (%)	6.8	3.1	2.9	10.3
EPS growth (%)	1.6	0.3	0.3	4.9
EBITDA margin (%)	34.0	29.5	29.5	30.2
EBIT margin (%)	20.2	16.8	16.5	17.2
Pretax margin (%)	11.7	10.4	10.7	11.2
Net margin (%)	9.5	8.3	8.4	8.9
Valuation	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EV/Sales (x)	3.46	2.87	2.88	2.78
P/E (x)	16.6	16.6	16.5	15.8
Price to book (x)	1.6	1.6	1.5	1.3
Asset turnover	0.2	0.3	0.3	0.3
Returns	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE stated-return on (%)	9.6	9.7	9.5	9.1
ROIC (%)	5.5	5.5	5.1	5.2
Gearing	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net debt/equity (%)	158.7	156.2	149.6	130.0
Interest coverage ratio (X)	2.8	2.5	2.5	2.5
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2019A	0.82	0.05	-0.00	0.45
2020E	0.76	0.13	0.04	0.39
2021E	0.77	0.07	0.04	0.46

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

NiSource Inc. is energy holding company whose subsidiaries provide natural gas, electricity & other products & services. It operates in 3 segments: Gas Distribution Operations; Gas Transmission & Storage Operations, & Electric Operations.

Blue/Grey Sky Scenario



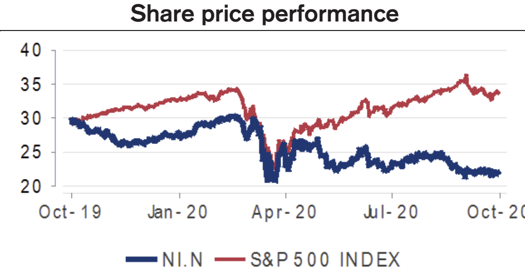
Our Blue Sky Scenario (US$) **32.00**

In our blue sky scenario we assume favorable regulatory outcomes across NI's jurisdictions, successful execution of their capital plan, and growth of infrastructure replacement program backlog. We assume that capex is at the high end of the $1.8-$1.9B and that NI is able to grow ratebase at the high end of their 8-10% range and grow earnings at the high end of their 5-7% range. We assume a 5.0x premium to the average peer 2021 P/E multiples.

Our Grey Sky Scenario (US$) **18.00**

In our grey sky scenario we assume unfavorable regulatory outcomes across NI's jurisdictions, only partial execution of their capital plan, and a decline in the infrastructure replacement program backlog. We assume that capex is at the low end of the $1.8-$1.9B and that NI is able to grow ratebase at the low end of their 8-10% range and grow earnings at the low end of their 5-7% range. We assume a -1.5x discount to the average peer 2021 P/E mult.

Share price performance



On 29-Sep-2020 the S&P 500 INDEX closed at 3335.47
Daily Sep30, 2019 - Sep29, 2020, 09/30/19 = US$29.92

Additional commentary

- **See our recent reports:** 9/27 Investor Day Preview, 8/7 Indiana Turning Green, 5/26 Left Behind but Holding Up Well, 5/11 COVID-19 Adds Near-Term Uncertainty, but Long-Term Fundamentals Remain Strong, 5/5 1Q20 Earnings Preview, 2/28 Raise to Outperform on Sale of Mass, Elimination of Block Equity Plan, 2020 Outlook – Getting Meaner and Less Defensive, 11/14 EEI 2019 Financial Conference: Full Takeaways,

- **Capital plan 2021-2024.** NI plans to deploy ~$9.9B- $10.5B from 2021-2024 in already identified capital investment opportunities, of which ~20% is expected for renewables Investment, ~20% for electric infrastructure and asset modernization, and ~60% for gas infrastructure and asset modernization. NI plans annual Growth, Safety & Modernization investments of $1.9B-$2.2B through 2024 (total $8.1B-$8.5B from 2021-2024) of which >75% of capex begins earnings in under 18 months. Renewable Generation investments of $1.8B -$2.0B occur in Indiana, primarily across 2022 and 2023. For the electric utility, NI plans $400M-$600M of annual capital investment in base electric system infrastructure and asset modernization programs through 2024.

- **Retiring coal and replacing with renewables.** NI is targeting to replacing 80% of coal capacity by 2023 with primarily renewable resources and retiring 100% of coal assets by 2028. The company targets to achieve 90% reduction in greenhouse gas emissions by 2030.

- **Rosewater and Jordan Creek to go in service by year-end.** Rosewater Wind (100 MW JV project) and Jordan Creek (400 MW JV project) are both expected to go in service by year-end. PPA projects Indiana Crossroads (300MW), Brickyard Solar (200MW) and Greensboro Solar (130) MW are expected to go in service by 2021, 2022 and 2022 respectively. Additionally, 8-10 additional projects in advanced commercial negotiations. Recall CPCN filings were made on 2/1/19 seeking approvals to develop the wind farm consistent with the IRP filed in the fall of 2018. Regulatory approvals were received in August 2019 and tax equity financing was closed in July 2020. NI expects ~$90M rate base investment (includes developer carry) to be paid in 2023 which will be recovered through base rate case.

- **Financing the renewables.** Equity plans for 2020 remain $200-$300M annual ATM plus $30-$50M employee plans (no convertible or hybrid financing). However, we expect ~60% of $1.8-$2.0B of incremental Indiana plant investment in 2022/23 to be financed with equity (we model half in 2022 and remaining half in 2023. However, this neither results in AFUDC (turnkey projects) nor earn a return until a forward test year ratecase is filed around early 2023 for rates effective 2024. Note that this only represents the utility's initial investment in the Indiana projects, with an additional $1.0B financed with tax equity for the benefit of utility customers. Of the $1.8-$2.0B to be financed by the utility, only $0.4B has been approved to date, with the remaining projects still in negotiation. On the debt side of the ledger, the company plans incremental long term debt of $500M-$700M annually from 2022-2024 for the Indiana renewable generation investments. NI also plans $600M-$1,000M in hybrids and convertibles financing in 2021. The current plan targets renewable investment financing (60% Equity / 40% Debt) and long-term Adj. FFO/total debt of ~14%-15%.

- **Rate base and NOEPS.** Ratebase growth is expected to grow at a 10%-12% CAGR from $13.9B in 2020 to $21.2B in 2024. The company reaffirmed 2021 NOEPS guidance of $1.28- $1.36 (CS $1.33 vs. consensus $1.34), which includes $0.00-$0.10 improvement from COVID-19 drag and Columbia Gas synergy impacts in 2020. NOEPS is expected to grow at 7% to 9% CAGR 2021–2024, with a near term annual growth of 5%-7% in 2021-2023. Further, the company expects long-term ~$40B investment opportunity to drive continued NOEPS growth beyond 2024.

Figure 1: Capital Plan and Rate base

Capex & Rate Base ($B)	2021	2022	2023	2024
Capex	2.0-2.3	2.4-2.7	3.3-3.6	1.9-2.2
Rate base	15.2	17.0	19.8	21.2

Source: Company data, Credit Suisse estimates

- **Liquidity update.** NI's net liquidity available is $1.5B-$1.6B as of Sep 30th (vs. ~$2B on June 30th). Total long term debt is $9.1B with a weighted average maturity of 15.5 years and a 3.68% interest rate as of September 30th vs the prior update in June which included a ~$10B debt level, with ~$8.7B of long-term debt, with a weighted average maturity of ~16 years and a 4.31% interest rate. Additionally, the company expects no significant refinancing needs through 2024.

- **Nisource Next initiative and Columbia Gas of Massachusetts sale to drive ~8% O&M reduction in 2021.** The company has undertaken various cost initiatives including voluntary separation program savings, operational processes improvements and modernization driven fuel and cost reductions. NI expects annual O&M for 2021-2024 to remain "relatively flat".

Previous Relevant Commentary

- **Our unchanged 2022 estimate of $1.39 includes about -$0.04 expected drag from equity issuance for investment in Indiana renewables** that will not benefit from AFUDC nor receive a rate increase until 2024. We expect the company to attain at least the midpoint of a 5%-7% EPS CAGR (vs 2021) by 2024 once these projects are in service. Ratebase growth is also expected to grow at a 10%-12% CAGR from $13.9B in 2020 to $20.7B in 2024. Recall that 2021 Guidance was initiated in August at $1.28-$1.36 (CS $1.33 vs. consensus $1.34), which includes $0.00-$0.10 improvement from COVID-19 drag and Columbia Gas disynergy impacts in 2020.

- **COVID-related regulatory updates.** Orders received in Maryland (4/9/2020), in Virginia (4/29/2020), in Pennsylvania (5/13/2020), in Indiana (6/29/2020) and in Ohio (7/15/2020). Orders in MD, OH and VA allow deferral of COVID-19 related expenses and bad debt for later recovery. Order in PA allows deferral of bad debt above amounts in base rates for later recovery, and order in IN allows deferral of suspended fees and bad debt for later recovery.

- **Columbia Gas of Massachusetts sale remains on track for regulatory approval in Q3.** On July 2, NI announced that it will pay $56M to settle and resolve the state's investigation into the 2018 Greater Lawrence incident.
    - **A federal guilty plea and the sale of Columbia Gas of Mass.** On Wednesday, 2/26, the US Department of Justice announced that NI will plead guilty to a criminal violation of the federal Natural Gas Pipeline Safety Act and pay a $53M fine in connection with the Sept 2018 gas explosion incident in Merrimack Valley, Massachusetts. NI has also agreed to sell its operations in Massachusetts to ES for $1.1B and will forfeit any profit earned from the sale (none expected, so retaining the whole $1.1B). The plea is on a corporate level; no individual officers or employees of the company were charged.
    - **Sale of Columbia Gas of Massachusetts to Eversource for $1.1B - with no gains allowed (or expected).** NI has also agreed to sell its operations in Massachusetts to ES and will forfeit any profit earned from the sale. We calculate that ES is purchasing at a 1.0x multiple of ratebase, or 19.7x 2021 P/E at the allowed 9.55% ROE – in line with the group average. However, the elimination of a previously planned $500-$700M block equity issuance in 2020 brings the combined effect to about breakeven to a modest $0.01 accretion to 2021 expectations before accounting for -$0.05 corporate disynergies. Expect the

transaction to close in October. See our 7/31 ES 2Q earnings note for further detail.

- **Emphasis on safety and leak reduction.** The company continues to emphasize reducing the operational risk and enhancing gas systems safety through the implementation of the Safety Management System (SMS) and new safety system installations across all NI gas service territories. NI has rolled out a corrective action program with the hopes of providing a very clear process and technology for employees and more than 1,000 automatic shut-off devices have now been installed. NiSource is looking to advance safety new technologies, leakage sensing, smoke detectors, safety performance, and predictable models where human error could create risks. The company is projecting a 50% reduction in methane emissions from natural gas pipelines by 2025.
- **Pension & OPEB. 97% funded in 2Q20** vs. 94% in1Q20, and ~98% as of year-end 2019 with 52% of pension plan assets in equities (45% of OPEB assets). A 50 bps decline in the discount rate is expected to result in a $97.7M increase in projected pension obligation and a $31.8M increase in OPEB obligation, as well as a $2.6M increase in net plan expense. For a 50 bps decline in expected long-term rate of return on pension and OPEB plan assets, net expenses are expected to increase $10.1M.
- **Decoupling.** Full decoupling in OH, MA, MD, VA. Weather normalization in KY, MD, VA, PA. **Bad debt handling.** Clauses for bad debt in KY, OH, MD, PA, VA, MA & IN.
- **Stimulus bill impacts:** management is still evaluating the potential benefits from NOLs and AMT credits.
- **Cost management and regulatory solutions offset COVID's $30M (or ~$0.06) impact in Q2.** Gas margin impact by customer class saw a $0.7M increase in residential and a $4.7M decrease in industrial (vs 2Q19). Electric margin impacts saw a $9.2M and $3.9M decreases to industrial and commercial load respectively, partially offset with a $6.2M increase in residential vs. 2Q19. COVID's impact are trending with the company's base case scenario.

Figure 2: COVID's Impact to NI in Q2

COVID impact to Gas Margin (2Q20 v 2Q19)	$(M)
Residential	0.7
Commercial	0.0
Industrial	-4.7

COVID impact to Electric Margin (2Q20 v 2Q19)	$(M)
Residential	6.2
Commercial	-3.9
Industrial	-9.2

Source: Company data, Credit Suisse estimates

- **COVID-19 annual impact to load**. Management expects lower sales volumes from commercial and industrial customers, partially offset by a potential increase in residential sales volume. Increased bad debt expenses (although recent orders in MD, VA allow for deferring the COVID-related expenses and bad debt), and sustained customer attrition. The company's sensitivity analysis continues to project that a +/- 1% change in annual sales volumes, will result in pre-tax operating earnings of $3.9M, $3.9M and $2.3M to residential, commercial and industrial on the electric side respectively, and $3.8M, $2.4M and $1.2M to residential, commercial and industrial on the Gas side respectively. The residential customer class represents 39% and 69% of the retail margins in electric and gas respectively, with commercial at 35% and 22% in electric and gas respectively.

Figure 3: COVID-19 Impact to Nisource Load

Pre-tax Operating Earnings Sensitivity to +/- 1% CHG in annual sales volume	Electric	Retail Margins %
Residential	$3.9	59%
Commercial	$3.9	26%
Industrial	$2.3	15%
Total	**$10.1**	**100%**

Pre-tax Operating Earnings Sensitivity to +/- 1% CHG in annual sales volume	Gas	Retail Margins %
Residential	$3.8	69%
Commercial	$2.4	22%
Industrial	$1.2	9%
Total	**7.40**	**100%**

Source: Company data, Credit Suisse estimates

Regulatory Updates

- **Gas Distribution Operations.**
  - **Columbia Gas of MD** filed a new base rate case on 5/15 requesting $6.3M total revenue increase; $5M net of infrastructure trackers which supports continued replacement of aging pipelines and safety upgrades. The final order is expected in 4Q20 with new rates effective in Dec 2020.
  - **Columbia Gas of PA.** Filed a base rate case 4/24/2020 which supports continued replacement of aging pipelines as well as adoption of safety upgrades. Ratecase includes $100.4M total annual revenue increase. Order is expected in 1Q21 with new rates effective in Feb 2021.
  - **Columbia Gas of Ohio. Infrastructure Replacement Program (IRP) Annual Rider update.** Filed 2/28/2020 and order was received on 4/22/2020 and rates became effective in May. Order includes ~$234M in 2019 capital investments and IRP rider allows recovery of safety and infrastructure investments. Recall that a 2017 settlement allowing COH to continue the IRP tracker through 2022 was previously approved in Jan 2018. The IRP program covers the replacement of priority mainline pipes and targeted customer service lines.
  - **Columbia Gas of Ohio. Capital Expense Program (CEP) Annual rider update.** Filed 2/28/2020 and order is expected in 8/2020. Application includes ~185M in 2019 capital investments. The CEP rider allows recovery capital investments and deferred expenses that are related but not covered through IRP tracker. New rates expected to become effective 9/2020.
  - **NIPSCO Gas System Indiana.** Filed application on 12/31 with Indiana Utility Commission for 6-year extension to the company's long-term gas infrastructure modernization program. Proposal includes ~$950M in capex through 2025 to be recovered through semi-annual adjustments. Order is expected in July 2020.
    - **Clarity from legislation in Indiana drives filing of a new gas TDSIC plan**. While the company continues to execute its approved TDSIC plans businesses through 2020 and 2022 for gas and electric, respectively, the passage of the H.B. 1470 provides clearer guidelines on items that can be included in a TDSIC plan. As result, management filed and received approval on Oct 16, 2019 for gas TDSIC10 covering $12.4M incremental capital between July 2018 and April 2019.
- **Electric Operations.** New solar projects have been announced for coal replacement capacity and the company expects $1.8B-$2B incremental capital investment opportunities in 2022 and 2023.

- **Settlement and order in Indiana ratecase for rates effective 1Q20.** A final order approving two settlements in NIPSCO's electric ratecase was issued on Dec 4, 2019, including a 9.75% authorized ROE on 47.86% equity for a $4.116B ratebase that resulted in a two-step revenue increase of $42.7M. The case was filed in Oct 2018 in conjunction with a new long-term Integrated Resource Plan (IRP). The settled portion of the case includes a revenue requirement and accelerated depreciation schedule related to early retirement of coal plants, including an agreement to reduce the book lives of $1.5B coal ratebase to match retirement plans at an average 2032 vs. the prior 2030s-2040s. Non-protected accumulated deferred income tax passback amortization has also been agreed at a comfortable 10-year amortization period. It also includes a new rate structure for industrial customers that allows the utility to manage market purchases in order to keep track of capacity requirements (reduces risk of stranded assets).

- **Renewable Generation Projects. Construction continues on Jordan Creek (400 MW) and Rosewater (100 MW) – expected to go in service by year-end**. Recall CPCN filings were made on Feb 1st, 2019 seeking approvals to develop 3 wind farms consistent with the IRP filed in the fall of 2018. Orders approving the PPAs on these filings were received on June 5, 2019 and the wind farms are expected to be built by yearend 2020. On Oct 22, 2019, a Build-Transfer Agreement BTA was filed for Indiana Crossroads (300MW) JV between NIPSCO and EDP Renewables (302 MW). FERC approved order on 2/19/2020 for sections 203 and 205 applications for Rosewater. BTA application was approved for Indiana Crossroads (300MW), a second joint venture between NIPSCO and EDP Renewables. Commercial terms reached on Brickyard Solar (200MW) and Greensboro Solar (100MW) + storage (30MW) PPAs filed. Latest RFP represents replacement ~1,400MW of coal capacity through 2023.

- **Tax equity partnership reached for Rosewater, Indiana Crossroads.** Regulatory approval pending for Brickyard and Greensboro Solar. Altogether, the company expects about $1.0B of tax equity financing to help capitalize ~$2.8-$3.0B of JV renewable projects in Indiana from 2022-2023. The remaining $1.8-$2.0B of NI ratebase investment is expected to be financed with ~60% equity/40% debt.

- **Electric System Modernization** focused on electric transmission and distribution investments aimed at improving safety and reliability of system was filed 8/21/2019, final order was received on Dec 18th 2019 and rates became effective in Jan 2020. TDSIC 6 semi-annual tracker update covering $131.1M in investments from Dec 2018 – June 2019 now in rates. The program originally approved in 2016, contains ~$1.2 billion of electric infrastructure investments expected to be made through 2022. The company's latest tracker update request, covering $131.1 million in incremental capital investments made from December 2018 through June 2019 was approved by the IURC on 2/1 and rates became effective Jan 2020.

- **Integrated Resource Plan (IRP)** submitted in Oct 2018 called for 100% coal retirements by 2028 (vs. prior plan for 50% by 2023), replaced with renewables rather than natural gas. The IRP calls for retirement of 80% of the coal fleet by 2023 and 100% by 2028 (vs. prior plan 50% by 2023). The plan also points toward rapidly declining-cost renewables (wind, solar, batteries) rather than the gas-fired replacements that were planned within the last 2016 IRP. With much of the new generation in service in 2023 and beyond, the ratecase is less important as a near-term earnings driver. The rate filing also includes changes to the depreciation schedules for the IRP's planned early retirements of coal, along with rate design changes to provide more tariff flexibility to industrial customers. Discussions continue with select bidders in second round of RFPs. **Next IRP expected in 2021.**

Valuation

- **Valuation.** Our $26 TP is unchanged and based on peer 2022 P/E multiples within a SoTP. Our TP includes the discounted value of $0.19 uplift in 2024 (worth $3/sh) from expected earnings from $1.8-$2.0B Indiana renewables that will not benefit from AFUDC and will not receive a rate increase until 2024. Meanwhile, our 2022 estimate includes -$0.04 drag from equity issued for these projects (~60% of the ratebase, with half issued in 2022 and half in 2023). We expect the company to attain at least the midpoint of a 5%-7% EPS CAGR (vs 2021) by 2024. We continue to apply a 2.0x premium to the gas utilities for favorable regulatory jurisdictions and lower operational risk since the explosive incident in Lawrence Mass in 2018. We continue to value the electric operation in Indiana at a 2.0x premium for excellent operations and supportive regulation. Risks include 1) ROE risk related to the ongoing ratecases, 2) continued approvals relating to infrastructure replacement/grid modernization programs, 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particularly in the non-decoupled jurisdictions, 7) weather risk, 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety, 11) COVID-19 pandemic response load reduction, particularly at the electric utility.

Figure 4: NI Valuation

		BASE CASE			
	2022 EPS	Prem / Disc	Effective P/E	Equity	Equity / Sh
Electric	$0.54	2.0x	17.6x	$3,634	$9.44
Gas	$0.91	2.0x	16.0x	$5,613	$14.58
Earnings on renew ables in 2024 (discounted to 2022) - need to account here as equity dilution hits first in 2022/23 but no AFUDC as these are turnkey projects	$0.19		16.6x	$1,238	$3.22
Other	($0.06)		16.6x	($368)	($0.96)
Total EPS	**$1.39**			**$10,118**	**$26.00**
Diluted Shares Outstanding					384.9
Dividend					$0.80
Implied Yield					3.1%
Current Yield					3.6%
Implied P/E					18.7x
Prem / (Disc) To Group					33.3%
Upside/ (Dow nside) to Current Price					17.4%
Total retirn					21.1%

Valuation, Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: We arrive at our $26 target price for NI by applying a 2.0x premium to the gas segment peer 2021 P/E to reflect the constructive regulatory environments with capex trackers in place in the jurisdictions that NI operates. We also apply a 2.0x premium to the average peer electric utility 2021 P/E multiple for NIPSCO Electric utility in Indiana to reflect the favorable ratebase growth profile and regulatory environment in the state. Our OUTPERFORM rating reflects a forecasted total return that is equal the group average.

Risk: Risks to our $26 target price and OUTPERFORM rating are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particulary in the non-decoupled jurisdictions, 7) weather risk, and 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety after the 2018 explosion incident in Mass. 11) COVID19 load reductions

2 November 2020
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NiSource Inc.

3Q20 Beat, 2021 Guidance Reaffirmed

Natural Gas | Research Bulletin

NI

Target price (12M, US$)
26.00
Outperform

Price (30 Oct 20, US$)	22.97
52-week price range	30.21 - 20.86
Enterprise value (US$ m)	17,909

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- **Reported a 3Q20 adj. EPS beat at $0.09 vs cons/CS** $0.02/$0.03 (and vs 3Q19 $0.00) driven by cost and regulatory mitigation which reduced COVID's impact.
- **2021 Guidance Reaffirmed $1.28-$1.36.** The company reaffirmed its 2021 NOEPS guidance of $1.28- $1.36 (CS $1.33 vs. consensus $1.34), which includes $0.00-$0.10 improvement from COVID-19 drag and Columbia Gas synergy impacts in 2020.
- **No change to equity plans: No block equity needed in 2020 and liquidity is ample for 2021, but equity is planned for 2022 and 2023 for Indiana renewables.** Equity plans for 2020 remain $200-$300M annual ATM plus $35-60M employee plans (no convertible or hybrid financing). For 2021, $600-$1,000M for hybrids/convertible are expected for planned renewable generation investments and $500-$700M common block equity in 2022/23 for 60% of $1.8-$2.0B renewables capex (in line with CS).
- **Investor day takeaways.** NI hosted its investor day on Tuesday 9/29, which was mostly in-line with our previewed expectations. Among the biggest takeaways, the **company reiterated 7%-9% EPS CAGR** with a jump in 2024 (only 5%-7% through 2023) after Indiana renewables come in service (build-own-transfer so no AFUDC). We expect the company to attain at least the midpoint of a 5%-7% EPS CAGR (vs 2021) by 2024 after renewables are in service.
- **Columbia Gas of Massachusetts sale to ES closed Oct 9.** Net proceeds of $1.1B will be used to pay down term loan and company's short term debt. Recall, on July 2, NI announced that it will pay $56M to settle and resolve the state's investigation into the 2018 Greater Lawrence incident.
- **2020 Capital reaffirmed at $1.7-$1.8B and its 5yr plan (2021-2024) left unchanged at ~$9.9B- $10.5B.** NI reaffirmed its 2020 expected capex at $1.7B-$1.8B and continues to identify total expected investment opportunities of ~$9.9B- $10.5B from 2021-2024 of which ~20% is expected for renewables Investment, ~20% for electric infrastructure and asset modernization, and ~60% for gas infrastructure and asset modernization.
- **Additional Renewable Generation.** NI executed Build-Transfer Agreements with NextEra (NEE) for three solar and storage projects in Indiana which represent $850M in NIPSCO capital investment.
- **Gas Regulatory Update:** Rate case settlement reached in Maryland which includes $3.3M total increase in annual revenue ($2M net of infrastructure trackers). Final order is expected in Nov with new rates becoming effective in Dec. Additionally, final orders are still expected for Pennsylvania, Kentucky, NIPSCO's modernization program and Virginia's Energy (SAVE) Annual Rider Update.
- **Rosewater and Indiana Crossroads remain on track** and they are expected to be in service YE2020 and YE2021 respectively. Jordan Creek is also on track and in service date remains YE2020.

- **Liquidity update.** NI's net liquidity available is ~\$1.6B as of Sep 30th (vs. ~\$2B on June 30th). Total long term debt is ~\$9.1B with a weighted average maturity of ~15 years and a 3.68% interest rate as of September 30th vs the prior update in June which included a ~\$10B debt level, with ~\$8.7B of long-term debt, with a weighted average maturity of ~16 years and a 4.31% interest rate. Additionally, the company expects no significant refinancing needs through 2024.
- **See our recent reports:** 10/15 Earnings Preview, 9/30 Investor Day Takeaways, 9/27 Investor Day Preview, 8/7 Indiana Turning Green, 5/26 Left Behind but Holding Up Well, 5/11 COVID-19 Adds Near-Term Uncertainty, but Long-Term Fundamentals Remain Strong, 5/5 1Q20 Earnings Preview, 2/28 Raise to Outperform on Sale of Mass, Elimination of Block Equity Plan, 2020 Outlook – Getting Meaner and Less Defensive,
- **Call Today at 11AM ET.**

Valuation, Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: We arrive at our $26 target price for NI by applying a 2.0x premium to the gas segment peer 2021 P/E to reflect the constructive regulatory environments with capex trackers in place in the jurisdictions that NI operates. We also apply a 2.0x premium to the average peer electric utility 2021 P/E multiple for NIPSCO Electric utility in Indiana to reflect the favorable ratebase growth profile and regulatory environment in the state. Our OUTPERFORM rating reflects a forecasted total return that is equal the group average.

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2 November 2020

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Companies Mentioned *(Price as of 31-Oct-2020)*
NiSource Inc. (NI.N, $22.97, OUTPERFORM, TP $26.0)

Disclosure Appendix

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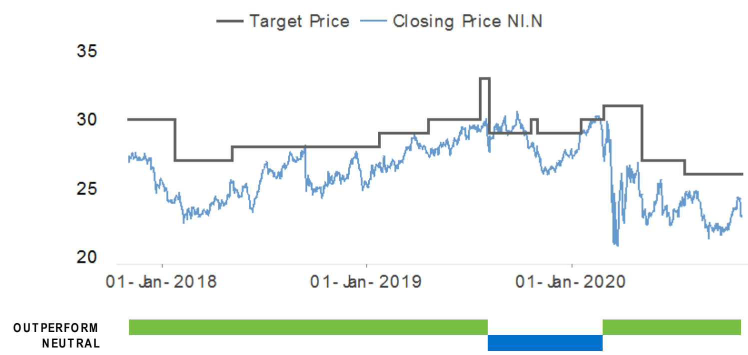
Michael Weinstein, ERP, and Maheep Mandloi each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
02-Nov-17	26.94	30.00	O
23-Jan-18	24.17	27.00	
06-May-18	25.41	28.00	
23-Jan-19	26.83	29.00	
21-Apr-19	27.56	30.00	
22-Jul-19	29.14	33.00	
07-Aug-19	27.63	29.00	N
21-Oct-19	28.05	30.00	
01-Nov-19	27.65	29.00	
17-Jan-20	29.04	30.00	
28-Feb-20	27.02	31.00	O
05-May-20	24.53	27.00	
20-Jul-20	23.75	26.00	



** Asterisk signifies initiation or assumption of coverage.*

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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.
**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European (excluding Turkey) ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin America, Turkey and Asia (excluding Japan and Australia), stock ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*
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Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.
Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.
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Restricted	1%	

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This research report is authored by:
Credit Suisse Securities (USA) LLC.. Michael Weinstein, ERP ; Andres Sheppard ; Maheep Mandloi

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Goldman Sachs | Equity Research

2 November 2020 | 7:57AM EST

NiSource Inc. (NI): First Take: 3Q20 beat on cost control; 2021 and LT guidance reiterated

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NiSource (NI, Buy) reported 3Q20 operating EPS of $0.09, above both GS/FactSet consensus at $0.00/$0.03, driven largely by cost and regulatory mitigation efforts at both gas and electric segments. The company also reiterated 2021 guidance in the range of $1.28-$1.36 (midpoint $1.32) versus GS/consensus of $1.33/$1.34. NI continues to expect EPS to grow 7 to 9% from 2021-2024 and 5 to 7% through 2023 as highlighted at its September investor day; our current estimates reflect a 7.1% CAGR from 2021-2024.

Key takeaways from NI's release and slides include:

- **EPS growth trajectory reaffirmed:** 5-7% CAGR from 2021-2023, 7-9% from 2021-2024. We note management had previously discussed growth through 2024 as relatively back-end loaded given the financing/regulatory lag associated with the ~$1.8-$2.0bn of renewable investments in Indiana. Our estimates reflect a 7.1% EPS CAGR from 2021-2024.
- **NI completed the sale of Columbia Gas of Massachusetts (CMS)** on October 9th, with the $1.1bn in proceeds utilized to pay down its term loan and other short-term debt.
- **NI in October announced 900 MW of additional renewable generation** in Indiana as part of the forecasted $1.8 to $2.0 billion renewable investment plan through 2023. This joint venture brings the total NI investmental to $1.25bn, with $0.6-$0.8bn in other projects currently in negotiation.
- **3Q20 performance beat was largely driven by cost management which offset COVID-19 related impact**, which totaled -$0.01 for the quarter and -$0.07 YTD.

Key topics to monitor on NI's earnings call include (1) strategic thoughts on one or more of its gas utility businesses, (2) updated thoughts on timing of hybrid/equity issuance, (3) additional color on O&M trajectory, and (4) update on potential for property insurance recovery related to the MA gas incident

Our $27, 12-month price target embeds our industry base target P/E multiple of 20x to 2021 EPS estimate of $1.34. Key risks include (1) legal and regulatory risks, (2) earnings/cash impact due to COVID-19, (3) higher-than-expected O&M, (4) electricity demand and customer growth, and (5) financing.

NI	12m Price Target: **$27.00**	Price: **$22.97**	Upside: **17.5%**

Buy

Market cap: $8.8bn
Enterprise value: $18.9bn
3m ADTV: $72.3mn
United States
Americas Utilities
M&A Rank: 3

GS Forecast

	12/19	12/20E	12/21E	12/22E
Revenue ($ mn)	5,208.9	4,905.9	4,829.8	5,038.5
EBITDA ($ mn)	1,608.1	1,777.0	1,903.8	2,078.7
EBIT ($ mn)	890.7	1,034.3	1,089.1	1,192.2
EPS ($)	1.32	1.30	1.33	1.41
P/E (X)	21.3	17.7	17.3	16.3
EV/EBITDA (X)	13.0	10.7	10.4	10.2
FCF yield (%)	(2.1)	(5.4)	(7.5)	(11.1)
Dividend yield (%)	2.9	3.7	3.9	4.1
Net debt/EBITDA (X)	5.9	5.2	5.3	5.4

	6/20	9/20E	12/20E	3/21E
EPS ($)	0.13	(0.00)	0.41	0.74

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 30 Oct 2020 close.

Disclosure Appendix

Reg AC

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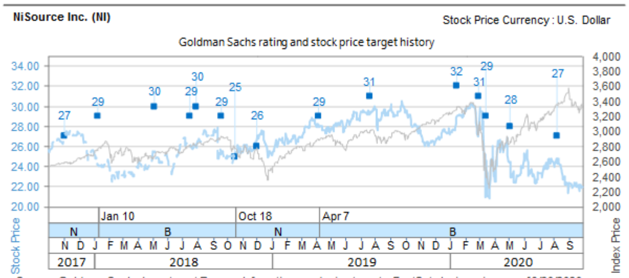

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North America Equity Research
02 November 2020

NiSource Inc.

3Q20 Earnings Surpass Estimates; Renewables, Cost Savings Remain in Focus for 2021-2024 Plan

Overweight

NI, NI US
Price: $22.97
30 Oct 2020

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- **3Q20 EPS well ahead of estimates on cost savings.** 3Q20 operating EPS of $0.09 beat JPMe/Street median estimates of $0.01/$0.03, respectively. COVID-19 impacts moderated to -1c from 2Q20's -6c, before cost savings, for a -7c YTD drag. Gas distribution operating earnings increased +$36.1mm and electric operating earnings decreased -$2.5mm. Drivers include new rates from infrastructure replacement programs and CEP (+$16.7mm), net cost savings (+$20.2mm), and COVID-19 impacts (-$2.4mm, including +$5.8mm increased residential usage benefit). NI also realized YoY benefits from the sale of emission reduction credits and a favorable insurance reserve adjustment.

- **Quiet release as expected following Sept Investor Day, Oct renewables project update.** NI reaffirmed its $1.7-1.8bn 2020 capex, $1.28-1.36 2021 NOEPS guidance, 7-9% 2021-24 EPS CAGR, and associated 10-12% average annual rate base growth, consistent with the company's Sept 29 Investor Day update. We also note NI's Oct 21 announcement of three finalized build transfer agreements to acquire the Dunns Bridge I Solar (265MW), Dunns Bridge II Solar (510MW) and Cavalry Solar (260MW) projects as part of planned $1.8-2.0bn renewables investments. The projects represent an $850mm NIPSCO investment and have 2022-23 expected in-service dates (subject to IURC approval; 4Q20 CPCN filing expected). NIPSCO has now executed total agreements of ~$1.25bn. Given the relatively quiet release, we expect attention on management commentary around post-CMA sale cost savings, NI's recently announced renewables investments, potential portfolio optimization efforts to offset equity financing needs, and anticipated 4Q20 COVID-19 impacts.

- **Outlook remains constructive.** We continue to see growth as attractive relative to peers and subject to manageable execution risk, with the potential to accelerate a re-weighting toward the company's electric operations through portfolio optimization representing a powerful tool despite standing outside NI's current plan.

- **Conference call details.** NI will host a conference call to discuss 3Q20 results on Monday, November 2, at 11:00 AM EST. Webcast link here.

Table 1: NI 3Q20 Results

Income Statement:	Actual 3Q19	Actual 3Q20	JPM 3Q20E	% Chg Y/Y	% Chg vs JPMe	YoY Drivers
Operating Earnings	108	148	120	38%	23%	Infra replacement programs new rates ($16.7mm), net cost savings ($20.2mm)
Net Income	(2)	36	5	N/A	661%	Higher Other Income (sale of emission reduction credits)
Share Count	374	384	386	3%	-1%	
Operating EPS	**$0.00**	**$0.09**	**$0.01**	**N/A**	**665%**	

Source: Company reports and J.P. Morgan estimates.

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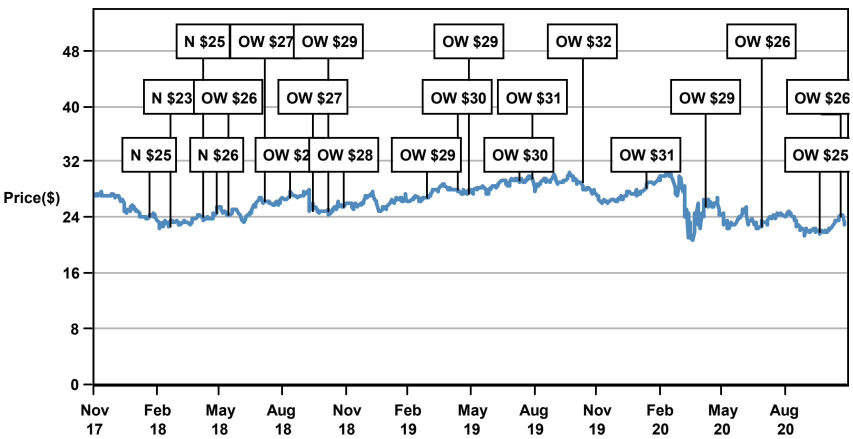
NisSource Inc. (NI, NI US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
24-Jan-18	N	24.17	25
22-Feb-18	N	22.80	23
10-Apr-18	N	24.15	25
02-May-18	N	24.52	26
17-May-18	OW	24.40	26
11-Jul-18	OW	26.24	27
15-Aug-18	OW	26.96	28
17-Sep-18	OW	24.79	27
09-Oct-18	OW	25.05	29
01-Nov-18	OW	25.36	28
01-Mar-19	OW	26.98	29
15-Apr-19	OW	28.07	30
02-May-19	OW	27.40	29
15-Jul-19	OW	29.34	30
01-Aug-19	OW	29.69	31
13-Oct-19	OW	29.14	32
15-Jan-20	OW	28.18	31
09-Apr-20	OW	25.47	29
01-Jul-20	OW	22.74	26
21-Sep-20	OW	21.98	25
23-Oct-20	OW	24.04	26

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"Other Disclosures" last revised October 10, 2020.

UBS

First Read

NiSource Inc.

Lower Costs Drive the Beat

Equities

Americas
Gas Utilities

12-month rating	**Neutral**
12m price target	**US$25.00**
Price (30 Oct 2020)	**US$22.97**
RIC: NI.N **BBG:** NI US	

Trading data and key metrics

52-wk range	US$30.21-20.86
Market cap.	US$8.81b
Shares o/s	384m (COM)
Free float	99%
Avg. daily volume ('000)	919
Avg. daily value (m)	US$21
Common s/h equity(12/20E)	US$4.87b
P/BV(12/20E)	1.8x
Net debt to EBITDA(12/20E)	5.7x

EPS (UBS, diluted) (US$)

	12/20E			
	From	To	%ch	Cons.
Q1	0.76	0.76	0	0.76
Q2	0.13	0.13	0	0.13
Q3E	0.02	0.09	491	0.03
Q4E	0.40	0.38	-3	0.38
12/20E	1.30	1.37	5	1.29
12/21E	1.39	1.39	0	1.34
12/22E	1.46	1.46	0	1.43

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Strong 3Q and Guidance Reaffirmed

NI reported strong 3Q EPS driven by lower O&M. NI maintained its 2020 capex guidance of $1.7B-$1.8B and 2021 adj EPS guidance of $1.28-$1.36 (incl. $0.05/share impact from COVID). Management noted some modest C&I load impacts from the pandemic which are partially offset by higher residential vols. Additionally, lower costs help mitigate the negative impacts on revenues. During the call, we will listen for an update on the potential impact on gas utility from the pandemic during the heating season and changes in bad debt. On its recent Investor Day, management discussed the hybrid financing of its capex in 2021 and we expect the focus on the call will be on timing and what options is management reviewing. On Oct 21st, NIPSCO announced it will add an incremental 900MWs of renewable generation as part of its transition strategy. NI finalized $850MM of build-transfer agreements with NextEra for 3 Indiana solar & storage projects. During the call, we will also listen for an update on pending regulatory filings, in particular $100.4MM revenue increase request in PA. New rates are expected in January 2021. We expect strong 3Q will be well received by investors.

Results: 3Q EPS Above UBSe/Consensus

NI reported 3Q adj EPS of $0.09 above UBSe of $0.02 and Consensus of $0.03. The beat was primarily driven by lower O&M in Gas Distribution segment. Gas Distribution operating income of $9.7MM was above UBSe of ($9.1MM) loss, while Electric Utility segment op. income was $132.9MM, 3% above UBSe. On Oct 9th, NI completed the sale of the Columbia of MA.

Increasing Estimates

To reflect 3Q earnings, we are increasing 2020E EPS by 5% to $1.37. We are maintaining our 2021/2022E EPS roughly unchanged.

Valuation:

We maintain Neutral rating and $25 PT.

Highlights (US$m)	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
Revenues	4,905	5,095	5,184	4,910	5,293	5,507	5,775	6,059
EBIT (UBS)	964	942	1,047	1,088	1,184	1,286	1,432	1,586
Net earnings (UBS)	398	463	495	529	589	659	741	826
EPS (UBS, diluted) (US$)	1.21	1.30	1.32	1.37	1.39	1.46	1.58	1.71
DPS (net) (US$)	0.72	0.79	0.84	0.89	0.95	1.01	1.07	1.13
Net (debt) / cash	(8,973)	(9,892)	(10,374)	(10,649)	(10,648)	(11,494)	(13,170)	(13,664)

Profitability/valuation	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
EBIT (UBS) margin %	19.7	18.5	20.2	22.2	22.4	23.3	24.8	26.2
ROIC (EBIT) %	8.6	7.7	7.9	7.9	8.2	8.0	7.9	7.9
EV/EBITDA (UBS core) x	9.8	10.6	10.6	9.3	8.9	8.5	7.9	7.2
P/E (UBS, diluted) x	20.9	19.4	21.2	16.8	16.5	15.7	14.6	13.4
Equity FCF (UBS) yield %	(11.6)	(14.5)	(1.6)	(5.0)	(12.8)	(145.8)	(3,597.6)	(95,199.7)
Dividend yield (net) %	2.9	3.1	3.0	3.9	4.1	4.4	4.6	4.9

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$ 22.97 on 30-Oct-2020

Figure 1: 3Q Results vs UBSe

$ in millions	Actual 3Q20	UBSe 3Q20e	% variance	Actual 3Q19	YoY % change
Financial Data					
Revenues	$897.5	$971.3	*(7.6%)*	$927.9	*(3.3%)*
Cost of Sales	($143.1)	($213.9)	*(33.1%)*	($196.7)	*(27.2%)*
Operating & Maintenance Expenses	($340.1)	($377.2)	*(9.8%)*	($373.4)	*(8.9%)*
Depreciation & Amortization	($195.8)	($192.9)	*1.5%*	($182.2)	*7.5%*
Total Expenses	($606.1)	($640.7)	*(5.4%)*	($623.5)	*(2.8%)*
Interest Expense	($95.2)	($95.1)	*0.1%*	($95.9)	*(0.7%)*
Net Income	$36.3	$6.1	*491.2%*	($1.7)	*(2235%)*
EPS	$0.09	$0.02	*490.7%*	($0.00)	*(2181%)*
Diluted Shares Outstanding	$383.8	$383.5	*0.1%*	$374.1	*2.6%*
Dividend Per Share	$0.220	$0.220	*0.0%*	$0.205	*7.3%*
Segment Operating Income					
Gas Distribution	$9.7	($9.1)	*NA*	($26.4)	*(136.7%)*
Electric Operations	$132.9	$128.7	*3.2%*	$135.4	*(1.8%)*
Total	$148.3	$116.7	*27.1%*	$107.7	*37.7%*

Source: UBS estimates, Company Reports

Figure 2: NI Summary Model

NiSource Inc (NI) ($ in Millions)	2018	2019	1Q20	2Q20	3Q20e	4Q20e	2020e	2021e	2022e	2023e	2024e
Operating Data											
Customers (000)											
Gas Utilities Customers	3,482	3,510	3,523	3,526	3,520	3,542	3,542	3,575	3,608	3,641	3,674
Electric Customers	472	476	477	477	478	478	478	480	483	485	488
Income Statement											
Revenues	**$ 5,095.1**	**$ 5,184.1**	**$ 1,631.8**	**$ 957.4**	**$ 897.5**	**$ 1,423.1**	**$ 4,909.8**	**$ 5,292.7**	**$ 5,507.2**	**$ 5,775.3**	**$ 6,059.1**
Operating costs & expenses											
(Cost of Sales)	$ (1,759.5)	$ (1,534.8)	$ (462.4)	$ (188.4)	$ (143.1)	$ (415.2)	$ (1,209.1)	$ (1,415.2)	$ (1,470.3)	$ (1,538.9)	$ (1,613.6)
(Operating & Maintenance Expenses)	$ (1,963.4)	$ (1,588.3)	$ (436.5)	$ (338.1)	$ (340.1)	$ (408.6)	$ (1,523.3)	$ (1,504.0)	$ (1,515.9)	$ (1,521.6)	$ (1,526.8)
(Depreciation & Amortization)	$ (596.6)	$ (717.4)	$ (184.3)	$ (197.4)	$ (195.8)	$ (192.8)	$ (770.3)	$ (807.6)	$ (842.5)	$ (878.9)	$ (916.9)
Gain on the Sale of Assets	$ (0.7)	$ -	$ -	$ -	$ -	$ (17.8)	$ (17.8)	$ (65.7)	$ (65.7)	$ (65.7)	$ (65.7)
(Other Taxes)	$ (275.0)	$ (296.8)	$ (85.9)	$ (68.2)	$ (70.2)	$ (76.6)	$ (300.9)	$ (316.2)	$ (327.4)	$ (338.1)	$ (349.7)
Equity Earnings in Unconsolidated Affilates	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	**$ (2,835.7)**	**$ (2,602.5)**	**$ (706.7)**	**$ (603.7)**	**$ (606.1)**	**$ (695.8)**	**$ (2,612.3)**	**$ (2,693.5)**	**$ (2,751.4)**	**$ (2,804.2)**	**$ (2,859.1)**
Operating Income By Division											
Gas Distribution	$ 564.6	$ 632.0	$ 391.6	$ 73.4	$ 9.7	$ 218.7	$ 693.4	$ 761.6	$ 833.1	$ 902.5	$ 979.6
Transmission & Storage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Electric Operations	$ 381.2	$ 401.5	$ 80.0	$ 89.4	$ 132.9	$ 84.5	$ 386.8	$ 422.1	$ 459.5	$ 543.3	$ 626.8
Corporate & Eliminations	$ (3.9)	$ 13.3	$ (8.9)	$ 2.5	$ 5.7	$ 8.9	$ 8.2	$ 0.2	$ (7.1)	$ (13.8)	$ (19.9)
Total Operating Income	**$ 941.9**	**$ 1,046.8**	**$ 462.7**	**$ 165.3**	**$ 148.3**	**$ 312.1**	**$ 1,088.4**	**$ 1,183.9**	**$ 1,285.5**	**$ 1,432.1**	**$ 1,586.5**
EBITDA	**$ 1,538.5**	**$ 1,764.2**	**$ 647.0**	**$ 362.7**	**$ 344.1**	**$ 504.9**	**$ 1,858.7**	**$ 1,991.5**	**$ 2,128.0**	**$ 2,311.0**	**$ 2,503.4**
Other expenses											
Interest Expense	$ (353.3)	$ (378.9)	$ (92.9)	$ (97.0)	$ (95.2)	$ (103.9)	$ (389.0)	$ (372.8)	$ (386.4)	$ (429.2)	$ (475.4)
Other Expense (Income)	$ (96.5)	$ (5.2)	$ 5.4	$ 6.5	$ 8.1	$ (3.0)	$ 17.0	$ (10.0)	$ (10.0)	$ (10.0)	$ (10.0)
Total Other Expenses	**$ (449.8)**	**$ (384.1)**	**$ (87.5)**	**$ (90.5)**	**$ (87.1)**	**$ (106.9)**	**$ (372.0)**	**$ (382.8)**	**$ (396.4)**	**$ (439.2)**	**$ (485.4)**
Income from Before Income Taxes	**$ 477.1**	**$ 607.6**	**$ 361.4**	**$ 61.0**	**$ 47.4**	**$ 191.4**	**$ 661.2**	**$ 746.0**	**$ 834.0**	**$ 937.8**	**$ 1,046.0**
Income Taxes	$ (13.8)	$ (112.9)	$ (70.5)	$ (10.8)	$ (11.1)	$ (40.2)	$ (132.6)	$ (156.7)	$ (175.1)	$ (196.9)	$ (219.7)
Effective Tax Rate	2.9%	18.6%	19.5%	17.7%	23.4%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Net income	**$ 463.3**	**$ 494.7**	**$ 290.9**	**$ 50.2**	**$ 36.3**	**$ 151.2**	**$ 528.6**	**$ 589.3**	**$ 658.8**	**$ 740.9**	**$ 826.3**
Diluted Weighted Avg Number of Common Uni	$ 356.4	$ 374.7	$ 383.1	$ 383.5	$ 383.8	$ 393.2	$ 385.9	$ 423.6	$ 450.2	$ 470.4	$ 482.4
EPS	**$ 1.30**	**$ 1.32**	**$ 0.76**	**$ 0.13**	**$ 0.09**	**$ 0.38**	**$ 1.37**	**$ 1.39**	**$ 1.46**	**$ 1.58**	**$ 1.71**
Balance Sheet Summary											
Assets											
Cash and Cash Equivalents	$ 121.1	$ 148.4	$ 213.0	$ 153.6	$ 67.6	$ 151.4	$ 151.4	$ 123.9	$ 179.0	$ 234.1	$ 289.2
Property, Plant and Equipment	$ 15,542.5	$ 16,912.2	$ 15,587.2	$ 15,772.4	$ 16,079.0	$ 15,244.0	$ 15,244.0	$ 16,586.4	$ 18,293.9	$ 20,865.0	$ 21,998.0
Investment in affiliates	$ 86.5	$ 163.7	$ 160.2	$ 163.1	$ 162.2	$ 162.2	$ 162.2	$ 162.2	$ 162.2	$ 162.2	$ 162.2
Total Assets	**$ 21,804.0**	**$ 22,659.8**	**$ 22,592.7**	**$ 22,436.5**	**$ 22,701.5**	**$ 21,950.3**	**$ 21,950.3**	**$ 23,265.2**	**$ 25,027.8**	**$ 27,654.0**	**$ 28,842.2**
Liabilities & Partners' Capital											
Long Term Debt	$ 7,105.4	$ 7,856.2	$ 7,817.9	$ 8,810.2	$ 9,208.9	$ 8,962.5	$ 8,962.5	$ 8,991.1	$ 9,866.3	$ 11,496.9	$ 12,052.0
Partners' Equity	$ 5,750.9	$ 5,986.7	$ 5,741.4	$ 5,661.8	$ 5,424.9	$ 5,734.7	$ 5,734.7	$ 7,023.5	$ 7,829.8	$ 8,669.7	$ 9,253.2
Total Liabilities & Partners' Capital	**$ 21,804.0**	**$ 22,659.8**	**$ 22,592.7**	**$ 22,436.5**	**$ 22,701.5**	**$ 21,950.3**	**$ 21,950.3**	**$ 23,265.2**	**$ 25,027.8**	**$ 27,654.0**	**$ 28,842.2**
Cash Flow Summary											
Changes in Working Capital	$ 110.2	$ (75.1)	$ (158.2)	$ 72.3	$ (82.0)	$ -	$ (167.9)	$ -	$ -	$ -	$ -
Net cash provided by operating activities	$ 540.1	$ 1,583.3	$ 369.9	$ 337.8	$ 150.9	$ 357.8	$ 1,216.4	$ 1,452.1	$ 1,556.4	$ 1,674.9	$ 1,798.4
Capital Expenditues	$ (1,818.2)	$ (1,802.4)	$ (452.1)	$ (367.2)	$ (472.9)	$ (457.8)	$ (1,750.0)	$ (2,150.0)	$ (2,550.0)	$ (3,450.0)	$ (2,050.0)
Net cash provided by investing activities	$ (1,926.1)	$ (1,922.4)	$ (484.6)	$ (402.0)	$ (513.3)	$ 642.2	$ (757.7)	$ (2,150.0)	$ (2,550.0)	$ (3,450.0)	$ (2,050.0)
Net cash provided by financing activities	$ 1,468.7	$ 366.4	$ 179.3	$ 4.8	$ 276.4	$ (916.2)	$ (455.7)	$ 670.4	$ 1,048.7	$ 1,830.2	$ 306.7
Net change in cash	**$ 82.7**	**$ 27.3**	**$ 64.6**	**$ (59.4)**	**$ (86.0)**	**$ 83.8**	**$ 3.0**	**$ (27.5)**	**$ 55.1**	**$ 55.1**	**$ 55.1**
Dividend											
Dividend Per Share	**$ 0.79**	**$ 0.84**	**$ 0.22**	**$ 0.22**	**$ 0.22**	**$ 0.23**	**$ 0.89**	**$ 0.95**	**$ 1.01**	**$ 1.07**	**$ 1.13**
Payout Ratio	60.9%	63.3%	29.0%	168.1%	232.6%	60.5%	65.2%	67.9%	68.7%	67.6%	65.7%

Source: UBS estimates, Company Reports

Forecast returns

Forecast price appreciation	+8.8%
Forecast dividend yield	4.0%
Forecast stock return	+12.9%
Market return assumption	5.2%
Forecast excess return	+7.7%

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. Our price target is derived using a sum-of-the-parts P/E valuation.

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Neutral	FSR is between -6% and 6% of the MRA.	38%	29%
Sell	FSR is > 6% below the MRA.	12%	19%
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 30 September 2020.
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.
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KEY DEFINITIONS: Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. In some cases, this yield may be based on accrued dividends. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$22.97	30 Oct 2020

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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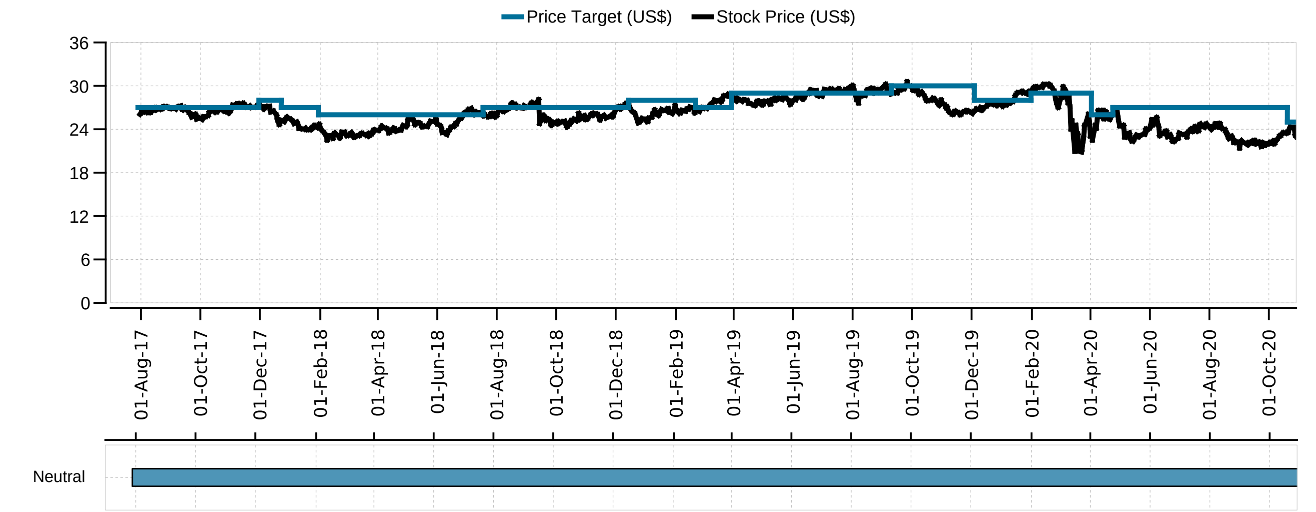
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2017-07-28	26.07	27.00	Neutral
2017-11-29	27.17	28.00	Neutral
2017-12-22	25.28	27.00	Neutral
2018-01-29	24.22	26.00	Neutral
2018-07-17	26.12	27.00	Neutral
2018-12-13	27.62	28.00	Neutral
2019-02-20	26.28	27.00	Neutral
2019-03-29	28.66	29.00	Neutral
2019-09-09	28.91	30.00	Neutral
2019-12-03	26.41	28.00	Neutral
2020-01-30	29.10	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral
2020-10-19	23.47	25.00	Neutral

Source: UBS; as of 30-Oct-2020

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November 2, 2020

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NI **BUY**

NiSource Inc.
Sector: Power, Utilities & Alternative Energy

Earnings Release

Share Price	$22.97
Price Target	$27.00

EPS ($) (FY DEC)	1Q	2Q	3Q	4Q	FY
2020	0.76	0.13	0.09	0.35E	1.32E
Prior	—	—	*0.04*	*0.39E*	*1.31E*
P/E					17.4x
2021	0.80E	0.14E	0.03E	0.38E	1.35E
Prior	*0.77E*	*0.12E*	*0.06E*	*0.40E*	—
P/E					17.1x
2022	0.86E	0.16E	0.05E	0.41E	1.47E
Prior	*0.82E*	*0.14E*	*0.08E*	*0.44E*	—
P/E					15.7x

Market Data

52-Week Range	$19.56 - $30.46
Dividend	$0.89
Dividend Yield	3.9%
Market Cap (M)	$8,798
Shares Out (M)	383.0
ADV (3 mo; 000)	3,117

NI – 3Q Earnings Beat; Renewables Projects Taking Shape, COVID Remains Factor to Watch Headed into Heating Season

Key Message: NiSource reported 3Q20 earnings, beating Guggenheim and consensus estimates. Mgmt. reiterated LT EPS growth, FY21 EPS guidance, and capital spending that were updated at the investor day a month ago. Mgmt. continues to make progress on its renewable generation additions at NIPSCO – three more projects were announced with more coming before yearend. Mgmt. continues to forecast conservatively for FY21 EPS guidance, and COVID impacts during the heating season in 4Q will give us a better sense of FY21.

Key takeaways: NI reported 2Q20 adj. EPS of $0.09 vs. Guggenheim at $0.04 and Street at $0.03 driven mainly by higher operating earnings at the gas distribution segment and roughly flat operating earnings at the electric segment YoY. **Mgmt. reiterated the FY20 capital spending guidance of $1.7B-$1.8B, EPS growth of 5-7% and 7-9% from 2021-2023 and 2021-2024, respectively, and FY21 EPS guidance of $1.28-$1.36 – all consistent with our model.** Three more build transfer solar and storage projects were announced on Oct. 21 and represent $850M of investment in capital investment – NI has announced $1.25B of the $1.8B-$2.0B in renewable investment and the announced projects are working through their respective regulatory processes. There are still five to seven projects in advanced negotiations and we expect more clarity on these projects before yearend – potentially through an 8K. Financing plan reaffirmed with block equity needs in 2022-2023 related to the renewables spending. **When asked about asset sales to mitigate the equity needs, Mgmt.'s commentary around potential portfolio optimization was unchanged – they would look to monetize assets if it were accretive to shareholders. That said, we aren't sure LDC sales could make sense in this environment given the sector's current depressed trading multiples – in other words, we aren't certain whether selling an LDC, that is earnings accretive and a perpetual cashflow generator, at trough multiples to simply mitigate some NT equity needs is the most efficient use of capital.**

Continued progress on renewable projects at NIPSCO – three more projects announced recently with $550M-$750M in projects still under negotiation. NI has $0.4B in approved projects, $850M in projects awaiting approval and $550M-$750M in projects in advanced commercial negotiations. The tax equity investment totals ~$1.0B and will be additive to rate base over time as the tax equity partners farm out the benefits. Since the 2Q20 call, Indiana Crossroads, the 300 MW build transfer wind project, has commenced construction. Rosewater and Jordan Creek are still under construction and mgmt. expects them to be in-service by the end of the year. Brickyard Solar, 200 MW PPA, Greensboro Solar, 130 MW PPA, Dunns Bridge I Solar, 265 MW build transfer, Dunns Bridge II Solar, 510 MW build transfer, and Cavalry Solar, 260 MW build transfer are still awaiting regulatory approval. There are five to seven projects in advanced negotiations, mostly solar. We look forward to an update on additional projects before yearend.

Base capital plan remains strong with a majority of the investment recovered within 18 months. The updated capital plan includes spending on safety and modernization of $8.1B-$8.5B from 2021-2024, or $1.9B-$2.2B annually. Over 75% of these investments start earning in less than 18 months due to favorable regulatory mechanisms in NI's service territories.

Managing the COVID-19 impact through cost cutting and regulatory support. The impacts of COVID-19 in 3Q were mostly in line with mgmt.'s expectations. YoY for the third quarter, residential, commercial, and industrial gas margins were $0.3M, $(1.8M), and $(0.8M) while residential, commercial, and industrial electric margins were $5.8M, $(3.1M), and $(1.3M). The impact of COVID-19 on 3Q20 EPS was ~$(0.01), offset with cost cutting

See pages 4 - 5 for analyst certification and important disclosures.

and regulatory support. Mgmt. still expects a gradual recovery of the economy into 2021. **Mgmt. still expects ~$(0.05) of COVID-19 impact into 2021 – roughly $0.03 gas and $0.02 electric.** The impacts will be critical to keep an eye on as we move through the winter heating season. **Mgmt. has not seen an impact to date in the fourth quarter**. NI has bad debt or incremental COVID-19 expense trackers in most states and is not pursuing any more regulatory support, but that may change depending on the impact of the pandemic.

Financing plan put together with investment grade credit metrics in mind – flexibility built into plan. Mgmt. reiterated its financing plan that was updated at the investor day. As a reminder, mgmt. broke down capital needs between core investments in safety and modernization and investments in renewables. Mgmt. assumes issuing $230M-$350M annually between 2021 and 2023 through ATM and ESPP/401K/Other and $500M-$700M in LT debt annually from 2022-2024 to support core capex. The renewables investments will be funded by $600M-$1,000M in hybrids, convertibles, etc., in 2021, block equity issuance of $500M-$700M total in 2022-2023, and LT debt of $500M-700M total in 2022-2023. **Though the midpoints of the renewables equity stipulate $1.4B, mgmt. confirmed that they are targeting $1.2B, or ~60%.** The capital structure of the issuances gives us some insight into what NI may ask for in the 2023 rate case. **Mgmt. stated they have flexibility in the financing plan to potentially look at a forward equity issuance to remove the pricing overhang.** LT adj. FFO/total debt target ~14-15% and investment grade credit metrics continue to be a focus for mgmt. Liquidity is sufficient and there are no significant refinancing needs over the plan.

What about portfolio optimization? Messaging unchanged from the analyst day… Mgmt. continuously reviews its assets and said it would not be opposed to divesting additional LDCs if it is accretive for shareholders. Mgmt. does not assume any portfolio optimization in its financing plan but additional LDC and noncore asset sales could offset some financing needs. Mgmt. stated that any sale would have to be value-add to shareholders and, in our view, this may be a tall task given where LDCs trade at this time; however, certain players may be willing to pay up. If mgmt. were to divest any of its gas operations, they would essentially be swapping gas for electric, which could be multiple accretive in this market. **The CMA transaction was closed on Oct. 9.**

NI reported 3Q20 adj. EPS of $0.09 vs. $0.00 in 2019. Gas segment operating earnings were up ~$36.1M YoY driven by new rates from infrastructure replacement programs and Columbia of Ohio's CEP, customer growth, lower employee and administrative expenses, and lower outside service costs partially offset by the effect of lower C&I demand, and decreased late payment fees and reconnection fees. Electric segment earnings were lower by ~$2.5M YoY driven by the effect of lower C&I usage, higher depreciation rates, higher outside service costs, and increased material and supplies cost partially offset by new rates from the base rate proceeding and higher residential demand.

We are raising our FY20 EPS estimate to account for 3Q actuals. We maintain our FY21-FY23 estimates.

EPS($)	1Q	2Q	3Q	4Q	FY
2020E	0.76A	0.13A	0.09A	0.35E	**1.32E**
Prior	*0.76A*	*0.13A*	*0.04E*	*0.39E*	*1.31E*
2021E	0.80E	0.14E	0.03E	0.38E	**1.35E**
Prior	*0.77E*	*0.12E*	*0.06E*	*0.40E*	*1.35E*
2022E	0.86E	0.16E	0.05E	0.41E	**1.47E**
Prior	*0.82E*	*0.14E*	*0.08E*	*0.44E*	*1.47E*
2023E	0.89E	0.19E	0.09E	0.42E	**1.59E**
Prior	*0.86E*	*0.17E*	*0.11E*	*0.45E*	*1.59E*

Source: Guggenheim Securities, LLC estimates, company filings

Valuation

We apply an 18x multiple on the electric utility and 21x multiple on the gas LDCs. We arrive at our valuation utilizing a sum-of-the parts analysis, based on: (1) ~$10/share for the regulated electric utility; (2) ~$20/share value for the regulated gas segment given the limited spread from LDCs after recent market volatility; and (3) (~$-3)/share for other adjustments for Corp and Other. We use this sum of the parts to arrive at our $27 valuation.

Risks

The primary risk on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

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Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from NiSource Inc. in the next 3 months.

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Rating and Price Target History for: NiSource Inc. (NI) as of 10-30-2020

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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of between plus 10% and minus 10% within a 12-month period.

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			IB Serv./ Past 12Mos.	
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NEUTRAL	140	35.81%	6	4.29%
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WELLS FARGO SECURITIES

NiSource Inc.

NI: Rebuilding The Track Record

Overweight/$27

Natural Gas LDCs

Price Target Change

- **Summary.** In the month since NI's 9/29 Investor Day (takeaways here), the company has announced progress on multiple fronts. First and foremost, NI and ES closed on the CMA transaction on 10/9, which also resolves the state investigations into the 2018 Greater Lawrence event. Further, on 10/21, the company announced three renewable build-transfer agreements with NEE. While both of these items are consistent with the plan, we are encouraged to see progress; we view the re-building of the company's track record as one of the key drivers to our positive thesis. Moving forward, we look for NI to (1) execute on near-term financial targets including 2021 EPS guidance of $1.28-1.36, (2) secure approvals for announced renewable projects, (3) finalize agreements related to outstanding renewable capex plans and, last but certainly not least, (4) secure equity financing and/or execute on asset sales to mitigate equity needs – could be a multi-year process.

  We reiterate our Overweight rating as we see a path for NI to garner a premium multiple relative to gas/electric peers (versus the current 2-3% discount) supported by above-average EPS growth prospects and supportive regulatory constructs. No change to our '20-24E EPS of $1.26, $1.32, $1.40, $1.50 & $1.66, respectively. We increase our price target to $27/sh (19X on our '22E) from $25/sh on higher peer group multiples since our last update. Key risks to our thesis include a greater than expected COVID impacts on sales in the winter heating season, operational/event risk (pipe incidents), unexpected cost pressures, and negative regulatory/political developments (pushback on renewable proposals, anti-gas policies, etc.).

- **Renewable Additions.** Since the analyst day update, NI announced plans to add 900 MWs of renewables via the Dunns Bridge I, Dunns Bridge II and Cavalry Solar Energy Centers. The company executed build-transfer agreements with NEE and the projects are to be operational in the 2022-2023 time frame. NI will own the projects, which total ~$850mm of capital investment for the company, via JV tax equity arrangements. NI plans to submit regulatory filings for the new projects by year-end. As a reminder, NI targets $1.8-2.0B of renewable investment through 2023 (net of JV/tax equity financing) – $0.4B has been approved, $0.8B is backed by finalized agreement subject to regulatory approval, and $0.6-0.8B remain in the negotiation phase.

- Comments Continue on Page 2.

$ EPS	2019A	2020E Curr.	2020E Prior	2021E Curr.	2021E Prior
Q1 (Mar.)	0.82	0.76 A	NC	NE	
Q2 (June)	0.05	0.13 A	NC	NE	
Q3 (Sep.)	0.00	0.09 A	0.02	NE	
Q4 (Dec.)	0.45	0.28	0.35	NE	
FY	1.32	1.26	NC	1.32	NC
CY	1.32	1.26		1.32	
FY P/EPS	17.7x	18.6x		17.7x	
Rev.(MM)	5,184	5,283		5,101	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile
non gaap

Ticker	NI
Price Target/Prior:	$27/$25
Price (11/02/2020)	$23.41
52-Week Range:	$19-31
Shares Outstanding: (MM)	383.0
Market Cap.: (MM)	$8,966.0
S&P 500:	3,298.59
Avg. Daily Vol.:	3,415,090
Dividend/Yield:	$0.84/3.6%
LT Debt: (MM)	$9,208.9
LT Debt/Total Cap.:	54.4%
ROE:	9.0%
3-5 Yr. Est. Growth Rate:	8.0%
CY 2020 Est. P/EPS-to-Growth:	2.3x
Last Reporting Date:	11/02/2020 Before Open

NC = No Change
Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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- COVID Comments. YTD, COVID has had an EPS impact of negative $0.07 *before* cost and regulatory offsets. While we are encouraged by the company's ability to manage the impacts thus far, NI highlighted that the financial implications on gas sales have not yet been observed in the winter months – further, many of the LDCs have residential decoupling (and/or high fixed charges), which suggests that higher residential sales will not necessarily provide a meaningful offset to lower C&I volumes. Mgmt. continues to forecast a $0.05 COVID impact in 2021.
- Equity Needs. NI affirmed previously communicated equity financing plans including $600-1,000mm of hybrids/convertibles in '21E and $500-700mm of aggregate block equity during the period '22-23E on top of ongoing plans ($200-300mm annually under the ATM '21-23E and $30-50mm annually under employee/other programs). The company is in the process of assessing the lowest cost sources of equity, which could include asset/system sales. Management clarified that portfolio optimization is not new to the story and will be considered in the context of what is optimal for shareholder value and credit quality.

Acronyms
ATM – At-the-Market
C&I – Commercial & Industrial
CMA – Columbia Gas of MA
JV – Joint Venture
MW – Megawatt

Price Target

Price Target: $27 from $25

Our price target is based on a P/E multiple analysis (apply a 5-7% premium to the blended gas/electric peer group multiple of ~18X on our '22E EPS). Risks include lower than expected sales growth, unfavorable regulatory developments, and unexpected cost pressures.

Investment Thesis

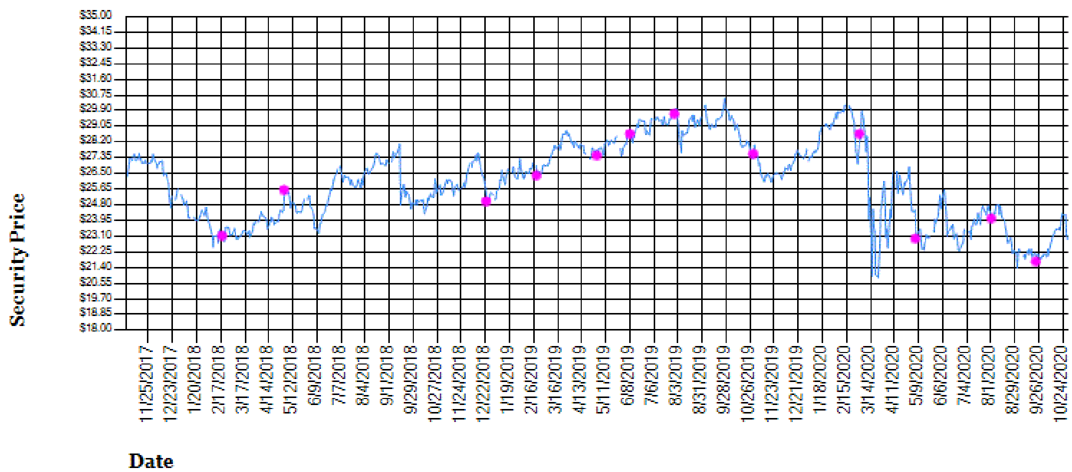
We rate shares Overweight. We are attracted to NI's robust long-term infrastructure growth opportunities and supportive regulatory treatment.

Company Description

Based in Merrillville, Indiana, NiSource, Inc. is a holding company with regulated gas (64%) and electric (36%) utility operations across seven states. The company's Gas Distribution Operations serve 3.5 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. The Electric Operations consist of a vertically-integrated utility serving approximately 500 thousand customers in northern Indiana. On July 1, 2015, NiSource completed the separation of Columbia Pipeline Group (CPG) from NiSource via the distribution of one share of CPG common stock for every share of NI common stock.

Required Disclosures

NiSource Inc. (NI) 3-yr. Price Performance



Date	Published Price ($)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
10/30/2017		Akers				
10/30/2017	NA	1	30	NE	NE	26.25
2/20/2018	22.99	1	26	NE	NE	23.02
5/3/2018	25.38	1	28	NE	NE	25.57
12/24/2018	26.05	1	29	NE	NE	24.89
2/20/2019	26.28	1	30	NE	NE	26.28
5/1/2019	27.41	1	31	NE	NE	27.40
6/9/2019	28.54	1	32	NE	NE	28.54
7/31/2019	29.79	1	33	NE	NE	29.69
10/30/2019	27.29	1	31	NE	NE	27.51
3/2/2020	27.02	1	30	NE	NE	28.56
5/6/2020	23.07	1	27	NE	NE	22.92
8/3/2020	23.98	1	28	NE	NE	23.98
9/24/2020	21.61	1	25	NE	NE	21.65

*Effective December 7, 2019, Wells Fargo Securities' Equity Research modified its ratings definitions. Complete definitions of current ratings can be found below. For information related to prior ratings definitions, please contact equityresearch1@wellsfargo.com.

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ❐ Split Adjustment

Rating Code Key

1	Overweight/Buy	SR	Suspended
2	Equal Weight/Hold	NR	Not Rated
3	Underweight/Sell	NE	No Estimate

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NI: Risks include lower than expected sales growth, unfavorable regulatory developments, and unexpected cost pressures.

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1=Overweight: Total return on stock expected to be 10%+ over the next 12 months. BUY
2=Equal Weight: Total return on stock expected to be 0-10% over the next 12 months. HOLD
3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

VOLATILITY RATING
V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: November 2, 2020

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Wells Fargo Securities, LLC has provided investment banking services for 31% of its Equity Research Underweight-rated companies.

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November 2, 2020 | 19:56 ET | 19:56 ET~

NiSource Inc

NI-NYSE	Rating	Price: Nov-2	Target	Total Rtn
	Outperform	$23.45	$27.00	19%

Let the Sunshine IN

Bottom Line:

NiSource reported 3Q20 adjusted EPS of $0.09 vs. our/Street's estimate of $0.03. Management reaffirmed 2021 EPS guidance of $1.28-1.36, inclusive of $0.05 of COVID-19 impacts. The company's outlook remains unchanged from its recent investor day in September with a NOEPS CAGR of 5-7% from 2021 to 2023, rising to 7-9% including the full-year impact of its renewable investment in the rate base in 2024 at NIPSCO. **In October, NiSource finalized build transfer agreements with NextEra for three solar and storage projects totaling 900MWs, representing capital investment at NIPSCO of $850mm.**

Key Points

During the quarter, NIPSCO announced it finalized three build transfer agreements with NextEra Energy Resources (NEE; $75.13; Outperform) for 900MWs of solar and storage projects totalling a capital investment of $850mm. The three projects, Dunns Bridge I (265MW, in-service 2022E), Dunns Bridge II (510MW, in-service 2023E), and Cavalary Solar (260MW, in-service 2023E) are expected to begin construction in 2022 and be recovered through rate base in 2023. **Management continues to expect total renewable investments of $1.8-2B at NIPSCO through 2023 with expectations for additional capital investments of $550-750mm.**

With the third quarter a not a meaningful contributor for NiSource (our estimate of ~7% of annual earnings this year), the YoY beat was driven by successful cost and regulatory mitigation efforts. **Year to date, NiSource has largely offset $0.07 of COVID-19 impacts through cost and regulatory mitigation efforts and continues to expect COVID-19 to impact 2021 EPS by $0.05, which is currently reflected in the company's base case guidance of $1.28-1.36.**

The financing plan update given during its September analyst day remains unchanged with expectations to issue total equity of approximately $1.2B from 2021 to 2024 to finance ~60% of the $1.8-2.0B investment in renewables. Our base case assumes $600mm in hybrids in 2021 and $300mm of block equity in 2022 and 2023.

Despite its decarbonizing profile and visible gas infrastructure growth, we acknowledge the valuations for pure-play gas distribution companies continue to come under pressure, which will create a headwind for the re-rating of the stock. **We reiterate our Outperform rating and $27 target price, which reflects our longer-term view that with consistent execution and the company's above-average growth profile, NiSource still represents an attractive relative value opportunity.**

Key Changes	
Estimates	Q4 / 20E
EPS	$0.32
Previous	*$0.38*

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BMO Capital Markets — IN Fact

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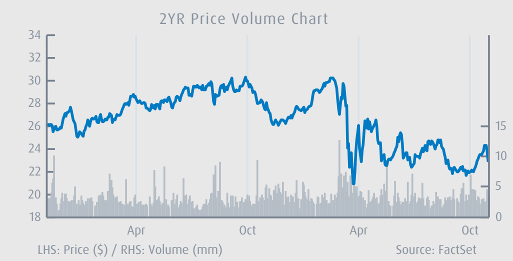

Company Data			in $
Dividend	$0.84	Shares O/S (mm)	383.0
Yield	3.6%	Market Cap (mm)	$8,982
P/BV	1.7x	Net Debt (mm)	$9,606

BMO Estimates (FY-Dec.)	2019A	2020E	2021E
EPS	$1.32	$1.30	$1.33
DPS	$0.80	$0.84	$0.89
EBIT	$1,042	$1,102	$1,172
EBITDA	1,759	1,849	1,945

Consensus Estimates	2019A	2020E	2021E
EPS		$1.29	$1.34

Valuation	2019A	2020E	2021E
P/E	17.8x	18.1x	17.6x
Div. Yield (%)	3.4%	3.6%	3.8%

QTR. EPS	Q1	Q2	Q3	Q4
2019A	$0.82	$0.05	$0.00	$0.45
2020E	$0.76a	$0.13a	$0.09a	$0.32
2021E	$0.81	$0.06	$0.05	$0.41

Our Thesis

We like several aspects of NI following the sale of Columbia Gas of Massachusetts and removal of the previously guided $500-700mm equity issuance overhang, which we believe meaningfully de-risked the story.

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NiSource - Block Summary Model

Income Statement	2019A	2020E	2021E
Electric Operations	402	418	440
Gas Distribution	632	676	723
Parent & Other	13	13	13
Consolidated EBIT	1,042	1,102	1,172
Depreciation & Amortization	717	747	773
EBITDA	1,759.30	1,848.93	1,944.64
Interest Expense	379	411	408
Income Tax	113	123	135
Income from continuing operations	495	503	533
Weighted Average Shares Outstanding	376	388	400
Diluted Operating EPS	$1.32	$1.30	$1.33
Dividends per Share	$0.80	$0.84	$0.89
Cash Flow Statement	**2019A**	**2020E**	**2021E**
Operating Cash Flow	1,750	1,417	1,366
Investing Cash Flow	(1,988)	(670)	(2,050)
Financing Cash Flow	154	519	513
Net Change in Cash Flow	(84)	1,266	(171)
EOP Cash on Balance Sheet	37	1,303	1,132
Common stock (net)	34	360	948
Net debt issued/(repaid)	494	500	(64)
Dividends paid	(301)	(326)	(356)
Balance Sheet	**2019A**	**2020E**	**2021E**
Common Equity	5,326.5	6,044.0	7,249.5
Preferred Equity	880.0	880.0	880.0
Total Debt	9,643	10,143	10,079
Enterprise Value	$20,207	$20,353	$20,800
Common equity %	33.6%	35.4%	39.8%
Preferred equity %	5.6%	5.2%	4.8%
Total Debt %	60.8%	59.4%	55.4%
Book Value per Share	$16.51	$17.84	$20.33

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

Our $27 target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2022E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook. For NI, we have removed EPS for its MA gas business from our P/E valuation and instead include only the asset value (1x equity rate base) in our SOTP framework.

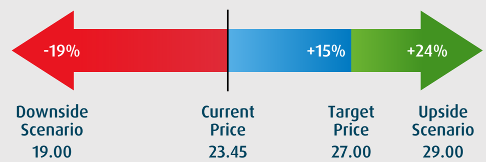
Upside Scenario $29.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile.

Downside Scenario $19.00

Our downside scenario reflects a tightening monetary policy and a deceleration of the company's rate base growth.

in USD



Key Catalysts

Initial indicative pricing in its second renewable RFP in IN. Potentially, capital spending and growth rate update in 2H20 given clarity in the aforementioned RFP and recent rate orders in MA and IN.

Company Description

NiSource, Inc. is a regulated utility holding company, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states. Through its Columbia Gas and NIPSCO brands, it provides natural gas, electricity, and other products and services. The company was founded in 1987 and is headquartered in Merrillville, Indiana.

NI-NYSE Research

Glossary

Company Models

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Exhibit 1: Model Summary

NI Model Summary	2019	2020	2021	2022	2023	2024
EPS By Segment						
Electric Operations	$0.78	$0.79	$0.81	$0.87	$0.97	$1.12
Gas Distribution	$1.12	$1.15	$1.14	$1.18	$1.18	$1.20
Corporate & Other	($0.58)	($0.64)	($0.62)	($0.66)	($0.64)	($0.65)
Consolidated E.P.S.	**$1.32**	**$1.30**	**$1.33**	**$1.38**	**$1.52**	**$1.66**
Dividend per share	**$0.80**	**$0.84**	**$0.89**	**$0.94**	**$1.00**	**$1.06**
Payout Ratio total	60.8%	64.8%	66.8%	68.3%	66.0%	63.7%
Dividend Yield	2.9%	2.9%	3.0%	3.2%	3.4%	3.6%
Valuation Metrics						
Price to Earnings	21.2x	22.6x	22.0x	21.2x	19.3x	17.6x
Price to Book Value	1.7x	1.6x	1.4x	1.3x	1.3x	1.3x
Funding Sources						
Cash Flow from Operations	$1,750	$1,417	$1,366	$1,447	$1,577	$1,834
Total Debt Financings	$750	$500	$0	$1,300	$700	$600
Total Equity Financings	$34	$360	$948	$648	$648	$348

Source: BMO Capital Markets, Company Filings

Exhibit 2: Key Assumptions

Key Model Assumptions	2019	2020	2021	2022	2023	2024	5-Year
Total Capital Expenditures by Segment							
Electric Operations	$469	$500	$500	$500	$500	$500	**$2,500**
Gas Distribution	$1,380	$1,270	$1,400	$1,400	$1,700	$1,500	**$7,270**
Consolidated Capital Expenditures	**$1,849**	**$1,770**	**$1,900**	**$1,900**	**$2,200**	**$2,000**	**$9,770**
YE Rate Base Estimates							
NIPSCO Electric	$4,866	$5,357	$5,901	$6,704	$8,038	$8,188	*11.0%*
Columbia Gas of Ohio	$3,106	$3,401	$3,782	$4,150	$4,632	$5,003	*10.0%*
Columbia Gas of Pennsylvania	$1,883	$2,062	$2,293	$2,517	$2,808	$3,034	*10.0%*
NIPSCO Gas	$1,660	$1,818	$2,022	$2,219	$2,476	$2,675	*10.0%*
Columbia Gas of Massachusetts	$1,098	$1,203	$0	$0	$0	$0	
Columbia Gas of Virginia	$789	$864	$961	$1,055	$1,177	$1,271	*10.0%*
Columbia Gas of Kentucky	$338	$369	$411	$451	$503	$543	*10.0%*
Columbia Gas of Maryland	$136	$150	$166	$183	$204	$220	*10.1%*
Total Rate Base	**$13,876**	**$15,224**	**$15,536**	**$17,279**	**$19,838**	**$20,933**	***8.6%***

Source: BMO Capital Markets, Company Filings

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Exhibit 3: SOTP Valuation

Regulated, Corporate & Other	Valuation Metric	2022E EPS	Sector Comp	Sector Multiple	Prem/ (Discount)	Base Multiple	BMO Low Case P/E Multiple	BMO Low Case Implied Value ($ MM)	BMO Base Case P/E Multiple	BMO Base Case Implied Value ($ MM)	BMO High Case P/E Multiple	BMO High Case Implied Value ($ MM)
Electric Operations	EPS	$0.87	Electric	18.9x	+5.0%	19.8x	15.9x	$14	19.8x	$17	21.8x	$19
Gas Distribution	EPS	$1.18	Natural Gas	15.8x	+5.0%	16.6x	12.8x	$15	16.6x	$19	18.6x	$22
Coporate & Other	EPS	($0.66)	Blend	17.1x	+0.0%	17.1x	17.1x	($11)	17.1x	($11)	19.1x	($13)
Utility & Parent Value		**$1.38**					12.7x	**$18**	18.4x	**$25**	20.4x	**$28**
		'19 Rate Base	Equity %	Equity								
Columbia Gas of Massachusetts		$1,100	47%	$517		1.0x	1.0x	$1.24	1.0x	$1.24	1.0x	$1.24
Total NiSource Inc.								**$19**		**$27**		**$29**
Upside/(Downside)								-20.0%		13.7%		25.5%
Current Yield								2.9%		2.9%		2.9%
Total Return								**-17.1%**		**16.5%**		**28.3%**

Source: BMO Capital Markets, Company Filings

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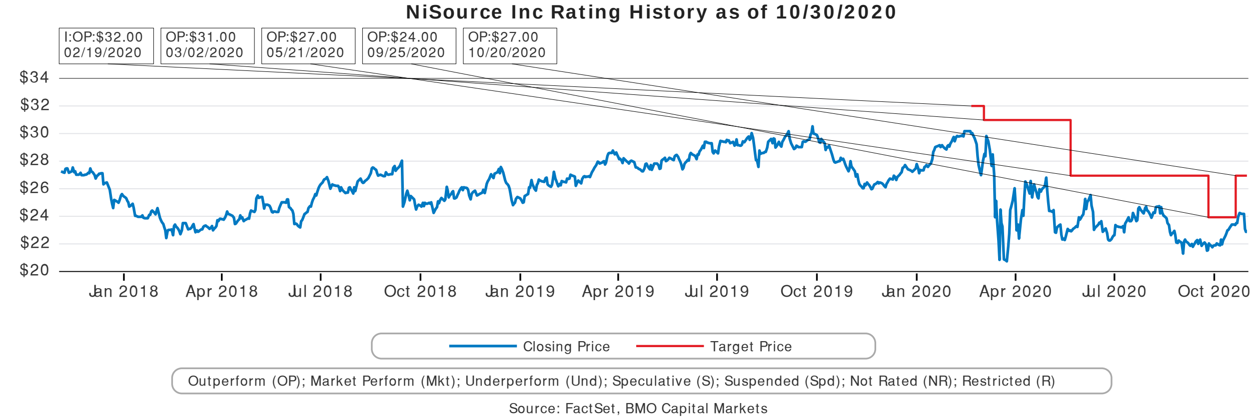

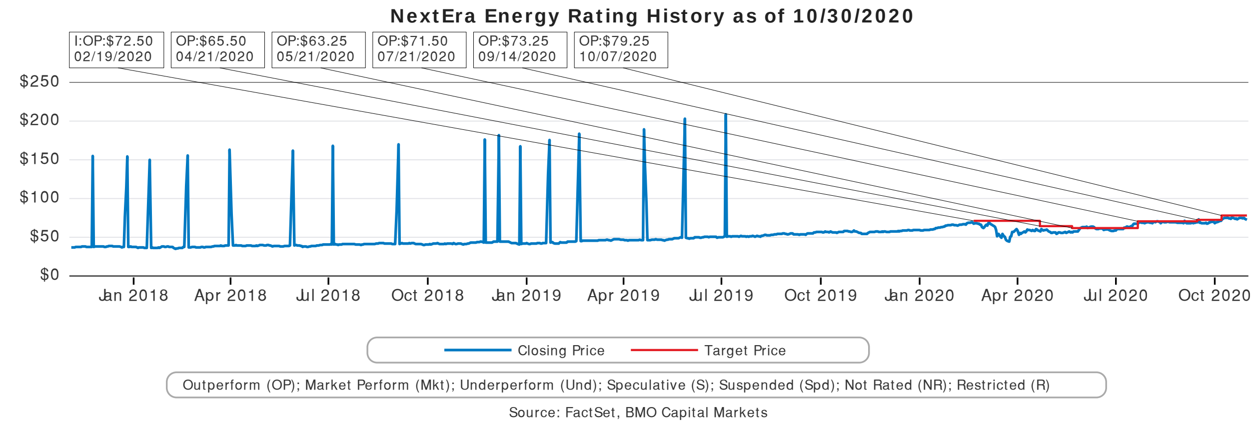

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Methodology and Risks to Target Price/Valuation for (NEE-NYSE)

Methodology: Our $317 target price is arrived at using a sum-of-the-parts methodology. Our framework begins with the relevant sector average P/E and EBITDA multiple using 2022E EPS as a base, which we then adjust (premium, discount, or no change) to reflect the relative fundamentals of that segment.

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Risks: NEE's regulated electric and gas distribution companies are subject to numerous state and federal regulatory agencies that determine the rates they can charge for their services. Utility businesses are highly correlated to interest rate movements. NEE's development of solar and wind generation assets are often dependent on the presence of Federal and State Tax incentives that may not be renewed. NEE owns and operates multiple nuclear generation assets that are subject to Federal and State regulatory on operational and safety standards.

Methodology and Risks to Target Price/Valuation for NiSource Inc (NI-NYSE)

Methodology: Our $27 target price is the product of a P/E-based sum-of-the-parts (SOTP) analysis of the company's primary regulated operating companies. We utilize a regulated group-average multiple based on 2022E EPS as our initial basis for valuation and then make adjustments specific to each jurisdiction to reflect our current view of the fundamental outlook.

Risks: NI's regulated profile exposes the company to business risk including but not limited to federal and state regulatory risk, federal and state political risk, environmental policy, interest rate risk, access to capital markets, construction risk, changes in customer demand trends, changes in customer affordability, extreme weather, natural disaster, and equipment failure.

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Hold	Market Perform	50.5 %	21.8 %	44.2 %	48.6 %	42.2 %	37.5%
Sell	Underperform	2.3 %	25.0 %	2.3 %	2.3 %	1.4 %	4.8%

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EVERCORE ISI

Energy | Power & Utilities

November 02, 2020

NiSource Inc
NI | $22.97
Outperform | TARGET PRICE: $26.00
Earnings Report

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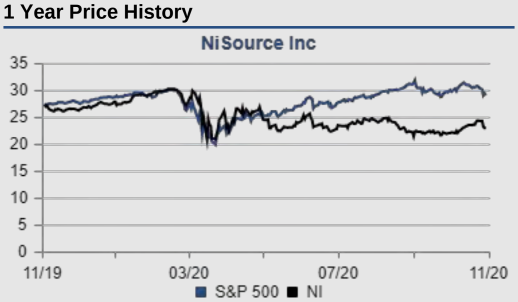
Company Statistics

Market Capitalization (M)	$11,128
Shares Outstanding (M)	383
Dividend	0.80
Dividend Yield	2.8%
Payout Ratio	63.6%
Expected Total Return	(7.8)%
Fiscal Year End	Dec

Earnings Summary

	2020E	2021E	2022E
EPS	$1.26	$1.34	$1.41
P/E	23.1	21.7	20.7
EPS vs Consensus	(5.9)%	(5.0)%	(6.7)%
Consensus EPS	$1.34	$1.41	$1.51
Consensus P/E	21.7	20.6	19.3

1 Year Price History



Source: FactSet

Compelling Re-Rate Story

Strong Q3 adjusted EPS beat. NI posted $0.09 in Q3'20 operating EPS versus consensus of $0.03 and our estimate of $0.05/share. Earnings increased $0.09/share YoY driven by cost management and regulatory mitigation efforts. Note that the third quarter does not contribute significantly to NI's full-year EPS results (we estimate 7% of our total estimate this year) because it occurs in the off-peak months of gas demand. NiSource maintained its 2021 EPS guidance of $1.28-1.36/share, which includes -$0.05 impact from COVID. As expected, the company reaffirmed all of its long-term EPS, capex and financing guidance in 2021 through 2024 that it announced at its recent Investor Day on Sept. 29th. Recall NiSource recently announced build transfer agreements with NEE for three Indiana solar projects, representing capex of $850mm, which had already been contemplated in its plan. The projects are expected to be under construction by 2022 and placed into service in 2022 and 2023. The company is also in advanced negotiations for another 5-7 renewable projects that are expected to complete the remaining $550-750mm of its renewable capex plans through 2024. Announcements on projects are likely to come as they progress between now and year-end. Separately, as previously announced, NI closed on its sale of MA assets on Oct. 9th, with net proceeds of $1.1bn used to pay down its term loan and other short-term debt. Lastly, NiSource did not comment meaningfully on asset sales, a topic that has gained investor interest since NI pointed out at its Analyst Day that its financing plan does not include any "portfolio optimization."

We see NI benefitting from a potential tax rate increase under Biden. Biden's tax proposal calls for raising federal income tax (FIT) rate from 21% to 28%. NI is a 100% regulated utility, so a higher FIT rate doesn't lower profitability and should be passed through to customers in the form of higher rates. This increase in tax collections would raise holding company cash flow. This will lower parent financing costs and strengthen credit metrics. A higher FIT rate results in lower parent because of a larger tax shield. In our Biden note we estimated increase in the FIT rate under a potential Biden presidency could result in 3.0% EPS accretion in 2022 (vs group average of 0.7% accretion).

We continue to see support for a compelling re-rate story. NI has struggled with EPS growth since the Massachusetts incident and EPS is expected to be essentially flat between 2018 and 2021. We expect the stock to re-rate with the Massachusetts divestiture now behind NiSource and now that strong growth expectations have been reset off of a 2021 baseline. NI has historically traded at a premium (call it merger-related or gas LDC) and is now at a ~10% discount. As we pointed out earlier we see NI as a relative winner under a potential Biden administration.

Risk/reward is palatable. We are maintaining our 2020-2022 EPS forecast of $1.26 / $1.34 / $1.41 and our price target of $26 using our SOTP. We believe the stock underperformance the last six months presents an attractive entry point with a total return profile of >15% at our target. Our bear case derives a $21 target while our bull is $28.

2020 Investor Day Highlights

EPS growth and dividend forecast: NiSource now expects to deliver a back-end loaded 7-9% net operating EPS CAGR in 2021 through 2024. Notably, the annual EPS growth is forecasted to be 5-7% in 2021 through 2023. The company is targeting a long-term 60-70% dividend pay-out ratio.

Capital program and rate base growth: NiSource announced $40 billion in infrastructure investment opportunities over 20 years, an increase of $10 billion over prior expectations. The company outlined a $9.9-10.5 billion capital plan in 2021 through 2024, which is expected to drive a 10-12% rate base CAGR. Gas currently represents roughly 65% of rate base while electric is 35%, but the mix is expected to shift more towards electric over the coming years with $400-600 million of base electric investments and $1.8-2.0 billion of renewable generation opportunities primarily in 2022 and 2023. The capital forecast is comprised of 60% gas infrastructure & asset modernization, 20% renewable investments and 20% electric infrastructure & asset modernization. Specifically, NI's capex forecast for 2021-2024 is $2.0-2.3 / $2.4-2.7 / $3.3-3.6 / $1.9-2.2 billion, which has a meaningful increase in 2023 due to the renewable investments. Roughly $5.5-5.7 billion is expected to be recovered through tracker mechanisms in less than 18 months, $1.9-2.0 billion on maintenance/other to be recovered through periodic rate cases and $0.7-0.8 billion of growth investment to be recovered in less than 3 months. The renewables investment is expected to be recovered in a 2023 electric rate case with rates anticipate to be effective in 2H 2023.

O&M forecast: NiSource's "Next" initiative and the Columbia Gas of Massachusetts sale are projected to drive an 8% reduction in O&M costs in 2021 from 2020. Subsequently, O&M is expected to be "relatively flat" in 2021 through 2024. Cost initiatives under way include voluntary separation program savings and the following improvements identified: streamlined organization structure, evolved business services, work standardization, greater field mobility and connected customer experience. Modernization-driven fuel and cost reductions are also under way.

Rate increases: NiSource is targeting moderate annual rate increases in the low-to-mid single digit percentage thanks to O&M management and the changing generation mix (i.e. replacing coal with renewables).

Financing strategy: NiSource continues to target a long-term adjusted FFO to debt of 14-15% through a combination of block equity, ATM equity, employee equity, hybrid/convertibles and long-term debt in 2021-2024. The company is targeting renewable investment financing at 60% equity. There are no major debt maturities through the planning horizon in 2021-2024.

Exhibit 1: NiSource financing plan

($ millions)	2021E	2022E	2023E	2024E
Planned Annual Safety & Modernization Investments				
Equity				
ATM (At-the-Market)	$200 - $300 Annually			
ESPP/401K/Other	$30 - $50 Annually			
Long-Term Debt				
Incremental Long-Term Debt		$500 - $700 Annually		
Planned Renewable Generation Investments (Targeting 60% Equity)				
Equity				
Common Equity Block		$500 - $700 Total		
Long-Term Debt				
Incremental Long-Term Debt		$500 - $700 Total		
Other Financing				
Hybrids, Convertibles, etc.	$600 - $1,000 Total			

Source: NiSource Analyst Day 2020 Presentation, 9/29/20

Long-term supply mix: As outlined in the 2018 IRP, NiSource is targeting a replacement of 80% of coal capacity by 2023, primarily with renewables, and plans to retire all coal by 2028. The company's current generation mix includes 70% coal, 25% gas, 4% other (includes DSM) and 1% renewables. By 2023, NiSource plans to transform the mix to 15% coal, 25% gas, 7% other (includes DSM) and 53% renewables. By 2028, the mix is expected to be comprised of 0% coal, 24% gas and 12% other (includes DSM). The retirement of coal and the mix of renewable joint ventures and purchase power agreements are expected to drive $4 billion of customer savings over 30 years, including a $105 in average annual savings per household. Roughly $400 million of the $1.8-2.0 billion renewable investments planned through 2023 are approved projects with the remaining $1.4-1.6 billion under negotiation. Greenhouse gas emissions are anticipated to be reduced by 90% by 2030 when compared to a 2005 baseline.

Estimates and Price Target Derivation

Maintaining our 2020-2022 EPS estimates and price target: Our 2020-2022 EPS forecast remains $1.26 / $1.34 / $1.41. Recall that NiSource rescinded 2020 EPS guidance with the sale of Massachusetts and has not reissued it. Our 2021 EPS estimate is slightly above the midpoint of $1.28-1.36 guidance and our 2022 EPS forecast is within the 5-7% annual growth forecast through 2023. Specifically, we assume NIPSCO electric takes the brunt of the COVID impact and earns an 8.9% ROE this year, increasing to 9.4% next year before modestly under-earning its authorized 9.75% by 2022. For the gas segment, we assume the company modestly under-earns its blended ~10% ROE in 2020 through 2022.

Our price target of $26/share is unchanged. Our bear case derives a $21 target while our bull case is $28/share. Below is a summary of our base, bull and bear case scenarios. See Exhibit 2 on the next page.

- Our base case assumes 2022 EPS of $1.41/share. For the electric business, we assign a 10% premium to our anchor 2022 P/E target multiple of 17.5x. For the gas segment, we apply a 17.9x P/E multiple, an in line multiple current comparable LDC trading multiples. We apply a blended multiple for parent drag.
- Our bull case assumes 2022 EPS of $1.46/share, which is 7% growth over the high end of 2021 guidance. For the electric business, we continue to apply a 10% premium multiple to our anchor 2022 P/E target multiple of 17.5x. For the gas segment, we apply a 19.5x multiple, a 10% premium to current comparable LDC trading multiples. We apply a blended multiple for parent drag.
- Our bear case assumes 2022 EPS of $1.34/share, which is 5% growth over the low end of 2021 guidance. For the electric business, we apply an in line multiple to our anchor 2022 P/E target multiple of 17.5x. For the gas segment, we apply a 14.4x multiple, an in line multiple with a broader group of LDC trading multiples. We apply a blended multiple for parent drag.

Exhibit 2: SOTP Valuation: Base, Bull and Bear Cases

Base Case	'22 EPS	P/E	Val/Shr
Gas EPS	$1.16	17.7x	$20.55
Electric EPS	$0.59	19.3x	$11.37
Parent/Other	($0.34)	18.2x	($6.24)
Consolidated 2022 EPS	**$1.41**	18.2x	**$25.67**

Bull Case	'22 EPS	P/E	Val/Shr
Gas EPS	$1.19	19.5x	$23.21
Electric EPS	$0.61	19.3x	$11.67
Parent/Other	($0.34)	19.4x	($6.64)
Consolidated 2022 EPS	**$1.46**	19.4x	**$28.23**

Bear Case	'22 EPS	P/E	Val/Shr
Gas EPS	$1.12	14.4x	$16.07
Electric EPS	$0.57	17.5x	$9.96
Parent/Other	($0.34)	15.4x	($5.29)
Consolidated 2022 EPS	**$1.34**	15.4x	**$20.74**

Source: EVRISI Research

COVID-19 Exposure

COVID impacts: NiSource has guided to net COVID impacts (after mitigation measures) of $0.00-0.10 EPS hit for both 2020 and 2021. Specifically, the company expects a negative $0.15-0.20 EPS impact in 2020 to be partially offset with mitigation measures of +$0.10-0.15. NiSource expects to cut O&M by 8% next year.

NiSource's sensitivity to load is partly mitigated by fixed rate designs and revenue decoupling/normalization mechanisms.

In electric, a 1% change in load results in a total of $10.1mm impact to earnings, which rounds to $0.03 in EPS. Specifically, in residential electric, a 1% change in load impacts earnings by $3.9mm, which rounds to $0.01 in EPS. In commercial electric, a 1% change in load also impacts earnings by $3.9mm, which rounds to $0.01 in EPS. In industrial electric, a 1% change in load impacts earnings by $2.3mm, which rounds to $0.01 in EPS.

In gas, a 1% change in load results in a $7.4mm impact to earnings. Specifically, in residential gas, a 1% change in load impacts earnings by $3.8mm, which rounds to $0.01 in EPS. In commercial gas, a 1% change in load impacts earnings by $2.4mm, which rounds to $0.01 in EPS. In industrial gas, a 1% change in load impacts earnings by $1.2mm, which rounds to $0.00 in EPS.

Note that these sensitivities are not linear for large or prolonged volume changes.

Pension: NI's pension plan was 99% funded as of September 30th versus 97% as of June 30th. The company's pension expense is not impacted until the pension plans are re-measured, which is not expected until year-end 2020. Every 50 basis point change in the discount rate is expected to impact the expense by $1mm. Every $100 mm change in asset valuation is expected to impact expense by $7mm. NiSource benefits from pension trackers in Massachusetts and deferrals in Ohio and Pennsylvania.

Bad debt expense: NiSource bad debt is primarily recovered in base rates. The company has additional tracker mechanisms (quarterly, semi-annual or annual) across its gas jurisdictions but not in electric.

COVID-specific regulatory items: NiSource received orders in IN, PA, VA, MD and OH allow for deferral of COVID-related expenses and bad debt. Orders in MD, OH and VA allow deferral of COVID-related expenses and bad debt for later recovery. The order in PA allows deferral of bad debt above amounts in base rates for later recovery. The order in IN allows deferral of suspended fees and bad debt for later recovery.

VALUATION METHODOLOGY

To arrive at our $26/share price target we use a SOTP analysis described above.

RISKS

Risks to our thesis include an inability to deploy capital at the company's expected rate resulting in a lower rate base and regulatory pressure resulting in lower allowed ROEs.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2020-02-11)	Evercore ISI Target
AEE	Ameren Corp.	Outperform	$81.12	$84.00
AEP	American Electric Power	Outperform	$89.93	$95.00
AES	The AES Corporation	Outperform	$19.50	$20.00
AWK	American Water Works Company, Inc.	Outperform	$150.51	$129.00
AWR	American States Water Company	Underperform	$74.69	$60.00
CMS	CMS Energy Corp.	In Line	$63.33	$63.00
CNP	CenterPoint Energy, Inc.	In Line	$21.13	$18.00
CWEN	Clearway Energy	In Line	$28.16	$22.00
CWT	California Water Service Group	In Line	$44.57	$40.00
D	Dominion Energy, Inc	In Line	$80.34	$77.00
DTE	DTE Energy Co.	In Line	$123.42	$121.00
DUK	Duke Energy Corp.	In Line	$92.11	$89.00
ED	Consolidated Edison Inc.	In Line	$78.49	$80.00
EIX	Edison International	In Line	$56.04	$72.00
ES	Eversource Energy	In Line	$87.27	$91.00
ETR	Entergy Corp.	In Line	$101.22	$106.00
EVRG	Evergy	Outperform	$55.20	$62.00
EXC	Exelon Corp.	Outperform	$39.89	$45.00
FE	FirstEnergy Corp.	In Line	$29.72	$41.00
HE	Hawaiian Electric Industries Inc.	Underperform	$33.04	$34.00
NEE	NextEra Energy Inc	In Line	$73.21	$277.00
NI	NiSource Inc	Outperform	$22.97	$26.00
NRG	NRG Energy Inc.	Outperform	$31.62	$40.00
OGE	OGE Energy Corp	Outperform	$30.77	$35.00
PCG	PG&E Corp.	Rating Suspended	$9.56	
PEG	Public Service Enterprise Group	In Line	$58.15	$53.00
PNW	Pinnacle West Capital Corp.	In Line	$81.57	$85.00
PPL	PPL Corp.	In Line	$27.50	$31.00
SJW	SJW Group	In Line	$60.69	$60.00
SO	Southern Co.	In Line	$57.45	$59.00
SRE	Sempra Energy	Outperform	$125.36	$138.00
VST	Vistra Energy Corp	Outperform	$17.37	$27.00
WEC	WEC Energy Group, Inc.	In Line	$100.55	$93.00
WTRG	Essential Utilities Inc.	In Line	$41.20	$42.00
XEL	Xcel Energy Inc.	In Line	$70.03	$65.00

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Time of dissemination: November 02 2020 04:09 PM ET

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Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's universe
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*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

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Sell -the total forecasted return is expected to be less than 0%

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Strong Buy- Return > 20%
Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

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Underweight -the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

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Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	405	52	Buy	127	31
Hold	298	38	Hold	48	16
Sell	42	5	Sell	5	12
Coverage Suspended	22	3	Coverage Suspended	9	41
Rating Suspended	13	2	Rating Suspended	4	31

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Ratings Key

B	Buy	OP	Outperform	L	Long	CS	Coverage Suspended
H	Hold	IL	In Line	NP	No Position	RS	Rating Suspended
S	Sell	UP	Underperform	S	Short		

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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Overweight
Gas/Power Infrastructure – Market Overweight

November 2, 2020

NISOURCE

(NI US Equity – $23.45 – Outperform)

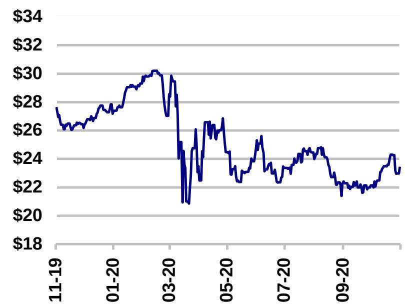
Discount on 2022, super cheap on 2024

- **Q3 beats; all recent Analyst Day disclosures reaffirmed.** NI reported 3Q20 non-GAAP EPS of $0.09, ahead of us/cons at $0.03. The beat was driven mostly by strong performance at the gas business, particularly on lower O&M. NI doesn't have official 2020 guidance but is $0.11 ahead of last year YTD. NI reaffirmed its 2021 guidance of $1.28-1.36, which embeds $0.05 of drag related to COVID. 4Q will be NI's first test dealing with COVID during a winter heating season, hence why management is keeping a cautious view on potential impacts to 2021. Capex, rate base forecasts and NI's financing plans were are all reaffirmed. This was one of the more uneventful earnings calls for NI in a while, which we view as a good thing. The focus now is on executing under the plan laid out at the late-September Analyst Day.
- **Not in a rush to do renewable financings, still open to asset sales.** NI's 2021-24 financing strategy as it relates to its renewable investments was unchanged – $500-700M of block equity in 2022 or 2023 and $600-1B of preferreds and/or converts in 2021. On the hybrids, we don't believe NI is in any rush and will likely complete them closer toward YE21. NI is still targeting equity content of 60% for the renewables program which is expected to total $1.8-2.0B. We currently assume $600M of block equity at the tail end of 2022 and $400M each of preferreds (50% equity content) and converts late next year. We still think it makes a lot of sense to consider asset sales as a potential financing alternative. Management remains open to the idea, though it doesn't sound that anything is imminent.
- **CPCN filings on deck, more renewable announcements by YE.** Next steps for the Dunns Bridge I/II (265 MW/510 MW) and Cavalry (260 MW) Solar projects will be CPCN filings at the IURC. These are expected to be filed later this month or in Dec. That is typically a 6-8-month process where the IURC will effectively deem the projects as prudent (not a guarantee of cost recovery). NI expects to announce 5-7 additional projects by yearend, which will fill out the remaining $600-800M of capital investment from the renewables program.
- **Tweaking estimates, PT to $26; Outperform.** We are raising our 2020-22E by $0.01 each after updating our financing and regulatory lag assumptions. Our PT moves up by $1 to 26, mostly reflective of higher utility multiples. We remain Outperform rated and believe a re-rating back to at least a group average (2x gap on 2022E) is attainable as NI executes on its new plan.

Estimates / Valuation				
(US$)	2020E	2021E	2022E	2023E
EPS	$1.30	$1.33	$1.43	$1.51
Consensus	$1.29	$1.34	$1.43	$1.56
P/E	18.1x	17.6x	16.4x	15.6x
Dividend Yield	3.6%	3.8%	4.1%	4.3%

Trading and Fundamental Data	
Price Target	**$ 26**
Current Price	23.45
52-Week Range	$20-$30
Market Cap. (MM)	8,980
Enterprise Value (MM)	19,700
Shares Out. (MM)	383.0
Dividend Yield	3.61%
Dividend Payout Ratio	65.5%
ROE	6.6%
Debt to Cap	63.8%
Avg. Daily Vol. (000)	3,319

Price Performance	YTD	LTM
NI US Equity	-16%	-15%
Utility Index	1%	2%
S&P 500	2%	9%



Source: FactSet/Wolfe Research

Key Changes		
Year	New	Old
Price Target	$26	$25
2020E	$1.30	$1.29
2021E	$1.33	$1.32
2022E	$1.43	$1.42

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WOLFE RESEARCH

NiSource

November 2, 2020

NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2020E	2021E	2022E	2023E
EPS	$1.30	$1.33	$1.43	$1.51
Diluted Shares Outstanding	$389	401	413	449
Dividends Per Share	$0.85	$0.90	$0.95	$1.01
Dividend Yield	3.6%	3.8%	4.1%	4.3%
Dividend Payout Ratio	65%	67%	67%	67%
Equity Ratio	39%	42%	44%	41%
FFO/Net Debt	13%	14%	14%	14%
Valuation Metrics				
P/E	18.1x	17.6x	16.4x	15.6x
Price/Book	1.6x	1.6x	1.4x	1.4x
Segment EPS				
Gas Distribution	$1.05	$1.08	$1.21	$1.23
NIPSCO Electric	0.57	0.56	0.59	0.61
Parent & Other	(0.31)	(0.31)	(0.37)	(0.34)
Total EPS	**$1.30**	**$1.33**	**$1.43**	**$1.51**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2020E	2021E	2022E	2023E
Capital Spending by Segment ($M)				
Gas Distribution	$1,311	$1,535	$1,535	$1,535
Electric	455	590	990	1,890
Parent	25	25	25	25
Total Capex	**$1,791**	**$2,150**	**$2,550**	**$3,450**
Financings ($M)				
Total Equity Issued/(Repurchased)	$298	$290	$890	$290
Total Hybrids Issued/(Repurchased)	$0	$800	$0	$0
Total Debt Issued/(Repurchased)	$50	$0	$650	$1,400

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland and Massachusetts.

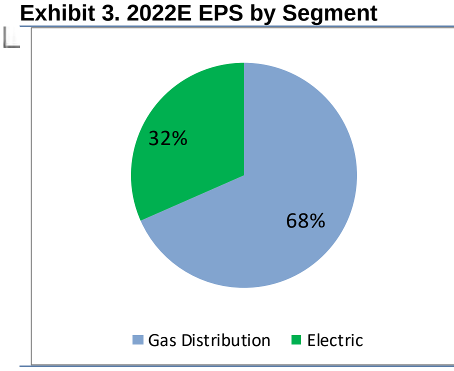
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $40B backlog of capital investment with recovery largely through trackers in mostly constructive regulatory environments. We see NI as a de-risking story in 2020 with solid growth prospects through its base capex program and renewable investment opportunities at NIPSCO.

Valuation

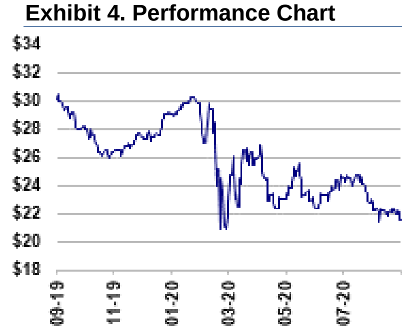
Our $26 price target is derived by using a full-turn premium (18.5 x) on NI's electric earnings and an average (17.5x) on its gas LDC earnings in 2022. Risks for NiSource are 1) bad regulatory outcomes; 2) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer sales growth

Exhibit 3. 2022E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: FactSet

WOLFE RESEARCH

November 2, 2020

Investment Conclusion

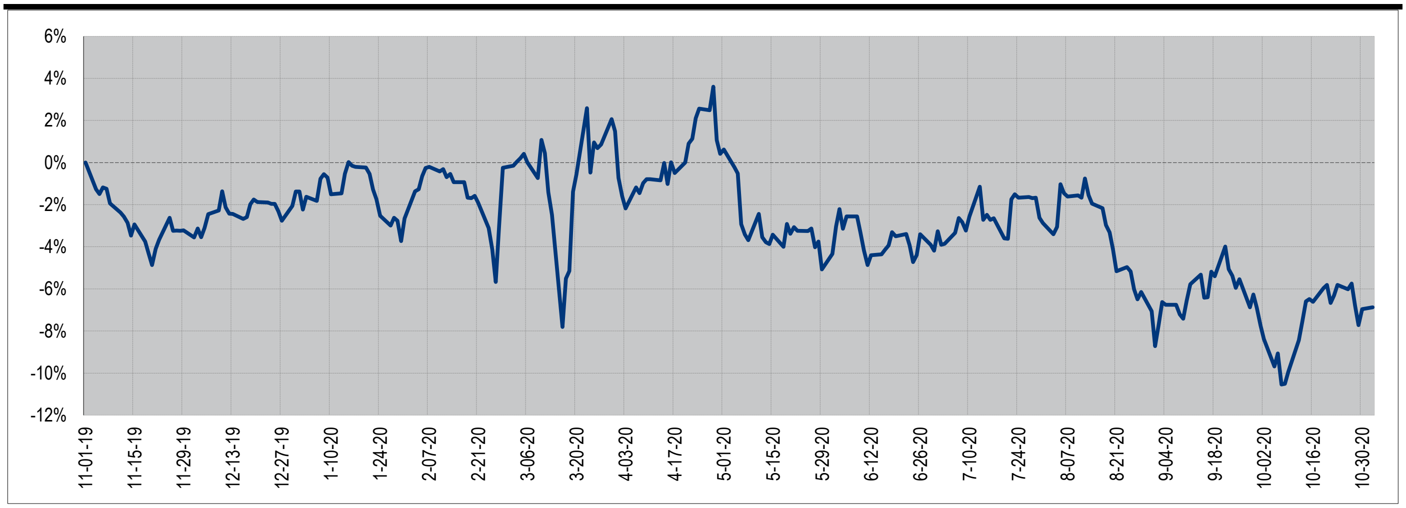
We are Outperform rated on NiSource. Most of the NI's annual capex (~75%) is recovered with minimal lag via tracking mechanisms and the company has built a constructive track record with most of its state regulators. Post the sale of Columbia Gas of Massachusetts, we believe the company's plan will be a lot easier to execute on. Further, $1.8-2.0B of incremental renewable capex has now been identified for deployment across 2022 and 2023, which will help drive rate base growth of 10-12% and EPS growth of 7-9%, on average, through 2024 (off 2021 base year). The dramatic shift toward renewables and fact that NI will be coal-free by 2028 is also helpful from an ESG perspective. We see exiting MA as a turning point for the company that should allow NI to re-rate closer to a group average over time as it proves out the ability to execute.

Exhibit 6: Gas LDC Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E Multiple 2020E	2021E	2022E	2023E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Atmos Energy	ATO	$95.51	123	$11,782	20.3x	19.0x	17.7x	16.6x	2.4%	7.4%	49%	2.0x	59%
ONE Gas	OGS	71.49	53	3,783	20.1x	18.6x	17.2x	16.5x	3.0%	7.4%	65%	1.8x	54%
NiSource	**NI**	**23.45**	**383**	**8,982**	**18.1x**	**17.6x**	**16.4x**	**15.6x**	**3.6%**	**5.3%**	**69%**	**1.8x**	**38%**
Northwest Natural Gas	NWN	45.35	31	1,385	20.0x	17.8x	17.3x	16.6x	4.2%	0.6%	84%	1.6x	46%
Pure-play Average					**19.6x**	**18.2x**	**17.2x**	**16.3x**	**3.3%**	**5.2%**	**67%**	**1.8x**	**49%**
New Jersey Resources	NJR	30.89	96	2,963	14.9x	13.4x	12.9x	12.3x	4.1%	5.8%	61%	1.8x	49%
South Jersey Industries	SJI	20.05	101	2,017	12.9x	12.0x	12.1x	11.1x	6.0%	2.7%	77%	1.3x	30%
Southwest Gas	SWX	67.67	56	3,784	17.5x	15.6x	15.1x	NA	3.4%	6.0%	62%	1.5x	47%
Spire Inc.	SR	57.02	51	2,936	15.3x	14.1x	13.4x	12.7x	4.4%	5.3%	67%	1.3x	47%
Diversified Average					**15.2x**	**13.8x**	**13.4x**	**12.0x**	**4.4%**	**5.0%**	**67%**	**1.5x**	**43%**
Average - electric utilities (ex PCG, EIX and PPL)					*21.3x*	*19.5x*	*18.4x*	*17.3x*	*3.4%*	*5.0%*	*70%*	*2.1x*	*41%*

Source: Wolfe Utilities & Power Research, FactSet

Exhibit 7: NI vs the Regulated Average



Source: Wolfe Utilities & Power Research, FactSet

November 2, 2020

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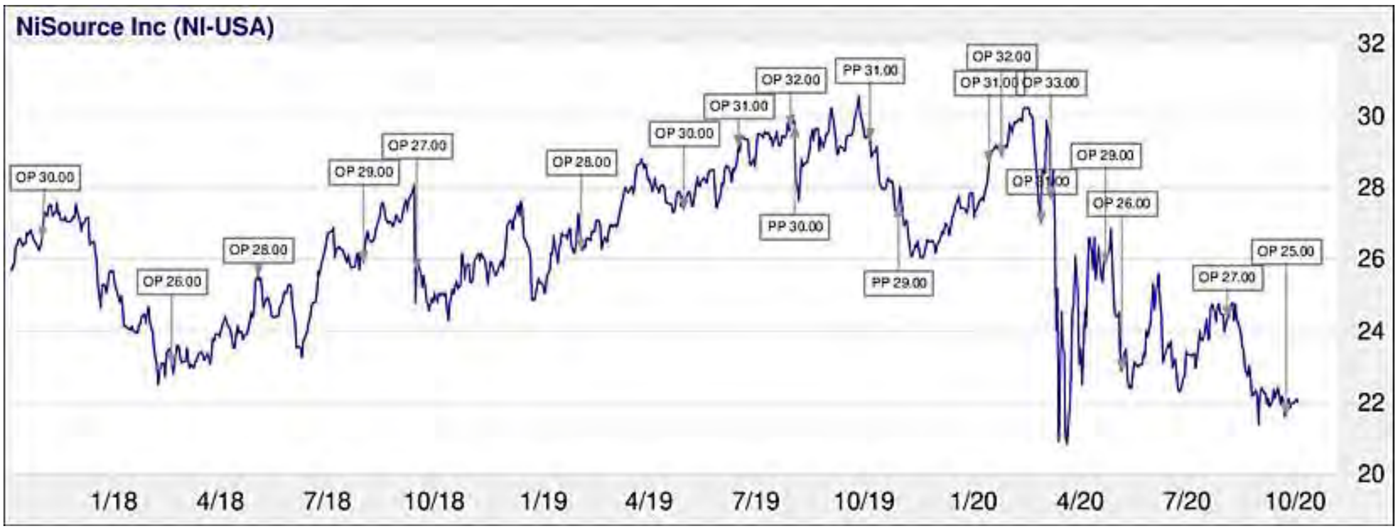
Price Chart(s) with Ratings and Target Price History



Note: OP = Outperform; PP = Peer Perform; UP = Underperform

Wolfe Research, LLC Fundamental Valuation Methodology:

Company:	Fundamental Valuation Methodology:
NI US Equity	Forward P/E

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:	Risks That May Impede Achievement of the Recommendation, Rating or Target Price:
NI US Equity	Weak economy/sales, negative regulatory outcomes, pipeline safety accidents

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
NI US Equity	None

Other Disclosures:

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BofA GLOBAL RESEARCH

BofA SECURITIES

NiSource Inc

Where there's mounting confidence on estimate upside

Reiterate Rating: BUY | PO: 26.00 USD | Price: 23.45 USD

03 November 2020

Equity

Solid 3Q, winter execution is key & renewables on track

Despite posting a 3Q beat and reaffirming '21 guidance/long term plan, NI shares closed +2.1% vs Gas LDC peers +3.3% and XLU +2.2%. With COVID only driving a -1c EPS impact in 3Q, NI reaffirmed its 2021 EPS guidance of $1.28-1.32, which includes a -5c EPS impact due to COVID. We perceive this guidance likely screens conservative (yet prudent) given COVID -7c EPS impact YTD, but we monitor NI's execution this winter heating season on the gas side as it was not exposed to COVID last yr – we still model the midpoint of '21 guide (below consensus). Regarding the renewable strategy, no new commercial deals were announced, although NI disclosed capex on the recent solar and solar+ storage BoT JVs of $850mn (assuming 70/30 JV this implies ~$1,200/kW). NI expects to announce a total of 5-7 remaining renewable deals, with the next set of agreements likely before YE20 (~$550-750mn of remaining capex associated with BoT JVs net to NIPSCO) – see our IN renewables tracker inside. Our EPS estimates remain unchanged pending execution this winter heating season. Even on our unchanged and relatively conservative estimates vs consensus, we still arrive at a PO of $26 (+14.6% potential total return incl. div yield of 3.6%) after we mtm NI with peer utility multiples of 13.9x (from 14.2x) for gas and 16.5x (from 16.8x) for electric. Reiterate Buy as we believe NI shares continue to present a unique play on the wide relative discount in Gas LDCs with M&A optionality, renewables upside in rate base, and potential for positive revisions.

Portfolio optimization at top of mind

Mgmt. did *not* provide any specific timing around the $600-1,000mn of equity-linked hybrid issuance outside of by YE21, but we perceive mgmt. could still be evaluating potential portfolio optimization to possibly replace a portion of the equity needs to fund the renewable strategy, albeit an asset sale is not baked into the current plan. We stress any range of potential buyers exists after NI acknowledged it would evaluate a sale of its smaller subsidiaries. Admittedly, mgmt. commentary suggested NI's Gas LDCs are all earning close to their authorized, providing less attractive opportunities for potential buyers in the utility space.

Estimates (Dec)

(US$)	2018A	2019A	2020E	2021E	2022E
EPS	1.30	1.32	1.25	1.32	1.42
GAAP EPS	1.30	0.87	1.25	1.32	1.42
EPS Change (YoY)	7.4%	1.5%	-5.3%	5.6%	7.6%
Consensus EPS (Bloomberg)			1.29	1.34	1.43
DPS	0.79	0.83	0.88	0.94	0.99

Valuation (Dec)

	2018A	2019A	2020E	2021E	2022E
P/E	18.0x	17.8x	18.8x	17.8x	16.5x
GAAP P/E	18.0x	27.0x	18.8x	17.8x	16.5x
Dividend Yield	3.4%	3.6%	3.8%	4.0%	4.2%
EV / EBITDA*	15.4x	14.7x	13.3x	12.7x	11.8x
Free Cash Flow Yield*	-14.2%	-2.4%	-4.6%	-7.9%	-11.3%

* For full definitions of *iQmethod*SM measures, see page 9.

Key Changes

(US$)	Previous	Current
2021E EBITDA (m)	1,866.3	1,866.5
2022E EBITDA (m)	2,007.8	2,008.1

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Stock Data

Price	23.45 USD
Price Objective	26.00 USD
Date Established	19-Oct-2020
Investment Opinion	B-1-7
52-Week Range	19.56 USD - 30.46 USD
Mrkt Val (mn) / Shares Out (mn)	8,986 USD / 383.2
Average Daily Value (mn)	77.93 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2020E)	9.1%
Net Dbt to Eqty (Dec-2019A)	158.6%

BoT = Build-own-Transfer

LDC = Local Distribution Company

Refer to important disclosures on page 10 to 12. Analyst Certification on page 7. Price Objective Basis/Risk on page 7. 12209159

Timestamp: 03 November 2020 07:39AM EST

iQprofile℠ NiSource Inc

*iQ*method ℠ – Bus Performance*

(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Return on Capital Employed	3.9%	3.3%	4.0%	3.9%	4.0%
Return on Equity	10.1%	9.9%	9.1%	9.2%	9.5%
Operating Margin	18.3%	17.1%	19.6%	20.0%	21.1%
Free Cash Flow	(1,278)	(219)	(412)	(709)	(1,011)

*iQ*method ℠ – Quality of Earnings*

(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Cash Realization Ratio	1.2x	3.2x	2.8x	2.7x	2.6x
Asset Replacement Ratio	3.0x	2.5x	2.4x	2.7x	3.1x
Tax Rate	19.7%	24.4%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	156.7%	158.6%	139.3%	141.6%	147.8%
Interest Cover	2.6x	2.4x	2.9x	3.1x	3.3x

Income Statement Data (Dec)

(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Sales	5,084	5,209	5,302	5,407	5,592
% Change	4.3%	2.5%	1.8%	2.0%	3.4%
Gross Profit	3,325	3,674	3,714	3,795	3,955
% Change	-0.9%	10.5%	1.1%	2.2%	4.2%
EBITDA	1,531	1,608	1,782	1,867	2,008
% Change	3.4%	5.0%	10.8%	4.7%	7.6%
Net Interest & Other Income	(335)	(384)	(362)	(344)	(362)
Net Income (Adjusted)	463	495	482	530	593
% Change	16.6%	6.8%	-2.5%	9.9%	11.9%

Free Cash Flow Data (Dec)

(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Net Income from Cont Operations (GAAP)	463	328	482	530	593
Depreciation & Amortization	600	717	742	783	827
Change in Working Capital	110	(75)	0	0	0
Deferred Taxation Charge	(188)	118	114	124	103
Other Adjustments, Net	(445)	495	0	0	0
Capital Expenditure	(1,818)	(1,802)	(1,750)	(2,147)	(2,535)
Free Cash Flow	-1,278	-219	-412	-709	-1,011
% Change	-34.0%	82.9%	-88.1%	-72.1%	-42.5%

Balance Sheet Data (Dec)

(US$ Millions)	2018A	2019A	2020E	2021E	2022E
Cash & Equivalents	121	148	148	848	148
Trade Receivables	1,147	905	905	905	905
Other Current Assets	787	800	800	800	800
Property, Plant & Equipment	15,543	16,912	16,921	18,284	19,992
Other Non-Current Assets	4,206	3,894	3,894	3,894	3,894
Total Assets	21,804	22,660	22,668	24,732	25,740
Short-Term Debt	2,027	1,787	2,137	2,486	2,587
Other Current Liabilities	2,010	1,959	1,959	1,959	1,959
Long-Term Debt	7,105	7,856	6,963	8,101	8,429
Other Non-Current Liabilities	4,911	5,071	5,185	5,309	5,413
Total Liabilities	16,053	16,673	16,244	17,856	18,388
Total Equity	5,751	5,987	6,424	6,876	7,352
Total Equity & Liabilities	21,804	22,660	22,668	24,732	25,740

* For full definitions of *iQmethod*℠ measures, see page 9.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

Our Buy rating on NI is underpinned by 1) likely positive revisions given ultra conservative EPS CAGR guidance baked into consensus, 2) gas LDC M&A optionality acute to NI, 3) renewable rate base upside, and 4) the ability to re-rate higher following any gas LDC asset sale.

Stock Data

Average Daily Volume	3,323,138

Quarterly Earnings Estimates

	2019	2020
Q1	0.82A	0.76A
Q2	0.05A	0.13A
Q3	0A	0.09A
Q4	0.45A	0.26E

Watching the divestiture angle

While NI reiterated its renewable financing strategy does not include any asset sales, mgmt. still included the same portfolio optimization language in the 3Q investor presentation. Mgmt. made clear it would always evaluate opportunities to maximize shareholder value, which could include divestiture opportunities. We continue to perceive the divestiture route for funding a portion/all of the renewable strategy replacing some/all of the equity needs as potentially quite attractive for the NI narrative, and broader Gas LDC subsector. We would argue that a sale of a Gas LDC could drive a re-rating higher for NI shares, and the broader Gas LDC peer group as we perceive unique sensitivity for the wider sector to any M&A. Recall, in our recent upgrade, our theoretical scenario analysis indicated that a potential asset sale of its three smaller Gas LDCs could offset most of its renewable equity financing in the current plan in a likely accretive manner, on our assumptions. We continue to think the most feasible assets considered for sale by NI would likely be the company's smaller Gas LDCs in Virginia (~$700mn rate base), Kentucky (~$300mn RB), and Maryland (~$100mn RB), as discussed in our recent scenario analysis.

With a sale of any Gas LDC, NI would effectively be replacing gas rate base with renewable electric rate base. That said, when the company was asked if NI's subsidiaries were earning their authorized return, mgmt.'s answer seemed to imply that the subs are earning close to or at their authorized returns. From a buyer's perspective, this would make the gas LDC subsidiaries less attractive candidates given potentially accretive deals are harder to find if the target is already earning at its authorized ROE. If this implication is valid, this might present more difficulty finding a willing buyer should the company seek to sell one or more of these assets, but we would still see a potential divestiture as creating a more streamlined and balanced (gas vs electric) portfolio at NI. At the same time, the steep relative discount of gas utilities, could present accretive acquisition targets (depending on the premium) from a valuation perspective. We also contemplate whether a Midstream player might be interested in NI's Gas LDC assets to diversify away from the more volatile gathering & processing business, particularly midstream companies that have overlapping footprints with the Gas LDCs may drive synergies.

Renewable deals on track & awaiting next set before YE20

While we did not get any new commercial renewable deals on the 3Q update, NI disclosed that the capex associated with the recent Solar and Solar+Storage Build-own-Transfer (BoT) JVs announced a couple weeks ago is a total of $850mn. Assuming these three projects are 70/30 NIPSCO/Tax Equity partner, this implies NIPSCO is spending roughly $1,200/kW. This compares to its wind BoT JVs (Rosewater and IN Crossroads), which equate to roughly $2,000+/kW. Recall, at the investor day, NI noted it is currently in advanced negotiations on about 8-10 solar projects, implying roughly 5-7 project announcements could be remaining following this recent update. Mgmt. highlighted on the earnings call that it expects to have more commercial renewable deals announced before YE20.

Table 1: NIPSCO Electric Commercial Renewables Deal Tracker

Project	Project Type	Gen type	Total MW	JV % NIPSCO	Total MW net to NIPSCO	Total Capex net to NIPSCO ($mn)	Capex net to NIPSCO ($/kW)	Expected In-service	Regulatory Approved
Jordan Creek	PPA	Wind	400	N/A	400	N/A		YE2020	Yes
Rosewater	JV	Wind	100	45%	45	100	2,222	YE2020	Yes
Indiana Crossroads	JV	Wind	300	50%	150	300	2,000	YE2021	Yes
Brickyard Solar	PPA	Solar	200	N/A	200	N/A		2022	Filed 7/2020
Greensboro Solar	PPA	Solar	130	N/A	130	N/A		2022	Filed 7/2020
Dunns Bridge Solar	JV	Solar	265	70%	186	218	1,173	2022	CPCN filing expected in 4Q20
Dunns Bridge Solar II	JV	Solar+Storage	510	70%	357	419	1,173	2023	CPCN filing expected in 4Q20
Cavalry Solar	JV	Solar+Storage	260	70%	182	214	1,173	Late 2023	CPCN filing expected in 4Q20
Total			2,165		1,650	1,250			
Guidance/Estimated Target			3,500		2,895	1,800-2,000			

Source: BofA Global Research estimates, company report, Bloomberg

Renewables financing strategy reaffirmed

Along with reaffirming guidance across the board, NI reaffirmed its plan to finance its renewable strategy. Recall, NI's renewable financing strategy consists of $1.8-2.0bn of capex at NIPSCO electric funded with 60% equity. This implies a maximum of $1.2bn of equity with guided flexibility of $600-1,000mn of equity-linked hybrids and $500-700mn of traditional equity. We continue to model $700mn of converts (issued/converted '21/'24) as the equity-linked hybrids and $500mn of traditional equity issued in 2023. Even excluding an asset sale, we continue to look for NI shares to potentially inflect next year pending the company's choice around its $600-1,000mn equity-linked hybrids (i.e. converts or perpetual preferreds) along with putting the '21 Indiana legislative session in the rearview. We believe if mgmt. chooses converts over perpetual preferreds, this would be a positive read into mgmt.'s confidence in the earnings outlook such that it could offset the ultimate dilution in 2024.

Estimates

Our EPS estimates are unchanged following the 3Q update. Note our estimates continue to assume an equity issuance share price of $23.00 in 2021 and beyond (vs shares trading at $23.45 today). Our 2021 EPS estimate remains in line with the midpoint of NI's 2021 guidance of $1.28-1.36, in which the company includes a 5c negative EPS impact from COVID at the midpoint. Note our conservative '21 EPS estimate due to our reservations about the gas utility's execution amid COVID this winter heating season actually inflates our EPS CAGRs vs consensus given it creates a lower base year.

Our EPS estimates imply EPS CAGRs above both NI's guided ranges of +5-7% EPS CAGR (-21-'23) and +7-9% EPS CAGR ('21-'24). However, when the -5c COVID impact baked into '21 guidance at the midpoint is added back to the base year, both our '21-'23 and '21-'24 EPS CAGRs still land within the guidance ranges of 5-7% and 7-9%, respectively. While consensus would imply lower EPS CAGRs over these timeframes, we would also critically note that 2023 consensus EPS only is composed of four EPS estimates and 2024 consensus EPS is only composed of two estimates. We think the Street is failing to capture that NI will be presumably earning close to its authorized in '22 and '23 at the gas utilities in addition to the renewables EPS upside in '24.

Even not assuming an asset sale as part of the renewable financing, which we think could be accretive vs current equity financing in our estimates (as we highlighted in our recent upgrade), we continue to emphasize clear upside to EPS estimates as we perceive management is capable of hitting above its guidance range given the conservatism baked into the base year ('21). If the negative 5c EPS impact is excluded from the base year of '21 guidance, the new +7-9% EPS CAGR ('21-'24) would imply positive revisions in the out years ('23/'24). While the reaffirmed guidance from the recent Investor Day could be perceived cautiously given the implied conservatism embedded, we reaffirm our underlying confidence on '24E EPS upon realization of full earnings potential from renewables (and no lag from delayed financing to address accelerated spend).

Table 2: NI EPS Estimates: we see clear upward bias within '21 range - reaffirmed by mgmt.

NI EPS Estimates		2019A	2020E	2021E	2022E	2023E	2024E	2025E
Gas		1.04	1.02	1.14	1.22	1.25	1.26	1.32
Electric		0.59	0.54	0.54	0.59	0.67	0.81	0.85
Electric Renewables - BOTs from RFP 1 & 2 (incl. in Electric EPS)					0.00	0.07	0.16	0.17
Parent/Other		-0.33	-0.32	-0.35	-0.39	-0.36	-0.30	-0.28
BofA EPS		1.32	1.25	1.32	1.42	1.56	1.78	1.88
Previous EPS		1.32	1.25	1.32	1.42	1.56	1.78	1.88
Guidance		1.27-1.33		1.28-1.36				
Consensus		1.30	1.30	1.36	1.43	1.54	1.66	
BofA '21-'24 EPS CAGR (adding back -5c COVID impact in '21 guidance)	8.9%							
BofA '21-'24 EPS CAGR	10.3%							
Guidance '21-24 EPS CAGR	7-9%							
Consensus '21-'24 EPS CAGR	6.8%							
BofA '21-'23 EPS CAGR (adding back -5c COVID impact in '21 guidance)	6.5%							
BofA '21-'23 EPS CAGR	8.5%							
Near Term Guidance '21-'23 EPS CAGR	5-7%							
Consensus '21-'23 EPS CAGR	4.3%							
Implied EPS Guidance by Yr given New +7-9% EPS CAGR ('21-'24)	High End			1.36	1.48	1.62	1.76	1.92
	Mid-Point			1.32	1.43	1.54	1.66	1.80
	Low End			1.28	1.37	1.47	1.57	1.68
BofA DPS		0.83	0.88	0.94	0.99	1.05	1.12	1.18
Share Count (mn shares)		376	387	400	418	453	496	509

Source: BofA Global Research estimates, company report, Bloomberg

Valuation

Our PO of $26 (unchanged) is based on the recent mark to market of our SOTP valuation on peer '23 multiples of 13.9x for gas (from 14.2x) and 16.5x for electric (from 16.8x).

As noted in our recent report, we now assign a 3x M&A premium (20-25%) to the VA, KY and MD gas utilities. It remains unclear what kind of a premium to rate base could be realized in any sale, as we have seen such few gas LDCs transactions of late. Historically over the last 15 years, utility M&A deals have garnered roughly a 25% premium on average. Also, we assign a 0.5x premium on OH, PA and NIPSCO gas for their embedded re-rating potential following a hypothetical sale.

At the electric utility (NIPSCO Electric), we assign a 2x premium to our electric peer group multiple to account for incremental renewable earnings growth long-term.

Lastly, we net out 50% of the incremental assumed converts (and interest) associated with the renewables strategy by including it in the netting out of parent debt and interest expense in our SOTP below.

Table 3: NI SOTP Valuation

NI SOTP Valuation									
	Metric			P/E Multiple					
	2023E EPS	Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Gas	-	-	13.9x	-	-	-	-	-	-
Group EPS '19-'23 CAGR - Gas	-	-	5.00%	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Gas Utilities		-	14.6x	-	-	-	-	-	-
Columbia Gas of OH	$0.57	14.1x	14.6x	0.5x	15.1x	16.1x	$8.04	$8.61	$9.18
Columbia Gas of PA	$0.29	14.1x	14.6x	0.5x	15.1x	16.1x	$4.07	$4.35	$4.64
NIPSCO Gas	$0.24	14.1x	14.6x	0.5x	15.1x	16.1x	$3.36	$3.60	$3.83
Columbia Gas of VA	$0.09	16.6x	14.6x	3.0x	17.6x	18.6x	$1.46	$1.55	$1.63
Columbia Gas of KY	$0.05	16.6x	14.6x	3.0x	17.6x	18.6x	$0.82	$0.87	$0.92
Columbia Gas of MD	$0.02	16.6x	14.6x	3.0x	17.6x	18.6x	$0.33	$0.35	$0.37
Group Peer Multiple - Electric			16.5x						
Group EPS '18-'22 CAGR - Electric			5.00%						
Electric Utilities			17.3x						
NIPSCO Electric	$0.67	18.3x	17.3x	2.0x	19.3x	20.3x	$12.20	$12.86	$13.53
Total Utility	$1.92	*15.8x*			*16.8x*	*17.8x*	$30.27	$32.19	$34.11
-Parent EPS Drag (ex-Interest Expense)	-$0.14	15.8x	0.0x		16.1x	17.1x	-$2.15	-$2.19	-$2.33
Total EPS *(incl. debt drag)*	$1.56								
Midpoint of 5-7% EPS	*$1.43*								
Holdco Debt @ Parent, *not* allocated to Utilities									
(50% Netting out parent debt + assumed converts)				-$2,300	50%		-$1,150	-$1,150	-$1,150
(50% P/E multiple on Interest Exp)				5.6%	50%		-$802	-$853	-$904
Preferreds									
(50% Netting out Notional)				-$900	50%				
(50% P/E multiple on Dividend)				6.1%	50%				
Grand Total Equity Value							$23.81	$25.57	$27.24
Shares Outstanding 2023E								453	
Total Equity Value							$24.00	$26.00	$27.00
Implied Consolidated P/E									
Current Price								$23.45	
Dividend Yield (2020E)								3.8%	
Total Return								14.6%	

Source: BofA Global Research estimates, company report, Bloomberg

Price objective basis & risk

NiSource Inc (NI)

Our $26 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2023 forward P/E multiples of 13.9x for gas utilities and 16.6x for electric utilities with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex beginning in '22, but acknowledge industrial risk. Also, we now assign a 3x M&A premium to the VA, KY and MD gas utilities and a 0.5x premium on OH, PA and NIPSCO gas utilities to account for their embedded re-rating potential following any hypothetical sale. We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
NEUTRAL				
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Richard Ciciarelli, CFA
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	Northwest Natural Holdings	NWN	NWN US	Richard Ciciarelli, CFA
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

***iQ**method*SM **Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

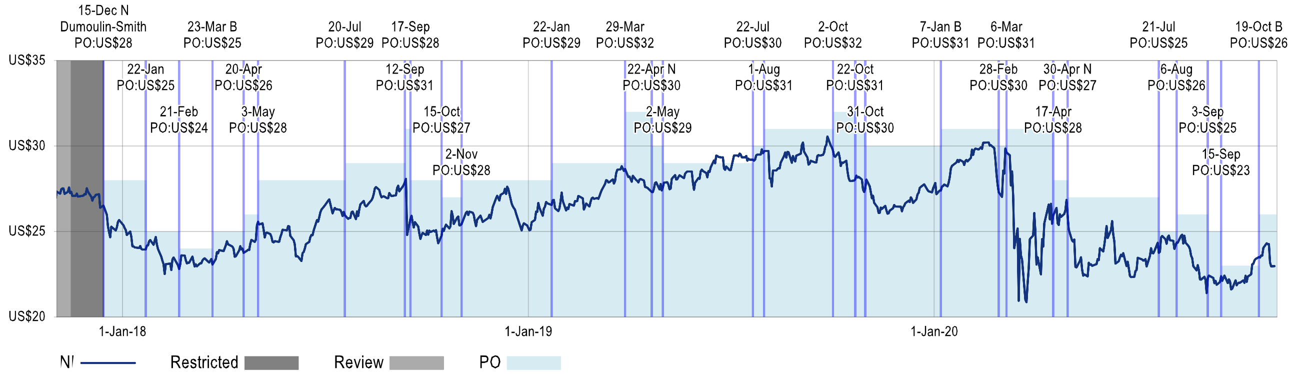
iQmethod SM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

Disclosures

Important Disclosures

NiSource Inc (NI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	87	53.70%	Buy	64	73.56%
Hold	35	21.60%	Hold	26	74.29%
Sell	40	24.69%	Sell	21	52.50%

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	79	51.63%	Buy	59	74.68%
Hold	36	23.53%	Hold	24	66.67%
Sell	38	24.84%	Sell	25	65.79%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1749	54.79%	Buy	1114	63.69%
Hold	677	21.21%	Hold	415	61.30%
Sell	766	24.00%	Sell	386	50.39%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. *VOLATILITY RISK RATINGS*, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. *INVESTMENT RATINGS* reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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3 November 2020
Equity Research
Americas | United States

CREDIT SUISSE

NiSource Inc.

NI

Clean Infrastructure Plans Progressing

Target price (12M, US$)
28.00
Outperform

Natural Gas | Increase Target Price

- **2021 Guidance Reaffirmed $1.28-$1.36.** The company reaffirmed 2021 NOEPS guidance of $1.28- $1.36 (CS $1.33 vs. consensus $1.34) from the recent analyst day, which includes $0.00-$0.10 improvement from COVID-19 drag and Columbia Gas synergy impacts in 2020. For the quarter, NI reported a 3Q20 adj. EPS beat at $0.09 vs cons/CS $0.02/$0.03 (and vs 3Q19 $0.00) driven by cost and regulatory mitigation which reduced COVID impact. Additionally, the company **reiterated 7%-9% EPS CAGR** through 2024, with a jump in 2024 (only 5%-7% through 2023) after Indiana renewables come in service (build-own-transfer, so no AFUDC). We expect NI to attain at least the midpoint of a 5%-7% EPS CAGR (vs 2021) by 2024 after renewables are in service.
- **Columbia Gas of Massachusetts sale to ES closed Oct 9.** Net proceeds of $1.1B were used to pay down term loan and company's short-term debt in October.
- **No change to equity plans**: Equity plans for 2020-2023 remain unchanged at $200-$300M annual ATM plus $30-50M employee plans (no convertible or hybrid financing) plus $500-$700M block equity in 2022/23 for 60% of $1.8-$2.0B renewables capex.
- **Additional Renewable Generation in Indiana represents $850M in NIPSCO utility capital investment.** NI executed Build-Transfer Agreements (JVs) with NextEra (NEE) for three new solar and storage projects: Dunns Bridge I (265MW), Dunns Bridge II (510MW), and Cavalry Solar (260MW) and will file for a CPCN in 4Q.
- **2020 Capex reaffirmed at $1.7-$1.8B and 5yr plan (2021-2024) left unchanged.** NI reaffirmed its 2020 expected capex at $1.7B-$1.8B and continues to identify total expected investment opportunities of ~$9.9B- $10.5B (2021-2024) of which ~20% is expected for renewables Investment, ~20% for electric infrastructure and asset modernization, and ~60% for gas infrastructure and asset modernization.
- **Valuation:** Our estimates are unchanged, but we raise the TP $2 to $28 for higher peer 2022 P/E multiples within a SoTP. Our TP includes the discounted value of $0.19 uplift in 2024 (worth $3/sh) from expected earnings from Indiana renewables. Risks include regulatory, capital plan execution.

Previous target price (12M, US$)	26.00
Price (2 Nov 20, US$)	23.45
52-week price range	30.21 - 20.86
Enterprise value (US$ m)	18,570

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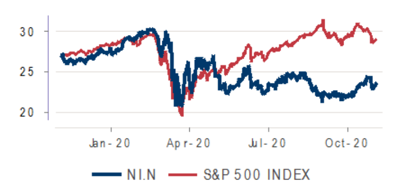
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
EPS (CS adj.) (US$)	1.32	1.32	1.33	1.39
Prev. EPS (US$)	-	-	-	-
Revenue (US$ m)	5,184.1	6,109.9	6,244.2	6,539.0
EBITDA (US$ m)	1,764.2	1,800.3	1,813.3	1,937.6
P/OCF (x)	4.6	4.1	5.1	5.0
EV/EBITDA (current)	10.7	10.5	10.4	9.7
Net debt (US$ m)	9,504	9,588	9,988	10,224
ROIC (%)	5.50	5.42	4.96	4.99

Number of shares (m)	383.02	IC (current, US$ m)	15,490.20
Net debt (Next Qtr., US$ m)	10,559.9	Dividend (current, US$)	0.76
Net debt/tot eq (Next Qtr.,%)	194.7		

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 02-Nov-2020 the S&P 500 INDEX closed at 3310.24Daily Nov04, 2019 - Nov02, 2020, 11/04/19 = US$27.31

Quarterly EPS	Q1	Q2	Q3	Q4
2019A	0.82	0.05	-0.00	0.45
2020E	0.76	0.13	0.09	0.34
2021E	0.77	0.12	0.04	0.41

NiSource Inc. (NI)

Analyst: **Michael Weinstein**

Price (02 Nov 2020): **US$23.45** Target Price: **(from 26.00) 28.00** Rating: **Outperform**

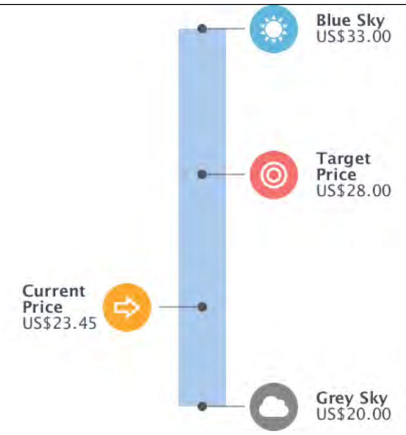
Income Statement	12/19A	12/20E	12/21E	12/22E
Revenue (US$ m)	**5,184.1**	**6,109.9**	**6,244.2**	**6,539.0**
EBITDA (US$ m)	**1,764**	**1,800**	**1,813**	**1,938**
Depr. & amort.	(717)	(775)	(805)	(836)
EBIT (US$)	**1,047**	**1,025**	**1,009**	**1,102**
Net interest exp	(377)	(418)	(415)	(444)
PBT (US$)	**608**	**636**	**662**	**725**
Income taxes	(113)	(127)	(139)	(152)
Minorities	-0	-0	-0	-0
Net profit (US$)	**495**	**509**	**523**	**573**
Reported net income (US$)	**495**	**509**	**523**	**573**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**495**	**509**	**523**	**573**
Cash Flow	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EBIT	1,047	1,025	1,009	1,102
Net interest	(377)	(418)	(415)	(444)
Change in working capital	(75)	(168)	0	0
Cash flow from operations	**2,247**	**2,183**	**1,813**	**1,938**
CAPEX	(2,167)	(2,239)	(1,725)	(2,200)
Free cashflow to the firm	**80**	**(56)**	**88**	**(262)**
Acquisitions	-	-	-	-
Divestments	0	1,100	0	0
Cash flow from investments	**(1,922)**	**(758)**	**(1,725)**	**(2,200)**
Net share issue(/repurchase)	244	85	295	867
Dividends paid	(355)	(350)	(297)	(312)
Changes in Net Cash/Debt	**(484)**	**(85)**	**(399)**	**(237)**
Balance Sheet (US$)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Assets				
Cash & cash equivalents	139	59	59	59
Account receivables	857	521	521	521
Other current assets	607	2,038	2,038	2,038
Total current assets	**1,854**	**2,821**	**2,821**	**2,821**
Total fixed assets	16,912	15,239	16,160	17,524
Investment securities	-	-	-	-
Total assets	**22,660**	**21,862**	**22,782**	**24,146**
Liabilities				
Total current liabilities	**3,746**	**3,575**	**3,974**	**4,211**
Total liabilities	**16,673**	**16,305**	**16,704**	**16,941**
Total liabilities and equity	**22,660**	**21,862**	**22,782**	**24,146**
Net debt	9,504	9,588	9,988	10,224
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
No. of shares (wtd avg)	375	384	392	413
CS adj. EPS	1.32	1.32	1.33	1.39
Prev. EPS (US$)	-	-	-	-
Dividend (US$)	0.76	0.80	0.85	0.90
Free cash flow per share	0.21	(0.14)	0.23	(0.64)
Earnings	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Sales growth (%)	(6.4)	17.9	2.2	4.7
EBIT growth (%)	12.4	(2.0)	(1.6)	9.2
Net profit growth (%)	6.8	2.8	2.8	9.5
EPS growth (%)	1.6	0.3	0.6	4.0
EBITDA margin (%)	34.0	29.5	29.0	29.6
EBIT margin (%)	20.2	16.8	16.2	16.8
Pretax margin (%)	11.7	10.4	10.6	11.1
Net margin (%)	9.5	8.3	8.4	8.8
Valuation	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EV/Sales (x)	3.57	3.04	3.04	2.94
P/E (x)	17.8	17.7	17.6	16.9
Price to book (x)	1.7	1.8	1.7	1.5
Asset turnover	0.2	0.3	0.3	0.3
Returns	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE stated-return on (%)	9.6	9.9	10.0	9.5
ROIC (%)	5.5	5.4	5.0	5.0
Gearing	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net debt/equity (%)	158.7	172.5	164.3	141.9
Interest coverage ratio (X)	2.8	2.5	2.4	2.5
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2019A	0.82	0.05	-0.00	0.45
2020E	0.76	0.13	0.09	0.34
2021E	0.77	0.12	0.04	0.41

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

NiSource Inc. is energy holding company whose subsidiaries provide natural gas, electricity & other products & services. It operates in 3 segments: Gas Distribution Operations; Gas Transmission & Storage Operations, & Electric Operations.

Blue/Grey Sky Scenario



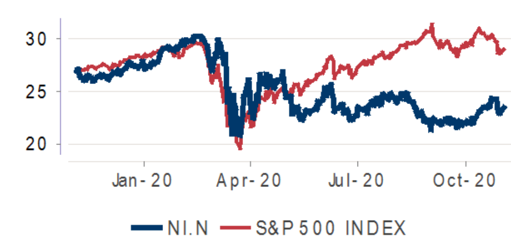
Our Blue Sky Scenario (US$) (from 32.00) 33.00

In our blue sky scenario we assume favorable regulatory outcomes across NI's jurisdictions, successful execution of their capital plan, and growth of infrastructure replacement program backlog. We assume that capex is at the high end of the $1.8-$1.9B and that NI is able to grow ratebase at the high end of their 8-10% range and grow earnings at the high end of their 5-7% range. We assume a 5.0x premium to the average peer 2021 P/E multiples.

Our Grey Sky Scenario (US$) (from 18.00) 20.00

In our grey sky scenario we assume unfavorable regulatory outcomes across NI's jurisdictions, only partial execution of their capital plan, and a decline in the infrastructure replacement program backlog. We assume that capex is at the low end of the $1.8-$1.9B and that NI is able to grow ratebase at the low end of their 8-10% range and grow earnings at the low end of their 5-7% range. We assume a -1.5x discount to the average peer 2021 P/E mult.

Share price performance



On 02-Nov-2020 the S&P 500 INDEX closed at 3310.24
Daily Nov04, 2019 - Nov02, 2020, 11/04/19 = US$27.31

- **See our recent reports:** 10/15 Earnings Preview, 9/30 Investor Day Takeaways, 9/27 Investor Day Preview, 8/7 Indiana Turning Green, 5/26 Left Behind but Holding Up Well, 5/11 COVID-19 Adds Near-Term Uncertainty, but Long-Term Fundamentals Remain Strong, 5/5 1Q20 Earnings Preview, 2/28 Raise to Outperform on Sale of Mass, Elimination of Block Equity Plan, 2020 Outlook – Getting Meaner and Less Defensive,

- **2021 Guidance Reaffirmed $1.28-$1.36.** The company reaffirmed its 2021 NOEPS guidance of $1.28- $1.36 (CS $1.33 vs. consensus $1.34), which includes $0.00-$0.10 improvement from COVID-19 drag and Columbia Gas synergy impacts in 2020. 2021 Guidance also assumes $1.9-$2.2B in annual growth, safety and asset modernization investments (2021-2024), $1.8B-$2B of renewable investment opportunities (2022-2023) and 7%-9% NOEPS CAGR (2021-2024), with 5%-7% from 2021-2023. 2021 NOEPS guidance also includes (~$0.05) impact of COVID-19 at the midpoint of 2021 base case. We expect the company to attain at least the midpoint of a 5%-7% EPS CAGR (vs 2021) by 2024 after renewables are in service. Recall that 2021 Guidance was initiated in August.

- **No change to equity plans: No block equity needed in 2020 and liquidity is ample for 2021, but equity is planned for 2022 and 2023 for Indiana renewables.** Equity plans for 2020 remain $200-$300M annual ATM plus $35-60M employee plans (no convertible or hybrid financing). For 2021, $600-$1,000M for hybrids/convertible are expected for planned renewable generation investments and $500-$700M common block equity in 2022/23 for 60% of $1.8-$2.0B renewables capex (in line with CS). Equity needs through 2023 also include the $200-$300M annual ATM plus $30-$50M employee plans.
  - **Financing the renewables.** We expect ~60% of $1.8-$2.0B of incremental Indiana plant investment in 2022/23 to be financed with equity. We model half in 2022 and remaining half in 2023. However, this neither results in AFUDC (turnkey projects) nor earn a return until a forward test year ratecase is filed around early 2023 for rates effective 2024. Note that this only represents the utility's initial investment in the Indiana projects, with an additional $1.0B financed with tax equity for the benefit of utility customers. Of the $1.8-$2.0B to be financed by the utility, only $0.4B has been approved to date, with ~0.8B agreements finalized, and the remaining projects (~$0.6-$0.8B) still in negotiation.

- **Columbia Gas of Massachusetts sale to ES closed Oct 9.** Net proceeds of $1.1B will be used to pay down term loan and company's short-term debt. Recall, on July 2, NI announced that it will pay $56M to settle and resolve the state's investigation into the 2018 Greater Lawrence incident.

- **Additional Renewable Generation.** NI executed Build-Transfer Agreements (JVs) with NextEra (NEE) for three solar and storage projects in Indiana, which represent $850M in NIPSCO capital investment. The three new projects are Dunns Bridge I (265MW), Dunns Bridge II (510MW), and Cavalry Solar (260MW) which are expected to go in service by end of 2022, 2023 and 2023 respectively.

- **Investor day takeaways.** NI hosted its investor day on Tuesday 9/29, which was mostly in-line with our previewed expectations. Among the biggest takeaways, the company reiterated 7%-9% EPS CAGR with a jump in 2024 (only 5%-7% through 2023) after Indiana renewables come in service (build-own-transfer so no AFUDC). The 2024 ratebase projection of $21.2B is $0.5B higher than the prior forecast. Additionally, NI expects annual O&M for 2021-2024 to remain "relatively flat". FFO/D target unchanged at 14-15%. Broadly, the company discussed long-term growth strategy, cost structure refinements, equity needs, renewable generation including transition from coal to renewables, as well as updates to their Safety Management System (SMS) progress.

- **Reported a 3Q20 adj. EPS beat at $0.09 vs cons/CS** $0.02/$0.03 (and vs 3Q19 $0.00) driven by cost and regulatory mitigation which reduced COVID's impact.

Figure 1: NI 3Q20 Earning Drivers

Gas Distribution Operations ($M)	3Q20	3Q19	Dif
Operating Revenues	472.5	468.6	3.9
Operating Expenses	462.8	495.0	32.2
Total Adj. Earnings	**9.7**	**-26.4**	**36.1**

Electric Operations ($M)	3Q20	3Q19	Dif
Operating Revenues	427.7	462.6	-34.9
Operating Expenses	294.8	327.2	32.4
Total Adj. Earnings	**132.9**	**135.4**	**-2.5**

Source: Company data, Credit Suisse estimates

- **2020 Capex reaffirmed at $1.7-$1.8B and its 5yr plan (2021-2024) left unchanged at ~$9.9B- $10.5B.** NI reaffirmed its 2020 expected capex at $1.7B-$1.8B and continues to identify total expected investment opportunities of ~$9.9B- $10.5B from 2021-2024 of which ~20% is expected for renewables Investment, ~20% for electric infrastructure and asset modernization, and ~60% for gas infrastructure and asset modernization. As seen in table below, NI's capital forecast stands at $2.0B-$2.3B in 2021, $2.4B-$2.7B in 2022, $3.3B-$3.6B in 2023, and $1.9B-$2.2B in 2024.

Figure 2: NI's Capex and Rate Base Growth

Capex & Rate Base	2020E	2021E	2022E	2023E	2024E
Capex ($B)	1.7 - 1.8	2.0 - 2.3	2.4 - 2.7	3.3 - 3.6	1.9 - 2.2
Rate Base Growth ($B)	13.9	15.2	17.0	19.8	21.2

Source: Company data, Credit Suisse estimates

- **Ratebase growth** is expected to grow at a 10%-12% CAGR from $13.9B in 2020 to $21.2B in 2024. The 2024 ratebase projection of $21.2B is $0.5B higher than the prior forecast.

- **Our unchanged 2022 estimate of $1.39 includes about -$0.04 expected drag from equity issuance for investment in Indiana renewables** that will not benefit from AFUDC nor receive a rate increase until 2024.

- **Gas Regulatory Update:** Rate case settlement reached in Maryland which includes $3.3M total increase in annual revenue ($2M net of infrastructure trackers). Final order is expected in Nov with new rates becoming effective in Dec. Additionally, final orders are still expected for Pennsylvania, Kentucky, NIPSCO's modernization program and Virginia's Energy (SAVE) Annual Rider Update.

- **COVID's Impact to Load was (-$0.9M), or a (~$0.01) drag to EPS in Q3.** Residential customer class saw a positive impact of $6.1M (Gas + Electric) YoY in 3Q20, while commercial and industrial customer class both saw a combined reduction of $4.9M and $2.1M (vs. 3Q19) respectively. YTD, NI has seen an overall reduction of (-$11.6M) which is comprised of (-$8.8M) and (-$15.7M) reductions in commercial and industrial respectively, partially offset by a $12.9M increase in residential. **YTD, NI has seen a gross (~$0.07) drag to EPS 2020** which has been offset by cost management and regulatory solutions.

Figure 3: NI's COVID Impact to Load in Q3

COVID impact to Gas Margin (3Q20 v 3Q19)	$(M)
Residential	0.3
Commercial	-1.8
Industrial	-0.8
Total	**-2.3**

COVID impact to Electric Margin (3Q20 v 3Q19)	$(M)
Residential	5.8
Commercial	-3.1
Industrial	-1.3
Total	**1.4**

Total Impact to Load in Q3 (Gas + Electric) ($M)	-0.9

Source: Company data, Credit Suisse estimates

- **COVID-19 annual impact to load**. Management expects lower sales volumes from commercial and industrial customers, partially offset by a potential increase in residential sales volume. Increased bad debt expenses (although recent orders in MD, VA allow for deferring the COVID-related expenses and bad debt), and sustained customer attrition. The company's sensitivity analysis continues to project that a +/- 1% change in annual sales volumes, will result in pre-tax operating earnings of $3.9M, $3.9M and $2.3M to residential, commercial and industrial on the electric side respectively, and $3.8M, $2.4M and $1.2M to residential, commercial and industrial on the Gas side respectively. The residential customer class represents 39% and 69% of the retail margins in electric and gas respectively, with commercial at 35% and 22% in electric and gas respectively.

Figure 4: COVID-19 Impact to NiSource Load

Pre-tax Operating Earnings Sensitivity to +/- 1% CHG in annual sales volume	Electric	Retail Margins %
Residential	$3.9	59%
Commercial	$3.9	26%
Industrial	$2.3	15%
Total	**$10.1**	**100%**

Pre-tax Operating Earnings Sensitivity to +/- 1% CHG in annual sales volume	Gas	Retail Margins %
Residential	$3.8	69%
Commercial	$2.4	22%
Industrial	$1.2	9%
Total	**7.40**	**100%**

Source: Company data, Credit Suisse estimates

- **Liquidity update.** NI's net liquidity available is ~$1.6B as of Sep 30th (vs. ~$2B on June 30th). Total long term debt is ~$9.1B with a weighted average maturity of ~15 years and a 3.68% interest rate as of September 30th vs the prior update in June (which included a ~$10B debt level, with ~$8.7B of long-term debt, and a weighted average maturity of ~16 years and a 4.31% interest rate). Additionally, the company expects no significant refinancing needs through 2024. Dividend growth is expected to remain at targeted 60%-70% LT payout ratio.

- **Pension 99% funded in 3Q20** vs. 97% in 2Q20, and ~98% as of year-end 2019 with 52% of pension plan assets in equities.

- **Rosewater and Jordan Creek to go in service by year-end.** Rosewater Wind (100 MW JV project) and Jordan Creek (400 MW JV project) are both expected to go in service by year-end. JV project Indiana Crossroads (300MW), and PPA projects Brickyard Solar (200MW) and Greensboro Solar (130) MW are expected to go in service by 2021, 2022 and 2022 respectively. Recall CPCN filings were made on 2/1/19 seeking approvals to develop the wind farm consistent with the IRP filed in the fall of 2018. Regulatory approvals were received in August 2019 and tax equity financing was closed in July 2020.

- **Retiring coal and replacing with renewables.** NI is targeting to replacing 80% of coal capacity by 2023 with primarily renewable resources and retiring 100% of coal assets by 2028. The company targets to achieve 90% reduction in greenhouse gas emissions by 2030.

Regulatory Update - Gas

- **Columbia Gas of MD** filed a new base rate case on 5/15 requesting $6.3M total revenue increase; $5M net of infrastructure trackers, which supports continued replacement of aging pipelines and safety upgrades. Rate case settlement reached in Maryland, which includes $3.3M total increase in annual revenue ($2M net of infrastructure trackers). Final order is expected in Nov with new rates becoming effective in Dec.
- **Columbia Gas of PA.** Filed a base rate case 4/24/2020 which supports continued replacement of aging pipelines as well as adoption of safety upgrades. Ratecase includes $100.4M total annual revenue increase. Order is expected in 1Q21 with new rates effective in Jan 2021.
- **Columbia Gas of Kentucky** Safety Modification and Replacement Program (SMRP) Annual Rider Update was filed on 10/15 and is requesting $50M for 2021 capital investments to support continued replacement of aging pipelines and adoption of pipeline safety upgrades. Order is expected on Q1 2021, with rates effective from Q1 2021.
- **NIPSCO Gas System Modernization Program** was filed on 8/25 and covers $26M in incremental capital investments made between Jan-Jun 2020. An order is expected in December 2020.
- **Columbia Gas of Virginia Steps to Advance Virginia's Energy (SAVE)** Annual Rider update was filed on 7/24 and covers $46.4M for 2021 capex in order to continue support and adoption of pipeline safety upgrades under SMS. A final order is expected in November 2020, with rates effective January 2021.
- **Columbia Gas of Ohio Capital Expenditure Program (CEP)** Annual Rider Update filed on 2/28, received order on 8/12, and new rates became effective in September. Recall application included ~185M in 2019 capital investments. The CEP rider allows recovery capital investments and deferred expenses that are related but not covered through IRP.

Regulatory Update – Electric Operations

- **Electric Operations.** Three new solar JV projects have been announced for coal replacement capacity: Dunns Bridge I (265MW), Dunns Bridge II (510MW), and Cavalry Solar (260MW). They are expected to go in service by end of 2022, 2023 and 2023 respectively. Additionally, the company expects $1.8B-$2B incremental capital investment opportunities in 2022 and 2023. The company expects continued execution of 7yr ~$1.2B electric system modernization program. Brickyard Solar and Greensboro Solar + Storage are pending regulatory approval.
- **CPCN filing in 4Q20.** CPCN filing is expected for Dunns Bridge I, Dunns Bridge II and Cavalry in Q4.
- **Electric System Modernization Program** filed on 9/29 and focuses on electric transmission and distribution investments to improve reliability. The TDSIC 7 semi-annual tracker filed for $122.3M in investments from July 2019-July 2020. A final order is expected in Jan 2021, with rates becoming effective on February.
- **Renewable Generation Projects. Construction continues on Jordan Creek (400 MW) and Rosewater (100 MW) – expected to go in service by year-end**. Recall CPCN filings were made on Feb 1st, 2019 seeking approvals to develop 3 wind farms

consistent with the IRP filed in the fall of 2018. Orders approving the PPAs on these filings were received on June 5, 2019 and the wind farms are expected to be built by yearend 2020.

- **Indiana Crossroads Wind under construction and expected to be in-service by end of 2021**. Recall that on Oct 22, 2019, a Build-Transfer Agreement BTA was filed for Indiana Crossroads (300MW) JV between NIPSCO and EDP Renewables (302 MW). FERC approved order on 2/19/2020 for sections 203 and 205 applications for Rosewater. Commercial terms reached on Brickyard and Greensboro Solar PPAs filed. Latest RFP represents replacement ~1,400MW of coal capacity through 2023.
- **Tax equity partnership reached for Rosewater, Indiana Crossroads.** Regulatory approval pending for Brickyard Solar (200MW) and Greensboro Solar (100MW) + storage (30MW). Altogether, the company expects about $1.0B of tax equity financing to help capitalize ~$2.8-$3.0B of JV renewable projects in Indiana from 2022-2023. The remaining $1.8-$2.0B of NI ratebase investment is expected to be financed with ~60% equity/40% debt. Next IRP expected in 2021.
- **Settlement and order in Indiana ratecase for rates effective 1Q20.** A final order approving two settlements in NIPSCO's electric ratecase was issued on Dec 4, 2019, including a 9.75% authorized ROE on 47.86% equity for a $4.116B ratebase that resulted in a two-step revenue increase of $42.7M. The case was filed in Oct 2018 in conjunction with a new long-term Integrated Resource Plan (IRP). The settled portion of the case includes a revenue requirement and accelerated depreciation schedule related to early retirement of coal plants, including an agreement to reduce the book lives of $1.5B coal ratebase to match retirement plans at an average 2032 vs. the prior 2030s-2040s. Non-protected accumulated deferred income tax passback amortization has also been agreed at a comfortable 10-year amortization period. It also includes a new rate structure for industrial customers that allows the utility to manage market purchases in order to keep track of capacity requirements (reduces risk of stranded assets).

Previous Relevant Commentary

- **Next initiative and Columbia Gas of Massachusetts sale to drive ~8% O&M reduction in 2021.** The company has undertaken various cost initiatives including voluntary separation program savings, operational processes improvements and modernization driven fuel and cost reductions. NI expects annual O&M for 2021-2024 to remain "relatively flat".
- **Columbia Gas of Massachusetts sale to ES closed Oct 9.** Net proceeds of $1.1B will be used to pay down term loan and company's short term debt. On July 2, NI announced that it will pay $56M to settle and resolve the state's investigation into the 2018 Greater Lawrence incident.
  - **A federal guilty plea and the sale of Columbia Gas of Mass.** On Wednesday, 2/26, the US Department of Justice announced that NI will plead guilty to a criminal violation of the federal Natural Gas Pipeline Safety Act and pay a $53M fine in connection with the Sept 2018 gas explosion incident in Merrimack Valley, Massachusetts. NI has also agreed to sell its operations in Massachusetts to ES for $1.1B and will forfeit any profit earned from the sale (none expected, so retaining the whole $1.1B). The plea is on a corporate level; no individual officers or employees of the company were charged.
  - **Sale of Columbia Gas of Massachusetts to Eversource for $1.1B - with no gains allowed (or expected).** NI has also agreed to sell its operations in Massachusetts to ES and will forfeit any profit earned from the sale. We calculate that ES is purchasing at a 1.0x multiple of ratebase, or 19.7x 2021 P/E at the allowed 9.55% ROE – in line with the group average. However, the elimination of

a previously planned $500-$700M block equity issuance in 2020 brings the combined effect to about breakeven to a modest $0.01 accretion to 2021 expectations before accounting for -$0.05 corporate disynergies. Expect the transaction to close in October. See our 7/31 ES 2Q earnings note for further detail.

- **Emphasis on safety and leak reduction.** The company continues to emphasize reducing the operational risk and enhancing gas systems safety through the implementation of the Safety Management System (SMS) and new safety system installations across all NI gas service territories. NI has rolled out a corrective action program with the hopes of providing a very clear process and technology for employees and more than 1,000 automatic shut-off devices have now been installed. NiSource is looking to advance safety new technologies, leakage sensing, smoke detectors, safety performance, and predictable models where human error could create risks. The company is projecting a 50% reduction in methane emissions from natural gas pipelines by 2025.
- **COVID-related regulatory updates.** Orders received in Maryland (4/9/2020), in Virginia (4/29/2020), in Pennsylvania (5/13/2020), in Indiana (6/29/2020) and in Ohio (7/15/2020). Orders in MD, OH and VA allow deferral of COVID-19 related expenses and bad debt for later recovery. Order in PA allows deferral of bad debt above amounts in base rates for later recovery, and order in IN allows deferral of suspended fees and bad debt for later recovery.
- **Decoupling.** Full decoupling in OH, MA, MD, VA. Weather normalization in KY, MD, VA, PA. **Bad debt handling.** Clauses for bad debt in KY, OH, MD, PA, VA, MA & IN.

Valuation

- **Valuation.** Our estimates are unchanged, but we raise the TP $2 to $28 for higher peer 2022 P/E multiples within a SoTP. Our TP includes the discounted value of $0.19 uplift in 2024 (worth $3/sh) from expected earnings from $1.8-$2.0B Indiana renewables that will not benefit from AFUDC and will not receive a rate increase until 2024. Meanwhile, our 2022 estimate includes -$0.04 drag from equity issued for these projects (~60% of the ratebase, with half issued in 2022 and half in 2023). We expect the company to attain at least the midpoint of a 5%-7% EPS CAGR (vs 2021) by 2024. We continue to apply a 2.0x premium to the gas utilities for favorable regulatory jurisdictions and lower operational risk since the explosive incident in Lawrence Mass in 2018. We continue to value the electric operation in Indiana at a 2.0x premium for excellent operations and supportive regulation. Risks include 1) ROE risk related to the ongoing ratecases, 2) continued approvals relating to infrastructure replacement/grid modernization programs, 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particularly in the non-decoupled jurisdictions, 7) weather risk, 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety, 11) COVID-19 pandemic response load reduction, particularly at the electric utility.

Figure 5: NI Valuation

		BASE CASE			
	2022 EPS	Prem / Disc	Effective P/E	Equity	Equity / Sh
Electric	$0.72	2.0x	18.9x	$5,250	$13.67
Gas	$1.21	2.0x	17.5x	$8,136	$21.19
Earnings on renewables in 2024 (discounted to 2022) - need to account here as equity dilution hits first in 2022/23 but no AFUDC as these are turnkey projects	$0.19		18.0x	$1,349	$3.51
Other	($0.58)		18.0x	($3,987)	($10.39)
Total EPS	**$1.39**			**$10,748**	**$28.00**
Diluted Shares Outstanding					383.9
Dividend					$0.80
Implied Yield					2.9%
Current Yield					3.4%
Implied P/E					20.2x
Prem / (Disc) To Group					30.2%
Upside/ (Downside) to Current Price					19.4%
Total retirn					22.8%

Source: Company data, Credit Suisse Estimates

Valuation, Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: We arrive at our $28 target price for NI by applying a 2.0x premium to the gas segment peer 2021 P/E to reflect the constructive regulatory environments with capex trackers in place in the jurisdictions that NI operates. We also apply a 2.0x premium to the average peer electric utility 2021 P/E multiple for NIPSCO Electric utility in Indiana to reflect the favorable ratebase growth profile and regulatory environment in the state. Our OUTPERFORM rating reflects a forecasted total return that is equal the group average.

Risk: Risks to our $28 target price and OUTPERFORM rating are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particulary in the non-decoupled jurisdictions, 7) weather risk, and 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety after the 2018 explosion incident in Mass. 11) COVID19 load reductions

Companies Mentioned *(Price as of 02-Nov-2020)*
NiSource Inc. (NI.N, $23.45, OUTPERFORM, TP $28.0)

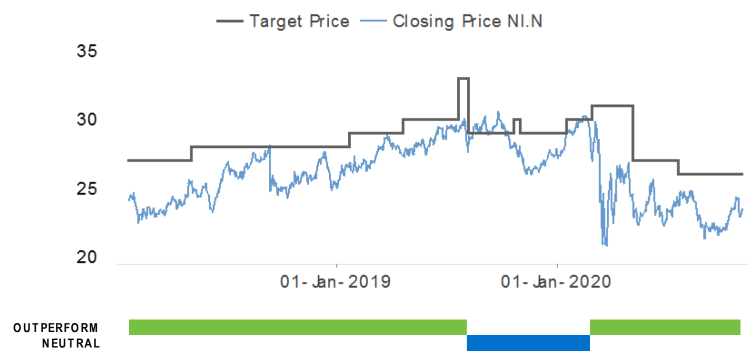
Disclosure Appendix

Analyst Certification

Michael Weinstein, ERP, and Andres Sheppard each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
02-Nov-17	26.94	30.00	O
23-Jan-18	24.17	27.00	
06-May-18	25.41	28.00	
23-Jan-19	26.83	29.00	
21-Apr-19	27.56	30.00	
22-Jul-19	29.14	33.00	
07-Aug-19	27.63	29.00	N
21-Oct-19	28.05	30.00	
01-Nov-19	27.65	29.00	
17-Jan-20	29.04	30.00	
28-Feb-20	27.02	31.00	O
05-May-20	24.53	27.00	
20-Jul-20	23.75	26.00	



** Asterisk signifies initiation or assumption of coverage.*

As of December 10, 2012 Analysts' stock rating are defined as follows:
Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.
**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European (excluding Turkey) ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin America, Turkey and Asia (excluding Japan and Australia), stock ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*
Restricted (R) : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.
Not Rated (NR) : Credit Suisse Equity Research does not have an investment rating or view on the stock or any other securities related to the company at this time.
Not Covered (NC) : Credit Suisse Equity Research does not provide ongoing coverage of the company or offer an investment rating or investment view on the equity security of the company or related products.

Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:
Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.
Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.
Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.
**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	50%	(33% banking clients)
Neutral/Hold*	37%	(28% banking clients)
Underperform/Sell*	11%	(20% banking clients)
Restricted	1%	

Please click here to view the MAR quarterly recommendations and investment services report for fundamental research recommendations.

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NiSource Inc

Upgrade to Buy: a unique gas utility play w/ both M&A & renewables upside

Rating Change: BUY | PO: 26.00 USD | Price: 23.50 USD

19 October 2020

Equity

Raise to Buy as quantify EPS & gas LDC sale upside too

We upgrade NI to Buy as it presents a unique way to position for the wide discount in gas LDCs with 1) asset sale upside that reduces equity overhang by 5c+ in EPS on '25 run-rate basis (sale in '21), 2) rate base renewables upside – unique among gas LDC peers, and 3) positive est revisions *still* post Investor Day – reiterate our confidence in our well above Street EPS on '24. We see clear upside as an LDC sale could remove equity overhang. NI has differentiated itself as the only Gas LDC adding renewables to rate base to date, and now has potential to sell smaller Gas LDCs (VA, KY or MD) to replace a portion (or close to all) of the $1.2bn of equity financing behind its renewable strategy per mgmt. at Investor Day. This gas LDC M&A upside is still under-appreciated in our view, and we perceive a strategic action like this could drive a re-rating higher for NI, along with the broader Gas LDC group given the potential for an M&A premium. We stress NI's proven track record of divestitures including the recent CMA sale to ES and the successful spin of its pipeline business in '15. We still favor transitioning utility portfolios like NI, which provide upside to renewables in rate base yielding an improving screen to ESG fund flows. Street EPS is missing the extent of the conservatism baked into NI's CAGR guide.

A Gas LDC sale could be more accretive vs current plan

If NI could execute an asset sale that implies more EPS accretion vs current financing, we perceive it could pursue the divestiture route. The question is, what premium can Gas LDCs garner in the current market? On our estimates, a 3x (20-25%) M&A premium to peers on '23 EPS for NI's VA, KY & MD gas utilities equals $2.76/share of total value (net equity proceeds of ~$1.1bn). We estimate asset sales would be 5c/5c accretive to our '24/'25 EPS vs current financing plan (see inside). Last, we raise '23/'24 EPS as our equity issuance price/share increases to $23 (vs $22) implying fewer shares outstanding. After mtm SOTP on slightly higher ests w/ peers of 13.9x for gas (from 13.2x) & 16.6x for electric (from 15.3x), we arrive at a PO of $26 (from $23). We now apply 3x M&A premium to VA, KY & MD and a 0.5x premium on OH, PA and NIPSCO gas for ability to re-rate.

Estimates (Dec)

(US$)	2018A	2019A	2020E	2021E	2022E
EPS	1.30	1.32	1.25	1.32	1.42
GAAP EPS	1.30	1.32	1.25	1.32	1.42
EPS Change (YoY)	7.4%	1.5%	-5.3%	5.6%	7.6%
Consensus EPS (Bloomberg)			1.29	1.34	1.43
DPS	0.79	0.83	0.88	0.94	0.99

Valuation (Dec)

	2018A	2019A	2020E	2021E	2022E
P/E	18.1x	17.8x	18.8x	17.8x	16.5x
GAAP P/E	18.1x	17.8x	18.8x	17.8x	16.5x
Dividend Yield	3.4%	3.6%	3.8%	4.0%	4.2%
EV / EBITDA*	15.4x	13.4x	13.3x	12.7x	11.8x
Free Cash Flow Yield*	-14.2%	-2.4%	-4.6%	-7.9%	-11.2%

* For full definitions of *iQmethod*SM measures, see page 11.

Key Changes

(US$)	Previous	Current
Inv. Opinion	B-2-7	B-1-7
Inv. Rating	NEUTRAL	BUY
Price Obj.	23.00	26.00
2021E EBITDA (m)	1,863.5	1,866.3
2022E EBITDA (m)	2,013.4	2,007.8

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Stock Data

Price	23.50 USD
Price Objective	26.00 USD
Date Established	19-Oct-2020
Investment Opinion	B-1-7
52-Week Range	19.56 USD - 30.46 USD
Mrkt Val (mn) / Shares Out (mn)	9,001 USD / 383.0
Average Daily Value (mn)	81.33 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2020E)	9.1%
Net Dbt to Eqty (Dec-2019A)	158.6%

LDC = Local Distribution Company

CMA = Columbia Gas of Massachusetts

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Timestamp: 19 October 2020 06:57AM EDT

iQprofile℠ NiSource Inc

iQmethod℠ – Bus Performance*					
(US$ Millions)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on Capital Employed	3.9%	4.3%	4.0%	3.9%	4.0%
Return on Equity	10.1%	9.9%	9.1%	9.2%	9.5%
Operating Margin	18.3%	20.2%	19.6%	20.0%	21.1%
Free Cash Flow	(1,278)	(219)	(412)	(709)	(1,011)

iQmethod℠ – Quality of Earnings*					
(US$ Millions)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Cash Realization Ratio	1.2x	3.2x	2.8x	2.7x	2.6x
Asset Replacement Ratio	3.0x	2.5x	2.4x	2.7x	3.1x
Tax Rate	19.7%	17.1%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	156.7%	158.6%	139.3%	141.6%	147.8%
Interest Cover	2.6x	2.8x	2.9x	3.2x	3.3x

Income Statement Data (Dec)					
(US$ Millions)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales	5,084	5,184	5,302	5,407	5,592
% Change	4.3%	2.0%	2.3%	2.0%	3.4%
Gross Profit	3,325	3,649	3,714	3,795	3,955
% Change	-0.9%	9.8%	1.8%	2.2%	4.2%
EBITDA	1,531	1,764	1,782	1,866	2,008
% Change	3.4%	15.2%	1.0%	4.7%	7.6%
Net Interest & Other Income	(335)	(384)	(362)	(344)	(361)
Net Income (Adjusted)	**463**	**495**	**482**	**530**	**593**
% Change	**16.6%**	**6.8%**	**-2.5%**	**9.9%**	**11.9%**

Free Cash Flow Data (Dec)					
(US$ Millions)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Net Income from Cont Operations (GAAP)	463	495	482	530	593
Depreciation & Amortization	600	717	742	783	827
Change in Working Capital	110	(75)	0	0	0
Deferred Taxation Charge	(188)	118	114	124	103
Other Adjustments, Net	(445)	328	0	0	0
Capital Expenditure	(1,818)	(1,802)	(1,750)	(2,147)	(2,535)
Free Cash Flow	**-1,278**	**-219**	**-412**	**-709**	**-1,011**
% Change	**-34.0%**	**82.9%**	**-88.1%**	**-72.1%**	**-42.5%**

Balance Sheet Data (Dec)					
(US$ Millions)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Cash & Equivalents	121	148	148	848	148
Trade Receivables	1,147	905	905	905	905
Other Current Assets	787	800	800	800	800
Property, Plant & Equipment	15,543	16,912	16,921	18,284	19,992
Other Non-Current Assets	4,206	3,894	3,894	3,894	3,894
Total Assets	**21,804**	**22,660**	**22,668**	**24,732**	**25,740**
Short-Term Debt	2,027	1,787	2,137	2,486	2,587
Other Current Liabilities	2,010	1,959	1,959	1,959	1,959
Long-Term Debt	7,105	7,856	6,963	8,101	8,429
Other Non-Current Liabilities	4,911	5,071	5,185	5,309	5,413
Total Liabilities	**16,053**	**16,673**	**16,244**	**17,856**	**18,388**
Total Equity	**5,751**	**5,987**	**6,424**	**6,876**	**7,352**
Total Equity & Liabilities	**21,804**	**22,660**	**22,668**	**24,732**	**25,740**

* For full definitions of iQmethod℠ measures, see page 11.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

Our Buy rating on NI is underpinned by 1) likely positive revisions given ultra conservative EPS CAGR guidance baked into consensus, 2) gas LDC M&A optionality acute to NI, 3) renewable rate base upside, and 4) the ability to re-rate higher following any gas LDC asset sale.

Stock Data

Average Daily Volume	3,460,675

Quarterly Earnings Estimates

	2019	2020
Q1	0.82A	0.76A
Q2	-0.75A	0.13A
Q3	0A	0.05E
Q4	1.24A	0.31E

Why are we making the move *now*?

We upgrade shares to Buy now given our perception that management has effectively lowered the bar after what we perceive was a bit of an awkward update. Our '24 EPS estimates are still high, despite initial guidance provided a few weeks back that confusingly suggests meaningfully lower outlook as we could see no reason to adjust them. Our confidence on upside to the outlook is even stronger and even upside to our estimates, which are already higher than the street with a further 5-7c of EPS accretion by '25 from any contemplated asset selldown of gas LDCs. For those focused on operational issues, we stress estimates appear to allow ample room for disappointment and *still* beat mgmt. guidance and their own guidance. We emphasize the outlook is de-risked given the awkward update (pushing down Street expectations a step lower) and following close of previously announced Mass LDC (CMA) acquisition by ES.

<u>In our view,</u> the LDC divestment angle is among the most intriguing and emerging angles for the wider gas LDC sector following their statements affirming a strategic review at their latest Analyst Day. While historically this may have immediately triggered a shift in sentiment by investors, the latest framing of EPS trajectory masked this focus, at least initially. With valuations at multi-year relative lows for gas vs. the wider utilities (electric) group, we perceive unique sensitivity for the <u>wider</u> sector to any M&A. We suspect NI shares could be particularly well positioned to see any *further* divestment re-rate shares given improved business mix – and driving a bid back into the sector. We presume this interest is driven principally by financial buyers (rather than necessarily strategics) following many earlier utility sales. To this end, we see no fundamental reason as to why utilities are perceived at such a wide valuation discrepancy – and see scope for NI to potentially become a key bell-weather around *where gas LDCs could trade?*

<u>We note some downside risks</u>. First off, we perceive the election backdrop as less than ideal for perceived gas LDCs (and NI's blended multiple). While deceleration of rate base growth remains protracted, we acknowledge we may be early to upgrade more gas LDCs. Second, we stress the IN legislative session next year could add some (very limited) concerns to execution. Third & most critically, equity overhang – both form and timing heading into '21 depresses need to act now. That said, a gas LDC asset sale and step-function change lower in equity needs is a real potential shift in expectations with surprisingly few investors we speak to focused on this angle thus far.

That said, we see NI as particularly attractive given gyrations in EPS estimates: where our confidence remains intact. We see renewable repositioning as indeed attractive despite the execution challenges. Confidence from CNP likely ahead with 3Q should bolster prospects to see through NI's own program (despite legislative backdrop of threats to stem renewables growth). Meanwhile, we could well see further announcements of specific renewable build-own-transfer (BoT) projects to firm up the specifics of the solar plan too (vs. placeholders for now) with 3Q/EEI results in near-term.

Intriguing divestiture angle: just what NI & gas LDCs need

At the recent investor day, management made clear that its renewable strategy financing plan did *not* assume any portfolio optimization. However, mgmt. also emphasized that it is always looking to evaluate opportunities to maximize incremental long term shareholder value, and if that involved selling an LDC it would take a look at that opportunity. Note a potential asset sale could offset some or all of its renewable equity financing in the current plan in a likely accretive manner. In our view, the most realistic assets that could be considered for sale by NI could be the company's smaller Gas LDCs in Virginia (~$700mn rate base), Kentucky (~$300mn RB), and Maryland (~$100mn RB).

If NI were to consider the sale of one or more of these assets, NI would effectively replacing gas rate base with renewable electric rate base. We would argue that a sale of any one or combination of these assets could drive a re-rating higher for NI shares, and the broader Gas LDC peer group. With gas utilities down 26% on average YTD (vs XLU -1%), now trading at almost a -3x discount to electric utilities, NI's smaller gas LDCs could present attractive options for hybrid (gas + electric) utilities that trade at much higher P/E multiples. Additionally, the remaining NI equity after this hypothetical asset sale could present a much more streamlined and balanced (electric vs gas) portfolio, in our view. For the hypothetical remaining NI equity, the earnings mix would be more weighted toward renewables (with more opportunities in the future), which also has the tailwind of the Biden bid and ESG fund flows. In the long term, NI will also have incremental renewable generation opportunities in the queue to replace the retirement of its Michigan City coal plant. Look for another RFP by this time next year presumably enabling another round of investment in the 2026-2028 period.

Quantifying the accretion from an asset sale vs current equity financing plan

If NI can capture an asset sale price that is more accretive to EPS compared to its current equity financing plan, we believe the company may consider whether to pursue the gas LDC divestitures to fund its renewable strategy (assuming it can find a willing buyer). The question is, in such a scenario, what premium could a small Gas LDC garner in the current market? On our estimates, we apply a 3x (~20-25%) M&A premium as a base case to peer gas multiples on '23 EPS for the VA, KY and MD gas utilities. This would equate to \$2.76/share of total equity value for the three small gas utilities or net equity proceeds of ~\$1-1.1bn if NI were to sell all three assets (including 10% tax leakage assumption). This implies NI would only have to issue ~\$130mn of supplemental equity to finance the renewable strategy. If NI were to execute the sale of these three gas LDCs, we forecast this asset sale financing route could be roughly +5c/+5c accretive to our current '24/'25 EPS estimates, which currently bakes in \$700mn of converts (issued/converted in '21/'24) and \$500mn of traditional equity issued in 2023. Recall, NI has stated that its \$1.8-2bn renewables strategy would be funded with 60% equity, which implies a maximum of \$1.2bn of equity with guided flexibility of \$600-1,000mn of equity-linked hybrids and \$500-700mn of traditional equity.

Shape of earnings would shift with a sale between timeline of deal & converts

We assume the divestitures occur in 2021, and the supporting equity issuance occurs in mid-2023. Note the EPS accretion in 2023 is sensitive to the timing of the supporting equity in that year. Admittedly, the bulk of the accretion comes in 2024 as that is the year our assumed converts issued in 2021 convert into equity in '24, and under this asset sale scenario, we remove this \$700mn of assumed coverts. Management has noted that it is looking at a number of different equity-linked hybrid securities, all of which would receive 50% equity treatment from the credit agencies. This includes even perpetual preferreds, which would not imply the same amount of accretion given no incremental dilution in 2024 from our assumed converts.

Asset sales, even with taxes, are likely better than convertible option

Bottom line, under what we believe is the most likely financing scenario of some type of convertible (issued/converted in 2021/2024), our analysis suggests an asset sale of the three small gas LDCs could drive more accretion on our estimates compared to this assumed financing plan. *While we see our +3x P/E multiple as a bit of a placeholder for admittedly much more robust historical sale multiples, we see some degree of uncertainty on whether mgmt. follows through on any sale and see the +3x P/E as effectively a weighted upside on any sale. Further at just ~1.4x P/RAB multiple, this would appear quite conservative vs any historical transaction too – seeing electric utilities in the US trading at 1.5x or better in many instances even without a merger premium.*

Other considerations on any sale include: 1) tax leakage – no disclosure on any of the smaller (3) gas LDCs on tax basis: we just reflect ~10% of equity proceeds as a placeholder; 2) timeline & whether a deal can get closed – even if marginally more accretive is it *worth* it given the challenges on execution & reduction in biz scale for NI .

No obvious buyers – but the point is would affirm willingness to review LDCs…

While KY, MD, and VA have no obvious buyers from adjacent entities as publically disclosed – we see any number of utilities as still open to acquisitions to backfill earnings & ratebase growth generically. Whether they are open to gas LDC acquisitions as incremental platforms to drive earnings growth (given the sharp pullback in WTRG performance after its downturn post its own LDC acquisition is notable warning to the balance of the sector – although potentially driven in part by wider de-rating of water utilities too).

Table 1: Scenario analysis: Asset sale of VA, KY, and MD EPS accretion vs current plan assumed of converts + equity financing for renewable strategy

	2023E EPS	P/E Multiples: Peer	P/E Multiples: Prem/ Discount		Equity Value Per Share
Group Peer Multiple - Gas		**13.9x**			
Group EPS '19-'23 CAGR - Gas		**5.00%**			
Gas Utilities		**14.6x**			
Columbia Gas of VA	$0.09	14.6x	3.0x	17.6x	$1.55
Columbia Gas of KY	$0.05	14.6x	3.0x	17.6x	$0.87
Columbia Gas of MD	$0.02	14.6x	3.0x	17.6x	$0.35
Total VA, KY & MD	**$0.16**				**$2.76**
					x
2023 shares excluding renewable equity financing (mn shares)					430
					=
Total Equity Value ($mn)					1,189
Tax (assume 10%)					(119)
Net Equity Proceeds					**1,070**
Funding gap for assumed supporting equity issuance in 2023					130
Renewables Equity-linked Hybrids+Equity Financing Guidance ($mn)					1,200
Columbia Gas of VA (Avg RB) BofA Estimate					890
Columbia Gas of KY (Avg RB) BofA Estimate					378
Columbia Gas of MD (Avg RB) BofA Estimate					144
Total Average Rate Base 2021 (VA + KY + MD)					1,412
Equity Cap Structure (Wtd Avg as % of total VA, KY & MD rate base)					40%
Total Debt Value ($mn)					843
Total Equity Value ($mn)					1,189
Total Debt Value ($mn)					843
Total Transaction Value					**2,032**
Implied Rate Base Multiple					*1.44x*
2024 EPS Accretion (under asset sale scenario instead of assumed converts + equity)					**$0.05**
2025 EPS Accretion (under asset sale scenario instead of assumed converts + equity)					**$0.05**
Other Assumptions:					
Total Capex Reduction for VA, KY & MD ($mn/yr)					(170)
Total D&A Reduction for VA, KY & MD ($mn/yr)					(70)

Source: BofA Global Research estimates, company report

Estimates – setup for (clearly) positive revisions for years

We slightly raise our '23/'24 EPS estimates as we raise our assumed equity raise share price to $23 (from $22) in the out years vs current shares trading at $23.50 implying a lower share count in the out years. Our 2020 and 2021 EPS estimates remain unchanged with our 2021 EPS estimate in line with the midpoint of guidance.

Despite our higher EPS estimates, when the -5c COVID impact baked into '21 guidance is added back to the base year, both our '21-'23 and '21-'24 EPS CAGRs still land within the guidance ranges of 5-7% and 7-9%, respectively. However, when using the '21 EPS guidance midpoint as the base year, we derive a '21-'23 EPS CAGR of 8.5% and '21-'24 EPS CAGR of 10.3%. While consensus would imply lower EPS CAGRs over these timeframes, we would critically note that 2023 consensus EPS only is composed of four

EPS estimates and there are only two EPS estimates in 2024 consensus EPS. We perceive the street is failing to capture that NI will be presumably earning close to its authorized in '22 and '23 at the gas utilities in addition to the renewables upside to EPS in '24.

We expect to see the most lag this year, slightly better in '21 (lag spread about evenly across the utilities with those lacking decoupling being hit slightly harder), and then lag should generally recover in 2022 where we expect NI to earn nearly at its authorized ROE aside from slight incremental parent interest drag from higher coupon rate on the assumed converts. Following regulatory lag plus some timing lag from renewables in '23 and a portion remaining in '24, we expect NIPSCO electric to recover earning close to the authorized beyond 2024.

Even not assuming an asset sale as part of the renewable financing, which we perceive could be accretive vs current equity financing in our estimates (as mentioned above), we continue to emphasize clear upside to EPS estimates as we perceive management as capable of hitting (well above) its guidance range given the conservatism baked into the base year ('21) with a 5c COVID impact built into the '21 guidance range of $1.28-1.36. If this 5c impact is excluded from the base year of '21, the new +7-9% EPS CAGR ('21-'24) implies positive revisions in the out years ('23/'24). While the recent Investor Day could be perceived cautiously given the very low bar established, we reaffirm our underlying confidence on ultimate '24 EPS upon realization of full earnings potential from renewables (and no lag from delayed financing to address accelerated spend).

Table 2: NiSource (NI) EPS estimates: mgmt. is at the upper end of its range, even on more ambitious baseline.. not sure fully appreciated:

NI EPS Estimates		**2019A**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Gas		1.04	1.02	1.14	1.23	1.25	1.26	1.32
Electric		0.59	0.54	0.54	0.59	0.67	0.81	0.85
Electric Renewables - BOTs from RFP 1 & 2 (incl. in Electric EPS)					0.00	0.07	0.16	0.17
Parent/Other		-0.33	-0.32	-0.35	-0.39	-0.36	-0.30	-0.28
BofA EPS		**1.32**	**1.25**	**1.32**	**1.42**	**1.56**	**1.78**	**1.88**
Previous EPS		1.32	1.25	1.32	1.42	1.55	1.76	
Guidance		**1.27-1.33**		**1.28-1.36**				
Consensus		1.30	1.29	1.34	1.43	1.54	1.66	
BofA '21-'24 EPS CAGR (including negative COVID impact in base yr)	10.3%							
BofA '21-'24 EPS CAGR (adding back -5c COVID impact in '21 guidance)	8.9%							
New Guidance '21-24 EPS CAGR	7-9%							
Consensus '21-'24 EPS CAGR	7.3%							
BofA '21-'23 EPS CAGR (including negative COVID impact in base yr)	8.5%							
BofA '21-'23 EPS CAGR (adding back -5c COVID impact in '21 guidance)	6.5%							
New Near Term Guidance '21-'23 EPS CAGR	5-7%							
Consensus '21-'23 EPS CAGR	5.1%							
BofA '20-'24 EPS CAGR	9.3%							
BofA '19-'23 EPS CAGR	4.3%							
BofA '19-'24 EPS CAGR	6.2%							
Implied EPS Guidance by Yr given New +7-9% EPS CAGR ('21-'24)	High End			1.36	1.48	1.62	1.76	1.92
	Mid-Point			1.32	1.43	1.54	1.66	1.80
	Low End			1.28	1.37	1.47	1.57	1.68
BofA DPS		**0.83**	**0.88**	**0.94**	**0.99**	**1.05**	**1.12**	**1.18**
Share Count (mn shares)		**376**	**387**	**400**	**418**	**452**	**496**	**509**

Source: BofA Global Research estimates, company report, Bloomberg

3Q20 EPS walk

Previewing 3Q20, we forecast adjusted 3Q20 EPS of $0.05 vs consensus of $0.03 and adjusted 3Q19 EPS of $0.00.

- **Key Drivers**: Positive Y/Y rate/rider implementation at Columbia Gas of OH (+0.02), NIPSCO Electric (+0.01) lower pension expense (+0.01), lower gas utility O&M (+0.05), and lower electric utility O&M (+0.03). This is partially offset by higher D&A

at the gas utilities (-0.01) and electric utility (-0.02) in addition to a negative COVID impact of (-0.03).

- **Wildcards/Unknowns**: The largest unknown on the quarter is how much COVID impact NI will be able to offset with O&M cost controls. Recall, in 2Q, NI was able to offset -6c of COVID impact with cost management and regulatory solutions. Mgmt.'s 2020 base case includes a negative COVID impact of (-0.15-0.20) partially offset by $0.10-0.15 of mitigation efforts. 3Q is generally a slower quarter for NI given shoulder season for the gas utilities. Focus on the call will be more around financing renewable strategy and EPS driver updates into 2021.

Table 3: NI 3Q20 EPS walk

NI 3Q20 Earnings Walk	EPS
NI 3Q19 EPS	0.00
Weather - normalize from 3Q19	0.00
Weather - 3Q20	0.00
Gas Utilities	**0.06**
Rate/Rider Implementation:	
NIPSCO Gas	0.00
Columbia Gas of OH	0.02
Columbia Gas of PA	0.00
Columbia Gas of VA	0.00
Columbia Gas of MD	0.00
Columbia Gas of KY	0.00
D&A	-0.01
O&M	0.05
Electric Utility	**0.02**
Rate Implementation:	
NIPSCO Electric	0.01
D&A	-0.02
O&M	0.03
Parent & Other	**-0.02**
Intr expense	0.00
Pension expense (some favorability)	0.01
Dilution	0.00
Other/COVID impact	-0.03
3Q20 BofAe Adjusted EPS	**0.05**
Consensus	0.03
BofAe 2020 EPS	1.25
Guidance - cancelled original guide of 1.36-1.40	*N/A*
2020 Consensus	1.29
Shares Outstanding (3Q20)	384
Shares Outstanding (3Q19)	374
Tax Rate	21%

Source: BofA Global Research estimates, Bloomberg, Company Reports

Awaiting more commercial renewable deals

Leading into the 3Q call we will be looking for an update on NI's commercial renewable deals to complete its ongoing renewable build out. Management highlighted at the investor day that the company is currently in advanced negotiations on about 8- 10 solar projects. We believe NI will complete its renewable procurement this year. Even excluding a potential asset sale, we still expect NI shares to likely inflect next year pending the company's choice around its $600-1,000mn equity-linked hybrids (i.e. converts or perpetual preferreds) along with putting the (hopefully successful) '21 Indiana legislative session in the rearview. If mgmt. chooses converts over perpetual preferreds, we perceive this would be a positive read into mgmt.'s confidence in the earnings outlook such that it can offset the ultimate dilution in 2024. That said, we still believe replacing some (or all) of the equity-linked hybrids/traditional equity financing with an asset sale would provide the most upside to EPS.

Valuation

Our PO increases to $26 (from $23) as we mark to market our SOTP valuation on peer '23 multiples of 13.9x for gas (from 13.2x) and 16.6x for electric (from 15.3x).

We now assign a 3x M&A premium (20-25%) to the VA, KY and MD gas utilities. It remains unclear what kind of a premium to rate base could be realized in any sale, as we have seen such few gas LDCs transactions of late. Historically over the last 15 years, utility M&A deals have garnered roughly a 25% premium on average. Also, we now assign a 0.5x premium on OH, PA and NIPSCO gas for their embedded re-rating potential following a hypothetical sale.

At the electric utility (NIPSCO Electric), we assign a 2x premium to our electric peer group multiple to account for incremental renewable earnings growth long-term.

Lastly, we net out 50% of the incremental assumed converts (and interest) associated with the renewables strategy by including it in the netting out of parent debt and interest expense in our SOTP below.

Table 4: NI SOTP Valuation analysis

NI SOTP Valuation									
	Metric			P/E Multiple					
	2023E EPS	Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Gas			13.9x						
Group EPS '19-'23 CAGR - Gas			5.00%						
Gas Utilities			14.6x						
Columbia Gas of OH	$0.57	14.1x	14.6x	**0.5x**	15.1x	16.1x	$8.04	$8.61	$9.18
Columbia Gas of PA	$0.29	14.1x	14.6x	**0.5x**	15.1x	16.1x	$4.07	$4.36	$4.64
NIPSCO Gas	$0.24	14.1x	14.6x	**0.5x**	15.1x	16.1x	$3.36	$3.60	$3.83
Columbia Gas of VA	$0.09	16.6x	14.6x	**3.0x**	17.6x	18.6x	$1.46	$1.55	$1.63
Columbia Gas of KY	$0.05	16.6x	14.6x	**3.0x**	17.6x	18.6x	$0.82	$0.87	$0.92
Columbia Gas of MD	$0.02	16.6x	14.6x	**3.0x**	17.6x	18.6x	$0.33	$0.35	$0.37
Group Peer Multiple - Electric			16.6x						
Group EPS '18-'22 CAGR - Electric			5.00%						
Electric Utilities			17.4x						
NIPSCO Electric	$0.67	18.4x	17.4x	**2.0x**	19.4x	20.4x	$12.27	$12.94	$13.60
Total Utility	**$1.92**	*15.8x*			*16.8x*	*17.8x*	**$30.35**	**$32.27**	**$34.19**
-Parent EPS Drag (ex-Interest Expense)	-$0.14	15.8x	0.0x		16.1x	17.1x	-$2.15	-$2.20	-$2.33
Total EPS *(incl. debt drag)*	**$1.56**								
Holdco Debt @ Parent, *not* allocated to Utilities									
(50% Netting out parent debt + assumed converts)				-$2,300	50%		-$1,150	-$1,150	-$1,150
(50% P/E multiple on Interest Exp)				5.6%	50%		-$804	-$855	-$906
Grand Total Equity Value							**$23.87**	**$25.64**	**$27.31**
Shares Outstanding 2023E								452	
Total Equity Value							**$24.00**	**$26.00**	**$27.00**
Implied Consolidated P/E									
Current Price								$23.50	
Dividend Yield (2020E)								3.8%	
Total Return								**14.4%**	

Source: BofA Global Research estimates, company report

Price objective basis & risk

NiSource Inc (NI)

Our $26 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2023 forward P/E multiples of 13.9x for gas utilities and 16.6x for electric utilities with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex beginning in '22, but acknowledge industrial risk. Also, we now assign a 3x M&A premium to the VA, KY and MD gas utilities and a 0.5x premium on OH, PA and NIPSCO gas utilities to account for their embedded re-rating potential following any hypothetical sale. We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
NEUTRAL				
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Richard Ciciarelli, CFA
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	Northwest Natural Holdings	NWN	NWN US	Richard Ciciarelli, CFA
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

***iQ*method℠ Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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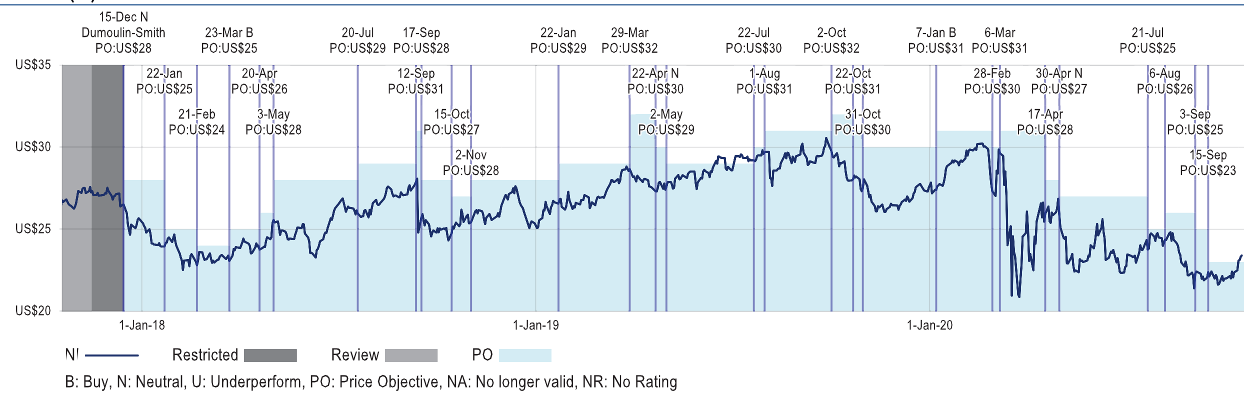
NiSource Inc (NI) Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	87	53.70%	Buy	64	73.56%
Hold	35	21.60%	Hold	26	74.29%
Sell	40	24.69%	Sell	21	52.50%

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	79	51.63%	Buy	59	74.68%
Hold	36	23.53%	Hold	24	66.67%
Sell	38	24.84%	Sell	25	65.79%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1749	54.79%	Buy	1114	63.69%
Hold	677	21.21%	Hold	415	61.30%
Sell	766	24.00%	Sell	386	50.39%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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October 15, 2020

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Staging a Comeback, Q3 Preview

Staging a comeback. After lagging the S&P500 for most of the year, utilities started making a comeback the past few weeks. In fact since Sep 1 uts are up +8.2%, materially outperforming S&P500 -0.4%. Strong Q2 prints (despite COVID headwinds most companies met/exceeded expectations and our coverage universe earnings grew 5% year over year helped by favorable weather and cost management), attractive relative/absolute valuations, Biden's extended lead in the polls and reports around M&A/portfolio optimization amongst other things have in part contributed to the recent outperformance. Since Mid Q2, as we saw COVID trends stabilizing we have made the case for a comeback in utility valuations, see note here. Our view was (is) that group fundamentals remain intact and a strong economic rebound could ultimately drive valuations towards case 2 of our valuation framework (page 37), where the group was trading pre-COVID (19x '22 EPS). With strong performance past few weeks our coverage universe now trades at 18.1x '22 EPS, in between our case 1 & 2 in our DDM used to set our anchor multiples. While the group has closed the valuation gap, from being ~20% cheap in our bond model in May to ~7% inexpensive on expected '21 dividend yields, there is still room to run with positive catalysts being strong Q3 season and a potential presidential change which we described in our 'What Would Biden Bring?' note.

We are expecting another strong earnings season. Our conversations with ~40 companies in our coverage universe centered upon COVID impacts, weather, regulatory updates and M&A in the space. Generally speaking, most companies saw COVID related demand headwinds improving although still a net drag year-over-year. Across the US, weather was generally favorable in July/August versus normal and YoY, but September was unfavorable year over year though favorable versus normal; we show cooling degree days for the quarter, and our dialogue with companies suggest more of a tailwind but for some to a lesser extent when compared to last year. Helped by weather and COVID trends improving, we expect DTE and PNW to raise 2020 earnings expectations on the call. Going into earnings starting next week, we are positive on CMS, DTE, NI and PNW and cautious on ED and OGE.

Valuations look less attractive in our bond model, but there is still room to run. While the group has closed the valuation gap, from being ~20% cheap in our bond model in May to ~7% inexpensive on expected '21 dividend yields (as of 10/13), there is still room to run with positive catalysts being strong Q3 season and a potential presidential change**.** Specifically, on 10/13/20, the 10yr yield was 0.73% and the Moody's Baa yield was 3.39%. Our bond model reading was 6% cheap on '20 dividend yields and 7% inexpensive on expected '21 dividend yields. The model discounts corporates at 3.76% in '21 and the 10yr yield at 1.54%, assuming a historical spread of 222bp. The discount on NTM relative P/E appears to be much larger (page 40).

Within, we include company-specific tear sheets with our / consensus second quarter EPS estimates along with discussion on key investor debates going into earnings.

AES
we are the energy

Outperform **TP $20**
Analyst: Durgesh Chopra / Tulkin Niyazov

- **Q3 EPS Bridge:** We project year-over-year EPS to decrease $0.03 (or ~6%) primarily driven by reversal of $0.05 insurance benefit in 3Q19, $0.02 covid related impacts, and $0.02 related to DPL/Argentina rate reductions partially offset by $0.02 benefit related to organic growth including Southland project, $0.01-$0.02 cost savings and favorable weather and other items. We think AES is tracking in-line with its updated FY20 EPS guidance range of $1.32-$1.42/sh.

- **What to look for in the earnings report (Key debates/themes):**
  - **Fluence Transaction:** On the last earnings call, management confirmed that they are on track to monetize Fluence, a battery storage JV with Siemens, by the year-end '20. Investors will focus on the progress of this transaction and would like to better understand economics of a potential deal.
  - **ESG Transition:** AES recently divested its coal plants in India and DR and moved closer to its goal of achieving 30% (or less) generation from coal by the year end '20. This is very important, as AES is becoming one of the most transformational ESG stories under our coverage universe.
  - **Balance Sheet / Credit Metrics:** AES is expected to secure a second investment grade upgrade in 2H20. Investors will focus on recent conversations with rating agencies and their views.
  - **Covid Impacts:** On the last earnings call, management reduced its FY20 guidance by $0.07 or ~5% due to foreign currencies and commodities exposure ($0.03), higher interest expense ($0.02) and lower electricity demand at US utilities ($0.07) partially offset by cost cuts ($0.05). Management incorporated an extended u-shaped recovery in its assumptions and didn't anticipate returning to pre-crisis levels until 2021 at that time. Given we have experienced a v-shaped recovery, we think their assumptions could be conservative. Also, it would be interesting to hear how company's world-wide operations are performing during the global pandemic especially in South America.
  - **Regulatory Agenda:** DPL filed for SEET test in April and expects to secure a final decision in early 2021. Recall, the company plans to invest $300m of equity to modernize T&D infrastructure in OH.

- **Positioning into Qtr : Neutral.**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$1.36**	**$0.29**	**$0.25**	**$0.45**	**$1.37**	**$1.55**	**$1.70**
Consensus		0.29	0.25	0.47	1.38	1.55	1.68
% diff.				*-4%*	*-1%*	*0%*	*1%*

Source: Evercore ISI, Factset as of 10/12/20

Ameren

Outperform — **TP $84**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year over year EPS to grow $0.05 to $1.52/share. Weather was $0.05 favorable last year in 3Q19. We assume a +$0.07 EPS pick-up this quarter from new rates in Missouri. We anticipate a roughly -$0.03 COVID impact in the quarter due to lower Missouri sales volumes. Missouri O&M is expected to be lower as Ameren mitigates the impact of COVID; we estimate a +$0.07 benefit. AEE will see a negative YoY impact from lack of Missouri energy efficiency incentives (-$0.03), and we expect the COLI contribution to be relatively flat. In Ameren Transmission, we estimate a +$0.02-0.03 benefit from increased infrastructure investments. In Illinois gas, we expect a +$0.02 pick-up from increased infrastructure investments with 50% qualifying for the QIP rider. In Illinois electric, we anticipate a -$0.01-0.02 EPS hit due to the lower 30-year treasury rate outweighing the benefit of increased investment. Lastly, we anticipate higher interest expense to contribute -$0.02 issuances and a tax adjustment to have a -$0.01 impact. All numbers are rounded to the nearest penny.

- **What to look for in the earnings report (Key debates/themes):**
  - **Coronavirus sales impacts**: this impacts only Missouri given that it has no decoupling and a lack of formulaic / FERC rates in the jurisdiction. Ameren has been assuming a gradual recovery in sales in Q3/Q4. However, the COVID sales remain a big unknown and will be difficult to predict going forward as Missouri continues to see a rise in COVID cases. Ameren currently assumes a -$0.05 YoY impact from sales in Missouri in Q3-Q4.
  - **O&M management**: AEE has maintained its 2020 EPS guidance of $3.40-3.60 this year under the assumption that it can cut O&M to offset the impact of COVID.
  - **Narrowing of 2020 EPS guidance**: Ameren has a history of narrowing current year guidance with Q3 results.
  - **AEE typically updates its long-term capex, rate base and earnings growth rates with Q4 results in February.**
  - **Thoughts on Missouri IRP**: In late September, AEE filed its triennial Missouri Integrated Resource Plan. We estimate that the newly filed IRP could add roughly ~$1 billion of incremental investment (~6% increase) to the current five-year $16 billion plan, greater than $3 billion incremental capex (~8% increase) to the current ten-year $36 billion plan and roughly $6.5 billion incremental investment through 2040. As mentioned, Ameren typically updates its five-year capital plan in February each year and includes in it what it has high confidence in achieving. We expect Ameren to file Certificates of Convenience and Necessities (CCNs) in piecemeal fashion for each renewable project through 2040 as it has done with its wind projects to date; the approval process for each CCN typically takes 4-5 months.
  - **Missouri rate case**: AEE has said it expects to file a rate case in the first half of 2021 to incorporate the wind projects and COVID impacts.
  - **Missouri wind projects**: with the Missouri IRP update, Ameren announced that another $100mm of wind projects would be delayed until early 2021. Now roughly $1.0bn of Missouri wind investment is expected in service in 2020 and $200mm in early 2021. There is a limited financial impact given the PTC extension.
  - **Downstate Clean Energy Affordability Act in Illinois**: this was legislation not brought up in the most recent session but could be in special or veto sessions or next year. It could represent +$0.07 annual EPS update from a revision in ROE formula, plus has potential upside with renewable and electric vehicle investments.
  - **FERC transmission incentive update**: Comments were filed this summer. An increase in the RTO adder to 100bps from 50bps would result in +$0.04 annual EPS benefit. Recall in May 2020, FERC established a new base ROE methodology and set new base ROE of 10.02% (resulting in ROE of 10.52% including 50 bps adder).

- **Positioning into Qtr: Neutral.**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$3.35**	**$0.59**	**$0.98**	**$1.52**	**$3.50**	**$3.75**	**$4.00**
Consensus				1.53	3.47	3.76	4.01
% diff.				*0%*	*1%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 10/12/20

Outperform **TP $95**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year-over-year EPS to increase $0.02 to $1.48 driven by rate increases, and lower O&M. Weather in the quarter was favorable but to a lesser degree when compared to prior year ($0.12 EPS benefit). We expect these items to be partially offset by higher depreciation, transmission true-ups and load declines from COVID.

- **What to look for in the earnings report (Key debates/themes):**
  - **OH related risks/HB 6 Investigation**. In late July local news agencies reported that AEP contributed to campaigns that supported the passage of Ohio HB6. Subsequently, AEP put out a statement denying any wrongdoing. AEP said that it has not been approached by the authorities in the Ohio House Bill 6 (HB6) investigation and none of the wrongful activities in the criminal complaint involve AEP or its subsidiaries. The company further stated that neither AEP nor any of its subsidiaries made any contributions to Generation Now, the group charged in the federal criminal complaint involving First Energy (see our note here). We foresee no meaningful near-term earnings impact with repeal of HB6. Investor concerns are around the risk of potential fines if the authorities decide to investigate AEP.
  - **North Central Project**. During the second quarter, the Louisiana Public Service Commission approved the settlement AEP reached regarding the North Central Wind project. The PSC also approved the flex-up option, ensuring that the $2Bn project can move forward in full, despite Texas rejection. We see the LA decision as a positive for AEP and expect the North Central Wind project to ultimately be $0.04/sh accretive to our 2022E, all else equal. This assumes 2/3rd equity financing ($1.3B) and issuance around the current stock price. We will look for additional color and size/timing of equity on the call.
  - **Ongoing rate cases.** We will look for an update on the status of ongoing rate case in OH ($41MM rate increase request), where a final decision is expected by mid-2021. The company also expects a final commission decision in VA rate case ($38MM revenue increase requested) next month with rates going into effect in early 2021.

- **Positioning into Qtr : Neutral.**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**4.24**	**1.02**	**1.08**	**1.48**	**4.30**	**4.65**	**4.95**
Consensus		1.02	1.08	1.46	4.27	4.64	4.98
% diff.		*0%*	*0%*	*1%*	*1%*	*0%*	*-1%*

Source: Evercore ISI, Factset as of 7/14/20

AVANGRID

In Line **TP $46**
Analyst: Durgesh Chopra / Tulkin Niyazov

- **Q3 EPS Bridge:** We project year-over-year EPS to increase $0.02 to $0.42 driven by rate increases at Networks and new wind assets placed into service along with associated PTC's within the renewable segment. We expect these items to be partially offset by higher depreciation and interest expenses as well as potentially higher O&M expenses related to storm activity in 3Q20 across AGR's footprint.

- **What to look for in the earnings report (Key debates/themes):**
  - **NY Rate Settlement**. AGR filed a settlement in their ongoing NY rate case, the settlement proposal. In our view, this is a positive development as some investors were skeptical on a rate increase request granted to the company amid COVID in 2020. With that said the proposed capex/RB is below our projections and if approved would be ~$0.05 (or 2%) EPS hit to our '22 EPS projection and the company has yet to receive a final order which was expected in early/mid 2020.
  - **Vineyard Wind:** The Bureau of Ocean Energy Management (BOEM) released a draft supplemental to its Environmental Impact Statement (EIS) on June 12th concerning Vineyard Wind. The final EIS expected to be released in November with approval decision to follow in December. This is consistent with prior expectations -- Covid-19 has not delayed the BOEM's work. In terms of bringing Vineyard Wind online, AGR continues to believe it will be no earlier than 2023, with Iberdrola recently pointing to 2024.
  - **New England Clean Energy Connect:** AGR is close to compiling all the permits it needs for its ~$1Bn NECEC transmission line project in ME. The company was successful in its appeal of ballot referendum in ME courts and now expecting to secure presidential permit by the year-end.
  - **New LT outlook expected in 4Q**: Consistent with previous commentary, AGR expects to hold an Investor Day in concert with majority owner Iberdrola on November 5th. Long-term EPS CAGR targets, updated rate base and capex, and renewable business capacity factor disclosures are expected.
  - **Updates from new CEO:** We are looking forward to learn about Dennis' priorities for near and long term future of the company. In our view, leadership change is an instrumental step forward and will bring an opportunity to improve AGR's operations across its regulated as well as renewable businesses and deliver long aspired financial results.

- **Positioning into Qtr : Neutral**.

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$2.58**	**$0.76**	**$0.32**	**$0.42**	**$2.25**	**$2.40**	**$2.60**
Consensus		0.76	0.32	0.41	2.18	2.40	2.64
% diff.				*3%*	*3%*	*0%*	*-1%*

Source: Evercore ISI, Factset as of 10/13/20

CenterPoint. Energy

In Line **TP $18**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year-over-year EPS to decline by $0.22 to $0.31/share driven by a negative rate case outcome in Houston Electric, a reduction in midstream earnings contribution, COVID sales impacts, higher deprecation/property taxes and increased share count. We expect these items to be partially offset by higher customer growth in both the electric and gas businesses, Houston Electric TCOS recovery, reduced O&M, a small CAREs Act benefit, and rate relief.

- **What to look for in the earnings report (Key debates/themes):**
  - **Coronavirus sales update and cost management:** CenterPoint has said it expects a $0.04-0.09 EPS impact from COVID in the second half of this year after a $0.06 impact in the second quarter. The company is targeting $40mm of O&M reductions this year, already having reduced O&M by 4% QoQ in the second quarter.
  - **New CEO and CFO messaging:** On the second quarter conference call, new CEO David Lesar spoke impressively about the potential for incremental capex and a focus on long-term capital structure that would allow the utility business to increase its EPS growth rate. He also spoke about several of the strategic priorities of the Business Review and Evaluation Committee. He is considered a growth-oriented deal-maker. Investor reception has been positive since his hiring even though he does not have utility experience having joined CNP after a long career in oil services at Halliburton. CenterPoint also recently announced Jason Wells as its new CFO, which became effective on September 28th. Wells brings a wealth of utility experience, most recently serving as CFO at PCG.
  - **Business Review and Evaluation Committee potential update:** CNP has said the Committee would make strategic recommendations to the Board later this month in October 2020 and would follow that up with an Analyst Day before the end of 1Q21. Lesar is said to be eager to move forward with a new strategy and will not do that without updating the investor community, so we expect any decisions from the BREC committee to be announced as they happen, before the Analyst Day. We do not anticipate much to be decided on by the November 5th earnings release date, however, given that it will likely take the Board some time to make its decisions following the recommendations.
  - **ENBL update:** All options are said to be on the table for a shift in strategy at CNP, but one Lesar's major focuses is a review of ENBL amid the challenges facing the oil & gas industry. We would expect Lesar to not sit idle on Enable. We would also note that former Anadarko Petroleum CEO Al Walker and President Robert Gwin have recently been added as representatives for CenterPoint on Enable's GP board.
  - **Customer growth:** CNP continued to see very strong customer growth in the second quarter (+2.4% electric and +2.0% gas YoY).

- **Positioning into Qtr: Neutral.**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$1.79**	**$0.65**	**$0.21**	**$0.31**	**$1.30**	**$1.35**	**$1.50**
Consensus				0.29	1.30	1.35	1.46
% diff.				*6%*	*0%*	*0%*	*3%*

Source: Evercore ISI, Factset as of 10/12/20

Clearway Energy

In Line **TP $22**
Analyst: Durgesh Chopra / Tulkin Niyazov

- **Q3 EPS Bridge:** We project year over year Adj. EBITDA to grow $19m or ~6% due contribution from growth projects and reversal of renewable energy performance vs. median expectations, especially giving challenging renewable environment in California. We expect Adj. EBITDA and CAFD will come in line in with management's sensitivity ranges, albeit at the lower end.

- **What to look for in the earnings report (Key debates/themes):**
  - **PCG Bankruptcy.** Management will share latest developments related to PCG bankruptcy. They will also discuss next steps as it relates to trapped cash at PCG. Recall half of trapped cash was released in 2Q and remaining balance expected to be released by the year-end.
  - **Growth Projects and FY21 Guidance.** We expect management to provide update on previously disclosed growth projects including a 1.2GW of renewable pipeline. We also expect management will provide FY21 EBITDA and CAFD guidance on the earnings call.
  - **COVID impacts**. CWEN has pay or take PPA contracts with its counterparties and don't expect material impact from Covid-19. However investors will focus on growth prospects and how they are going to be impacted in the post-covid world.

- **Positioning into Qtr: Neutral**

Adj. EBITDA	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$963**	**$225**	**$316**	**$319**	**$1,100**	**$1,130**	**$1,200**
Consensus		225	316	321	1,123	1,159	1,182
% diff.				*-1%*	*-2%*	*-2%*	*2%*

Source: Evercore ISI, Factset as of 10/12/20

CMS ENERGY

In Line **TP $63**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year over year EPS to decrease $0.01 to $0.72/share on a rounded basis. Last year, in 3Q19, weather was $0.05 favorable and CMS received a $0.05 gain on sale of transmission assets. This year, in 3Q20, we expect weather to be +$0.10 favorable in total, with CMS having disclosed $0.10 in July and our expectation that August/September were neither favorable nor unfavorable. We expect new electric and gas rates to contribute a total of +$0.04 (+$0.02 each) and O&M reductions to drive a +$0.08 benefit. We anticipate a lower effective tax rate from wind tax credits to be a +$0.02 benefit. Conversely, we expect higher D&A, property taxes and interest expense at the utility to result in a -$0.06-0.07 hit. We anticipate a reduction in sales from COVID to have a -$0.02-0.03 contribution and higher COVID-related expenses to be a -$0.01 hit. A write-off from the Ray gas incident disallowed recovery of $7mm (-$0.02). We expect Enterprises should result in a reduction in EPS of -$0.01 with Enerbank's contribution flat. Increased debt at the parent should result in a -$0.03 reduction to EPS with dilution a -$0.01 impact. All numbers are rounded to the nearest penny.

- **What to look for in the earnings report (Key debates/themes):**
  - **COVID sales update**: Recall that CMS does not have decoupling and has higher sensitivity to C&I load than many peers, on our estimates. The company expects a $0.025/share EPS hit for every 1% decline in C&I demand in a given year. Like other utilities, CMS is more sensitive to changes in residential load, with 1% decline or increase in residential demand translating to a +$0.03/share increase in EPS. For the full-year 2020, total weather-normalized electric sales are expected to be down -4-6% YoY, with residential up +5%, more than offset by lower commercial -7-12% and reduced industrial -14-18%. Year-to-date through Q2, total weather-normalized electric sales are down -5% with residential up +4% YoY while commercial is down -7% and industrial is down -18%. On the August 3rd third quarter conference call, CMS said it has been seeing a recovery in C&I sales and said was looking at levels that are 90-95% of pre-pandemic amounts.
  - **O&M management**: CMS has said it plans to offset second half 2020 sales margin impacts of flat to 0.07/share of EPS and additional COVID-related expenses of $0.02/share. The company has identified up to $0.10/share of cost offsets in total through the CE Way, supply chain benefits, work optimization and other initiatives.
  - **Historically, CMS has introduced forward year's EPS guidance in Q3 and narrowed its current year outlook**. We expect another year of 7% YoY EPS growth. CMS does not typically update its capex forecast until it releases Q4 results.
  - **Rate case update**: CMS currently has ongoing electric rate case and we expect updated thoughts on developments there. In June, Commission Staff issued its recommendation and a revised revenue increase in August. An ALJ recommendation is expected shortly with a final decision expected by year-end.
  - **Enerbank and Enterprises**: At Enerbank, CMS has said it is on track for $0.18-0.20/share of EPS for the full year. The bank has continued to see good origination volumes across most of the projects that it provides financing for, and June was a historic month of loan approvals and loan originations. Enterprises is on track for $0.08-0.10/share of EPS this year.

- **Positioning into Qtr: Positive.** Our YoY earnings bridge drives $0.72/share, which is 8% above current consensus, though the Street estimates come up between now and when the company announces results.

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$2.49**	**$0.86**	**$0.49**	**$0.72**	**$2.66**	**$2.85**	**$3.06**
Consensus				0.67	2.66	2.86	3.06
% diff.				*8%*	*0%*	*0%*	*0%*

Source: Evercore ISI and FactSet as of 10/12/20

conEdison

In Line **TP $80**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year over year EPS to decline $0.02 to $1.52/share driven by the suspension of late/other fees during COVID, higher reserves for un-collectibles and increased depreciation / property taxes / interest expense, partially offset by the benefit of new rates at CECONY electric and gas. We expect O&M to be relatively flat, as Con Ed offsets its original expectation for higher expense with the pull forward of future cost savings plans amid the pandemic. The Clean Energy business (CEBs) should also be relatively flat with no new projects coming online and ConEd Transmission (CET) should also be the same.

- **What to look for in the earnings report (reminder that ED does not host a conference call):**
    - **Reserve for un-collectibles and suspension of late fees**: Recall that, with 1Q20 results, Con Ed lowered its 2020 EPS guidance from $4.30-4.50 to $4.15-4.35/share with first quarter results because of an increase in the reserve for un-collectibles and the suspension of late/other fees amid COVID (and also unfavorable steam weather). Con Ed has still not reinstated late fees as NYC continues the process of re-opening. The steam weather in Q3 is not impactful given that the majority of steam revenues come in the winter from heating.
    - **Equity needs:** ED has said that it still plans to issue up to $600mm of equity this year. The company has given itself flexibility around the timing of issuances with updates to its credit facility.
    - **CECONY performance incentives:** we do not expect them to achieve any of their performance incentives at CECONY this year because most of the incentives are based on customer-sited activities (amid the pandemic), such as energy efficiency and distributed generation. In terms of reliability/operational performance, ED does not have many incentives but rather just penalties if performance is subpar.
    - **Cost management:** Con Ed has spoken about accelerating future O&M reduction plans into 2020 amid the pandemic.
    - **Mountain Valley Pipeline**: the Mountain Valley Pipeline is greater than 90% complete. Recall that Con Ed has capped its investment in MVP at $530mm (currently ~12%).
    - **ESG:** we expect Con Ed to continue to push its ESG story following its Investor Day, which is compelling to us but has not gotten as much traction as it should, in our view. The company is purely T&D at the Utilities, has the second largest solar portfolio in the US and invests heavily in energy efficiency. The only mark against ED from an ESG-perspective is its gas distribution/transmission exposure, but that is small when compared to the size of electric T&D.
    - **Potential gas transmission asset sales:** Con Ed signaled at its ESG day that it would consider monetizing gas transmission assets at the right time and price.
    - **Renewables supply chain**: we will be looking to see if the company has procured the necessary materials/supplies for its 2021 CEB capex program.
    - **CEO transition**: CEO John McAvoy is retiring at the end of the year and Tim Cawley will be taking over. Cawley has been president of CECONY and was previously president and CEO of O&R.

- **Positioning into Qtr: Negative.** ED stock has outperformed significantly over the last several weeks (Since Sep 1 up +19% vs group +9%) and we do not expect any particular good (or bad) to come out this quarter, but believe it could be a sell the news event.

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$4.38**	**$1.35**	**$0.57**	**$1.52**	**$4.25**	**$4.60**	**$4.75**
Consensus				1.52	4.24	4.53	4.74
% diff.				*0%*	*0%*	*2%*	*0%*

Source: Evercore ISI, Factset as of 10/12/20

Dominion Energy®

In Line **TP $77**
Analyst: Durgesh Chopra / Tulkin Niyazov

- **Q3 EPS Bridge:** We project year over year EPS decrease of $0.22 or ~19% driven by sale of Gas Business, Covid-19 related impacts, Millstone capacity prices and other items, partially offset by investments in regulated businesses and O&M management. On the last earnings call, management provided Q'3 operating EPS guidance range of $0.85-$1.05.

- **What to look for in the earnings call (Key debates/themes):**
  - **Business Strategy / Vision Update:** We expect management will provide an update on the sale of the gas business to Berkshire Hathaway. In addition, we expect they will talk about their vision and how they are trying to become mostly regulated ESG focused utility. It is important that management clearly articulates its long-term strategy and how they are going to achieve it. They also need to talk about their improved balance sheet and favorable regulatory framework in VA that would allow them to grow 6%+ annually for many years to come.
  - **Covid Impacts:** YTD, Dominion has not experienced covid-19 related sales decline in VA, however SC sales were down significantly. In our view, management took a conservative approach when they re-affirmed their guidance for FY20. As we have seen better than expected economic recovery, we think D would be well positioned and print stronger than expected results related to Covid-19.
  - **Capex Updated / ACP replacement:** Investors will be interested to know if Dominion decides to update their LT capital program and provide details around their future growth opportunities. Given the company rebased their financial guidance we feel comfortable about updated outlook.
  - **Offshore EIS:** In June, the Bureau of Ocean and Energy Management (BOEM) released a long-awaited supplemental environmental impact statement (SEIS) and the cumulative impact of the build out of offshore wind in New England. The SEIS came out a bit earlier than expectations, indicating the BOEM was still on track for a final EIS in November and a Record of a Decision in December. The SEIS reviews the environmental impact of the future proposed offshore projects.

- **Positioning into Qtr :** **Neutral.**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$4.24**	**$1.09**	**$0.82**	**$0.96**	**$3.50**	**$3.85**	**$4.12**
Consensus		1.09	0.82	1.01	3.51	3.87	4.12
% diff.				*-5%*	*0%*	*-1%*	*0%*

Source: Evercore ISI, Factset as of 10/12/20

DTE

In Line **TP $120**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge**: We project year over year EPS to grow $0.24 to $2.15. For the electric utility, recall that last year in 3Q19 there was $0.18 of favorable weather. Weather in 3Q20 is expected to be very favorable and we assume +$0.29 for its contribution. We expect new electric rates to add +$0.19. COVID savings net of sales is expected to be a positive +$0.05. We expect higher depreciation, property taxes and interest expense to drive a -$0.05 drag. On the gas utility side, weather last year in 3Q19 was $0.01 unfavorable. IRM revenue should contribute a +$0.02 benefit while higher D&A, property taxes and interest expense to result in a -$0.03 drag. The GSP and Energy Trading businesses are trending towards the high end of 2020 EPS guidance and we assume the balance of expected Q3-Q4 earnings is split evenly between Q3-Q4. For the P&I segment, we assume the company delivers the midpoint of guidance this year with better earnings in Q3 than Q4 due to higher REF volumes. We assume an "other" negative impact of $0.08. Lastly, we expect the corporate segment to deliver the midpoint of 2020 guidance this year and assume the remaining balance is split evenly between Q3-Q4.

- **What to look for in the earnings report (Key debates/themes):**
  - **COVID sales impact**: as of Q2, electric sales were trending better-than-expected, driven by higher-than-forecasted residential and slightly better commercial/industrial.
  - **Contingency plans**: despite better electric sales, DTE has thus far maintained its $120-130mm after-tax contingency plans, most of which is expected to be one-time.
  - **Bloomberg reported on Oct. 7th that DTE is considering a sale or spinoff of its non-utility businesses**: We do not expect the company to comment much on this.
  - **Potential update to 2020 EPS guidance and introduction of 2021 EPS guidance:** Historically, in the third quarter, DTE has sometimes updated 2020 EPS guidance and also typically issues 2021 EPS guidance. Recall that DTE Electric, GSP and Energy Trading are trending towards the high end of 2020 guidance.
  - **Longer-term capital, earnings and financing projections expected to come at EEI.**
  - **DTE Electric, GSP and Energy Trading trending to high end of guidance**: with second quarter results, DTE said it is targeting the high end of 2020 electric utility earnings guidance of $759-773mm. The company also expects to achieve the high end of 2020 Gas Storage & Pipeline earnings guidance of $277-293mm. Lastly, DTE is also targeting the high end of 2020 Energy Trading earnings guidance of $15-25mm.
  - **Gas Storage & Pipeline update**: We expect a status update on oil & gas producer activity and volumes. The gas basins that DTE's producers operate in have not seen the same level of scale back in activity as more oily basins. DTE has consistently spoken about a long-term future for gas midstream and added assets in recent years, which is why the Bloomberg report of a potential sale or spinoff comes as a surprise. The company has highlighted its better positioning and potential expansion opportunities for Link and Nexus. That being said, the market continues to assign low values to these assets and investor appetite for ESG continues to accelerate.
  - **Equity needs**: guidance is the midpoint of $100-300mm this year.
  - **Quiet regulatory calendar:** the near-term regulatory calendar is limited with the electric and gas rate cases now behind DTE plus an approved stay-out for next year. The voluntary renewables docket remains open.

- **Positioning into Qtr: Positive.** Due to favorable weather in Q3 and strong first half results, we expect DTE to raise 2020 EPS guidance.

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$6.30**	**$1.66**	**$1.53**	**$2.15**	**$6.70**	**$7.05**	**$7.40**
Consensus				1.94	6.68	7.12	7.50
% diff.				*11%*	*0%*	*-1%*	*-1%*

Source: Evercore ISI and FactSet as of 10/12/20

DUKE ENERGY.

In Line **TP $89**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year over year EPS to increase +$0.09 to $1.88/share driven by favorable weather. Recall that in 3Q19 last year, Duke had $0.15 of favorable weather. This year, in 3Q20, weather was favorable in July and August and returned to more normal levels in September. DUK has said it expects a $0.25-0.35 impact from electric load declines this year but there is possible upside given that load trends came in better-than-expected in Q2. We expect electric riders to contribute a modest YoY benefit and a partial quarter of new DEP/DEC rates to also have a modest impact. Depreciation, property tax and interest expense should impact EPS by over a nickel. Through the second quarter, DUK has achieved ~40% of its full-year cost mitigation goal of $350-450mm and we expect the remaining amount to be achieved equally in Q3-Q4. On the gas side, the new Piedmont rates are expected to add an insignificant amount as most of its contribution comes in Q1/Q4. The cancelation of ACP will drive a YoY reduction of -$0.04 to earnings. We anticipate the Commercial Renewables segment to have an insignificant higher contribution with the Rambler solar project coming online in July but with a smoothed, long tenor earnings profile. At the parent, we expect the higher financing costs to be a -$0.02 drag and quarterly DRIP and ATM dilution to impact EPS by -$0.01.

- **What to look for in the earnings report (Key debates/themes):**
  - **COVID sales update**: DUK has continued to anticipate a range of $0.25-0.35 EPS impact from 3-5% lower retail sales this year, with possible upside based on favorable residential trends.
  - **Cost management**: as of the second quarter, DUK has achieved ~40% of its full-year cost mitigation goal of $350-450mm.
  - **WSJ report on NextEra takeover**: the WSJ recently reported that NextEra made a takeover approach to DUK that was rebuffed. We do not expect Duke to comment on this rumor, other than to say they are heavily focused on their organic plan and feel good about the momentum they have been getting with the recently filed Carolina IRPs.
  - **Coal ash recovery**: final decisions in DEC and DEP rate cases are expected by year-end 2020 and early 2021, respectively. A potential Supreme Court opinion on the 2017 rate case treatment (fully recovery and return) could come in mid-December. The company has said no return on coal ash could be a $0.05-0.10 EPS hit and impact FFO to debt by 100 basis points, potentially prompting credit rating downgrades. DUK has baked in a range of assumptions into its 2021 guidance and long-term 4-6% growth outlook.
  - **Credit metrics**: Duke still expects AMT credits and cost control to support FFO/Debt of 15% this year but, as mentioned, an unfavorable decision on coal ash could lead to downgrades in credit ratings.

- **Positioning into Qtr : Neutral.**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$5.06**	**$1.14**	**$1.08**	**$1.88**	**$5.15**	**$5.15**	**$5.40**
Consensus				1.80	5.08	5.21	5.48
% diff.				*4%*	*1%*	*-1%*	*-2%*

Source: Evercore ISI and FactSet as of 10/12/20

Entergy

In Line **TP $106**
Analyst: Durgesh Chopra / Tulkin Niyazov

- **Q3 EPS Bridge:** We project year over year EPS to decline $0.12 (~5%) to $2.40 driven by COVID related lower sales and higher uncollectable expense as well as Hurricane Laura impacts which would be partially offset by previously announced reduction in non-fuel O&M. Q3 19 also had $0.06 unfavorable weather impact and $0.26 dilution impact that we expect would reverse to some extent this quarter. We assume previously articulated revenue drives will come in as expected and O&M savings would be major drivers of Earnings volatility.

- **What to look for in the earnings report (Key debates/themes):**
  - **Analyst Day Feedback:** Investors had time to digest ETR's analyst day disclosures. We expect more questions around their financing plan, especially equity issuance going forward. We also expect management will provide update on Hurricane Delta as well as Hurricane Laura.
  - **Update on SERI Complaint**: The company filed briefs on exceptions to the initial decision, so investors would like to know about the details of the filing and latest thought process on the case. On the last earnings call, management said potential downside could be around $0.15-$0.20, which they expect to fully offset with internal levers.
  - **COVID Impacts:** COVID impacts to earnings and cash flow recall that company estimated $120m-$140m revenue impact to be offset by $100m spending reduction for 2020. During early Covid-19 days, ETR was penalized for its commercial and industrial load exposure as investors thought that particular customer class would be largely impacted by early shutdown efforts. As we have seen robust economic recovery, we expect C&I load to pick up faster than expected, which could show up in Q'3 results.
  - **Regulatory Agenda:** The Company filed for renewal and extension of their FRP filings in AR and LA. These regulatory mechanisms ensure timely and efficient recoveries of capital spend.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$5.40**	**$1.14**	**$1.37**	**$2.40**	**$5.65**	**$6.00**	**$6.35**
Consensus		1.14	1.37	2.43	5.59	5.95	6.32
% diff.				*-1%*	*1%*	*1%*	*0%*

Source: Evercore ISI and FactSet as of 10/13/20

EVERSOURCE

In Line **TP $91**
Analyst: Durgesh Chopra / Tulkin Niyazaov

- **Q3 EPS Bridge:** We project year-over-year EPS to increase $0.04 to $1.02 driven by rate increases at state utilities and transmission investments. We expect these items to be partially offset by higher depreciation, interest and taxes. COVID impacts are relatively muted for ES with the benefits of revenue decoupling for over 90% of its business and constructive mechanisms that allow for more immediate recovery of everything from certain capital expenditures to pension and bad debt expense.

- **What to look for in the earnings report (Key debates/themes):**
  - **CT Legislation on storm preparedness**. On 10/02/20, Connecticut Governor Ned Lamont signed a legislation (HB7006) that addresses utilities' storm preparation and response. The bill (here) lays out new requirements as well as penalties regarding utilities' performance in event of a storm. More specifically, The Connecticut Public Utilities Regulatory Authority (PURA) has to initiate a proceeding that would enable performance based regulation framework by mid-2022. Under the bill, the electric distribution companies have to give $25-per-day credit for any outage that last longer than four days. Utilities would not be able to recover those costs through rates. Moreover, Utilities would have to compensate their customers' up-to $250 for any spoiled food or medication. Going forward, The PURA will determine minimum staffing level standards related to particular storm event and utilities have to report their preparation efforts and staffing preparedness. ES and AGR's United Illuminating sub would be subject to this new law. In our view the potential of increased/new penalties are negative all things considered. Separately PURA is doing its procedural investigation of company's response to Tropical Storm Isais which could result in additional fines/penalties up to $0.05-$0.06 potential EPS headwind in 2021.
  - **Offshore wind**. Earlier in the year, ES indicated that its South Fork Wind project is unlikely to enter service before 2023 due to its BOEM application being put on pause and a delay in the NY PSC approval process due to Covid. Previously, South Fork was targeted for a YE 2022 in-service. They still target a YE'23 in-service for Revolution Wind with a BOEM filing made in March but indicated that survey work on Sunrise Wind had been delayed and they will know whether this could impact the YE'24 in-service date later this summer. In June, the Bureau of Ocean and Energy Management (BOEM) released a long-awaited supplemental environmental impact statement (SEIS) and the cumulative impact of the build out of offshore wind in New England. The SEIS came out a bit early than expectations, indicating the BOEM was still on track for a final EIS in November and a Record of a Decision in December. The SEIS reviews the environmental impact of the future proposed offshore projects.
  - **Columbia Gas of Massachusetts Acquisition:** On 10/09/20, ES and NI consummated the Columbia gas of MA acquisition after receiving approval from the state commission in line with expectation of early Q4 close. Recall that on July 2nd, NiSource and Eversource filed with the MA Department of Public Utilities a joint petition for the approval of the $1.1B transaction and a proposed multi-year rate plan.

- **Positioning into Qtr : Neutral.**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**3.45**	**1.02**	**0.76**	**1.02**	**3.65**	**3.90**	**4.15**
Consensus		1.02	0.76	1.03	3.65	3.89	4.13
% diff.		*0%*	*0%*	*-1%*	*0%*	*0%*	*1%*

Source: Evercore ISI, Factset as of 10/13/20

evergy™

Outperform **TP $62**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** we project year over year EPS to grow $0.04 to $1.61/share, driven the most by O&M cost reductions, plus share accretion from buybacks and higher COLI income. This will be partially offset by reduced electric sales from COVID and higher depreciation, property taxes and interest expense. Recall that weather was $0.09 favorable last year in 3Q19 and we expect it to be modestly unfavorable in this year's 3Q20 quarter. Last year's 3Q19 numbers also had a one-time -$0.05 adjustment for Sibley/Jeffrey.

- **What to look for in the earnings report (Key debates/themes):**
  - **Sales trends:** EVRG is more exposed than our average company to sales decline as it does not have decoupling and, on our estimates, just 13% of EPS comes from FERC assets. The company has said every 1% change in residential load is expected to have a $10mm earnings impact ($0.04 of EPS). Every 1% change in commercial load is expected to have an $8mm earnings impact ($0.03 of EPS). Every 1% change in industrial is expected to have a $2mm earnings impact ($0.01 of EPS). Weather-adjusted total retail sales in Q2 were down -7% YoY, driven by -13% lower commercial and -12% lower industrial sales, partially offset by +5% higher residential. Sales improved over the course of the second quarter, and Evergy's outlook has assumed a slow and steady recovery throughout Q3 and Q4. Cases have continued to rise in Kansas and Missouri in recent weeks.
  - **Cost management:** EVRG is now guiding to 8-11% lower adjusted O&M this year after having achieved $150mm net merger synergies through 2019 since deal closure. Through 2Q20, the company has reduced O&M by another $87mm this year.
  - **Sustainability Transformation Plan (STP) update**: with Q2 results, Evergy raised and extended its EPS CAGR forecast from 5-7% in 2019 through 2023 to 6-8% through 2024. EVRG is expecting to deliver the low end of the range through 2022 while earning near or at its allowed ROEs between rate cases through cost management and the top end of the range in 2022-2024 with new Missouri (2023) and Kansas (2024) rates. EVRG also raised its capex program through 2024 by $1.4 billion, or 19%, to $8.9 billion with no plans to issue equity. The higher spending is now expected to support a rate base growth outlook of 5-6% CAGR from 2019 through 2024 versus 3-4% previously, while limiting bill increases through 2024 averaging 2% per year across the jurisdictions (incl. FERC), with Missouri above that level but comfortably inside the PISA 3% cap and Kansas (where regulators have been concerned about high rates) very manageably below 2%. Evergy now expects to lower 2020 adjusted O&M by a sharper 8-11% (vs. prior 6-9%) and by an additional 9% by 2024. Evergy continues to target CO_2 reductions of 80% by 2050 but sees potential for more rapid de-carbonization (and associated capex): up to 85% by 2030.
  - **Securitization**: we believe concerns about securitization are overblown and will be addressed on the Q3 call. In its five-year outlook, Evergy is currently assuming securitization for one ~500 MW coal plant in 2024, for which we estimate a book value of $300mm and a $0.07 - $0.10 ongoing EPS contribution (<3% of our '22EPS projection) that we believe could be offset with the backlog of investments or through additional cost cutting. EVRG said up to 3,000 MW of coal plant retirements beyond the current five-year plan carry enough asset value on the books that they would require legislation, such as securitization. The retirements could be pulled forward with passage of the law.
  - **KCC and MPSC investigation into STP:** We expect Evergy to provide updated thoughts on the ongoing Kansas and Missouri commission STP investigations. The Missouri Staff report is expected mid-November. In Kansas, the timeline is not as clear yet as a procedural schedule still needs to be set. The investigations are likely to extend into 2021.
  - **Long-term Energy Plan (LTEP):** Evergy is working with stakeholders to better inform the level and timing of future renewables and coal retirements beyond 2024. A Missouri IRP is expected to be filed April 1, 2021 and a Kansas IRP is expected to be filed July 1, 2021.
  - **CEO search**: on Aug. 27th, Terry Bassham announced his retirement. EVRG is looking to hire his replacement by year-end with an internal or external candidate.

- **Positioning into Qtr : Neutral.**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$2.89**	**$0.41**	**$0.68**	**$1.61**	**$3.00**	**$3.25**	**$3.40**
Consensus				1.61	3.01	3.25	3.41
% diff.				*0%*	*0%*	*0%*	*0%*

Source: Evercore ISI and FactSet as of 10/12/20

Exelon.

Outperform **TP $45**
Analyst: Durgesh Chopra / Tulkin Niyazov

- **Q3 EPS Bridge:** We project year over year EPS to decline $0.06 (~7%) to $0.86 driven by COVID related lower sales and higher uncollectable expense and decreased in power prices and lower volumes impacting generation business which would be partially offset by previously announced reduction in non-fuel O&M and higher interest rates impacting ComEd ROEs. On the last earnings call, management provided Q'3 operating EPS guidance range of $0.80-$0.90.

- **What to look for in the earnings report (Key debates/themes):**

  - **Utility/GenCo Split:** It was recently reported that management hired outside advisors to consider splitting generation and regulated utility businesses. We think a transaction could unlock value but could be challenging to execute, see our note here.
  - **Generation Business**: We expect low power prices and volumes impact ExGen margins. However, management was transparent about generation headwinds (including their retail exposure to C&I customer class), so it shouldn't come in as a surprise to the investors.
  - **IL's FRR Bill:** Investors continue to focus on IL legislation that could provide financial support to EXC's nuclear fleet.
  - **COVID Impacts:** Previously management assumed C&I load to decrease by 2-6% and Residential load to be flat to down 2% by Q'4 due to Covid-19. To mitigate these headwinds, management announced $250m of cost savings and $125m of ExGen capex reduction in 2020. All in all, management expected -$0.10 impact on each ExGen and utilities FY20 earnings after netting against cost saving initiatives. They also expected $100m cash flow hit on ExGen.
  - **Regulatory Agenda:** There are multiple rate cases pending across EXC utilities. Investors are also focused on PJM Capacity market revision, which is pending at FERC. IL legislation considering an FRR option is very important factor as well. We look forward to get more clarity and update on these regulatory matters.

- **Positioning into Qtr: Neutral**.

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**3.22**	**$0.87**	**$0.55**	**$0.86**	**$3.00**	**$3.00**	**$3.00**
Consensus		0.85	0.55	0.86	2.96	2.95	3.01
% diff.				*1%*	*1%*	*2%*	*0%*

Source: Evercore ISI and FactSet as of 10/14/20

FirstEnergy

In Line **TP $41**
Analyst: Durgesh Chopra / Tulkin Niyazov

- **Q3 EPS Bridge:** We project year over year EPS to increase $0.04 (~5%) to $0.80 driven by favorable weather (vs. normal), riders at Distribution business and margin increase at Transmission business partially offset by COVID related lower sales and higher uncollectable expense and higher depreciation and interest expenses. Q3 19 had $0.05 favorable weather impact vs. normal. On the last earnings call, management provided 3Q operating EPS guidance range of $0.73-$0.83/sh.

- **What to look for in the earnings report (Key debates/themes):**

  - **Ohio Investigation:** Investors will focus on the latest developments in OH related to bribery investigation and what the next steps are. It would be interesting to know management's thoughts on House Bill 6 (HB6).
  - **Business Update:** Management will continue to highlight its fully regulated strategy and how it is resilient during economic slowdown. Debates around balance sheet and credit metrics will linger, but with rating agencies continues support we think they are in decent shape at least in near-term. We don't expect the company to provide FY21 guidance on the earnings call as they have previously.
  - **COVID Impacts:** COVID impacts to earnings and cash flow recall that management estimated 6% system-wide load reduction in April y/y. At the same time, management was seeing increased load from residential customer class. Recall, 68% of base distribution revenues come from residential customer class, hence FE is better positioned to weather Covid-19 impacts.
  - **Regulatory Agenda:** Investors will focus on the pending rate case in NJ. FE also plans to file an IRP in WV by the year-end.

- **Positioning into Qtr: Neutral**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$2.58**	**$0.66**	**$0.57**	**$0.80**	**$2.50**	**$2.65**	**$2.75**
Consensus		0.66	0.57	0.76	2.50	2.63	2.76
% diff.				*5%*	*0%*	*1%*	*0%*

Source: Evercore ISI and FactSet as of 10/12/20

HEI

Underperform **TP $34**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year over year EPS to be down $0.08 to $0.50/share. On the positive side, we expect higher RAM revenues, increased revenue from recovery of the West Loch project and Grid Modernization projects under the MPIR mechanism, reduced interest expense from debt re-financings and lower O&M. We anticipate these benefits to be more than offset from increased bank provisioning for credit losses, increased depreciation and lower AFUDC.

- **What to look for in the earnings report (Key debates/themes):**
  - **ASB provisioning and net interest margin:** recall that HE rescinded 2020 bank EPS guidance due to uncertainty with provisioning for credit losses. Separately, ASB's net interest margin has continued to come under pressure in recent quarters amid low interest rates.
  - **Hawaiian economy / tourism:** the Hawaiian economy is very dependent on tourism, which has obviously taken a huge hit recently. We expect an update on the current state of the economy and outlook for the remainder of the year and beyond. On the utility side, HE received approval on June 30th from the Hawaiian commission to defer COVID costs (the company assumes $22mm of deferrals in its guidance this year). The utilities are also revenue decoupled, which insulates them from declines in sales volumes. The economic fallout has obvious implications for the creditworthiness of the bank customers.
  - **Regulatory lag:** HE has suffered from chronic regulatory lag. We have been assuming structural lag between the utilities' authorized and earned ROE (running at ~130bp in TTM) compresses by 50bp by 2022 and constructive outcomes in the PBR proceeding lead to an additional 50bp of PIMs upside by 2022.
  - **Status of cost savings:** HE has plans to achieve $25 million of cost savings by YE 2022. Cost savings are expected to be 80% capital and 20% O&M. As of 2Q20, Hawaiian said it has already started to deliver savings.
  - **Performance Based Rates proceedings:** the Performance Based Rate proceeding has been said to be on track for a December commission decision. In August, parties filed reply statements of position in the Performance Based Rates Phase 2 proceeding.
  - **Renewable RFP third party project timing and status of Stage 2:** COVID may affect Stage 1 RFP third party project timing; the next mandated RPS requirement is 40% by 2030. Per Hawaiian, this provides sufficient runway to make adjustments, if needed. However, 3rd party force majeure notices indicate potential COVID-related delays may impact HE's 2022 target of 50%. For the Stage 2 RFP, 16 projects were selected in May 2020. PPA negotiation and community engagement phases have been underway. To qualify for full value of the PIMs, renewable and storage contracts were due in September. Hawaiian filed eight PPAs and also two self-build storage projects.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$1.99**	**$0.31**	**$0.45**	**$0.50**	**$1.70**	**$1.95**	**$2.10**
Consensus				0.50	1.67	1.88	2.02
% diff.				*1%*	*2%*	*4%*	*4%*

Source: Evercore ISI, FactSet as of 10/12/20

In Line	TP $277
Analyst: Durgesh Chopra / Michael Lonegan	

- **Q3 EPS Bridge:** We expect year-over-year EPS to grow $0.21 to $2.60/share. We anticipate that Florida Power & Light will utilize its depreciation reserve ($736mm balance) to offset sales declines and any weather impacts to earn the top end of its 9.6-11.6% allowed ROE band on rate base growth of 9%. At Gulf Power, we expect COVID sales declines (only $0.01 EPS impact in Q2) to be offset by planned O&M reductions as Gulf moves to earn the top half of its 9.25-11.25% ROE (it earned 10.4% last quarter). Hurricane Sally caused power outages to 60% of Gulf's service territory, but they were restored within five days; storm cost recovery is subject to PSC approval. Note that Gulf Power is only one-tenth the size of FPL. In the Energy Resources segment, we anticipate growth to be driven by new projects added, plus existing projects, though wind resource could be weaker YoY after a strong 3Q19 at 104%. NextEra permanently retired the Duane Arnold nuclear plant during the quarter. Recall that NEET has been reclassified under NEER as of 4Q19 results and NextEra closed the Transbay Cable acquisition in July 2019. It is important to note that last year in 3Q19 NextEra had a one-time $0.10 write-off of transmission assets and that the Customer Supply & Trading business did not have as strong a second half last year as it did during the first half last year.

- **What to look for in the earnings report (Key debates/themes):**
  - **Sales trends amid COVID and amount of utilization of FPL's depreciation reserve:** Recall that FPL has the depreciation reserve that it can use to offset the negative sales impact on earnings. NEE had a robust $736mm reserve balance as of the end of the second quarter. Every 1% impact to sales is roughly a $70mm annual hit to FPL revenue. The company has previously said that they have sufficient depreciation reserve to earn the top end of their allowed 9.6-11.6% ROE band through 2021, after which new rates are expected to go into effect from an upcoming rate case filing. At Gulf Power, where there is no depreciation reserve, every 1% change in Gulf Power sales volumes results in a $0.008/share annualized impact to EPS.
  - **Gulf Power integration:** NEE is guiding to $0.15 and $0.20/share accretion to EPS from the Gulf Power acquisitions in 2020 and 2021, respectively.
  - **M&A:** The WSJ reported that NextEra reportedly made a takeover approach to Duke Energy that was rebuffed. NEE is reportedly still interested in pursuing a deal. We show multiple scenarios inside this note that generate 24-34% accretion to 2022 consolidated EPS and $14-43/share or 5-16% accretion to our price target of $277. We found a potential deal to be moderately or significantly credit negative depending on the scenario. We do not expect NEE to comment much on DUK but anticipate they will say (as always) they are interested in regulated acquisitions in the Southeast or Midwest in constructive jurisdictions where a deal would be immediately accretive.
  - **MVP and gas transmission assets:** Mountain Valley Pipeline is over 90% complete and has received all the permits it needs to continue forward, with an in-service date expected early 2021. Recall that MVP is anticipated to contribute only $0.07-0.09 of annual EPS. Separately, we believe there could be more commentary on the future role that gas transmission assets could play at NEE given the increased focus of ESG and increasing challenges facing the value / development of midstream.
  - **Rate case details:** NextEra plans to file a combined FPL-Gulf Power rate case in early 2021 for rates effective in 2022.
  - **Capital projects and NEER supply chain:** NEE has said that all capital projects on track this year and that it is not currently experiencing any significant equipment or labor issues for the 5,000 MW of wind/solar projects that it expects to complete in 2020. We believe NEE's extensive experience, scale, and relationships with customer suppliers, contractors and financers separates it from smaller developers who have less buying power and access to tax equity.
  - **FERC electric transmission**: NEE announced the $660mm GridLiance acquisition including debt in late September. This follows NEE's $1 billion acquisition of Transbay Cable in 2019. NextEra has said electric transmission could play an increased role in its portfolio going forward given the nationwide expansion of renewables.
  - **Hydrogen**: NEE announced a $65mm renewable hydrogen pilot subject to Florida PSC approval. The company anticipates hydrogen to play a significant role beyond 2030.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$8.37**	**$2.38**	**$2.61**	**$2.60**	**$9.15**	**$9.85**	**$10.65**
Consensus				2.58	9.14	9.94	10.75
% diff.				*1%*	*0%*	*-1%*	*-1%*

Source: Evercore ISI, FactSet as of 10/12/20, numbers pre 4:1 stock split which will begin trading on Oct. 27th

NiSource®

Outperform **TP $26**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year over year EPS to grow $0.05 to $0.05/share. Recall that NI adjusts weather out of its non-GAAP EPS results. We expect infrastructure modernization to contribute a +$0.03 benefit and O&M reductions to add +$0.06, partially offset by -$0.04 a reduction to sales volumes from COVID.

- **What to look for in the earnings report (Key debates/themes):**
  - **Quiet quarter given recent Analyst Day:** NiSource provided a comprehensive update on its Investor Day on Sept. 29th, so we expect a quiet quarter in terms of business updates**.** At its Investor Day, NI announced $40Bn in infrastructure investment opportunities over the next 20 years, an increase of $10 billion over previous expectations. The company outlined a $9.9-10.5 billion capital plan in 2021 through 2024, which is expected to drive 10-12% rate base CAGR and a back-end loaded 7-9% EPS CAGR. Notably, the annual EPS growth is forecasted to be 5-7% in 2021 through 2023. Prior to its Analyst Day, NiSource had said its five-year EPS growth outlook would be greater than 5-7%, but the 7-9% CAGR that was announced at the event was higher than our expectations and materially above industry average projected EPS growth rate of 5%. NiSource continues to target long-term 14-15% FFO to debt, as expected. The company's newly disclosed financing plan includes $200-300 million of ATM equity annually in 2021-2023, $500-700 million of total block equity in 2022-2023, $600-1,000 million of hybrids/convertibles/other in 2021, plus employee equity programs and long-term debt. The planned $1.8-2.0 billion of renewables replacement power capex was reaffirmed, and is expected to be financed with 60% equity, with recovery of investment sought through a 2023 rate case. The amount of equity in the financing plan to achieve its targeted credit metrics was largely to be expected given that we see NI trending towards 13% FFO to debt this year. NiSource now projects an 8% reduction in O&M costs in 2021 from 2020 levels with subsequent O&M expected to be "relatively flat" in 2021-2024. The sustainable outlook for O&M savings is positive news given that some of the COVID mitigation measures for the near term are expected to be one-time in nature. NI anticipates moderate annual rate increases in the low-to-mid single digits thanks to the O&M management and a changing supply mix (i.e. renewables replacing coal). The company is targeting a 60-70% dividend pay-out ratio over the long term.
  - **COVID update and mitigation measures:** We expect NiSource to provide an update on sales volumes and estimated COVID-related EPS impacts. The company has guided to COVID impacts of $0.15-0.20 in 2020, to be partially offset with mitigation measures of +$0.10-0.15 this year.
  - **O&M reductions**: NI has mitigation measures in place for +$0.10-0.15 this year and is also guiding to 8% lower next year and relatively flat O&M beyond in 2021-2024.
  - **Columbia Gas of Massachusetts divestiture closing:** On 10/09/20, ES and NI consummated the Columbia gas of MA acquisition after receiving approval from the state commission, in line with expectation of early Q4 close. Recall that on July 2nd, NiSource and Eversource filed with the MA Department of Public Utilities a joint petition for the approval of the $1.1B transaction and a proposed multi-year rate plan.
  - **M&A**: NI said at its Analyst Day that its financing plan does not include any potential "portfolio optimization" opportunities to enhance shareholder value, leading many to believe the company is evaluating opportunities.
  - **Property insurance in Massachusetts:** NI has not had any update to date on its filing $300mm of property insurance, which would represent upside to the company's current plan. NiSource has received all its $800mm of casualty insurance.
  - **Rate case updates**: NI currently has pending rate cases in Pennsylvania and Maryland. PA is a much larger jurisdiction, which we expect to contribute $0.25-0.30 of EPS this year, or roughly 20% of our consolidated $1.26 EPS estimate. In contrast, we expect Maryland to contribute just a few pennies in 2020.
  - **Update on renewable projects:** we could see an update on commercial negotiations.

- **Positioning into Qtr: Positive.** We expect NI to deliver a strong quarter above current consensus estimates aided by strong performance on cost reductions.

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$1.32**	**$0.76**	**$0.13**	**$0.05**	**$1.26**	**$1.34**	**$1.41**
Consensus				0.02	1.29	1.34	1.44
% diff.				*114%*	*-3%*	*0%*	*-2%*

Source: Evercore ISI, FactSet as of 10/12/20

nrg

Outperform **TP $40**
Analyst: Durgesh Chopra / Tulkin Niyazov

- **Q3 EBITDA Bridge:** We project year over year Adj. EBITDA to decrease by $53m or ~77% driven by Covid-19 headwinds at both generation and retail businesses, partially offset by the higher revenues from margin enhancement, strong economic recovery especially in TX and other items.

- **What to look for in the earnings call (Key debates/themes):**

  - **Direct Energy Acquisition:** We expect management will provide latest updates regarding Direct Energy acquisition. Investors will also focus on financing plan and integration synergies.
  - **Resiliency of Hybrid Business Model.** NRG will continue to highlight resiliency of its fully integrated business model. They will try to make a case that hot summer with potentially volatile / higher power prices in TX shouldn't have significant impact on their earnings given increased supply cost at their retail business would be offset with higher margins at generation business. It would be interesting to get management's view on merchant solar in TX.
  - **COVID Impacts:** Previously, management talked about $50m of incremental bad debt expense related to COVID-19, which they expect to fully offset and remain inside of the guidance range. Given we have seen robust economic recovery across the US and in TX particular; these assumptions could turn out to be too conservative. Admittedly, management said an IG upgrade could be pushed back by six months or so due to COVID-19.
  - **Capital Allocation Priorities:** NRG needs to stay disciplined with its capital allocation priorities. Investors will continue to demand share buy-backs, investment grade credit metrics, stable and growing dividends.

- **Positioning into Qtr: Neutral.**

Adj. EBITDA	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$1,977**	**$349**	**$574**	**$739**	**$1,925**	**$1,850**	**$1,825**
Consensus		349	574	785	1,976	2,161	1,956
% diff.				*-6%*	*-3%*	*-14%*	*-7%*

Source: Evercore ISI, Factset as of 10/12/20

OG+E

Outperform **TP $35**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year over year EPS to decline -0.29 to $0.96/share driven the most by unfavorable weather and lower ENBL contribution. Recall that last year in 3Q19 weather was favorable by $0.06. This year in 2Q20, we expect weather to be unfavorable by -$0.10 with cooling degree days 16% below normal. We expect OGE's degradation in load due to COVID to be fully offset with O&M reductions. OG&E is not expected to materially benefit from any new assets in service. We estimate depreciation / property taxes to be a -$0.05 drag and higher interest expense from new debt issuances to contribute -$0.02. We expect Enable to contribute -$0.05-0.06 lower earnings YoY, assuming the company delivers the balance of its full-year guidance equally between Q3-Q4.

- **What to look for in the earnings report (Key debates/themes):**
  - **COVID load impacts**: OGE has said weather-normalized load in the first half of this year was down 3% compared to 2019. About half of the company's margin comes from residential load, which has increased, and the other half is commercial/industrial, which has declined. Every 1% change in total load is expected to result in a $0.05 annual EPS impact.
    Cost management: OGE has said it expects to mitigate load impacts from COVID this year through cost control. The company cut O&M by $11mm in O&M in first half and expect similar reductions in the back half of the year.
  - **ENBL**: We expect commentary on oil & gas producer activity. Given the headwinds facing the oil & gas industry, CenterPoint CEO Lesar is considering Enable as a major priority in his strategic review. Naturally, OGE's options for ENBL have been a popular topic. The company is likely not going to comment on strategic options for ENBL but is thought to be more aligned with CNP in its approach to ENBL than it has been ever before.
  - **Oklahoma Grid Enhancement Filing Plan settlement**: On Oct. 5th, OGE reached a unanimous settlement in its Oklahoma Grid Enhancement mechanism filing. The mechanism establishes a revenue requirement cap of $7mm for 2020 projects and another $7mm cap for 2021 projects. The projects need to be placed in service in 2020 and 2021 and will be limited to investment in grid automation and related communication and technology systems. Return will be based on the 9.5% ROE and 53% equity ratio approved in the last rate case. No O&M expense is included in the mechanism, which will terminate at the issuance of a final order in the next rate case or Oct. 31, 2022, whichever comes first. A final decision is expected by YE 2020. OGE is has not changed its full capex program and is expected to seek reauthorization of this mechanism when it files its next rate case. We believe this is a positive development in a historically challenging jurisdiction that will enable avoidance of more regular rate cases and also helps solidify LT utility 5% EPS growth. It is another indication of an improving regulatory environment in OK that follows balanced outcomes in the last two rate cases.
  - **2021 EPS guidance and a refresh of five-year capital plan and long-term EPS growth rate likely to come in February with Q4 results, based on history.** It is possible that 2020 guidance could be updated with Q3 results though.
  - **Customer growth**: Customer growth has continued to be strong and was +1.1% YoY in the second quarter.

- **Positioning into Qtr : Negative.** Our YoY earnings bridge brings us materially below consensus projections for the quarter in good part due to unfavorable weather.

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$2.16**	**$0.23**	**$0.51**	**$0.96**	**$2.13**	**$2.18**	**$2.31**
Consensus				1.19	2.14	2.21	2.26
% diff.				*-19%*	*0%*	*-1%*	*2%*

Source: Evercore ISI, FactSet as of 10/12/20

PNM Resources

In Line **TP $44**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year over year EPS to decrease $0.03 to $1.25/share. The company recently increased 2020 EPS guidance by $0.05-0.07, which it attributed to hot Q3 weather and lower interest expense for the third quarter. This came after PNM had previously said it expected roughly ~54% of prior $2.16-2.26 guidance to come during the quarter. Adding these two data points together we get to $1.25/share for our Q3 estimate.

- **What to look for in the earnings report (Key debates/themes):**
  - **COVID update**: we expect to see an update on weather-normalized load trends to date and what the expectation is going forward.
  - **Ballot initiative:** There is a ballot initiative in November 2020 to change the New Mexico commission from elected to appointed and reduce the number of commissioners from five to three. PNM said historically ~85% of ballot initiatives have passed in the state. The company has said it does not have a preference for five versus three commissioners. If the ballot initiative passes by a simple majority, 1) the legislature defines the nominating committee and the requirements for the commissioners; 2) the terms for commissioners elected in Districts 1 and 3 in 2020 will be for a two-year term ending in 2022 as the terms in Districts 2, 4 and 5 already expire in 2022; and 3) three appointed commissioners would begin new staggered terms on January 1, 2023.
  - **O&M management:** given favorable weather in Q2-Q3, it will be interesting to hear if PNM will scale back its O&M management or move full speed ahead with COVID mitigation plans.
  - **More details on the recent increase to 2020 EPS guidance:** on October 1st, PNM increased its 2020 EPS guidance from $2.16-2.26 to $2.23-2.31/share to reflect higher residential loads resulting from COVID and hotter summer temperatures, along with interest savings from refinancing of debt.
  - **Reaffirmation of long-term EPS growth rate**: on October 1st, PNM also reiterated its 5-6% EPS CAGR outlook for 2019-2023.
  - **Roll out of investment plans and earnings power to incorporate 2024.** PNM has already announced that it plans to provide an update to incorporate 2024 into its investment plans and earnings power estimates. We expect a robust backlog of T&D investments in a transmission-constrained New Mexico to support a solid capital program and continued growth in earnings power.
  - **2021 guidance and updated dividend outlook likely coming in mid-December**. PNM typically updates its forward-year guidance and dividend outlook after its Board meeting in December.
  - **New Mexico decoupling filing update:** As testimony was filed and parties prepared for hearings in the decoupling case, some questions were raised on the legal interpretation of the law amended in 2019 (Efficient Use of Energy Act) that serves as the basis for PNM's decoupling filing. PNM subsequently asked the hearing examiner to stay the schedule and asked the commission to provide an order on how it interprets the law. PNM is hoping to get the issues cleared up before its next planned rate case filing in mid-2021. Previously, a decision in the decoupling case was expected by year-end 2020.
  - **ESG story**: we expect PNM to continue to push an underappreciated, compelling ESG story that targets emissions-free energy by 2040 versus many other company goals of net zero in the 2040 or 2050 timeframe.

- **Positioning into Qtr: Neutral.** PNM just raised its 2020 EPS guidance and reaffirmed its long-term EPS growth outlook on October 1st, so we view the quarter as neutral given the outlook has already been refreshed ahead of the quarter. The introduction of 2024 does present opportunities for an extended outlook though.

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$2.16**	**$0.18**	**$0.55**	**$1.25**	**$2.20**	**$2.35**	**$2.55**
Consensus				1.23	2.21	2.33	2.52
% diff.				*1%*	*-1%*	*1%*	*1%*

Source: Evercore ISI, FactSet as of 10/12/20

PINNACLE WEST CAPITAL CORPORATION

In Line **TP $85**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year over year EPS to grow $0.33 to $3.10/share. Recall that weather last year in 3Q19 was relatively normal. This year, Pinnacle has posted very favorable weather data in the third quarter on its website (we assume a $0.45/share pick-up). Weather-normalized load recovery has also been strong since mid-May and cost management has been effective. We assume a continuation of the pension benefit for Pinnacle West that we saw in Q1-Q2. The LFCR and TCA riders should collectively contribute a modest positive, with other operating expense (D&A and TOTI) and higher interest expense as modest headwinds. Recall that historically 56% of Pinnacle's earnings come in Q3 due to air conditioning loads in the hottest months in Arizona.

- **What to look for in the earnings report (Key debates/themes):**
  - **Electric sales and cost management**: Last quarter, given the impact of COVID, Pinnacle reduced its 2020 weather-normalized YoY sales growth expectations from 1-2% growth to flat to negative 1%, but added that it believes this is a conservative given that its electric sales have been recovering. PNW has continued to see weather-normalize load improve and it is actually up +1% YoY in May 13th-Aug 31st, with C&I down -5% and residential up +6%. Recall that historically 56% of earnings come in Q3 due to air conditioning loads in the hottest months in Arizona. PNW has reaffirmed 2020 EPS guidance of $4.75-4.95 with the expectation that cost control would offset the impacts of COVID this year.
  - **Rate case thoughts following Staff / intervener testimony**: On Oct. 2nd, Arizona commission Staff/interveners filed testimony in Pinnacle West's Arizona rate case. While Staff recommended an ROE of 9.4%, which is well below the proposed 10.15% and the current 10.0%, it is close to the national average of 9.45% and above the 9.28% recommended by Staff in the Tucson Electric case. Staff also recommended an equity ratio of 54.67%, in line with the request (as expected) of 54.70% but below existing 55.80%. In addition, Staff proposed two alternatives (0.0% and 0.3%) for return on fair value increment that are both below request (1.0%) and current (0.8%); but we did not expect much on that, Staff also recommended an original cost rate base of 8,788mm and a fair value rate base of 12,225mm, both similar to the request of $8,873mm and $12,310mm, respectively. Lastly, Staff is proposing revenue decreases of -$38.8mm on original cost rate base, -$39.1mm on fair value alternative 1 and -$25.3mm on fair value alternative 2, versus APS' revenue increase request of +$22.9mm on original cost rate base and +$68.6mm on fair value rate base. We view this update positively primarily because Staff's proposed ROE is above that Staff proposed for Tucson electric and in line with national averages in a challenging jurisdiction. We do not expect a settlement in the APS rate case given the current commission's recent history. PNW has said it expects a final decision mid-2021.
  - **Revisit of 2020 EPS guidance:** Historically, PNW revisits current year EPS guidance in the third quarter. We believe it is possible 2020 EPS guidance could be increased after a very hot third quarter and strong beat in the second quarter on weather and in the first quarter on cost control.
  - **We do not expect PNW to introduce 2021 EPS guidance despite historically announcing forward year guidance in Q3.** Given the pending rate case, we do not expect 2021 EPS guidance until that rate case is concluded, likely in mid-2021.
  - **Hydrogen pilot:** Palo Verde is collaborating on a pilot project in 2020-2022 to explore the production of hydrogen at Palo Verde Generating Station.
  - **Deregulation proceeding thoughts:** No workshops are currently scheduled. We view the likelihood of deregulation in the state as a low probability outcome given that it was previously deemed unconstitutional and support of it does not seem very strong. Commissioner Olson and Burns have been pushing for it, and Burns' term will end this year.
  - **Commission election**: It is an election year for the Arizona commission and three seats will be filled with one incumbent on the ballot (Lea Marquez Peterson). PNW has said they are relatively agnostic to the make-up of the commission and believes they are well-positioned for both a Republican or Democratic majority.

- **Positioning into Qtr : Positive.** We expect PNW to raise 2020 EPS guidance with a strong Q3 EPS beat following strong Q1-Q2 results.

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$4.77**	**$0.27**	**$1.71**	**$3.10**	**$4.85**	**$5.10**	**$5.40**
Consensus				2.69	4.86	5.01	5.27
% diff.				*15%*	*0%*	*2%*	*3%*

Source: Evercore ISI, Factset as of 10/12/20

100 ppl
A century of people powering life.

In Line **TP $31**
Analyst: Durgesh Chopra / Tulkin Niyazov

- **Q3 EPS Bridge:** We project year over year EPS to increase by $0.04 (~6%) to $0.65 driven by favorable FX position vs. last year, warmer than normal weather and organic growth across PPL's platform, partially offset by Covid-19 impacts and share dilution. 3Q19 Adj. EPS was $0.61/sh. We are also refining our FY20 EPS estimate to $2.45/sh from $2.50/sh taking into account YTD performance which reflects lower sales driven by Covid-19 impacts and unfavorable weather in Q'1.

- **What to look for in the earnings report (Key debates/themes):**

  - **Strategic Alternatives:** We expect management will update investor community on their progress to sell the UK business. Most of the questions will center around potential deal economics and future of the company. More specifically, it would be interesting to know what management plans to do with investment proceeds and their latest thinking around financing/capex programs going forward.
  - **Timeline for the RIIO-2 process is long-dated.** In August '19, the UK utility regulator (Ofgem) kicked off the review process for electric distribution companies. Ofgem is expected to reach an initial determination for Distribution Networks Operators (DNOs) in June '22 and a final determination by YE '22, with rates effective April '23.
  - **PPL's exposure to FX risk:** As of 2Q20, PPL is 95% hedged against the pound in '20 at $1.47, 8% hedged in '21 at $1.32, and unhedged in '22. The company uses options in their hedging strategy, which represents one-third of their hedge portfolio for '20. Currency volatility creates potential headwinds.
  - **COVID Impacts:** Management expected (-$0.03)-(-$0.04) monthly EPS impact based on April's shutdown primarily in UK and Kentucky. Most of this decline in sales volume. They expect to recover lost revenue through UK decoupling mechanism albeit with two year lag.
  - **Regulatory Agenda:** The company plans to file a rate case in Kentucky later this year. This could slip to next year due to Covid-19 related impacts and super low interest rates. ROE Complaint related to PA operations at FERC will also be point of discussion. Also, Investors would like to get an update on the Ofgem RIIO-2 Draft Determinations for Transmission, Gas Distribution and Electricity System Operator.

- **Positioning into Qtr:** **Neutral.**

Adj. EPS	2019A	1Q20A	2Q20E	3Q20E	2020E	2021E	2022E
EVR ISI	**2.45**	**$0.67**	**$0.55**	**$0.65**	**$2.45**	**$2.50**	**$2.60**
Consensus		0.67	0.55	0.61	2.42	2.47	2.59
% diff.		*0%*	*0%*	*7%*	*1%*	*1%*	*0%*

Source: Evercore ISI, Factset as of 10/09/20

PSEG
We make things work for you.

In Line **TP $53**
Analyst: Durgesh Chopra / Tulkin Niyazov

- **Q3 EPS Bridge:** We project year over year EPS to decline $0.03 (~3%) to $0.95 driven mostly by higher O&M related to storm activities, Covid-19 impacts, and weakness at generation business partially offset by organic growth at utilities and higher capacity revenues at generation business. We expect management will continue to pull O&M levers, especially at generation business, to offset Covid-19 related impacts. Although we have seen continues reduction in forward power prices, the company is almost fully hedged for '20 and shouldn't experience significant volatility in power segment. Increased PJM capacity prices for DY20/21 could partially offset re-contracting / volume degradation.

- **What to look for in the earnings report (Key debates/themes):**

  - **Progress on separating the GenCo business:** In the last earnings preview note we said: 'As power prices continues to stay low and ESG theme becoming more prevalent we expect management would address its GenCo strategy going forward'. Indeed on the last earnings call management announced a process to separate its generation business. We think Q'3 call will be focused on the progress so far and future of standalone utility business.
  - **COVID Impacts:** COVID impacts to earnings and cash flow. Recall, PEG's transmission and residential segments of distribution contribute 75% of total utility margin. Transmission revenues are fixed and 60% of distribution margin comes from residential customer class, which was expected to increase during the shutdown period. The company has electric bad debt expense recovered through the social benefits clause, while gas distribution has weather normalization clause.
  - **Regulatory Agenda:** BPU recently approved PEG's EE filing, a 1$bn program for three years. The filing also included a decoupling like mechanism that would help PEG offset lost load. We think investors would be interested to know more about the details of approved filing. Decision on PJM Capacity Market is still pending at FERC. A new docket reviewing the FRR option at NJ is ongoing; we think investor would like to get more color on that docket and potential implications as it relates to the offshore wind project. Concerns around FERC transmission ROE could also be discussed on the call.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$3.29**	**$1.03**	**$0.79**	**$0.95**	**$3.35**	**$3.40**	**$3.55**
Consensus		1.03	0.79	0.96	3.39	3.39	3.45
% diff.				*-1%*	*-1%*	*0%*	*3%*

Source: Evercore ISI, FactSet as of 10/12/20

Sempra Energy

Outperform **TP $138**
Analyst: Durgesh Chopra / Tulkin Niyazov

- **Q3 EPS Bridge:** We project year over year EPS to decline $0.06 (~4%) to $1.44 driven by asset sale (Peru and Chile), FX headwinds, higher depreciation and interest expenses and other partially offset by continues rate base growth at CA utilities, favorable weather in TX and LNG and Mexico Sub contributions.

- **What to look for in the earnings report (Key debates/themes):**

  - **COVID Impacts:** The company is fully decoupled at its California utilities but has exposure in Texas. That said, revenues have been holding up better than expected in Texas, as residential demand has increased, offsetting the impacts from lower C&I sales.
  - **Non-utility exposure:** SRE sees limited volumetric exposure at Ienova or Cameron LNG as most of their contracts are take-or-pay. That said capital spending at the Mexican business could be delayed due to Covid-19. On that front, the ECA LNG export permit has been delayed as the Mexican government has been understandably more focused on responding to Covid than in issuing permit.
  - **Texas looking better than expected.** With CA decoupled, investors have been more concerned with how TX demand would hold up during Covid-19 and as a result of the sell-off in oil prices. Interestingly, electric demand actually increased 1% in 1Q in Texas and the utility added 18k new customers. Most utilities saw demand declines in 1Q led by weather. Further, SRE is still seeing significant demand from drillers in west Texas to move from stand by generation to the grid, despite a declining rig count and the commodity backdrop. Overall, Management still expects weather to be a more important variable than Covid on TX this year.
  - **CA franchise agreement.** The city charter in San Diego requires a competitive bid to renew its franchise agreement. The city council is actively involved in this process and Mayor's office expected to issue invitation to bid this month. SRE plans to fully engage in the process and submit its bid in the second half of October and a final decision is expected by year end, we will look for additional color from management on this front.

- **Positioning into Qtr:** **Neutral.**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$6.78**	**$3.08**	**$1.65**	**$1.44**	**$7.60**	**$8.00**	**$8.25**
Consensus		3.08	1.65	1.48	7.61	8.03	8.43
% diff.				*-3%*	*0%*	*0%*	*-2%*

Source: Evercore ISI, FactSet as of 10/12/20

Southern Company

In Line **TP $59**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year over year EPS to decrease $0.14 to $1.20/share versus guidance of $1.15/share. In 3Q19, weather was $0.15 favorable. This year, in 3Q20, we expect weather to be modestly beneficial versus normal (we estimate +$0.03). Mitigated COVID impacts (lower sales coupled partially offset by reduced O&M) are expected to have a -$0.04 impact, while increased interest expense is anticipated to contribute a -$0.02 drag at the parent with share dilution contributing -$0.01. At the regulated businesses, the rate action net of D&A and interest expense is expected to be a +$0.02 benefit YoY. We expect Southern Power to add an additional +$0.01 with a couple new wind farms this year driving the increase. All numbers are rounded to the nearest penny.

- **What to look for in the earnings report (Key debates/themes):**
    - **COVID sales impact update**: SO has been forecasting a weather-normalized retail sales decline of 2-5%, resulting in a $250-$400mm hit to revenues. They expect to offset this impact with cuts to O&M expense. Through June, the company said the COVID impact on retail revenues has been lower than anticipated. Retail sales have seen improving trends since May. We note that COVID cases are lower in Georgia and staying low while cases are higher and staying high in Alabama and Mississippi.
    - **Cost management:** Southern has previously said that it expects to offset $0.20-0.30/share of EPS impacts from coronavirus with O&M reductions. Cost control was very strong in the first half of the year and if SO is well-positioned in the fourth quarter we suspect it could pull forward some 2021 O&M.
    - **Potential narrowing of range of 2020 EPS guidance:** SO has historically narrowed its current-year EPS guidance during its third quarter call and we expect the same this year. We see more tailwinds than headwinds to guidance with electric sales trending better than originally expected and modestly favorable weather in Q3 after an unfavorable first half that saw the company still maintain its guidance with effective cost control.
    - **Guidance for 2021 and a refresh to the long-term outlook is not expected until February, as per typical.** Recall that the company is currently targeting a long-term EPS growth rate of 4-6% on the back of a five-year capex program of $40 billion.
    - **Vogtle update**: Southern is on track for cold hydro testing in October before the third quarter conference call. Southern continues to work toward fuel load occurring in 2020; however, this milestone is not required to be achieved until later in 2021 to support the approved in-service dates. The current in-service dates for Units 3 and 4 remain Nov 2021 and Nov 2022 at an unchanged capital cost of $8.4Bn, respectively.

- **Positioning into Qtr: Neutral**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$3.11**	**$0.78**	**$0.78**	**$1.20**	**$3.20**	**$3.30**	**$3.55**
Consensus				1.23	3.16	3.32	3.54
% diff.				*-2%*	*1%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 10/12/20

VISTRA ENERGY

Outperform **TP $27**
Analyst: Durgesh Chopra / Tulkin Niyazov

- **Q3 EPS Bridge:** We project year over year Adj. EBITDA to decrease by $14m or ~1% due to higher fuel cost at retail business and Covid-19 related headwinds partially offset by the acquisition of Ambit and Crius retail businesses, resilient power market environment at ERCOT, and OPI contributions.

- **What to look for in the earnings report (Key debates/themes):**

  - **Texas Summer.** We think management will discuss FY20 summer takeaways and provide their updated hedging disclosure which would impact their next year EBITDA and FCF metrics.
  - **Merchant Solar Investment:** We expect management will address investor concerns around solar economics in TX and why they think it is attractive avenue of growth.
  - **Capital Allocation:** VST recently hosted a virtual analyst day where they discussed two main themes: 1) Capital Allocation. 2) Portfolio Transition. At the end of the day, VST has to put up cash flows that are in fact somewhat resilient to wholesale price declines. They understand this and that is part of the reason for the LT Outlook. They must also maintain capital discipline by keeping capex low sticking to conservative debt/EBITDA targets, and buying back stock, and keep optimizing their fleet. We also need to see some evidence that power market and capacity market conditions will stabilize.

- **Positioning into Qtr: Neutral.** We expect Q'3 Adj. EBITDA will come in at $1,050m vs. consensus estimate of $1,102m. We do think our estimates are conservative even after incorporating Covid related impacts on Retail as well as Wholesale businesses. More importantly, a load demand (and economy in general) in TX continues to be strong benefitting VST's generation/retail load match portfolio.

Adj. EBITDA	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$3,325**	**$850**	**$916**	**$1,050**	**$3,500**	**$3,200**	**$3,200**
Consensus		850	916	1,102	3,520	3,250	3,086
% diff.				*-5%*	*-1%*	*-2%*	*4%*

Source: Evercore ISI, FactSet of 10/12/20

WEC Energy Group

In Line **TP $93**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year-over-year EPS to increase $0.03 to $0.77 due to favorable weather and cost reductions mainly. Our projection is a penny higher than the company's Q3 guidance range of $0.74 - $0.76 due to better than expected weather in Aug/Sep.

- **What to look for in the earnings report (Key debates/themes):**
  - **Five year capex**. We will look for update to WEC's five year capex plan through 2025. The company has been signaling accelerated coal retirements, we expect the capex plan to include higher % of generation capex currently at 15%.
  - **More opportunities possible in the infrastructure segment**. WEC has been buying gas storage and renewable projects outside their utility in recent years and noted on the previous call that there might be opportunities to invest more in this segment than initially planned. These opportunities may arise as other companies need to raise cash in an economic downturn.
  - **M&A**. With the premium valuation being ascribed to WEC (rightfully deserved given the execution) and wider dispersion in utility multiples within our coverage universe, we expect continued investor debate around M&A and possible consolidation opportunities.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**3.58**	**1.43**	**0.76**	**0.77**	**3.75**	**4.05**	**4.25**
Consensus		1.43	0.76	0.76	3.73	3.98	4.25
% diff.		*0%*	*0%*	*1%*	*0%*	*2%*	*0%*

Source: Evercore ISI, Factset as of 7/14/20

Xcel Energy®

In Line **TP $65**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year over year EPS to grow $0.08 to $1.09/share. Weather last year in 3Q19 was $0.04 beneficial and weather this year in 3Q20 is also expected to be $0.04 favorable. The YoY increase is driven the benefit of Minnesota rate case stay-out (+$0.05), O&M cuts (+$0.04), new rates in Colorado (+$0.02) and New Mexico (+$0.01) and Texas (+$0.03), capital rider recovery (+$0.02) and AFUDC equity (+$0.02). The benefit of these items will be partially offset by higher depreciation expense (-$0.07), increased interest expense (-$0.02), higher property taxes (-$0.01) and dilution (-$0.01).

- **What to look for in the earnings report (Key debates/themes):**
  - **COVID sales impact:** Weather-normal retail electric sales have tracked better than XEL's base case and were down 9.6% in April, 6.7% in May, -4.7% in June, up 0.4% in July and down -2.3% in August (preliminary). Every 100bp change in electric sales has a $25mm pre-tax impact. Xcel's base case assumes total sales decline 4% this year. Its base case also assumes up to a $0.17 EPS impact from COVID in 2020, with its mild case scenario a $0.11 impact and its severe case scenario a $0.37 impact. The company expects to deliver 2020 guidance in its base case through O&M management and deferral of some incremental COVID expenses.
  - **O&M management:** XEL has thus far been on track to reduce O&M by 4-5% (base case) this year. Every 100bp change in O&M has a $23mm pre-tax impact.
  - **Minnesota Relief and Recovery investment plan**: we expect investors to inquire about the expected timing of decisions as well as the financing of the investment plan. About half of the $3 billion proposed plan would be incremental to the five-year capital budget and the other half would be accelerated into the plan. The R&R filings / planned filings are in three pieces 1) grid investment plan with incremental EV spending, 2) wind repowering for 800-1,000MW of owned & PPAs, 3) solar generation with storage, incremental investment for 460MW. We would expect Xcel to finance any incremental capex above its base plan with 40-42% equity, with the remainder debt.
  - **Expect XEL to issue a series of updated forecasts for capex in 2021-2025, rate base growth, financing plan, credit metrics. They are also expected to issue 2021 EPS guidance.**
  - **PPA buyouts and status of wind projects:** additional PPA buyouts represent upside beyond XEL's current plan. Separately, the company has said there are potential delays in two wind projects into 2021, though that is not expect to have an impact from a financial standpoint because of the extension of safe harbor.
  - **Equity forward settlement:** We expect the company to indicate that it still plans to settle the $740mm equity forward priced in 2019 in 4Q20.
  - **Other regulatory updates:** XEL has filed for wildfire and advanced gird riders in Colorado in lieu of filing a full rate case. The company has an outstanding Minnesota resource plan and is expected to make a resource plan filing in Colorado in 2021. In the Minnesota R&R filing, Xcel outlined a stay-out plan. Separately, the company is required to file a rate case in TX and NM, expected in 1Q21. In July, XEL reached a settlement with all parties in the Colorado Gas rate case.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2019A	1Q20A	2Q20A	3Q20E	2020E	2021E	2022E
EVR ISI	**$2.64**	**$0.56**	**$0.54**	**$1.09**	**$2.80**	**$2.95**	**$3.10**
Consensus				1.09	2.78	2.97	3.16
% diff.				*0%*	*1%*	*-1%*	*-2%*

Source: Evercore ISI, FactSet as of 10/12/20

Q3 EPS Estimates vs. Consensus and Positioning for the Quarter

We believe consensus numbers are likely to change as more sell-side analysts update their estimates. Below is how our estimates compare to current consensus.

Q3'20 EPS Estimates vs. Consensus

Ticker	Evercore ISI	Consensus	% Diff	Positioning for Q3	
AEE	1.52	1.53	-0.5%	Neutral	
AEP	1.48	1.46	1.6%	Neutral	
AES	0.45	0.47	-4.2%	Neutral	
AGR	0.42	0.41	3.5%	Neutral	
CMS	0.72	0.67	7.9%	Positive	✓
CNP	0.31	0.29	6.0%	Neutral	
D	0.96	1.01	-4.8%	Neutral	
DTE	2.15	1.94	11.1%	Positive	✓
DUK	1.88	1.80	4.2%	Neutral	
ED	1.52	1.52	0.2%	Negative	✓
ES	1.02	1.03	-1.0%	Neutral	
ETR	2.40	2.43	-1.2%	Neutral	
EVRG	1.61	1.61	0.2%	Neutral	
EXC	0.86	0.86	0.6%	Neutral	
FE	0.80	0.76	5.4%	Neutral	
HE	0.50	0.50	0.0%	Neutral	
NEE	2.60	2.58	0.7%	Neutral	
NI	0.05	0.02	114.3%	Positive	✓
OGE	0.96	1.19	-19.0%	Negative	✓
PEG	0.95	0.96	-0.7%	Neutral	
PNM	1.25	1.23	1.5%	Neutral	
PNW	3.10	2.69	15.3%	Positive	✓
PPL	0.65	0.61	7.0%	Neutral	
SO	1.20	1.23	-2.2%	Neutral	
SRE	1.44	1.48	-2.6%	Neutral	
WEC	0.77	0.76	1.8%	Neutral	
XEL	1.09	1.09	-0.4%	Neutral	
Average			**5.4%**		

Q3'20 EBITDA Estimates vs. Consensus ($mm)

Ticker	Evercore ISI	Consensus	% Diff	Positioning for Q2
CWEN	319	321	-0.6%	Neutral
NRG	739	785	-5.9%	Neutral
VST	1,050	1102	-4.7%	Neutral
Average			**-3.7%**	

Updated as of 10/12/20

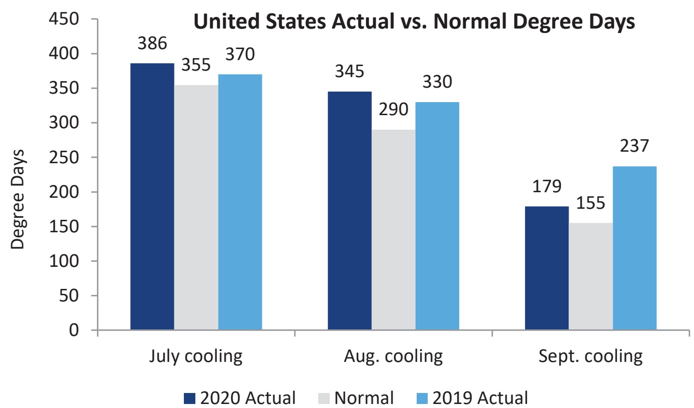
Source: FactSet, Evercore ISI Research

Q3 Weather Data in the US by Region

Region	July heating 2020 actual	July heating 2019 actual	July heating norm	% change vs. year-ago	% change vs. norm
New England	296	273	230	8%	29%
Middle Atlantic	360	316	275	14%	31%
NE Central	343	329	265	4%	29%
NW Central	339	317	310	7%	9%
South Atlantic	494	475	453	4%	9%
SE Central	469	432	426	9%	10%
SW Central	584	538	559	9%	4%
Mountain	370	387	390	-4%	-5%
Pacific	200	201	239	0%	-16%
United States	**386**	**370**	**355**	**4%**	**9%**

Region	Aug. cooling 2020 actual	Aug. cooling 2019 actual	Aug. cooling norm	% change vs. year-ago	% change vs. norm
New England	221	170	146	30%	51%
Middle Atlantic	278	232	205	20%	36%
NE Central	219	189	197	16%	11%
NW Central	256	234	255	9%	0%
South Atlantic	449	444	393	1%	14%
SE Central	396	417	376	-5%	5%
SW Central	566	613	527	-8%	7%
Mountain	402	387	302	4%	33%
Pacific	291	264	193	10%	51%
United States	**345**	**330**	**290**	**5%**	**19%**

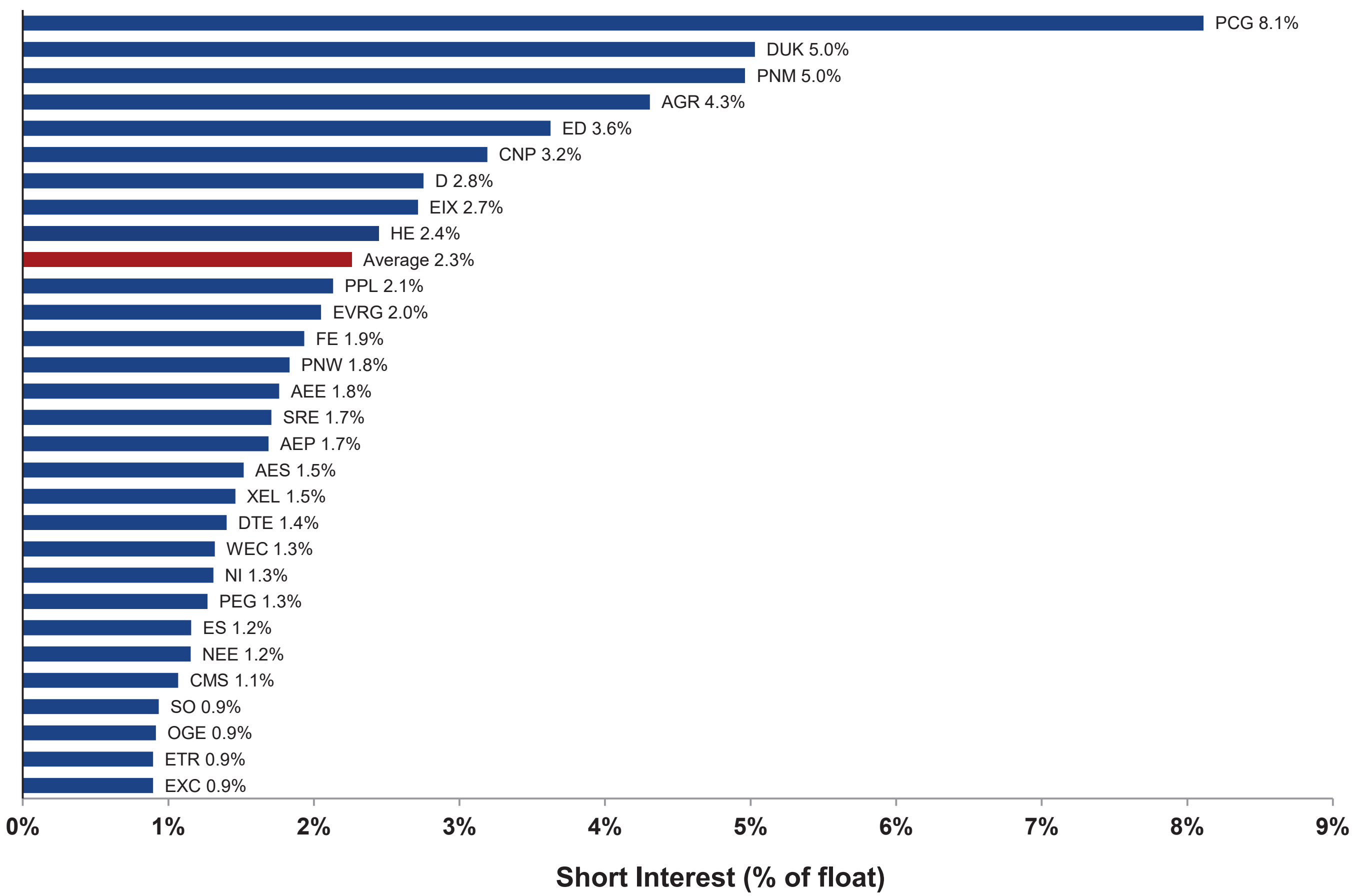
Region	Sept. cooling 2020 actual	Sept. cooling 2019 actual	Sept. cooling norm	% change vs. year-ago	% change vs. norm
New England	60	29	22	107%	173%
Middle Atlantic	79	79	59	0%	34%
NE Central	53	132	60	-60%	-12%
NW Central	76	198	87	-62%	-13%
South Atlantic	289	376	259	-23%	12%
SE Central	242	390	209	-38%	16%
SW Central	321	520	345	-38%	-7%
Mountain	208	210	167	-1%	25%
Pacific	211	152	125	39%	69%
United States	**179**	**237**	**155**	**-24%**	**15%**



Updated as of 10/12/20

Source: NOAA, Evercore ISI Research

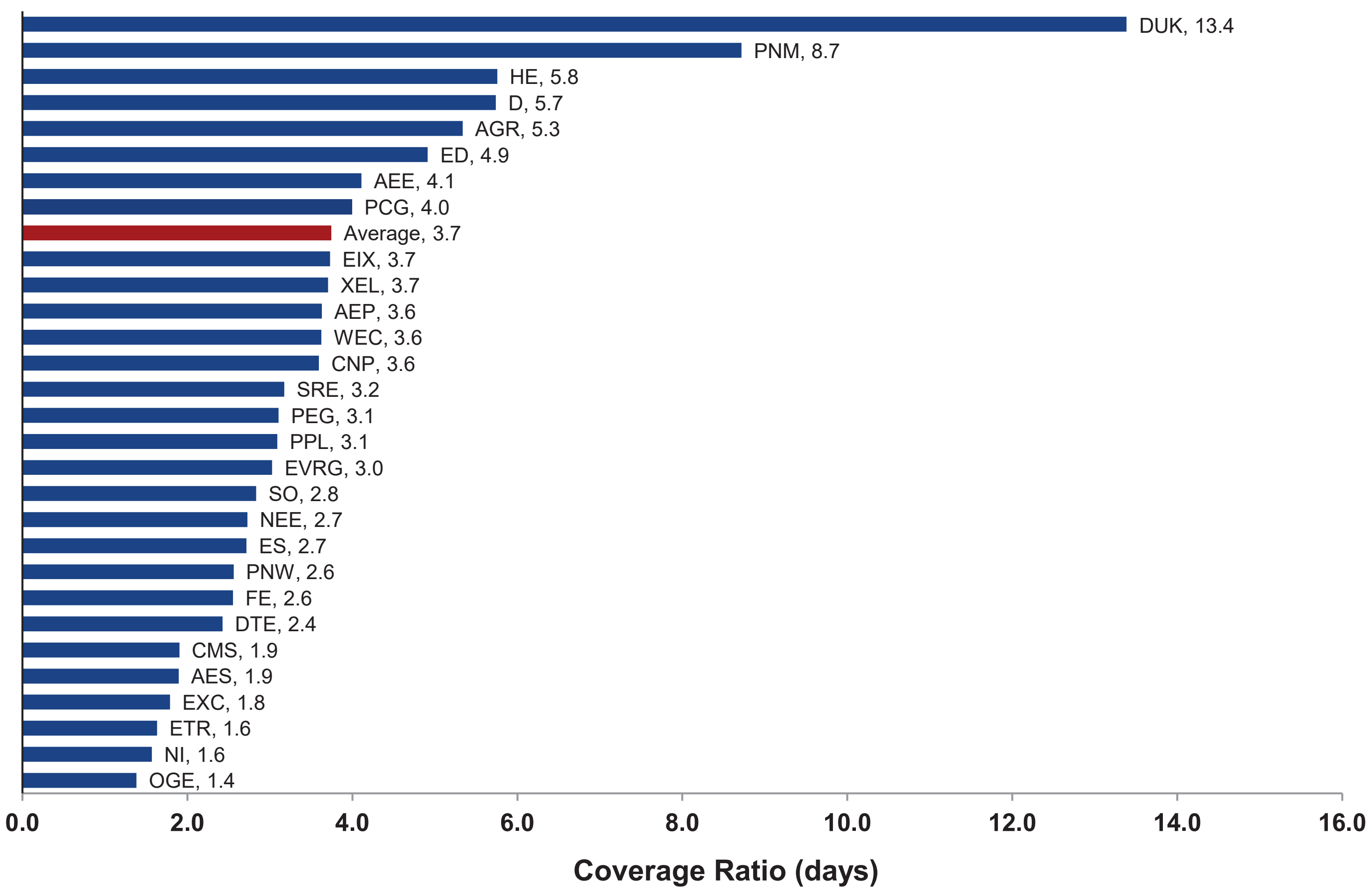
Short Interest as Percentage of Float



Updated as of 10/13/20

Source: FactSet, Evercore ISI Research

Coverage Ratio (Days)



Updated as of 10/13/20

Source: FactSet, Evercore ISI Research

Regulated Utility Valuation at 18.1x ’22EPS

Regulated Utilities

Ticker	Company Name	10/13/20 Price	ISI Rating	Shares Out	Market Cap	2020 Div Yld	2020 Payout	ISI EPS Estimate 2020	ISI EPS Estimate 2021	ISI EPS Estimate 2022	P/E Multiple 2020	P/E Multiple 2021	P/E Multiple 2022	'18-'22 EPS Growth	Price to Book	Prem. to Group
NEE	NextEra Energy, Inc.	$301.47	In Line	492	148,233	1.9%	61%	9.15	9.85	10.65	33.0x	30.6x	**28.3x**	8.4%	3.9x	56%
XEL	Xcel Energy Inc	$73.00	In Line	529	38,614	2.3%	60%	2.80	2.95	3.10	26.0x	24.8x	**23.5x**	5.9%	2.7x	30%
WEC	WEC Energy Group	$99.10	In Line	317	31,385	2.4%	64%	3.75	4.05	4.25	26.4x	24.5x	**23.3x**	6.2%	2.9x	28%
ES	Eversource Energy	$92.66	In Line	341	31,604	2.4%	62%	3.65	3.90	4.15	25.4x	23.8x	**22.3x**	6.3%	2.1x	23%
AGR	Avangrid Inc.	$55.53	In Line	310	17,189	3.2%	78%	2.25	2.40	2.60	24.7x	23.1x	**21.4x**	4.1%	1.1x	18%
CMS	CMS Energy Corp	$64.76	In Line	291	18,874	2.5%	61%	2.66	2.85	3.06	24.3x	22.7x	**21.2x**	7.0%	3.1x	17%
AEE	Ameren Corp	$81.15	Outperform	257	20,826	2.4%	57%	3.50	3.75	4.00	23.2x	21.7x	**20.3x**	4.4%	2.1x	12%
D	Dominion Resources Inc	$81.57	In Line	806	65,738	4.2%	99%	3.50	3.85	4.12	23.3x	21.2x	**19.8x**	0.5%	2.6x	9%
AEP	American Electric Power Co Inc	$89.23	Outperform	498	44,429	3.1%	65%	4.30	4.65	4.95	20.7x	19.2x	**18.0x**	5.9%	2.1x	-1%
PNM	PNM Resources, Inc.	$45.50	In Line	85	3,879	2.7%	56%	2.20	2.35	2.55	20.7x	19.3x	**17.8x**	6.3%	1.8x	-2%
ED	Consolidated Edison Inc	$82.32	In Line	347	28,580	3.7%	72%	4.25	4.60	4.75	19.4x	17.9x	**17.3x**	2.4%	1.4x	-4%
DUK	Duke Energy Corp	$92.92	In Line	772	71,775	4.1%	74%	5.15	5.15	5.40	18.1x	18.0x	**17.2x**	3.5%	1.4x	-5%
ETR	Entergy Corp	$106.48	In Line	201	21,390	3.5%	67%	5.65	6.00	6.35	18.9x	17.7x	**16.8x**	-3.4%	1.9x	-8%
SO	Southern Company Inc	$58.34	In Line	1,067	62,249	4.4%	79%	3.20	3.30	3.55	18.2x	17.7x	**16.4x**	3.8%	1.9x	-9%
NI	NiSource Inc	$23.11	Outperform	397	9,186	3.6%	67%	1.26	1.34	1.41	18.4x	17.2x	**16.4x**	2.0%	1.8x	-9%
HE	Hawaiian Electric Industries, Inc.	$34.31	Underperform	110	3,782	3.8%	78%	1.70	1.95	2.10	20.2x	17.6x	**16.3x**	3.2%	1.5x	-10%
DTE	DTE Energy Co	$119.07	In Line	195	23,234	3.4%	61%	6.70	7.05	7.40	17.8x	16.9x	**16.1x**	4.1%	1.8x	-11%
EVRG	Evergy	$52.92	Outperform	228	12,039	3.8%	67%	3.00	3.25	3.40	17.6x	16.3x	**15.6x**	6.2%	1.6x	-14%
SRE	Sempra Energy	$126.55	Outperform	314	39,686	3.2%	54%	7.60	8.00	8.25	16.6x	15.8x	**15.3x**	10.3%	1.8x	-15%
PNW	Pinnacle West Capital Corp	$80.73	In Line	114	9,189	3.9%	66%	4.85	5.10	5.40	16.7x	15.8x	**15.0x**	4.4%	1.5x	-18%
CNP	CenterPoint Energy Inc	$20.82	In Line	608	12,658	3.6%	57%	1.30	1.35	1.50	16.0x	15.4x	**13.9x**	-1.7%	1.8x	-23%
OGE	OGE Energy Corp	$31.14	Outperform	200	6,234	5.1%	74%	2.13	2.18	2.31	14.6x	14.3x	**13.5x**	2.2%	1.6x	-26%
EIX	Edison International	$56.28	In Line	410	23,098	4.4%	56%	4.45	4.40	4.60	12.6x	12.8x	**12.2x**	2.6%	1.2x	-33%
FE	FirstEnergy Corp	$31.31	In Line	545	17,072	5.0%	62%	2.50	2.65	2.75	12.5x	11.8x	**11.4x**	1.4%	2.1x	-37%
PPL	PPL Corp	$28.47	In Line	773	22,007	5.8%	66%	2.50	2.50	2.60	11.4x	11.4x	**10.9x**	2.1%	1.6x	-40%
PCG	PG&E Corp	$10.32	Rating Suspende	529	5,459	0.0%	0%	4.30	4.65	4.95	2.4x	2.2x	**2.1x**	5.4%	0.3x	-89%
Regulated Group Average (Excludes PCG for Div Values)						**3.5%**	**66.5%**				**19.2x**	**18.1x**	**17.0x**	**4.0%**	**1.90x**	
Regulated Group Average (Excluding Stocks: PPL, EIX, and PCG)						3.4%	67.0%				20.6x	19.3x	18.1x	4.1%	2.02x	
Regulated Group Max (Excludes PCG for Div Values)						5.8%	98.7%				33.0x	30.6x	28.3x	10.3%	3.9x	
Regulated Group Min (Excludes PCG for Div Values)						1.9%	53.9%				2.4x	2.2x	2.1x	-3.4%	0.3x	

Diversified Utilities

Ticker	Company Name	10/13/20 Price	ISI Rating	Shares Out	Market Cap	2020 Div Yld	2020 Payout	ISI EPS Estimate 2020	ISI EPS Estimate 2021	ISI EPS Estimate 2022	P/E Multiple 2020	P/E Multiple 2021	P/E Multiple 2022	'18-'22 EPS Growth	Price to Book	Prem. to Group
PEG	Public Service Enterprise Group Inc	$57.92	In Line	507	29,365	3.4%	58%	3.35	3.40	3.55	17.3x	17.1x	**16.3x**	3.3%	1.8x	-2%
EXC	Exelon Corp	$40.98	Outperform	980	40,175	3.7%	51%	3.00	3.00	3.00	13.7x	13.7x	**13.7x**	-1.1%	1.1x	-18%
AES	AES Corp	$19.55	Outperform	665	12,999	2.9%	42%	1.37	1.55	1.70	14.3x	12.6x	**11.5x**	8.2%	3.0x	-31%
Diversified Group Average						**3.3%**	**50%**				**15.1x**	**14.4x**	**13.8x**	**3.5%**	**2.0x**	
Diversified Group Max						3.7%	58%				17.3x	17.1x	16.3x	8.2%	3.0x	
Diversified Group Min						2.9%	42%				13.7x	12.6x	11.5x	-1.1%	1.1x	

Updated as of 10/13/20

Source: FactSet, Evercore ISI Research

Utilities are trading modestly above our Case 1. Post COVID valuations should appreciate towards Case 2.

- Our historic base case ("case 1") assumed an orderly transition to higher interest rates, with authorized ROEs falling to 9.25% from 9.75%, and 10- year Treasury yields rising over the next several years, resulting at the end in a **2.25%** spread between the return on equity and the calculated cost of equity.
  - When you look at the current valuation of 18.1x '22, it is modestly above our "case 1" scenario of 17.5x, which as described above implies moderation in authorized ROEs and gradual increase in treasury yields.
- The perceived "best in class" earnings compounders and COVID-19 immune names (WEC, NEE, ES, XEL, CMS) trade a multiple that discounts both a more or less status quo authorized ROE regime and a longer runway for sustained rate base growth. That is "case 3".
- In our "case 4" scenario we assume authorized ROEs moderate and interest rates rise more rapidly, resulting in a more meaningful near-term reduction in profitability, along with a steeper decline in rate base growth, which drives utilities back to a P/E multiple that is closer to long-term historic averages.
- We believe the group is modestly overvalued barring severe recession related to COVID-19 or significant economic recovery. We set our target prices on "market-agnostic" basis using an anchor P/E multiple of ~17.5x '22 EPS so investors can better see where we see good relative value. Near term we could see some pressure on multiples if spreads widen, long term we see multiples diverging back towards Case 2 (or 19.5x) as the economy recovers.

	Case 1	Case 2	Case 3	Case 4
DDM Model **ROE and Cost of Equity Assumptions**	**Base Case**	**Rates Low Long Time**	**Rates Low Long Time**	**ROEs Fade Rates Rise**
ROE (Year 1)	9.75%	9.75%	9.75%	9.75%
Annual ROE Change (+/-)	-0.10%	-0.10%	-0.10%	-0.10%
Final ROE	9.25%	9.25%	9.25%	9.25%
Years Until LT Cost of Equity Spread	5	5	5	5
Implied Annual Cost of Equity Change (+/-)	0.53%	0.43%	0.43%	0.58%
LT ROE / Cost of Equity Spread	2.25%	2.75%	2.75%	2.00%
LT Cost of Equity	7.00%	6.50%	6.50%	7.25%
DDM Model **Growth Assumptions**	**Base Case**	**Base Case**	**Higher Growth**	**Lower Growth**
RB Growth (Year 1-5)	5.50%	5.50%	6.50%	4.00%
RB Growth (Year 6-10)	3.50%	3.50%	5.50%	2.00%
RB Growth (Year 11+ and Terminal)	2.50%	2.50%	3.00%	1.25%
Terminal Value (Yes/No)	Yes	Yes	Yes	Yes
35 Year Average Payout Ratio - Implied	71.2%	71.2%	67.5%	82.6%
'22 P/E Multiple	**17.5x**	**19.5x**	**22.0x**	**15.0x**

Source: Evercore ISI Research

Utilities Look Moderately Cheap Assuming Yields Remain Unchanged

Utility Valuation			10 YR	0.73%
10/13/20			Baa	3.39%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2020 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	**0.60%**	**1.04%**	**61.7x**	**210.1%**
	0.82%	1.19%	53.8x	170.3%
	1.04%	1.35%	47.7x	139.5%
	1.26%	1.50%	42.8x	115.0%
	1.48%	1.65%	38.8x	95.1%
	1.70%	1.81%	35.5x	78.5%
- 68% Confidence Interval	**1.92%**	**1.96%**	**32.7x**	**64.6%**
	2.14%	2.11%	30.4x	52.6%
	2.36%	2.27%	28.3x	42.3%
	2.58%	2.42%	26.5x	33.3%
	2.80%	2.58%	24.9x	25.4%
	3.02%	2.73%	23.5x	18.3%
	3.24%	2.88%	22.3x	12.0%
Predicted Valuation	**3.46%**	**3.04%**	**21.2x**	**6.4%**
Current Valuation	3.68%	3.19%	20.1x	1.2%
	3.90%	3.34%	19.2x	-3.4%
	4.12%	3.50%	18.4x	-7.7%
	4.34%	3.65%	17.6x	-11.5%
	4.56%	3.80%	16.9x	-15.1%
+ 68% Confidence Interval	**4.78%**	**3.96%**	**16.2x**	**-18.4%**
	5.00%	4.11%	15.6x	-21.4%
	5.22%	4.26%	15.1x	-24.3%
	5.44%	4.42%	14.5x	-26.9%
	5.66%	4.57%	14.1x	-29.4%
	5.88%	4.72%	13.6x	-31.6%
+ 95% Confidence Interval	**6.10%**	**4.88%**	**13.2x**	**-33.8%**

Regulated utilities now look ~6% inexpensive on current yields

Utility Valuation			10 YR	0.73%
10/13/20			Baa	3.39%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2021 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	**0.60%**	**1.04%**	**58.6x**	**212.0%**
	0.82%	1.19%	51.1x	171.9%
	1.04%	1.35%	45.3x	140.9%
	1.26%	1.50%	40.7x	116.3%
	1.48%	1.65%	36.9x	96.3%
	1.70%	1.81%	33.8x	79.6%
- 68% Confidence Interval	**1.92%**	**1.96%**	**31.1x**	**65.6%**
	2.14%	2.11%	28.9x	53.6%
	2.36%	2.27%	26.9x	43.2%
	2.58%	2.42%	25.2x	34.1%
	2.80%	2.58%	23.7x	26.1%
	3.02%	2.73%	22.4x	19.0%
	3.24%	2.88%	21.2x	12.7%
Predicted Valuation	**3.46%**	**3.04%**	**20.1x**	**7.0%**
Current Valuation	3.68%	3.19%	19.1x	1.8%
	3.90%	3.34%	18.3x	-2.8%
	4.12%	3.50%	17.5x	-7.1%
	4.34%	3.65%	16.7x	-11.0%
	4.56%	3.80%	16.1x	-14.6%
+ 68% Confidence Interval	**4.78%**	**3.96%**	**15.4x**	**-17.9%**
	5.00%	4.11%	14.9x	-21.0%
	5.22%	4.26%	14.3x	-23.8%
	5.44%	4.42%	13.8x	-26.5%
	5.66%	4.57%	13.4x	-28.9%
	5.88%	4.72%	12.9x	-31.2%
+ 95% Confidence Interval	**6.10%**	**4.88%**	**12.5x**	**-33.4%**

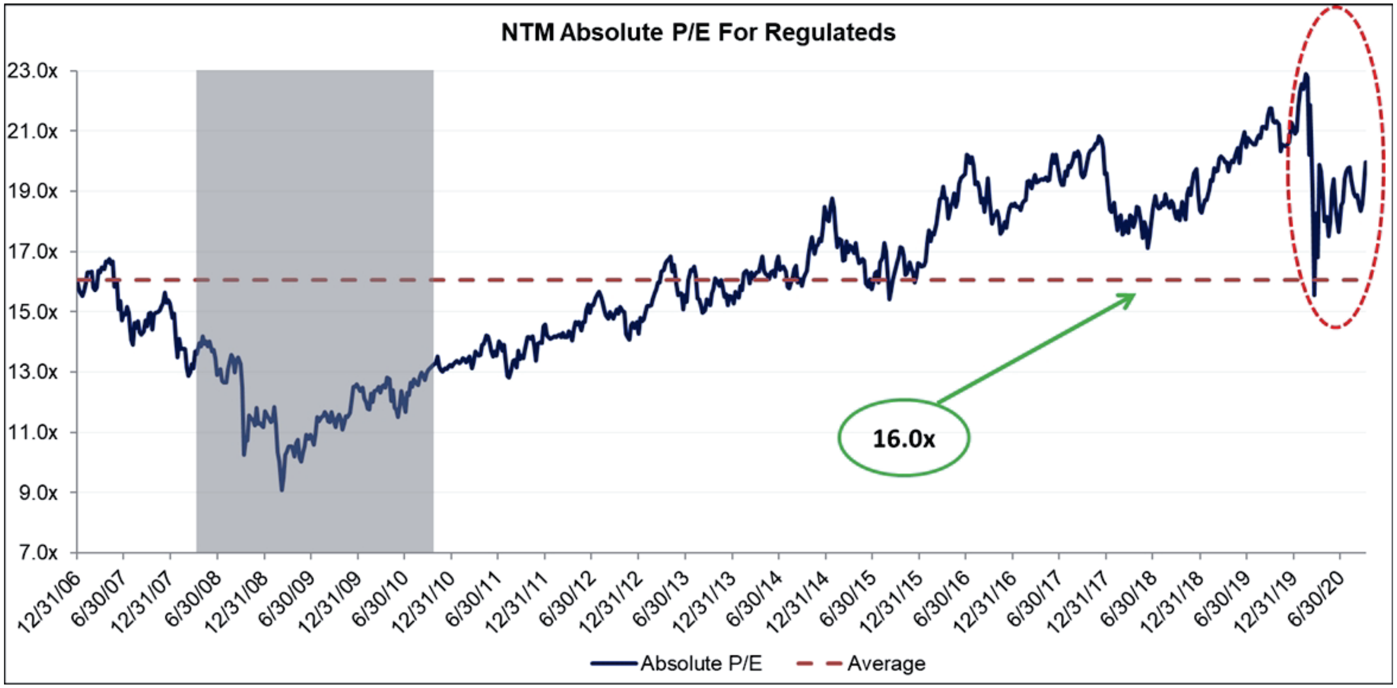
If rates stay unchanged for the next 12 months, regulated utilities now look ~7% inexpensive

Updated as of 10/13/20

Source: FactSet, Evercore ISI Research

Utility valuation has a ~4.0x potential downside to reach historical average

- On 10/13/20, NTM absolute P/E was **20.11x** using FactSet consensus. The NTM absolute P/E had peaked on 02/16/20 at ~22.9x and on 7/15/16 (post-Brexit) at 19.93x.
- Since '06 the average NTM absolute P/E is ~16.0x. Since '95 it is ~14.4x.

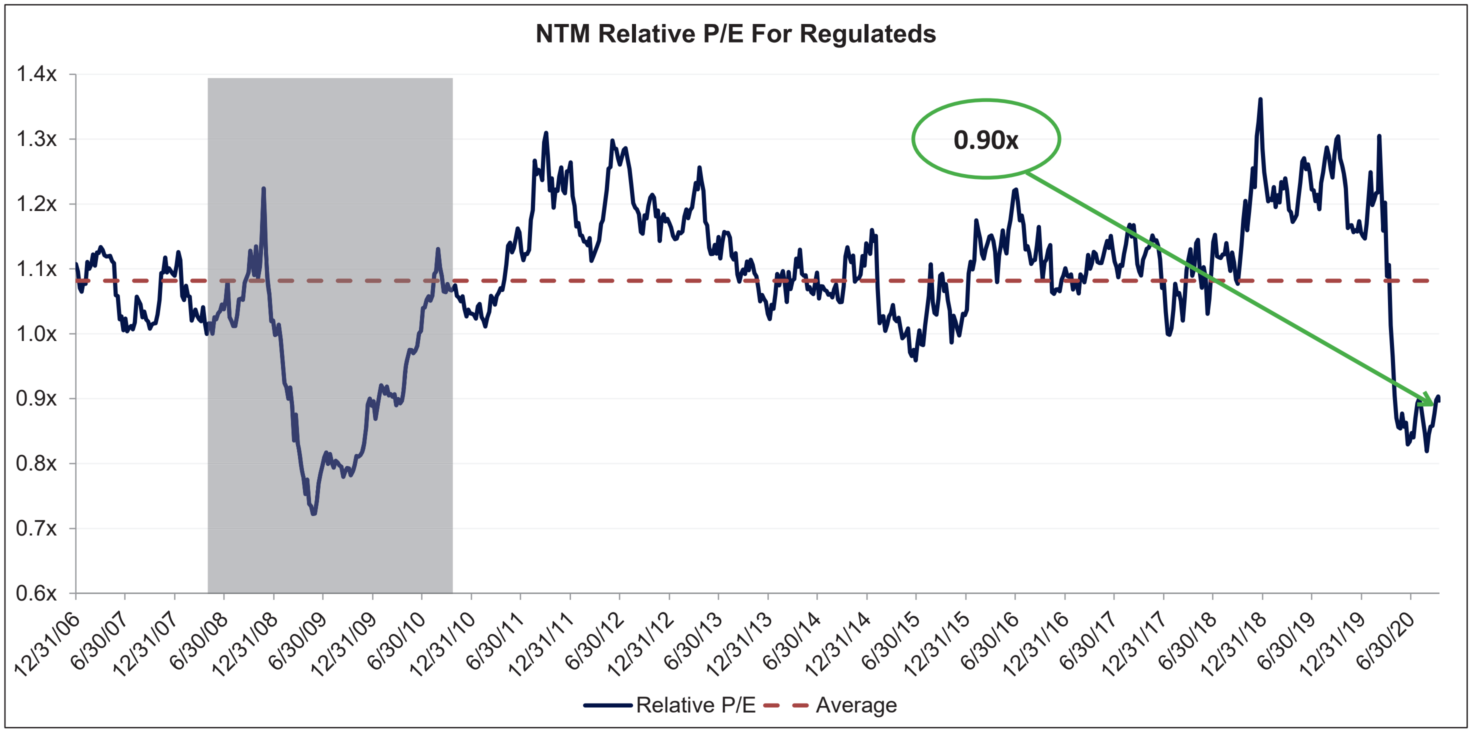


Updated as of 10/13/20

Source: FactSet, Evercore ISI Research

NTM Relative P/E Below Historical Average

- The average relative P/E since 2006 is 1.09x. Since ’95 it is 0.93x.
- On 10/13/20, the relative P/E was **0.90x** vs. the 1.17x level at YE ’19.
- The relative P/E post Brexit vote was 1.17x, which we hit again in mid November ’18.
- It was 1.36x on 12/23/18 when we were pricing in recession risk at a high probability.



Updated as of 10/13/20

Source: FactSet, Evercore ISI Research

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

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ANALYST CERTIFICATION

The analysts, Durgesh Chopra, Tulkin Niyazov, Michael Lonegan, primarily responsible for the preparation of this research report attest to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

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Current Ratings Definition

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Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's universe
Coverage Suspended- the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
Rating Suspended- Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*

*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell" to equate their own ratings to these categories. For this purpose, and in the Evercore ISI ratings distribution below, our Outperform, In Line, and Underperform ratings can be equated to Buy, Hold and Sell, respectively.

Historical Ratings Definitions

Prior to March 2, 2017, Evercore ISI's recommendations were based on a stock's total forecasted return over the next 12 months:

Buy- the total forecasted return is expected to be greater than 10%
Hold- the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%

Sell -the total forecasted return is expected to be less than 0%

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy- Return > 20%
Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight- the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight- the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight -the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

Ratings Definitions for Portfolio-Based Coverage

Evercore ISI utilizes an alternate rating system for companies covered by analysts who use a model portfolio-based approach to determine a company's investment recommendation. Covered companies are included or not included as holdings in the analyst's Model Portfolio, and have the following ratings:

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Short- the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.

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Evercore ISI rating (as of 10/14/2020)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	401	52	Buy	118	29
Hold	297	38	Hold	51	17
Sell	42	5	Sell	4	10
Coverage Suspended	20	3	Coverage Suspended	8	40
Rating Suspended	14	2	Rating Suspended	5	36

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Price Charts

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15 October 2020
Equity Research
Americas | United States

CREDIT SUISSE

NiSource Inc.

3Q20 Earnings Preview

Natural Gas | Earnings

NI

Target price (12M, US$)
26.00
Outperform

- **We expect 3Q20 EPS in-line at $0.03** vs consensus $0.02 (vs 3Q19 $0.00) driven by electric grid modernization rate increases with any remaining COVID impacts from this year offset with O&M savings. **Columbia Gas of Massachusetts sale to ES is now closed.**
- **Investor day (virtual) takeaways.** NI hosted its investor day on Tuesday 9/29, which was mostly in-line with our previewed expectations. Among the biggest takeaways, the company reiterated 7%-9% EPS CAGR with a jump in 2024 (only 5%-7% through 2023) after Indiana renewables come in service (build-own-transfer so no AFUDC). The 2024 ratebase projection of $21.2B is $0.5B higher than the prior forecast. Flat annual O&M. FFO/D target unchanged at 14-15%. We expect the company to attain at least the midpoint of a 5%-7% EPS CAGR (vs 2021) by 2024 after renewables are in service.
- **2021 Guidance Reaffirmed.** The company reaffirmed its 2021 NOEPS guidance of $1.28- $1.36 (CS $1.33 vs. consensus $1.34), which includes $0.00-$0.10 improvement from COVID-19 drag and Columbia Gas synergy impacts in 2020.
- **~$9.9B- $10.5B capital plan 2021-2024.** NI identified total expected investment opportunities of ~$9.9B- $10.5B from 2021-2024 of which ~20% is expected for renewables Investment, ~20% for electric infrastructure and asset modernization, and ~60% for gas infrastructure and asset modernization.
- **No block equity needed in 2020 and liquidity is ample for 2021, but equity is planned for 2022 and 2023 for Indiana renewables.** Equity plans for 2020 remain $200-$300M annual ATM plus $30-50M employee plans (no convertible or hybrid financing). Columbia Gas of Massachusetts sale to ES expected to close in October. $500-$700M in 2022/23 for 60% of $1.8-$2.0B renewables capex (in line with CS).
- **Valuation:** Our estimates and $26 TP are unchanged and based on peer 2022 P/E multiples within a SoTP. Our TP includes the discounted value of $0.19 uplift in 2024 (worth $3/sh) from expected earnings from Indiana renewables. Risks include regulatory, capital plan execution, interest rates.

Price (14 Oct 20, US$)	23.30
52-week price range	30.21 - 20.86
Enterprise value (US$ m)	18,035

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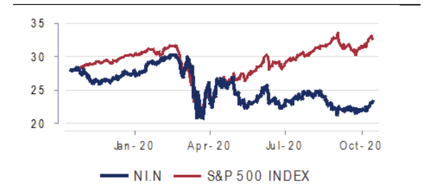
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
EPS (CS adj.) (US$)	1.32	1.32	1.33	1.39
Prev. EPS (US$)	-	-	-	-
Revenue (US$ m)	5,184.1	6,112.6	6,219.7	6,513.9
EBITDA (US$ m)	1,764.2	1,805.6	1,836.9	1,966.3
P/OCF (x)	4.6	4.4	5.0	4.9
EV/EBITDA (current)	10.6	10.4	10.2	9.5
Net debt (US$ m)	9,504	9,111	9,503	9,728
ROIC (%)	5.50	5.51	5.10	5.15

Number of shares (m)	383.02	IC (current, US$ m)	15,490.20
Net debt (Next Qtr., US$ m)	10,103.7	Dividend (current, US$)	0.76
Net debt/tot eq (Next Qtr.,%)	178.1		

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 14-Oct-2020 the S&P 500 INDEX closed at 3488.67Daily Oct16, 2019 - Oct14, 2020, 10/16/19 = US$27.97

Quarterly EPS	Q1	Q2	Q3	Q4
2019A	0.82	0.05	-0.00	0.45
2020E	0.76	0.13	0.03	0.41
2021E	0.77	0.07	0.04	0.46

15 October 2020

CREDIT SUISSE

NiSource Inc. (NI)

Price (14 Oct 2020): **US$23.3** Target Price: **26.00**

Analyst: **Michael Weinstein**
Rating: **Outperform**

Income Statement	12/19A	12/20E	12/21E	12/22E
Revenue (US$ m)	**5,184.1**	**6,112.6**	**6,219.7**	**6,513.9**
EBITDA (US$ m)	**1,764**	**1,806**	**1,837**	**1,966**
Depr. & amort.	(717)	(779)	(812)	(843)
EBIT (US$)	**1,047**	**1,027**	**1,025**	**1,123**
Net interest exp	(377)	(418)	(415)	(444)
PBT (US$)	**608**	**636**	**664**	**733**
Income taxes	(113)	(126)	(139)	(154)
Minorities	-0	-0	-0	-0
Net profit (US$)	**495**	**510**	**524**	**579**
Reported net income (US$)	**495**	**510**	**524**	**579**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**495**	**510**	**524**	**579**
Cash Flow	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EBIT	1,047	1,027	1,025	1,123
Net interest	(377)	(418)	(415)	(444)
Change in working capital	(75)	(86)	0	0
Cash flow from operations	**2,247**	**2,061**	**1,837**	**1,966**
CAPEX	(2,167)	(2,036)	(1,725)	(2,200)
Free cashflow to the firm	**80**	**24**	**112**	**(234)**
Acquisitions	-	-	-	-
Divestments	0	1,100	0	0
Cash flow from investments	**(1,922)**	**(717)**	**(1,725)**	**(2,200)**
Net share issue(/repurchase)	244	155	295	867
Dividends paid	(355)	(335)	(299)	(314)
Changes in Net Cash/Debt	**(484)**	**393**	**(392)**	**(225)**
Balance Sheet (US$)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Assets				
Cash & cash equivalents	139	142	142	142
Account receivables	857	546	546	546
Other current assets	607	2,059	2,059	2,059
Total current assets	**1,854**	**2,860**	**2,860**	**2,860**
Total fixed assets	16,912	15,206	16,119	17,475
Investment securities	-	-	-	-
Total assets	**22,660**	**21,870**	**22,783**	**24,140**
Liabilities				
Total current liabilities	**3,746**	**3,591**	**3,983**	**4,209**
Total liabilities	**16,673**	**16,038**	**16,430**	**16,656**
Total liabilities and equity	**22,660**	**21,870**	**22,783**	**24,140**
Net debt	9,504	9,111	9,503	9,728
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
No. of shares (wtd avg)	375	385	395	415
CS adj. EPS	1.32	1.32	1.33	1.39
Prev. EPS (US$)	-	-	-	-
Dividend (US$)	0.76	0.80	0.85	0.90
Free cash flow per share	0.21	0.06	0.28	(0.56)
Earnings	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Sales growth (%)	(6.4)	17.9	1.8	4.7
EBIT growth (%)	12.4	(1.9)	(0.2)	9.6
Net profit growth (%)	6.8	3.1	2.9	10.3
EPS growth (%)	1.6	0.3	0.3	4.9
EBITDA margin (%)	34.0	29.5	29.5	30.2
EBIT margin (%)	20.2	16.8	16.5	17.2
Pretax margin (%)	11.7	10.4	10.7	11.2
Net margin (%)	9.5	8.3	8.4	8.9
Valuation	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EV/Sales (x)	3.55	2.95	2.96	2.86
P/E (x)	17.6	17.6	17.5	16.7
Price to book (x)	1.6	1.7	1.6	1.4
Asset turnover	0.2	0.3	0.3	0.3
Returns	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE stated-return on (%)	9.6	9.7	9.5	9.1
ROIC (%)	5.5	5.5	5.1	5.2
Gearing	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net debt/equity (%)	158.7	156.2	149.6	130.0
Interest coverage ratio (X)	2.8	2.5	2.5	2.5
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2019A	0.82	0.05	-0.00	0.45
2020E	0.76	0.13	0.03	0.41
2021E	0.77	0.07	0.04	0.46

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

NiSource Inc. is energy holding company whose subsidiaries provide natural gas, electricity & other products & services. It operates in 3 segments: Gas Distribution Operations; Gas Transmission & Storage Operations, & Electric Operations.

Blue/Grey Sky Scenario

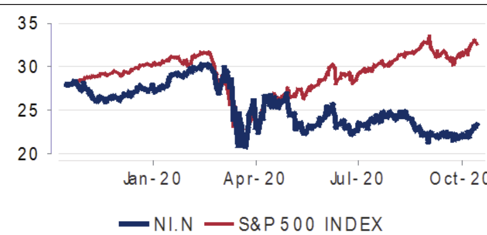
Our Blue Sky Scenario (US$) **32.00**

In our blue sky scenario we assume favorable regulatory outcomes across NI's jurisdictions, successful execution of their capital plan, and growth of infrastructure replacement program backlog. We assume that capex is at the high end of the $1.8-$1.9B and that NI is able to grow ratebase at the high end of their 8-10% range and grow earnings at the high end of their 5-7% range. We assume a 5.0x premium to the average peer 2021 P/E multiples.

Our Grey Sky Scenario (US$) **18.00**

In our grey sky scenario we assume unfavorable regulatory outcomes across NI's jurisdictions, only partial execution of their capital plan, and a decline in the infrastructure replacement program backlog. We assume that capex is at the low end of the $1.8-$1.9B and that NI is able to grow ratebase at the low end of their 8-10% range and grow earnings at the low end of their 5-7% range. We assume a -1.5x discount to the average peer 2021 P/E mult.

Share price performance



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Daily Oct16, 2019 - Oct14, 2020, 10/16/19 = US$27.97

15 October 2020

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Figure 1: NI Earnings Walk 3Q20 vs 3Q19

NI	2019Q1	2019Q2	2019Q3
Prior-year adjusted diluted EPS	**0.82**	**0.05**	**-**
Incremental year-over-year			
Gas utilities			
Net Revenues			
Base rates and infrastructure replacement rates - CEP Ohio is fixed and largely ratable per qtr. Also have TDSIC & FMCA trackers in IN, GSEP in MA, SAVE in VA, AMRP in KY, STRIDE in MD. Base rates in IN, PA, VA, MD in flux with volumes	0.03	0.03	0.03
Customer growth and usage	0.01	(0.02)	-
COVID19 drag		(0.04)	(0.02)
TCJA adjustments		-	-
Other net revenues (weather norm)	(0.02)	0.03	
O&M (non-tracked)	(0.03)	0.05	0.01
D&A (non-tracked)	0.00	(0.02)	(0.02)
Other taxes (non-tracked)	(0.01)	(0.00)	(0.00)
Charity (left in non-GAAP)			
Interest expense	0.01	-	-
Gas utilities - other	0.02	0.02	0.01
Electric utility			
Net Revenues			
Rates - IN TDSC & FMCA and NIPSCO Elec	0.03	0.01	0.03
Customer growth and usage	(0.01)		-
COVID19 drag		(0.03)	(0.01)
New Industrial service structure approved in base rate proceeding	(0.03)		
Other net revenues (weather norm)	0.01	(0.01)	-
O&M			
Fuel handling costs		0.01	
Employee and admin costs	(0.01)		
Gen maintenance	0.01		
Outside service costs from retirement of Bailly 7&8 5/31/18			
O&M (non-tracked)	(0.01)	0.05	0.03
D&A (non-tracked) - running higher since because of IN gas ratecase (Oct 20	(0.03)	(0.03)	(0.03)
Other taxes (non-tracked)	0.00	(0.00)	
Interest expense - did $750M @2.95% in Aug 2018	0.00		
Electric utility - other	0.01	0.04	0.02
Corporate & other			
Preferred dividends	-	-	-
Corporate & other - other	(0.04)	0.01	(0.01)
Dilution	(0.02)	(0.00)	(0.01)
YoY Period	**2020Q1**	**2020Q2**	**2020Q3**
Current-year adjusted EPS/CS Ests	**0.76**	**0.13**	**0.03**
Consensus (prior & current)	**0.76**	**0.13**	**0.02**
TTM	**1.26**	**1.34**	**1.37**
CS Est FY			**1.32**
Consensus FY			**1.29**

Source: Company data, Credit Suisse estimates

Additional commentary

- **See our recent reports:** 9/30 Investor Day Takeaways, 9/27 Investor Day Preview, 8/7 Indiana Turning Green, 5/26 Left Behind but Holding Up Well, 5/11 COVID-19 Adds Near-Term Uncertainty, but Long-Term Fundamentals Remain Strong, 5/5 1Q20 Earnings Preview, 2/28 Raise to Outperform on Sale of Mass, Elimination of Block Equity Plan, 2020 Outlook – Getting Meaner and Less Defensive,

- **2021 Guidance Reaffirmed.** The company has reaffirmed its 2021 NOEPS guidance of $1.28- $1.36 (CS $1.33 vs. consensus $1.34), which includes $0.00-$0.10 improvement from COVID-19 drag and Columbia Gas synergy impacts in 2020. We expect the company to attain at least the midpoint of a 5%-7% EPS CAGR (vs 2021) by 2024 once these projects are in service. Ratebase growth is also expected to grow at a 10%-12% CAGR from $13.9B in 2020 to $20.7B in 2024.

- **Capital plan 2021-2024.** NI plans to deploy ~$9.9B- $10.5B from 2021-2024 in already identified capital investment opportunities, of which ~20% is expected for renewables Investment, ~20% for electric infrastructure and asset modernization, and ~60% for gas infrastructure and asset modernization. NI plans annual Growth, Safety & Modernization investments of $1.9B-$2.2B through 2024 (total $8.1B-$8.5B from 2021-2024) of which >75% of capex begins earnings in under 18 months. Renewable Generation investments of $1.8B -$2.0B occur in Indiana, primarily across 2022 and 2023. For the electric utility, NI plans $400M-$600M of annual capital investment in base electric system infrastructure and asset modernization programs through 2024.

- **No block equity needed in 2020 and liquidity is ample for 2021, but equity is planned for 2022 and 2023 for Indiana renewables.** Equity plans for 2020 remain $200-$300M annual ATM plus $30-50M employee plans (no convertible or hybrid financing). Columbia Gas of Massachusetts sale to ES expected to close in October. $500-$700M in 2022/23 for 60% of $1.8-$2.0B renewables capex (in line with CS).

- **Columbia Gas of Massachusetts sale now closed.** We expect some comments on closing of CMA sale on this call. Proceeds will be used to pay down term loan and company's short term debt. Recall, on July 2, NI announced that it will pay $56M to settle and resolve the state's investigation into the 2018 Greater Lawrence incident.

- **Retiring coal and replacing with renewables.** NI is targeting to replacing 80% of coal capacity by 2023 with primarily renewable resources and retiring 100% of coal assets by 2028. The company targets to achieve 90% reduction in greenhouse gas emissions by 2030.

- **Financing the renewables.** Equity plans for 2020 remain $200-$300M annual ATM plus $30-$50M employee plans (no convertible or hybrid financing). However, we expect ~60% of $1.8-$2.0B of incremental Indiana plant investment in 2022/23 to be financed with equity (we model half in 2022 and remaining half in 2023. However, this neither results in AFUDC (turnkey projects) nor earn a return until a forward test year ratecase is filed around early 2023 for rates effective 2024. Note that this only represents the utility's initial investment in the Indiana projects, with an additional $1.0B financed with tax equity for the benefit of utility customers. Of the $1.8-$2.0B to be financed by the utility, only $0.4B has been approved to date, with the remaining projects still in negotiation. On the debt side of the ledger, the company plans incremental long term debt of $500M-$700M annually from 2022-2024 for the Indiana renewable generation investments. NI also plans $600M-$1,000M in hybrids and convertibles financing in 2021. The current plan targets renewable investment financing (60% Equity / 40% Debt) and long-term Adj. FFO/total debt of ~14%-15%.

- **Rate base and NOEPS.** Ratebase growth is expected to grow at a 10%-12% CAGR from $13.9B in 2020 to $21.2B in 2024. The company reaffirmed 2021 NOEPS guidance of $1.28- $1.36 (CS $1.33 vs. consensus $1.34), which includes $0.00-$0.10 improvement from COVID-19 drag and Columbia Gas synergy impacts in 2020. NOEPS is expected to grow at 7% to 9% CAGR 2021–2024, with a near term annual growth of 5%-7% in 2021-2023. Further, the company expects long-term ~$40B investment opportunity to drive continued NOEPS growth beyond 2024.

Figure 2: Capital Plan and Rate base

Capex & Rate Base ($B)	2021	2022	2023	2024
Capex	2.0-2.3	2.4-2.7	3.3-3.6	1.9-2.2
Rate base	15.2	17.0	19.8	21.2

Source: Company data, Credit Suisse estimates

- **Liquidity update.** NI's net liquidity available is $1.5B-$1.6B as of Sep 30th (vs. ~$2B on June 30th). Total long term debt is $9.1B with a weighted average maturity of 15.5 years and a 3.68% interest rate as of September 30th vs the prior update in June which included a ~$10B debt level, with ~$8.7B of long-term debt, with a weighted average maturity of ~16 years and a 4.31% interest rate. Additionally, the company expects no significant refinancing needs through 2024.

- **Next initiative and Columbia Gas of Massachusetts sale to drive ~8% O&M reduction in 2021.** The company has undertaken various cost initiatives including voluntary separation program savings, operational processes improvements and modernization driven fuel and cost reductions. NI expects annual O&M for 2021-2024 to remain "relatively flat".

- **Rosewater and Jordan Creek to go in service by year-end.** Rosewater Wind (100 MW JV project) and Jordan Creek (400 MW JV project) are both expected to go in service by year-end. PPA projects Indiana Crossroads (300MW), Brickyard Solar (200MW) and Greensboro Solar (130) MW are expected to go in service by 2021, 2022 and 2022 respectively. Additionally, 8-10 additional projects in advanced commercial negotiations.

- **COVID-19 annual impact to load**. Management expects lower sales volumes from commercial and industrial customers, partially offset by a potential increase in residential sales volume. Increased bad debt expenses (although recent orders in MD, VA allow for deferring the COVID-related expenses and bad debt), and sustained customer attrition. The company's sensitivity analysis continues to project that a +/- 1% change in annual sales volumes, will result in pre-tax operating earnings of $3.9M, $3.9M and $2.3M to residential, commercial and industrial on the electric side respectively, and $3.8M, $2.4M and $1.2M to residential, commercial and industrial on the Gas side respectively. The residential customer class represents 39% and 69% of the retail margins in electric and gas respectively, with commercial at 35% and 22% in electric and gas respectively.

Figure 3: COVID-19 Impact to Nisource Load

Pre-tax Operating Earnings Sensitivity to +/- 1% CHG in annual sales volume	Electric	Retail Margins %
Residential	$3.9	59%
Commercial	$3.9	26%
Industrial	$2.3	15%
Total	**$10.1**	**100%**

Pre-tax Operating Earnings Sensitivity to +/- 1% CHG in annual sales volume	Gas	Retail Margins %
Residential	$3.8	69%
Commercial	$2.4	22%
Industrial	$1.2	9%
Total	**7.40**	**100%**

Source: Company data, Credit Suisse estimates

Regulatory Updates

- **Columbia Gas of MD** filed a new base rate case on 5/15 requesting $6.3M total revenue increase; $5M net of infrastructure trackers which supports continued replacement of aging pipelines and safety upgrades. The final order is expected in 4Q20 with new rates effective in Dec 2020.
- **Columbia Gas of PA.** Filed a base rate case 4/24/2020 which supports continued replacement of aging pipelines as well as adoption of safety upgrades. Ratecase includes $100.4M total annual revenue increase. Order is expected in 1Q21 with new rates effective in Jan 2021.

Valuation

- **Valuation.** Our $26 TP is unchanged and based on peer 2022 P/E multiples within a SoTP. Our TP includes the discounted value of $0.19 uplift in 2024 (worth $3/sh) from expected earnings from $1.8-$2.0B Indiana renewables that will not benefit from AFUDC and will not receive a rate increase until 2024. Meanwhile, our 2022 estimate includes -$0.04 drag from equity issued for these projects (~60% of the ratebase, with half issued in 2022 and half in 2023). We expect the company to attain at least the midpoint of a 5%-7% EPS CAGR (vs 2021) by 2024. We continue to apply a 2.0x premium to the gas utilities for favorable regulatory jurisdictions and lower operational risk since the explosive incident in Lawrence Mass in 2018. We continue to value the electric operation in Indiana at a 2.0x premium for excellent operations and supportive regulation. Risks include 1) ROE risk related to the ongoing ratecases, 2) continued approvals relating to infrastructure replacement/grid modernization programs, 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particularly in the non-decoupled jurisdictions, 7) weather risk, 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety, 11) COVID-19 pandemic response load reduction, particularly at the electric utility.

Figure 4: NI Valuation

		BASE CASE			
	2022 EPS	Prem / Disc	Effective P/E	Equity	Equity / Sh
Electric	$0.54	2.0x	17.6x	$3,634	$9.44
Gas	$0.91	2.0x	16.0x	$5,613	$14.58
Earnings on renewables in 2024 (discounted to 2022) - need to account here as equity dilution hits first in 2022/23 but no AFUDC as these are turnkey projects	$0.19		16.6x	$1,238	$3.22
Other	($0.06)		16.6x	($368)	($0.96)
Total EPS	**$1.39**			**$10,118**	**$26.00**
Diluted Shares Outstanding					384.9
Dividend					$0.80
Implied Yield					3.1%
Current Yield					3.6%
Implied P/E					18.7x
Prem / (Disc) To Group					33.3%
Upside/ (Downside) to Current Price					17.4%
Total retirn					21.1%

Valuation, Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Eversource Energy (ES.N)

Method: Our UNDERPERFORM rating and $81 target price for ES are based on a sum-of-the-parts valuation on average peer utility 2021 P/E multiples. For the distribution segment, we apply a 1.0x premium for CL&P and NSTAR. We use a 1.0x premium for the Transmission segment as well. The Transmission segment deserves a premium multiple over average Electric Distribution because being FERC-regulated, the business is not subjected to local state regulation and enjoys a higher ROE for its investments. In our model, we assume a base ROE of 10% plus various incentives for transmission projects. We rate the stock NEUTRAL as we expect its total return to be in line with peers.

Risk: Risks to our $81 target price and UNDERPERFORM rating for ES are: Company Specific Risks from the potential for higher ROEs from the upcoming transmission ROE review, lower-than-expected costs and higher returns for offshore wind, and other risks:1) regulatory risk, 2) legislative risk, 3) commodity risk, 4) interest rate risk, 5) derivate risk, 6) load growth risk, 7) weather risk, 8) environmental and climate change risk, and 9) physical infrastructure and cyber security risk.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: We arrive at our $26 target price for NI by applying a 2.0x premium to the gas segment peer 2021 P/E to reflect the constructive regulatory environments with capex trackers in place in the jurisdictions that NI operates. We also apply a 2.0x premium to the average peer electric utility 2021 P/E multiple for NIPSCO Electric utility in Indiana to reflect the favorable ratebase growth profile and regulatory environment in the state. Our OUTPERFORM rating reflects a forecasted total return that is equal the group average.

Risk: Risks to our $26 target price and OUTPERFORM rating are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particulary in the non-decoupled jurisdictions, 7) weather risk, and 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety after the 2018 explosion incident in Mass. 11) COVID19 load reductions

15 October 2020

CREDIT SUISSE

Companies Mentioned *(Price as of 15-Oct-2020)*
Eversource Energy (ES.N, $91.83)
NiSource Inc. (NI.N, $23.3, OUTPERFORM, TP $26.0)

Disclosure Appendix

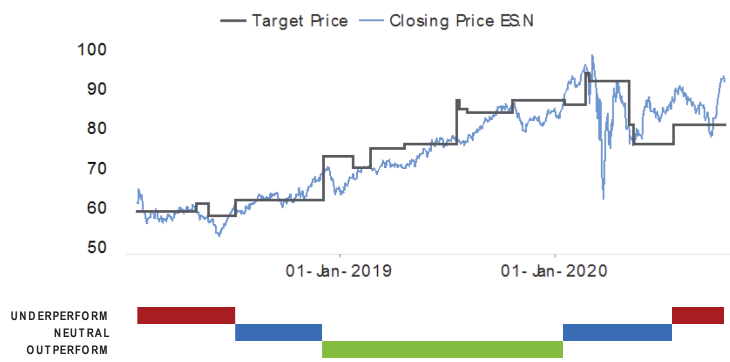
Analyst Certification

Michael Weinstein, ERP, and Maheep Mandloi each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Eversource Energy (ES.N)

ES.N Date	Closing Price (US$)	Target Price (US$)	Rating
23-Jan-18	61.12	59.00	U
03-May-18	58.87	61.00	
23-May-18	56.54	58.00	
09-Jul-18	58.46	62.00	N
04-Dec-18	68.95	73.00	O
23-Jan-19	68.30	70.00	
22-Feb-19	70.30	75.00	
21-Apr-19	69.96	76.00	
18-Jul-19	78.40	87.00	
22-Jul-19	76.91	85.00	
05-Aug-19	76.55	84.00	
21-Oct-19	86.14	87.00	
17-Jan-20	88.73	86.00	N
21-Feb-20	95.96	94.00	
28-Feb-20	86.46	92.00	
06-May-20	76.26	81.00	
12-May-20	75.67	76.00	
20-Jul-20	86.61	81.00	U

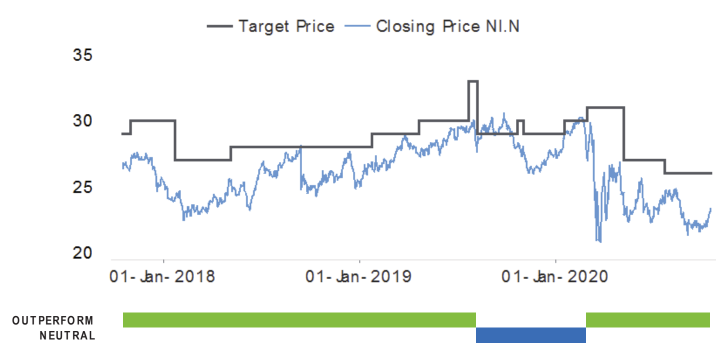
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
18-Oct-17	26.43	29.00	O
02-Nov-17	26.94	30.00	
23-Jan-18	24.17	27.00	
06-May-18	25.41	28.00	
23-Jan-19	26.83	29.00	
21-Apr-19	27.56	30.00	
22-Jul-19	29.14	33.00	
07-Aug-19	27.63	29.00	N
21-Oct-19	28.05	30.00	
01-Nov-19	27.65	29.00	
17-Jan-20	29.04	30.00	
28-Feb-20	27.02	31.00	O
05-May-20	24.53	27.00	
20-Jul-20	23.75	26.00	

** Asterisk signifies initiation or assumption of coverage.*



As of December 10, 2012 Analysts' stock rating are defined as follows:
Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European (excluding Turkey) ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin America, Turkey and Asia (excluding Japan and Australia), stock ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

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Restricted	1%	

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This research report is authored by:
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GUGGENHEIM

Power, Utilities & Alternative Energy

November 10, 2020

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Ticker	Price	Rating
AEP	90.26	Sell
ALE	57.87	Buy
CMS	66.14	Neutral
D	84.02	Buy
DTE	128.81	Buy
DUK	95.40	Buy
FE	29.52	Neutral
NI	24.11	Buy
OGE	32.66	Buy
PCG	10.42	Coverage Suspended
PNW	87.94	Buy
PPL	28.75	Buy

Guggenheim EEI Takeaways - Day Two

Monday Day 2: We met DUK, OGE, PNW, DTE, CMS, PPL, FE, AEP, D, NI, ALE, and PCG senior management. We'll recap key themes from our 2nd day of meetings at EEI below and go into company-specific topics further in the note. Discussions have centered largely around gives/takes with respect to each individual company's growth outlook, with a specific focus on the sustainability of capex into the 2020s; otherwise, **the key commonality across discussions with companies was the impact of COVID going into 2021, renewables opportunities, regulatory proceedings, potential M&A/ strategic opportunities, and the impact of the election.**

As a reminder, Day 3 (Tuesday) will include 1-on-1 meetings with EVRG, NEE, EXC, PEG, SO, ES, AEE, LNT, and NWE; and **Day 4 (Wednesday)** will include 1-on-1 meetings with ED, POR, SRE, and AVA.

Items worth noting from our management meetings include (see note for full details):

DUK - We met with DUK Chairman, CEO, and President, Lynn Good, for a discussion on the Carolinas IRP, NC rate cases, recently updated capex, the guide to the top-end of the growth range, and initial 2021 thoughts. DUK is set up well going into 2021 as it clears the remaining NC rate case hurdle, receives more clarity around potential legislation stemming from Gov. Cooper's working groups, and starts to execute its robust capital plan focused on the transition to clean energy.

OGE - We met with the full OGE leadership team, including CEO Sean Trauschke. OGE continues to recover through a tough weather and sales year in 2020, with 2021 looking like a return to normal. Capex plan reiterated, underpinning a 4-6% regulated growth story and the position on ENBL ownership remains the same (i.e., maximizing shareholder value).

DTE - We met with CEO, Gerry Norcia, CFO Dave Ruud and other leadership of DTE. The biggest focus for DTE is execution on the DTE Midstream spin-off, while recent updates including EEI provided an increasingly improving capex and financing plan supportive of the high end of 5-7% EPS long term growth.

CMS - We met with CFO Reggi Hayes, Garrick Rochow EVP of operations and the CMS leadership team. CMS continues its industry-leading performance on cost management and growth. No deviations from prior strategy as mgmt. continues to execute the "CE Way" for cost optimization and deliver a "firm 7%" growth rate.

PNW - We met with the full PNW leadership team, including CEO Jeff Guldner and CFO Ted Geisler. Rate case outcomes and the regulatory relationship remain key focus areas as the ACC looks set to change in '21, but long-term growth and decarbonization provide strong foundations regardless.

PPL - We met with PPL's CEO, Vince Sorgi and Kent Blake, CFO of the Kentucky utilities to discuss thoughts on strategic optionality around the WPD sale process and the more straightforward outlook for regulatory activity in Kentucky and at FERC.

FE - We met with the full FE leadership team, including CEO Steve Strah and CFO Jon Taylor and other senior executives. Management continues to work through the fallout of the HB6 investigation and the subsequent executive terminations, including building balance sheet flexibility into its 2021 plans. Details on the internal and external processes were unsurprisingly sparse.

AEP - We met with AEP Chairman, CEO, and President, Nick Akins, incoming Executive VP and COO, Lisa Barton, and other members of the AEP mgmt. team to discuss 2021 EPS guidance, the new capital plan that contains upside for renewables, an update on North Central Wind, rate cases, and other regulatory proceedings, views around the OH policy environment and HB6, and potential portfolio rotation/optimization.

D - We met with D CEO and President, Bob Blue, and EVP and CFO, Jim Chapman. Post GT&S sale, D is in execution mode – there is a defined strategy and now mgmt. must focus on moving through the regulatory processes and building projects on time and on budget.

NI - We met with NI President and CEO, Joe Hamrock, EVP, CFO, CAO, and Controller, Donald Brown, Chief Strategy & Risk Officer, Shawn Anderson, and other members of the senior management team. Portfolio optimization to offset equity needs related to the renewables investment was top-of-mind for investors and mgmt. provided some incremental color on how they are thinking about asset sales.

ALE - We met with the full ALE leadership team, including CEO Bethany Owen, CFO Bob Adams, Controller/CAO Steve Morris, and other members of senior leadership. Management was fresh off its 3Q20 call earlier in the morning, with NT growth challenges disclosed on that call our main focus, in addition to regulatory and customer considerations at MN Power.

PCG - We met with CEO Bill Smith and interim CFO Chris Foster and the PCG leadership team. PCG is in progress of leadership transition, working through post-bankruptcy challenges and wildfire mitigation improvements. We touched on several moving pieces on the overhangs to what moves towards a 10% rate base CAGR utility.

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GUGGENHEIM POWER & UTILITIES COMP SHEET

Figure 1: Guggenheim's Power & Utility Comp Sheet

Updated as of 11/9/2020

									Guggenheim						Consensus		
Regulated Electric Utilities [1]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	Earnings Per Share '20E	'21E	'22E	Price / Earnings '20E	'21E	'22E	Price / Earnings '20E	'21E	'22E
AEE	Ameren	20.5	Buy	$88	$83.04	2.5%	54%	247	3.45	3.83	4.06	24.1	21.7	20.5	24.0	22.0	20.7
AEP	American Electric Power	44.8	Sell	$78	$90.26	3.3%	64%	496	4.32	4.63	5.03	20.9	19.5	17.9	20.9	19.4	18.1
ALE	ALLETE	3.0	Buy	$62	$57.87	4.6%	72%	52	3.33	3.68	4.04	17.4	15.7	14.3	17.4	16.1	14.6
AVA	Avista	2.5	Sell	$28	$35.89	4.8%	82%	69	1.84	2.08	2.26	19.5	17.3	15.9	19.4	17.5	16.1
CMS	CMS Energy	18.9	Neutral	$63	$66.14	2.6%	61%	286	2.67	2.86	3.06	24.8	23.1	21.6	24.8	23.2	21.6
D	Dominion	68.5	Buy	$89	$84.02	3.0%	65%	816	3.54	3.88	4.15	23.7	21.7	20.2	23.8	21.7	20.4
DUK	Duke Energy	70.2	Buy	$102	$95.40	4.2%	75%	736	5.10	5.25	5.56	18.7	18.2	17.2	18.7	18.3	17.4
ED	Consolidated Edison	26.5	Neutral	$73	$79.28	3.9%	69%	335	4.24	4.50	4.75	18.7	17.6	16.7	18.7	17.6	16.8
EIX	Edison International*	23.0	Suspended	NA	$60.76	NA	NA	379	NA	NA	NA	NA	NA	NA	13.5	13.4	12.9
ES	Eversource Energy	32.1	Neutral	$91	$93.53	2.6%	62%	343	3.65	3.89	4.13	25.6	24.0	22.6	25.7	24.0	22.6
ETR	Entergy	21.9	Buy	$119	$109.15	3.6%	65%	200	5.66	5.97	6.34	19.3	18.3	17.2	19.5	18.4	17.3
EVRG	Evergy	13.2	Buy	$61	$57.99	3.8%	69%	227	3.03	3.22	3.43	19.1	18.0	16.9	19.3	17.9	17.0
FE	FirstEnergy	16.0	Neutral	NA	$29.52	5.5%	61%	542	2.56	2.66	2.79	11.5	11.1	10.6	11.6	11.3	10.7
HE	Hawaiian Electric	3.9	Neutral	$34	$35.62	3.9%	73%	109	1.70	1.90	1.99	21.0	18.7	17.9	21.2	18.6	17.3
LNT	Alliant Energy	14.1	Buy	$62	$56.63	2.9%	63%	250	2.43	2.57	2.70	23.3	22.0	21.0	23.3	21.9	20.8
NWE	NorthWestern	2.9	Neutral	$54	$57.34	4.3%	69%	51	3.30	3.60	3.77	17.4	15.9	15.2	17.2	16.0	15.1
PCG	PG&E Corporation*	20.7	Suspended	NA	$10.42	NA	NA	1985	NA	NA	NA	NA	NA	NA	6.5	10.3	9.3
PNW	Pinnacle West	9.9	Buy	$92	$87.94	3.8%	66%	113	5.11	5.11	5.40	17.2	17.2	16.3	17.5	17.5	16.7
POR	Portland General Electric	3.8	Buy	$43	$42.64	3.9%	67%	90	1.45	2.52	2.70	29.4	16.9	15.8	27.3	16.5	15.7
PPL	PPL Corporation	22.1	Buy	$31	$28.75	5.9%	68%	769	2.43	2.50	2.62	11.8	11.5	11.0	11.9	11.7	11.1
SO	Southern Company	65.8	Neutral	$57	$62.32	4.2%	78%	1056	3.21	3.35	3.57	19.4	18.6	17.5	19.6	18.8	17.6
WEC	WEC Energy	32.8	Neutral	$91	$103.83	2.6%	67%	315	3.75	3.98	4.26	27.7	26.1	24.4	27.7	25.9	24.3
***Average (Excl. PPL for P/E)**						**3.7%**	**67.5%**					**21.0**	**19.0**	**17.9**	**20.9**	**19.1**	**17.9**

Regulated Gas Utilities [2]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'20E	'21E	'22E	'20E	'21E	'22E	'20E	'21E	'22E
CPK	Chesapeake Utilities	1.8	Neutral	$95	$102.74	1.7%	37%	17	4.08	4.58	4.95	25.2	22.4	20.8	25.0	22.8	21.5
NI	NiSource	9.2	Buy	$27	$24.11	3.8%	67%	383	1.32	1.35	1.47	18.3	17.9	16.4	18.5	17.9	16.8
NJR	New Jersey Resources	3.2	Neutral	$29	$33.34	4.1%	61%	96	2.05	2.24	2.37	16.3	14.9	14.1	16.1	14.4	13.9
NWN	NW Natural Gas	1.4	Sell	$39	$46.97	4.1%	76%	31	2.28	2.55	2.64	20.6	18.4	17.8	20.7	18.4	17.9
OGS	ONE Gas	3.9	Neutral	$77	$73.50	3.2%	60%	53	3.58	3.87	4.16	20.5	19.0	17.7	20.4	19.1	17.6
SJI	South Jersey Industries	2.2	Buy	$27	$21.54	5.6%	72%	101	1.57	1.67	1.79	13.7	12.9	12.0	13.8	12.9	12.7
SR	Spire	3.2	Neutral	$57	$61.73	4.3%	66%	51	3.73	4.04	4.24	16.5	15.3	14.6	16.5	15.2	14.5
Average						**3.8%**	**62.7%**					**17.7**	**16.4**	**15.4**	**17.7**	**16.3**	**15.6**

Integrated Utilities [3]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'20E	'21E	'22E	'20E	'21E	'22E	'20E	'21E	'22E
EXC	Exelon	42.3	Neutral	$42	$43.32	3.8%	55%	976	3.10	2.96	2.97	14.0	14.6	14.6	14.1	14.6	14.3
PEG	PSEG	30.5	Buy	$65	$60.38	3.4%	61%	506	3.45	3.40	3.49	17.5	17.8	17.3	17.7	17.8	17.5
Average						**3.6%**	**58%**					**15.7**	**16.2**	**15.9**	**15.9**	**16.2**	**15.9**

Independent Power Producers (IPPs) [4]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'20E	'21E	'22E	'20E	'21E	'22E	'20E	'21E	'22E
NRG	NRG Energy	7.8	Buy	$45	$31.92	4.1%	-	244	1,995	1,949	1,890	6.2	5.9	5.8	6.7	6.3	6.4
VST	Vistra Energy	9.2	Buy	$34	$18.91	3.0%	-	489	3,595	3,238	3,304	5.1	5.4	5.1	5.2	5.7	5.7
Average												**5.6**	**5.7**	**5.4**	**6.0**	**6.0**	**6.0**

Multi-Industry Utilities [5]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'20E	'21E	'22E	'20E	'21E	'22E	'20E	'21E	'22E
CNP	CenterPoint	12.9	Buy	$26	$23.73	2.6%	44%	545	1.35	1.42	1.51	17.6	16.7	15.7	17.9	17.5	16.4
DTE	DTE Energy	24.9	Buy	$138	$128.81	3.3%	59%	194	7.05	7.25	7.59	18.3	17.8	17.0	18.4	18.1	17.6
NEE	NextEra	147.9	Buy	$335	$75.51	7.6%	57%	1959	9.18	10.06	10.88	8.2	7.5	6.9	33.0	30.2	27.9
OGE	OGE Energy	6.5	Buy	$36	$32.66	5.2%	76%	200	2.04	2.24	2.34	16.0	14.6	14.0	15.7	14.8	14.1
SRE	Sempra Energy	37.6	Buy	$155	$130.39	3.5%	56%	288	7.69	8.17	8.73	17.0	16.0	14.9	17.1	16.2	15.4
Average						**4.5%**	**58.5%**					**15.4**	**14.5**	**13.7**	**20.4**	**19.4**	**18.3**

Other		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'20E	'21E	'22E	'20E	'21E	'22E	'20E	'21E	'22E
AWK	American Water Works	29.4	Neutral	$141	$162.33	1.4%	55%	181	3.91	4.26	4.65	41.5	38.1	34.9	41.9	38.3	35.5

		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'20E	'21E	'22E	'20E	'21E	'22E	'20E	'21E	'22E
ARRY	Array Technologies	5.3	Buy	$54	$42.00	-	-	127	157	168	190	36.6	33.8	29.9	34.7	32.3	28.4
CWEN	Clearway Energy	6.8	Suspended	NA	$29.30	NA	-	183	NA	NA	NA	NA	NA	NA	11.3	10.9	10.4
NEP	NextEra Energy Partners	4.3	Buy	$71	$65.87	4.0%	-	73	1,294	1,532	1,660	6.9	6.7	6.3	11.8	10.8	10.6

(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.

(2) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).

(3) Integrated utilities own and operate regulated T&D franchises, as well as un-regulated power generation with commodity exposure.

(4) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.

(5) Mult-Industry Utilities operate some comibination of regulated electric and/or gas utilities, in addtion to substantial non-power unregulated activities (i.e. midstream, renewable development, energy trading, etc.).

Source: Bloomberg, Guggenheim Securities, LLC estimates.

DUKE ENERGY (DUK)

We met with DUK Chairman, CEO, and President, Lynn Good, for a discussion on the Carolinas IRP, NC rate cases, recently updated capex, the guide to the top-end of the growth range, and initial 2021 thoughts. DUK is set up well going into 2021 as it clears the remaining NC rate case hurdle, receives more clarity around potential legislation stemming from Gov. Cooper's working groups, and starts to execute its robust capital plan focused on the transition to clean energy.

- **We met with DUK Chairman, CEO, and President, Lynn Good. DUK is on a path to resolve the remaining uncertainties around the story by early next year, most notably the NC rate cases, and is set up well to start delivering on its robust plan going into 2021, in our view.** Mgmt. has been highly visible in the past few months and messaging was consistent with our recent investor group call with CEO Lynn Good (see our note HERE), the ESG Investor Day (see our note HERE), and the third quarter call (see our note HERE). **Mgmt. is looking forward to a clean 2021 where they will ramp up capital investment in the grid and renewables, potentially see incremental policy/regulatory support, and a recovery of the economy coming out of the pandemic.**

- **LT EPS growth of 6% *per annum* driven by solid ~7% rate base growth is strong, sustainable, and still contains some upside.** Mgmt. highlighted the stable profile of the plan and its ability to deliver 6% EPS growth per year driven by modular, low-risk projects with no binary projects or lumpy spending years. **There are still incremental opportunities – mgmt. highlighted the need for additional investment in distribution that is perpetual and the cancelation of ACP has left DUK short gas in their NC territory.** Mgmt. included ~$750M of gas LDC expansion capital in their 2Q update to support new customers in their Piedmont territory in East NC. The spend does not need regulatory approval and mgmt. is still cementing the types of projects that will be targeted. On the electric side, the IRP assumes there is ample gas supply and DUK is reviewing their options – one option is tying into MVP but it is dependent on the risk/reward of where the project stands and how that project fits into their timeline.

- **Drivers in 2021 set up to deliver EPS guidance in excess of the conservative $5.15 number laid out in the past two earnings calls.** The $5.15 EPS number for 2021 is a floor and assumes a less constructive outcome in the Carolinas rate case (i.e., no recovery on coal ash), and does not give credit for O&M levers that can be sustained into 2021 among other items including incremental upside from GRC filings, NC legislative initiatives, and ACP substitution spend. There are multiple items that still need to be resolved to be able to issue firm guidance and we should have more clarity leading up to the year-end call in Feb. (i.e. rate case outcome at the end of the year/early next year and Gov. Cooper's working group report before year-end).

- **Strong interest around a 70% carbon reduction path in NC and momentum behind offshore wind is building.** Mgmt. indicated they are seeing more support around the 70% carbon reduction goal by 2030 and noted they are looking to find the balance between environment, reliability, and price. The Gov. has set the goal of 70% carbon reduction, and the carbon policy group plans to issue a report by year-end. **Offshore wind seems like the most likely path.** Mgmt. stated there is enthusiasm and momentum around the prospects of offshore wind and, at this time, the technology is far ahead of SMR. Even though the SMR path has a lower revenue requirement, the resource is still in its infancy stage. As a reminder, the NC, MD, and VA Governors recently signed an MOU to drive the advancement of offshore wind in the Mid-Atlantic **(see our daily take HERE). Gas is an important portion of the IRP and stakeholders are generally in support of the fuel given DUK's analysis.** The "no new gas" path requires coal to operate for longer which caused environmentalists to realize the importance of the generation resource in the transition to clean energy.

- **What about alternate regulation in NC? Gov. Cooper's working groups to release a report by year-end that could spring legislation next session – more timely recovery of expenditures or other support could move LT EPS growth north of the current range.** Gov. Cooper's Clean Energy Plan includes instruction to look at regulatory options to enable and incent the transition to clean energy. The alternate regulation group is expected to issue a report and recommendation by year-end that could help inform legislation next year. The group is looking at a balanced solution that incentivizes investment while maintaining customer affordability. **Mgmt. believes that regulatory reform that would accelerate investment and recovery could be potential upside to the top end of the 4-6% guidance range.** It is unclear what this legislation and regulation may look like, but mgmt. mentioned multi-year rate plans, performance-based rates, decoupling, etc.

- **No surprise from the post-hearing briefs filed in the DEC rate cases last week.** Mgmt. expected the positions presented in the post-hearing briefs and is now awaiting direction from the commission and an order by the end of this year/early next year for DEC with DEP expected by mgmt. shortly after. **Coal ash will remain contentious at least until the NC Supreme Court provides directive in Dec. – hearings spur the analysis of alternative recovery options.** A settlement prior to the Dec. 11 date when we expect the NC Supreme Court to release its opinion on the coal ash recovery issue is still highly unlikely. DUK responded to the commission's request to provide alternate recovery scenarios positively, in mgmt.'s view, and believes the commission is doing its due diligence in exploring all options available **(see our daily take on the alternative options HERE)**. As a reminder, recovery of but no return on coal ash expenditures would cause the ratings agencies' calculation of FFO/Debt to drop 100bps which would be below the downgrade threshold. DUK would not attempt to fight the downgrade with more equity but rather operate at the lower rating with increased financing costs passed to customers. **Mgmt. is still assessing how the ratings agencies would view a debt-like return on coal ash (rather than the current WACC return).**

- **Optimism around the approval of the FL Clean Energy Connection program – a number of stakeholders are at the table in support.** Mgmt. displayed confidence in the approval of a voluntary solar program, the Clean Energy Connection Program, for DEF stating a number of intervenors in the case have voiced their support. The program would expand renewables in the state and has a low income element making it non-contentious for most parties. As a reminder, there is a hearing scheduled on the case on Nov. 17. **DEF is still working through the items that will be included in the multi-year rate plan that will be filed next year, but it should include ongoing investment toward aging infrastructure, energy storage, and the CEC program while the Storm Protection Program will cover the infrastructure hardening and resiliency.** The filing will be made around the end of 1Q21 and will set DEF up for the next 2-3 years.

- **DUK continues to monitor COVID-19 and assumes a 1-2% recovery in sales in 2021.** The sales guide for 2021 is conservative in our view and does not assume a full recovery to 2019 levels. The bottom line impact from the pandemic has been consistent with plan as the customer class mix has shifted. Mgmt. noted that they are watching the potential for increased lockdowns given the election results.

- **Moody's outlook revision comes as no surprise – the agency assesses their outlook annually in the fall.** As a reminder, Moody's revised Duke Energy Corp (Baa1), Duke Energy Carolinas (A1), and Duke Energy Progress (A2) ratings outlook to negative from stable driven by substantial capex coupled with the potential for a negative outcome on coal ash recovery in DEC and DEP's ongoing rate cases. The revision was expected as Moody's was hinting at it earlier this year and the timing makes sense given the agency reviews their outlook annually in the fall. No change on equity messaging – DUK will take the notch downgrade if the coal ash outcome is negative and operate at the same rating as a lot of their peers – i.e., will not issue equity to support the current ratings.

- **Compelling standalone plan and growth program delivers value to shareholders, making a sale of the business unlikely, in our view.** Mgmt. is building on their position to deliver a robust dividend and visible low-risk returns… further regulatory initiatives and an acceleration of the transition to clean energy would only strengthen their position causing us to believe that a sale is highly unlikely (see our note on the NEE/DUK merger headlines HERE).

OGE ENERGY (OGE)

We met with the full OGE leadership team including CEO Sean Trauschke. OGE continues to recover through a tough weather and sales year in 2020, with 2021 looking like a return to normal. Capex plan reiterated, underpining a 4-6% regulated growth story and the position on ENBL ownership remains the same (i.e., maximizing shareholder value).

- **We met with the full OGE leadership team, including CEO Sean Trauschke, catching up on Covid recovery in Oklahoma, long-term prospects for regulated growth and strategic positioning around ENBL.** OG&E utilities remain fundamentally sounds, with good customer growth as a leading indicator of load recovery. Mgmt. remained guarded on strategic options for ENBL but ensured that the company always looks to maximize shareholder value.

- **Tough 2020, but ex-weather would trend top end of guidance; 2021 setting up for a cleaner year.** In terms of economic recovery post-Covid, OGE noted that on a monthly basis commercial has started to see first months that show growth year over year, which if sustained is a constructive indicator for 2021. **OGE has continued adding customers year over year,** so assuming average load per customer doesn't change (no reason to assume it would), the fundamentals remain intact. The one customer class still waiting for recovery is public authorities like schools which are on delayed reopening schedule. All things said, OGE acknowledged that excluding weather in 2020, results would be trending at or above the top end of the original guidance, so a return to normal weather and ~$20M of recurring cost savings would bring 2021 back in line with the original 4-6% trajectory.

- **For OGE mgmt., views on ENBL have not changed – mgmt. will pursue value for shareholders but does not necessarily think about the business as anything other than a regulated utility.** OGE remains in a different strategic position on ENBL than its partner CNP, who is taking an "everything on the table" approach to business review. OGE has no parent leverage on ENBL ownership (implicit or explicit), credit metrics remain strong (north of 18% FFO/D) and the investment is treated purely as a cash-on-cash source (i.e., no control, no mgmt. capacity drain). **When asked, mgmt. commented on the past ROFO as just a strategic attempt to get CNP out of the partnership at the time**, but OGE expressed it had and has no interest in owning more ENBL. The relationship with partners has improved since then and mgmt. does not feel the need to make any sporadic strategic decisions. Tax basis is a hurdle, and any potential alternatives have a lot of complexity as scenarios are weaved; with OGE not having any public stance other than shareholder value maximization, mgmt. feels no need to discuss.

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See pages 46 - 47 for analyst certification and important disclosures.

- **4-6% growth underpinned by constructive regulatory environment; more frequent discrete filings set up well for incremental capex deployment.** OGE noted a good cadence of regulatory filings in Oklahoma, which is done by design with smaller, simpler cases. This type of filing strategy is moving similar to a formula rate construct but with incremental steps. Mgmt. does not see it helpful in the regulatory arena to put forward lumpy capex plans of billion dollar projects, noting the goal is to limit the amount of large filings, but **working with regulators every year at reassessing system needs – mgmt. sees potential to ratchet up individual programs.** Overall, OGE sees investment opportunity as various investment programs roll forward.

- **Future capex mix – OGE prefers wires T&D.** OGE noted that after the recent environmental and generation investments, the utility wants to minimize investments in generation needs and would rather spend on customer facing projects (i.e., wires). While the approval establishing Grid Mod was not what OGE wanted (reduced scope and timeframe), it does help get a foot in the door with regulators to **prove the concept and subsequently grow into a larger Grid Mod program** in future years. Additionally, OGE called out **system hardening, which could be a beneficial program to expand capex** given the recent weather events and would be covered under a rider mechanism. The 9.5% ROE settled in the prior rate case was initially viewed as low but is now seen as more balanced given the rate environment; while intervenors can argue lower, **OGE has not seen messaging from commission on wanting a lower ROE**. Lastly, on the remaining generation opportunities, OGE will look for some marginal MWh of renewables volumes but reminded investors that there are still capacity obligations which are not well satisfied with intermittent resources.

DTE ENERGY (DTE)

We met with CEO, Gerry Norcia, CFO Dave Ruud and other leadership of DTE. The biggest focus for DTE is execution on the DTE Midstream spin-off, while recent updates including EEI provided an increasingly improving capex and financing plan supportive of the high end of 5-7% EPS long term growth.

- **We met with CEO, Gerry Norcia, CFO Dave Ruud and other leadership of DTE.** DTE continues to show constructive signals on the core regulated business and building contingency for 2021, with a 3Q capex raise and the new EEI financing plan showing lower equity needs. The DTE Midstream segment is performing well, with opportunities for accretive growth investments and mgmt. believes will set up for a successful spin out.

- **How will DTE Energy look post-spin: 90-10 regulated mix, with P&I rounding out the mix and still complementary to the core business, but not precluding further optimization.** The decision for the spin has been long-contemplated as far as before the Haynesville asset acquisitions, which mgmt. bought with the commodity improvement and scale-building thesis, both of which played out to mgmt. expectations. While DTE and the board contemplated both a sale and spin, the spin was more efficient for tax leakage, allow current shareholders to participate in the rebound from the bottom of the business cycle for midstream as well as the business expansion that is embedded in the GS&P business plan. Overall, DTE mgmt. is currently planning to reach 8-10% dividend growth through post spin (2021-2022) on an equivalent basis for “remain co” and “spin co”. Since the transaction was contemplated for ~2 years, mgmt. noted a variety of investor feedback including existing shareholders, but offered no visibility on activist involvement or current activist economic interest. **Speaking to the “core” status of the remaining unregulated business (P&I), mgmt. believes there are some complementary qualities**, but did not preclude further optimization or providing more in-depth disclosure to highlight earnings quality and fit.

- **Strong 2020 year, reinvestment and recurring O&M flex setting up for strong 2021 regulated base year. DTE provided insight into current economic dynamics for the service territory, citing c**ommercial and industrial customers that are adjusting well to Covid operations with less reported transmission than bars and restaurants. There are no new orders on shutdowns from the governor, so the balance of the year looks stable. Residential load continues to drive earnings benefits due to higher segment margins**. Mgmt. also does not see a lot of moderation for residential load going into 2021 as people are generally expected to stay home** as employers keep remote work plans active. DTE is building contingency into 2021, probably more than 2020 per mgmt. as strong 3Q weather allows for reinvestment, with recurring benefits from 2020 starting to allow for pull forwards out of 2022.

- **Post spin 5-7% growth for utilities and P&I; potentially at high end in the near term.** DTE sees the 2021 post spin regulated growth around 7.4%, with some slight drag from equity converts, REF earnings decline and near term dis-synergies form the spin, but reaching a more steady state in the second half of the 5 year plan. Most shared services costs are already allocated to GS&P and mgmt. will transfer those along with the spin, with any remaining costs / capacity absorbed by the "remain co" growth. In the end, **DTE is confident in providing investors with LT 5-7% EPS growth, but there is a historical level of contingency embedded, so if is not activated, that takes EPS closer to the 7% mark**; mgmt. noting that the back end of the plan is conservative. The near term drag from declining REF earnings is likewise being addressed at the P&I segment with a handful of projects on DTE's desk for final approval; mgmt. expects to fill the $15M backfill target for 2021, noting the 3-5 year cash payback on the projects.

- **Capex visibility and updates? Mgmt. always looking to add to the tail end. Time for an Analyst day? Not yet…** The post Spin capex allocation is predominantly regulated utility spend, executing on the $17B (+$2B added on 3Q) capex plan. Visibility on existing and incremental capex remains high, even as DTE added a lot of electric capex like substations, transmission and distribution rebuilds. **Mgmt. looks forward to potential investment on the gas side such as compressor rebuilds and large diameter high pressure replacement as the assets are starting to reach 60+ years of age,** but would need to get creative in terms of headroom on rates before any formal plan inclusion. Mgmt. elaborated on the MPSC support for these programs as they have been a part of the annual filings and have received positive reception from Staff as long as rates are managed to a 2-3% increase. **The associated financing needs are being negated through credit metric accretion of improved business mix**; credit agencies looking to lower metric thresholds from 18% to 16% FFO/Debt. The equity plan presented at EEI is lowered from $100-400M to $0-200M for 2021, with another $0-200 in 2023. While tax reform outcomes are far from determined, higher tax certainly lowers equity needs, but also puts some pressure on customer rates.

- **Decarbonization at DTE – Michigan is supportive but currently moving pieces beyond plan.** While the remaining coal assets were proposed to be retired in 2030 and 2040, the MPSC order on the IRP required DTE to analyze accelerated retirement, which will be addressed in the 2023 plan. Mgmt noted the analysis is in progress, and while 2023 will be the next formal filing, the new plan could come sooner. From a statewide perspective, DTE is active in the MI Healthy Climate Plan, providing feedback to the stakeholder council and the plan lines up well with DTEs net zero goals. **Future decarbonization opportunities include hydrogen and DTE sees hydrogen value likely in the electric utility value chain** as complementing gas supply is more speculative (due to heat value and technical requirements). Mgmt noted feasibility studies for carbon sequestration and regulatory constructs will determine the involvement going forward.

CMS ENERGY (CMS)

We met with CFO Reggi Hayes, Garrick Rochow EVP of operations and the CMS leadership team. CMS continues its industry-leading performance on cost management and growth. No deviations from prior strategy as mgmt. continues to execute the "CE Way" for cost optimization and deliver a "firm 7%" growth rate.

- **We met with CFO Reggi Hayes, Garrick Rochow EVP of operations and the CMS leadership team to catch up on 2020 recovery, inputs into 2021 and some of the longer term considerations for CMS capex plans and opportunities on decarbonization.** Fundamentals remain strong and consistent execution continues to keep CMs on track for a perpetual 6-8% growth with conservatism (i.e., "firm 7%). On the strategic side, CMs is comfortable with the 90% regulated mix, with the balance being Enerbank (serving affluent construction loans) and Enterprises (long term contracted assets). On the question of value of Enerbank, mgmt. noted the segment has manageable beta and no reason to seek strategic options at the bottom of the rate cycle.

- **Trending to a strong finish to 2020, reinvesting 2021, mgmt. appeared confident in a "firm 7% NT growth".** 2020 recovery has been tracking well, CMS noting economic activity very close to pre pandemic level: companies are able to follow CDC guidelines and have seen good resilience in supply chains and activities. CMS has seen continued growth across the service territory in consumer goods manufacturing, auto related manufacturing investment, corporate offices expansion and new homebuilding (up 2%). Residential energy use has introduced a new dynamic and CMS noted a number of companies anticipate a portion of workforce to remain at home, creating sustained residential load. Given the rates were set in February 2020, there is likely to be benefits of the residential load in 2021 before rates are rebalanced in the next rate case. **Building on the fundamental recovery are CMS contingency actions, namely the ~$100M saved in 2020, that mgmt. expects to be ~50% recurring** in 2021. The benefits of a strong 2020 likewise have enabled some reinvestment to start, creating further contingency against 2021 headwinds.

- **CMS previously presented one of the longest investment outlooks among peers: 5 year distribution plan, 10 year gas plan, 20 year IRP. Our meeting reinforced the capex runway and clarified the trigger points for incremental opportunities – balance sheet and affordability.** CMS already identified a $3-5B capex upside, with mgmt. highlighting that those numbers include only bottom up projects with high visibility, noting that CMS does not have a need to "find capex", the needs are already there. The constraint for increasing capex is balance sheet and affordability; as CMS sees cost savings, those can be reinvested. Energy waste reduction (i.e., EE) is another way to make room for investment as the programs lower customer bill and wallet share due to lower usage. This approach has resonated with the MPSC as the conversation with MPSC staff is always about efficiency of new capital deployment and CMS has quantifiable examples to such effect. **Mgmt. noted the unseen element of building capex plans in that every plan that gets presented is built on monthly meetings with Staff to show the why and how of the end results.**

- **Accelerating renewables? – yes, but ride the cost curve down.** CMS agreed with the thesis of increased renewables penetration as economics become more advantageous, but there is no step function change in investment. **CMS would rather integrate renewables gradually and realize benefits of a downward slipping cost curve over time.** CMS has multiple voluntary renewables tariffs and could include some expansion of the access programs as well as a potential filing for more RNG integration. Mgmt noted that the **energy storage play is a big difference going into the next IRP** as prices come down. Likewise, the next IRP would look at some early retirements at Campbell 1-2 (depending on replacement resources and balance sheet implications, securitization, etc.). On the contracted renewables ownership, CMS prefers a “crawl before you walk” type of investment; no appetite for billion-dollar projects, looking more for existing customer relationships on PPAs and supporting those needs.

- **Long term growth remains a 6-8% story with a bias to a “firm 7%”, helped by above authorized ROE incentives, equity needs modest.** The capex plan continues to support the LT 6-8% growth with a “strong bias to the midpoint”, although as we note continued O&M flex has allowed for execution at or above that target. **CMS has mechanisms of earning above authorized ROEs which help drive some incremental growth in EPS, but not beyond the “firm 7%”.** CMs earns a renewables incentive 10.7% on investment towards MI RPS, energy efficiency incentive that provides ~30-40bp above authorized; demand response ~5-10bp and ~5bp for earning on PPAs. There has been no indication from the governor or legislature on any changes to energy policy or incentives. **The equity needs on the back end are not huge compare to peers’ ~6% of capex and mgmt. does not envision any steady-state changes.** The tax reform recipe is already in place in MI from a regulatory standpoint based on the TCJA tax cuts, so the effects would likely be easy to flow through, in our view. CMS OCF went down around ~$200M and lost 150-200bp of FFO/debt; going to a 28% tax rate would reverse roughly half of the effects. Bill impacts were ~3% and reversal would bring back around 1.5% increase, but CMS would plan to negate the bill impacts through O&M offsets.

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PINNACLE WEST (PNW)

We met with the full PNW leadership team, including CEO Jeff Guldner and CFO Ted Geisler. Rate case outcomes and the regulatory relationship remain key focus areas as the ACC looks set to change in '21, but long-term growth and decarbonization provide strong foundations regardless

- **Our meeting with PNW management, which included CEO Jeff Guldner and CFO Ted Geisler, focused heavily on the ongoing rate case and efforts to improve relations with both the ACC and other stakeholders like the Navajo Nation.** Rebuttal testimony was filed only this past Friday, and while management was understandably limited in what it could discuss regarding specific details of the case, they did indicate that they saw Staff's previous initial testimony as constructive. We asked about the potential for a settlement given hearings are next month and the window of opportunity is potentially shrinking, with management acknowledging that while they continue to seek opportunities for compromise with other parties, the prospects get more challenging as parties get further into the testimony preparation phase ahead of hearings. **The Rebuttal testimony includes a renewables tracker proposal, robust transition assistance for the Navajo Nation, and some tampered asks on metrics – injecting interesting dynamics into the process.** Management indicated in our meeting that it is keenly watching for feedback on the tracker proposal. Synergistic to that is the Navajo transition plan, which includes a suite of financial and labor assistance to the Nation as Four Corners' deactivation approaches. The support of the tribe going forward for things like the tracker could be an important driver as the current case progresses in our view, and also as proposals like securitization of undepreciated balances come up in the future. On that latter item, securitization, management noted in our conversation that there is precedent in the past for regulatory assets for retired plants and that it remains open to looking at it given the existing opportunities to recycle the capital into decarbonization growth. Management also emphasized that it sees value in the transition proposal from a de-risking standpoint, as it removes potential unknown costs from the planned coal exit. Finally, on a more specific note, we also asked about bid-ask on the fair value increment, with management generally of the view that it takes a holistic approach to its revenue requirement, and while the FV increment can decline, other aspects of the requirement build up could prove constructive.

- **New faces coming to the ACC but Republicans appear headed for control… Marquez Peterson could become a key swing vote…** With greater clarity on a likely Republican majority in 2021 and beyond, management was of the view, supported by other reports we have seen (e.g., HERE), that the election sets up Marquez Peterson to serve as an interesting vote to watch on many policy issues. **Specifically, management was of the view that Commissioner Olson and**

Commissioner-elect O'Connor are generally skeptical of specific renewables mandates, while Marquez Peterson has voted for zero carbon targets while voicing trepidation on resource-specific mandates and policies like retail competition. On the question of whether a Chair Olson could mark a strong departure from Chair Burns, management did not have a strong view, and instead reiterated its commitment to work with all parties. Finally, we asked on how the previously-filed IRP could be viewed by the new commission, with management highlighting that the currently-proposed energy rules package includes a more formal process that would have the ACC actually approve an IRP vs. just acknowledge. The company remains supportive of that change given the clarity and investment policy alignment it brings.

- **2021 drivers, next rate case timing, equity needs, and the 4Q capex roll all have linkages to the current case…** While management is understandably withholding 2021 guidance while it continues to work through the current rate case, we asked whether the pull forward of O&M from 2021 to 2020 discussed on the 3Q20 call could have read through to how we should be thinking about general guardrails for the upcoming year. Here management emphasized that while the shift helps de-risk for mild weather in 2021, it should not be thought of as a 1 for 1 reduction in costs. The outcome and timing of the case will also have implications for when management files again and potentially issues equity, with the company again reiterating the potential for $300-400mm before the next case to keep the equity layer in line with the ask. We asked about a preferred method, but management indicated that it depends on timing and market levels. The current proposal in rebuttal testimony for a renewables tracker (the Advanced Energy Mechanism) could also have an impact on management's timing and need to file in late 2021. Without it, the robust renewables buildout could require frequent filing to avoid lag. **Turning to the capex program, based on our broader conversation, we expect storage could continue to feature prominently in future rolls,** especially as the company gains comfort with the resource over the course of its *current* 300MW/year deployment program. **Finally, we also touched on the investment program at Bright Canyon, which management expects to remain a minor contributor to net income.** The group continues to pursue incremental opportunities, like microgrids and renewables, that align with PNW's existing core competencies.

- **Economic growth remains strong despite COVID, drivers are more diverse versus prior downturns… EIM membership continues to drive savings and bill headroom…** The strength of the AZ economy in the face of COVID remains an area of interest for investors, and PNW continues to see robust growth from a diverse base of residential and commercial economic growth. For example, data centers continue to come into the West Valley region, further diversifying versus prior cycles that were highly dependent on things like residential construction. Finally, we note that management remains pleased with how the EIM has afforded APS the ability to pass savings on to customers, with the concurrent benefit of bill headroom and more flexibility on investment opportunities. While the products and offerings of the EIM may evolve in the coming years, management still does not envision an evolution to a full-blown RTO – not a major surprise.

PPL (PPL)

We met with PPL's CEO, Vince Sorgi and Kent Blake, CFO of the Kentucky utilities to discuss thoughts on strategic optionality around the WPD sale process and the more straightforward outlook for regulatory activity in Kentucky and at FERC

- **WPD sale continues to run on schedule, management strikes a positive tone on the process to date.** While management was understandably limited on what it could say regarding specifics, they did note that sale process to date has been going according to the initial high expectations, with the bidders exhibiting a high degree of quality. Contrary to some medial reports, the process is not yet at a point where PPL is getting indications of value, however they laid out several items of note that they see as supportive of things from a high level. These include the broad interest from infrastructure funds in assets like WPD's, and the domestic improvements both on the regulatory and political sides. The CMA's earlier decision on Ofwat's returns was one example, as were the government's upcoming decarbonization whitepaper and Ofgem's upcoming GT/ET/GD final determinations.

- **Transaction logistics like timeline to close, hedging of proceeds, and other details remain in flux…** Management indicated that a 1H21 close remains the target, with the timing therein partially dependent upon the acquirer's own closing timeframe. Management pointed to its own 30 day close on Central Networks as an instructive example, with a clean buyer potentially able to replicate that time frame – meaning an announcement in 2Q21 and a close by the end of the quarter. Ownership of existing assets in the UK could potentially slow the process slightly, but management was generally of the view that it does not envision closing conflicts. On the question of hedging, the company indicated that it continues to work through the logistics. Options here are generally the same as the normal course of handling WPD earnings today, including options, forwards, or some combination of the two. Management also pointed out that the possibility of a US asset swap would also change the need for potential hedging scenarios. On the subject of a swap, management noted that it does not envision a like-kind exchange given WPD is a foreign asset.

- **Use of proceeds? Management has a base case, but possibilities open up from there.** As noted on the 3Q and earlier conversations, management's base case remains a delevering of the remainCo to FFO/debt in the mid-teens, with holdco debt below ~30% of total. The remainder of any WPD proceeds would then be put towards buybacks. The company indicated it is also open to alternatives that present better value, including acquiring US utilities. What does this mean? Management indicated that its initial preference is for electric utilities given its current mix and decarbonization, but electric/gas utilities also present opportunities, as do renewables. On the subject of gas LDCs, management noted that they are not a top choice, but they are also not

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excluding them as a possibility. We did not get a sense that there were particular regions or constructs that management would target, with management emphasizing instead it looks for opportunities to bring its operational excellence playbook to bear. Midstream and competitive generation remain out of bounds, but some expansion at the Safari Energy subsidiary (primarily C&I solar) is also under consideration. **Finally, we also asked about the dividend policy for the remainCo,** with management responding that it will continue to target its 60-70% payout, but otherwise it is still too early to predict given there are still many possibilities for what remainCo actually looks like (i.e., stateside M&A). In the event there were not concurrent M&A, management indicated it would adjust to the base case and proceed from there.

- **Rate case filing and IRP process point to an active 2021 regulatory cycle in Kentucky…** As discussed on the 3Q call, the Kentucky utilities are expected to file a rate case on or about November 25th for rates that would begin 7/1/2021. The request would be based on revenues for a year begging that day. Given the filing has not been formally made yet, management was hesitant to provide detailed specifics, but in line with its notice the filing is expected to include another request for AMI deployment. Management indicated that investors should be on the lookout for additional details around mid-late November in advance of the formal filing. Importantly, the proposal will include a credit to customers to return over the course of a year some accrued regulatory liabilities. This will have a dampening effect on the rate impact for the first year of the proposed increase, which management sees as important for a customer base still expected to be emerging from the repercussions of COVID. The IRP meanwhile will be filed in October of next year, with a 15 year look forward. Given the time frames in question there will be little interaction with the current case, although management expects to see ongoing discussions around portfolio optionality. The company remains very aware of the ESG implications of the KY coal fleet in our view, with noted enthusiasm for potentially planning around generation replacement in the state in the future. We asked about the status and past usage of securitization, with management noting that would require a legislative change for the commission, as it does currently not have the authority.

- **FERC transmission complaint continues to grind through the process…** PPL also continues to work through the ongoing ROE complaint at FERC, with no new updates during our meetings on the process. As we expected, their view of a potential settlement was muted given the gulf between the complainant and their current allowed. Management reiterated its confidence in the strength of its case should it need to present it, while also noting that it also looks on the potential for new incentives as a positive. Per the company, a ~25bps change in ROE equates to ~$0.01/share. Finally, management also noted that 1) it could look to convert to formula rates to provide a modest offset to any

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potential ROE reduction, and 2) that these processes tend to run for a significant amount of time (e.g. 2022 and beyond in this case).

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FIRSTENERGY (FE)

We met with the full FE leadership team, including CEO Steve Strah and CFO Jon Taylor and other senior executives. Management continues to work through the fallout of the HB6 investigation and the subsequent executive terminations, including building balance sheet flexibility into its 2021 plans. Details on the internal and external processes were unsurprisingly sparse.

- **As expected, the bulk of our conversation focused heavily on the ongoing HB6 investigations – both internal and external.** Management was unsurprisingly limited in what it could and could not say with several investigations ongoing, and mostly pointed to comments made in conjunction with last week's earnings call and the 8K Monday morning on the 'separations' of the Chief Legal and Risk officers from the company. Per management, the internal investigation remains ongoing, with the ratings agencies briefed on this morning's announcement. **Stay tuned for potential updates with 4Q results in February.**

- **On the question of mitigation levers for potential fines in 2021, we discussed management's planning processes to date and came away with more detail on potential O&M and capex reductions that were first discussed on the 3Q call last week...** To that end, management indicated that it continues to look at both O&M and capex reductions, with management of the view that the $250mm in capex cuts discussed on the 3Q call could be prudent from a shareholder's perspective given where shares currently trade (i.e., not sure if that additional $250mm on a $3bn plan would transplant in the share price right now). On the O&M side, management indicated that of a ~$2bn program ~$600-700mm is recovered formulaically/annually, leaving another $1.3-1.4bn to evaluate for savings. To support this, management noted that it has begun standing up several internal planning teams to look at options and will be bringing in consultants to provide a third party perspective. While management was asked about potential noncore asset sales, we came away with the impression that this is not under consideration at this time – not a surprise to us given this exercise was just completed under the genco separation in 2018.

- **Balance sheet planning continues to target gradual FFO/debt improvement, dividend growth on hold through '21, while potential tax reform provides some potential benefits…** Management continues to target the same gradual improvements in its credit metrics it had envisioned before this summer's events, with a trend towards the ~12.5% range through it planning period still the goal. Management indicated it remains committed to investment grade despite recent governance-related actions by the agencies. We asked how the dividend fits into this given management has growth on hold for '21, with the team generally of the view that it still has to see more of the current situation unfold before evolving its strategy. The board generally meets in the

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second half of the year to discuss future plans, with management sounding a positive tone on the role of the aforementioned flexibility adjustments with regard to the dividend. Finally, on the subject of the balance sheet, we note that management also provided some high level thoughts on the potential for tax reform to provide cash flow relief, in the event a higher corporate rate were to make it through the post-election house and senate. Specifically, management sees a $0.04-0.05/share benefit from the holdco interest tax shield, while a higher rate could also add up to $200mm a year in incremental cash flows to the utilities. Much would depend on the specifics though, with GAAP vs. tax earnings, the AMT, and NOL utilization changes presenting scenarios in which there could be *negative* cash flow implications.

- **Too early to say on PUCO processes…** The readthrough to FE's relationships at PUCO remains a developing situation in our view, with management speaking at a high level to its desire to mend fences and move forward. The company has been cooperating to the extent that it can and needs to. Beyond the initial investigation in spending the PUCO it is now also investigating the separation process at FE in 2017-19, and the Ohio utilities continue to work through the finalization of prior SEET tests. We asked about the potential for modifications to the SEET calculation by PUCO, with management highlighting that it is enshrined in legislation.

- **Normal utility updates? West Virginia IRP upcoming, while management looks to finish formula rate conversions at transmission business.** Management will seek to file its IRP in WV in the next 5-6 weeks, with an expectation that it will be consistent with the climate goals the company recently announced (carbon neutral by 2050). Management indicated that it expects to see a slight capacity shortage in the latest filing, as was the case in the previous iteration. Looking forward, there could be a potential for new solar investments based on our conversation, with utilities allowed to rate base ~200MWs across ~50MW tranches. On the transmission side the recently announced KatCo conversion will essentially finish the conversion of FE's transmission segment to formulaic rates.

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AMERICAN ELECTRIC POWER (AEP)

We met with AEP Chairman, CEO, and President, Nick Akins, incoming Executive VP and COO, Lisa Barton, and other members of the AEP mgmt. team to discuss 2021 EPS guidance, the new capital plan that contains upside for renewables, an update on North Central Wind, rate cases, and other regulatory proceedings, views around the OH policy environment and HB6, and potential portfolio rotation/optimization.

- **We met with AEP Chairman, CEO, and President, Nick Akins, incoming Executive VP and COO, Lisa Barton, and other members of the AEP mgmt. team to discuss a number of moving pieces into 2021 and beyond, including EPS guidance, capital plan and renewables, O&M, OH policy, North Central Wind, and ongoing rate cases and regulatory items.** Our first topic, however, centered on the recent mgmt. transitions that were announced last week – EVP of Utilities, Lisa Barton, appointed to EVP and COO, SVP of Treasury & Risk, Julie Sloat, appointed to EVP and CFO, and EVP and CFO, Brian Tierney, appointed to EVP of strategy. The succession planning has been in the works for years with a focus on development of top leaders. Incoming EVP and COO, Lisa Barton, will now look at the company as a whole and drive efficiencies across all business segments rather than just the utilities – Lisa is a very familiar face for investors. Brian has been CFO for over ten years and Julie appears ready and able to take on his role so he can focus on AEP's portfolio and development. The board will focus on succession planning at the CEO level at the right time with Lisa clearly being a strong candidate in time, in our view.

- **FY21 EPS guidance lighter than expected? Mgmt. taking a conservative view on drivers and COVID heading into next year.** Mgmt. forecasts a 0.6% growth in sales YoY in 2021 driven by sustained higher-than-normal load in residential, a bounce back in industrial load, and a challenged commercial load until a vaccine is made widely available. The customer class mix will be an important factor to monitor given different margin profiles of each (i.e., higher margin in residential than commercial and industrial). Mgmt. will continue to update forecasts as they receive more clarity on the impacts of the virus. Rate cases and preparation for North Central Wind also play a factor into 2021.

- **Updated capital plan continues the trend of heavy investment in wires and includes some investment in renewables – there is potential upside to the plan, and we expect to receive more clarity as the pipeline builds.** The updated capital plan of $37B is allocated 71% in wires and 14% in renewables (8% regulated and 6% contracted). Investors may have expected more investment in renewables (i.e., AEP would be the key ESG story of EEI which may have fallen short on expectations to some) on the roll forward of the plan, but there are incremental opportunities in replacement generation related to the lease expiration of Rockport 2 (1,310 MW coal-fired) in 2022 and the retirement of Pirkey (580 MW coal-fired) in 2023. Mgmt. also announced the retirement of Welsh 1 & 3 (1,053 MW coal-fired) in 2028. These retirements will lower O&M and free up capital… *for every $1 saved in O&M, $8 of capital can be deployed.* The renewables pipeline will continue to develop, however mgmt. noted the timing issue of pulling investments forward into the current plan. **The plan calls out incremental distribution opportunities – mgmt. is looking to have supportive regulatory mechanisms in place to be able to upsize their current investment.** Distribution plans cover ten years and are focused on reliability and resiliency, however there is opportunity to upsize the current plan if regulatory support (i.e., riders and trackers) are implemented. Mgmt. wants the distribution construct in its states to be as positive as the transmission construct in terms of recovery.

- **Contrary to the views of multiple OH lobbyists and policy experts that we have hosted for client calls, mgmt. would be surprised if HB6 is repealed… more likely we could see a restructuring to address renewable energy and energy efficiency.** Mgmt. noted there is still support for the nuclear units in the state as it looks to transition to clean energy, therefore, it may be hard to repeal HB6, rather there may be augmenting legislation/restructuring that further supports the clean energy push. This view contrasts with policy experts that we hosted for client calls that were sure the bill would be repealed **(see our notes HERE and HERE).** If there is support for nuclear, AEP would like to see support for renewables and energy efficiency. As a reminder, a repeal of HB6 would not materially impact AEP – AEP had several years of recovery for the OVEC units prior to the passage of HB6 and has not booked any of the recovery of OVEC under HB6. AEP is also mostly decoupled in OH and mgmt. has stated in the past that they will continue to look to enter into a bilateral solar agreement regardless of any HB6 outcome. The investigation in the state has not impact AEP's relationship with PUCO, and AEP continues to have constructive dialogue with regulators and legislators on policy. **AEP has still not been contacted by authorities for its minor role in HB6.** Mgmt. continues to state that all donations to 501(c)(4) organizations were lawful and ethical and, as a result of the investigation, mgmt. has increased the disclosure of donations to these types of organizations – i.e., doesn't expect the external investigations to bleed into AEP nor do they see any impacts internally with Mgmt. structure, governance etc.

- **North Central Wind remains on track – timeline range for Traverse into 1Q22 is a worst-case scenario.** The timeline for the Traverse project was widened to Dec. 2021-Apr. 2022, from Dec. 2021 on the 3Q call due to delays in the permitting process as offices were closed due to the pandemic. Mgmt. stated the developer is still aiming for Dec. 2021 but added the range given the unanticipated challenges. Mgmt. does not expect an impact to financials as the project is acquired after completion. We note mgmt. has included spending of a little over $1.2B in 2022 for Traverse. Foundation work has started on the Sundance project that is expected by mgmt. to be completed in 1Q21 and final site preparation is underway on the Maverick and Traverse projects. **Financing for the**

project remains 2/3 equity, or ~$1.3B, financed through ATM, block, or asset rotation close to the date of the commercial operation and transfer of projects. What about asset rotation? All assets are on the table – mgmt. evaluates each utility individually to identify those that are underperforming. The underperforming utilities may be up for potential divestment to mitigate some potential equity needs as well as other non-core assets.

- **Rate cases at AEP Ohio, APCo VA, KPCo, and SWEPCO TX continue to churn through the process.** At AEP Ohio, mgmt. expects the procedural schedule sometime this month. Mgmt. is disappointed with the position that the SCC Staff and the AG took in there APCo VA rate case that looked to prove that APCo VA was earning within its range and therefore not allowed to ask for a rate increase. Mgmt. has confidence in the commission letting them earn their allowed return. There is a hearing scheduled for Nov. 17 in the contested KPCo rate case and mgmt. expects a decision by year-end. As a reminder, KPCo was in a stayout until June of this year which meant that they were unable to cure the load lost in the state leading to low earned ROEs. SWEPCO TX is focused on a number of base investments and making sure there is adequate storm reserve. **Regulatory activity into 2021? Rate cases to fix equity layer and additional support for distribution investment (i.e., riders and trackers)**

DOMINION ENERGY (D)

We met with D CEO and President, Bob Blue, and EVP and CFO, Jim Chapman. Post GT&S sale, D is in execution mode – there is a defined strategy and now mgmt. must focus on moving through the regulatory processes and building projects on-time and on-budget.

- **We met with D CEO and President, Bob Blue, and EVP and CFO, Jim Chapman, to discuss renewable investments under the VCEA, T&D investment related to the transition to clean energy, regulatory processes in SC and VA, resiliency in D's service territories to the impact of the pandemic, and the stock buyback programs progress to date and execution through the remainder of the year.** Post the sale of the GT&S segment, D is a pure-play regulated electric and gas utility in growing states with top-tier regulatory constructs and, in VA, an aggressive push toward renewables and storage.

- **Confidence in the buildout of offshore wind continues from the third quarter call as mgmt. has the experience of working through the federal permitting process.** Some of the issues that offshore wind projects face in the Northeast are not present in VA, i.e., the fishing interest is not as much of a hurdle, and mgmt. feels confident in the COP that they will file with BOEM by the end of the year as they communicate with the Coast Guard, environmental groups, and other stakeholders. Though we have seen some Northeast projects face delays in receiving review schedules from BOEM, mgmt. stated that one cannot translate one project to another and restated their confidence in the schedule. There is a unified, bipartisan effort in the state to push for clean energy and offshore wind is a major component of the plan.

- **Solar and storage development is ramping up rapidly – mix will shift to more owned generation from PPA over time.** D just filed for 500 MW of solar PPA and noted that the project mix will likely be more PPA focused in the near-term followed by a larger amount of owned generation over the longer-term. Project development is ramping up significantly – D is securing land for these projects and seeking approval for 600 MW of solar per year. **The investment in renewables will be recovered under riders that are trued-up annually.**

- **T&D investment could shift from aging infrastructure to more enablement of new generation resources.** Mgmt. noted there is upside to the investment in T&D but also wants to be mindful of customer bill impacts. Currently, investment in T&D is \$0.8B-\$1.0B annually and is mostly focused on aging infrastructure but mgmt. stated the mix could shift to more enablement of new renewable generation in time. The investment in transmission will also depend on the siting of the renewables project so it is hard to quantify the exact amount of investment needed. **All-in, customer bills are expected by mgmt. to increase by less than 3% per year before O&M efficiencies.** D is also starting from a very low base when compared to Mid-Atlantic peers and

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other RGGI states. Overall, the bill impacts are manageable and reasonable.

- **SC rate case is straightforward, but mgmt. finds it unlikely that they will be able to settle.** D completed its merger obligations with SCANA to file the first SC base rate case for the business since 2012. Discovery and initial testimony is underway, and hearings are scheduled to begin in early 2021 before a decision in Feb. 2021. Mgmt. believes the filing is well supported and solid but, given the new commission and political environment, finds reaching a settlement to be unlikely. **Triennial review process for the years 2017-2020 to start in Mar. and conclude in Nov. – levers are available to offset overearning.** As a reminder, DEV's earned return will be measured vs. an authorized return of 9.9% (9.2% base with a 70bps collar) and any overearning will be either refunded to customers or invest in grid mod or renewables (Customer Credit Reinvestment Offset). There is very little risk in the approval of the CCROs as they are investments that would have been approved by the commission prior to the triennial review. The commission can decide to lower rates at the review, but they cannot lower them by more than $50M which, if enacted, would impact 2022. Mgmt. noted base rates as a percentage of total rates will gradually become smaller as D invests capital under the riders. **Other regulatory processes just include filings related to renewables.**

- **V-shaped recovery? DEV never saw a decline and has proved resilient throughout the pandemic while DESC is trending positively.** Sales in VA have remained strong despite COVID-19 – as DEV saw an increase in weather-normalized retail sales of 1.4% vs. 2018/19 average in the third quarter. Driving the resiliency is DEV's large data center component (~30% of commercial volumes) – data center sales are up 19% YTD. DESC has been more challenged with the pandemic but saw a strong bounce back in the third quarter – weather-normalized retail sales were 0.8% lower than the 2018/2019 average in the 3Q vs 4.8% lower than the same average from Mar.-Jun. of 2020. The total nine-month impact of COVID-19 is $0.05 which D has been able to offset with O&M.

- **Stock buyback post sale of GT&S gives D a clean slate starting in 2021...** There is $700M in stock left to be bought back since the third quarter update. Mgmt. stated they are still working through their options but it could be completed through open market purchases, another accelerated share repurchase agreement, or a tender. As a reminder, the stock buyback program was upsized given conservative cash tax assumptions and is set to be complete by year end. As of the end of the third quarter, mgmt. completed the purchase of ~$900M in stock and executed $1.5B in accelerated share repurchase agreements. The program was upsized $100M to $3.1B – mgmt. previously guided to the potential for the stock buyback to be upsized in the range of $0-$200M given conservative cash tax assumptions. The program being completed by year-end clears some concern that the process would leak into 2021 given a portion of the sale was shifted to 2021.

- Mgmt. stated that it will be turning on the DRIP program in 2021 followed by modest ATM issuances starting in 2022 and ramping up through 2024 because it is supportive of the current metrics. **Dialogue with the ratings agencies has been constructive and quiet.** The ratings agencies have been positive on D's improved metrics and business risk profiles – Moody's revised the FFO/Debt upgrade threshold to 17% from 18% directly after the sale and S&P revised their outlook as positive. Mgmt. noted it will take some time for the dust to settle but could see further lowering of the threshold.

NISOURCE (NI)

We met with NI President and CEO, Joe Hamrock, EVP, CFO, CAO, and Controller, Donald Brown, Chief Strategy & Risk Officer, Shawn Anderson, and other members of the senior management team. Portfolio optimization to offset equity needs related to the renewables investment was top of mind for investors, and mgmt. provided some incremental color on how they are thinking about asset sales.

- **We met with NI President and CEO, Joe Hamrock, EVP, CFO, CAO, and Controller, Donald Brown, Chief Strategy & Risk Officer, Shawn Anderson, and other members of the senior management team to discuss potential asset sales, thoughts around the valuation of the LDC space, NIPSCO renewables projects, and COVID-19.** NI is set up well with a robust base capital plan that is highly tracked paired with large investments in renewables projects driving top-tier growth from 2021-2024. Mgmt. feels good about its ability to execute on the plan and has the sale of Columbia Gas of MA behind them.

- **Swap gas for electric? Asset sales would lead to lower equity needs to support the robust investment in renewables.** When assessing a potential asset rotation, mgmt. looks at the fundamentals of the business, specifically, is the asset contributing on an earnings standpoint as a percentage of capital allocation. Mgmt. noted it is important to view the earnings profile that is being given up and cost structure leading us to believe that larger utilities would be more difficult to offload. **If NI looks to sell and investors attempt to triangulate on which assets NI could be willing to sell, they will likely target their smaller utilities which would come with less dis-synergies and less dilution that would need to be backfilled.** Mgmt. could also utilize NOLs, which could be material, to offset the tax leakage that would arise from a sale given the very low basis on the utility assets. If mgmt. were to divest any of its gas operations, they would essentially be swapping gas for electric, which could be multiple accretive in this market.

- **We note mgmt.'s comments on the value of LDCs in the current market seemed obstructive to a potential sale, i.e. in our view, mgmt. believes LDC valuations are at somewhat of a trough…** the fundamentals of the business are sound. Mgmt. stated that depressed valuations are an overreaction given robust customer growth, strong regulatory support for safety and reliability, and no real substitutes. *The only pushback mgmt. has seen from their service territories is that they are not expanding enough…* Electrification is not viable in many service territories and decarbonization will more likely be achieved through RNG and hydrogen over the longer-term.

- **Continued progress on renewable projects at NIPSCO – $550M-$750M in projects still under negotiation.** NI has $0.4B in approved projects, $850M in projects awaiting approval and $550M-$750M in projects in advanced commercial negotiations. The tax equity investment totals ~$1.0B and will be additive to rate base over time as the tax equity partners farm out the benefits. Indiana Crossroads, the 300 MW build transfer wind project, has commenced construction. Rosewater and Jordan Creek are still under construction, all material is on-site relieving supply chain issues from the pandemic, and mgmt. expects them to be in-service by the end of the year. Brickyard Solar, 200 MW PPA, Greensboro Solar, 130 MW PPA have been filed with the commission and are awaiting approval while Dunns Bridge I Solar, 265 MW build transfer, Dunns Bridge II Solar, 510 MW build transfer, and Cavalry Solar, 260 MW build transfer will be filed before the end of the year. There are five to seven projects in advanced negotiations, mostly solar. The projects are locked in with their bid and are all safe-harbored otherwise they would not be competitive. We look forward to an update on additional projects before year-end.

- **Stepping through another IRP to address the retirement of Michigan City… all coal will be replaced with renewable generation.** NI will conduct another IRP process in 2021 that will inform more on the retirement of Michigan City (currently scheduled for retirement in 2028) and any replacement generation needed to fill the gap. Mgmt. noted that solar-plus-storage is outpacing wind on economics, so we expect the replacement generation needed when Michigan City is up for retirement will look similar to the renewables projects recently announced with NEE.

- **MD rate case settlement was approved today.** The settlement stipulated a 9.6% ROE and 52.63% equity layer which is much lower than the ask of 10.95% ROE but in line with utility averages and consistent with what we model. New rates are effective in Dec. **PA rate case still working through the process but settlement talks are solid and the case is ripe for decision.** The deadline for approval is Feb. 25, but rates are to be effective in late Jan.

- **Conservative view on FY21 EPS guidance unchanged… mgmt. expects ~$(0.05) of COVID-19 impact into 2021** – roughly $0.03 gas and $0.02 electric. The impacts will be critical to keep an eye on as we move through the winter heating season. As a reminder, the gas businesses have a more fixed rate structure on the residential side so the impact will come from the C&I customers. NI has bad debt or incremental COVID-19 expense trackers in most states and is not pursuing any more regulatory support, but that may change depending on the impact of the pandemic.

ALLETE (ALE)

We met with the full ALE leadership team, including CEO Bethany Owen, CFO Bob Adams, Controller/CAO Steve Morris, and other members of senior leadership. Management was fresh off its 3Q20 call earlier in the morning, with NT growth challenges disclosed on that call our main focus, in addition to regulatory and customer considerations at MN Power

- **Headwinds across the business complex and a conservative team lead to lower NT growth expectations of ~4% in the near term, with the LT 5-7% still targeted…** Management lowered its near term growth expectations in the 2020-2025 time period to approximately 4% using 2019 as a base year, citing the impacts of COVID and customer impacts at MN Power, in addition to pressure on project returns at ACE and the impact on accretion from potentially using equity at ALE's current stock price. We see this as in character for ALE's management team, who have not shied from making similar capital allocation decisions in the past (e.g. holding individual segments to their return thresholds).

- **At ACE in particular, management noted that it has been seeing pricing pressures in the renewables space creep into its operating niche within the segment** – namely smaller wind projects. Management attributed the pressures primarily to ongoing degradation in the outer years of consultant's forward curves, which in the most recent forecasts have fallen some 20%. This is important for ACE because a 30-year project may only be contracted for the first 15-20, leaving the second half subject to the curves. In the case of most recent consultant forecasts, management sees the decline lowering project IRRs by some 150bps on its own. Beyond the curves management's caution is reinforced by the different accretion it sees from issuing small amounts of wind-supportive equity at *current* stock levels, in addition to pressure from customers who have been looking for contracts at pricing that brings projected IRRs *below* management's thresholds. As a result, management expects to tamper its prior new project cadence of 2-3 per year, and while there will still be NT growth, the prospects for the longer term have dimmed.

- **So what's next? More to come in 2021, but management is working through different investment theses, including M&A and complementary products and services at ACE.** Focusing on ACE's repositioning first, management noted that segments of opportunity include solar, storage, grid resiliency, and even moving slightly within the development chain (e.g. selling projects). Specifically, on the latter pivot we note that management is still not interested in doing greenfield development. Management also minced no word emphasizing that it will exit businesses that don't achieve their return thresholds – in line with many of our prior conversations. **With regard to diversifying the broader business thesis, management indicated that this includes adding other regulated business, which could even include gas LDCs**. Here management emphasized that any target would have to possess a good growth profile, which could be challenging in the case of

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some gas systems. Still management sounded an open tone to a variety of options across the business complex as it continues to evaluate its options.

- **2021 rate case looking like a November event as MN Power files for a lost revenue tracker and taconite customers resume full production.** Management indicated that last week it filed for a deferral of lost revenues associated with the idling of Keetac [NYSE: X] and Verso Paper's [NYSE: VRS] mill. On an annualized basis this would be approximately $30mm or revenue, however we note that Keetac appears to be in the process of resuming full production. Management's update on the Verso mill indicates a more uncertain outcome, with the company still trying to find a buyer or restart thesis. Importantly, the deferral request would essentially supplant the need to file a case in March 2021, meaning management's preferred November 2021 timing would be intact. As it stands management plans to file for a 2022 test year, which would align well with the start of the Manitoba Hydro [PRIVATE] PPA. We also asked about any updated thoughts on ROEs in light of some of the risks unique to MN Power, with management pointing to other recently-filed cases seeking ~10% ROEs as potentially instructive for its own process next fall. Finally, we note that management remains enthusiastic on its current IRP process (running through February), with the Boswell coal units (~800MW) of particular interest to all parties. Per management the interest has been strong because the units are the last in the state to not have set retirement dates. Their retirement, and the associated loss of northern MN baseload, could require substantial renewables and T&D investment to preserve reliability for large industrial customers, in management's view.

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PG&E CORP (PCG)

We met with CEO Bill Smith and interim CFO Chris Foster and the PCG leadership team. PCG is in progress of leadership transition, working through post-bankruptcy challenges and wildfire mitigation improvements. We touched on several moving pieces on the overhangs to what moves towards a 10% rate base CAGR utility.

- **We met with CEO Bill Smith and interim CFO Chris Foster and the PCG leadership team**. The main focus of our meeting was a recap of the multiple hurdles that PCG is working to address post-bankruptcy, some color on leadership structure and CEO search, and work being done to mitigate wildfire risk.

- **PCG's CEO search is broad reaching but likely to require utility experience, while a supporting leadership team of CRO and CIO have been assigned.** In our meeting we heard some thoughts on the prospective CEO search and some of the past C-level positions that have been filled to date. Outgoing CEO Bill Smith provided some color on what he believes will make for a good fit CEO as the board moves through the broad reaching candidate process – in short pointing to **someone who understands the utility space, but maybe comes with external experience, i.e., able to bring new perspective to PCG.** Bill Smith was not shy in acknowledging the need for improvement across the organization (hence the need for new perspective), but noted valiant efforts being made to date including a new Chief Risk Officer, Sumeet Singh and new Chief Information Officer, Ajay Waghray. The appointments will look to improve PCG's performance in risk mitigation on the most effective dollars per risk mitigated basis and help improve information systems consolidation and efficiency improvements.

- **Any strategic considerations post-bankruptcy? No immediate benefit, as operational improvements are needed across the enterprise.** CEO Bill Smith noted that there was some consideration of a company split driven by the idea that PCG was "too big to manage efficiently", but the process was not well thought out in his view. Pulling on prior experience Bill lead a multinational organization of ~100k, so from a practical sense there was no reason why a single-state enterprise of ~20k could not drive improvement internally. Mgmt noted that there are certainly issues with technology and efficiency (as is evident to some degree across the sector) with too many different and legacy systems being used between gas and electric utilities. Likewise, improvements in work management systems and manual entry processes have paved a path for much of the internal improvement which have been chipped away under current management (but perhaps held back by the bankruptcy process). **Overall, in mgmt.'s view there is no need to have any kind of strategic reorg to realize improvements**, especially since a company split will not likely result in two more efficient companies.

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- **Technical overhang from Wildfire Victims trust ownership (24% ownership per FactSet) is managed with communication, alignment, registration and demand rights provisions.** The fire victims trust owns ~478M shares (per FactSet) which presents a technical overhang for PCG, especially as the lockup period has expired. The registration rights agreement has provisions for blackout periods which is 120 days for MNPI. If the trust wants to go through an underwritten offering, the trust will give the company awareness. Makes sure that the offering doesn't overstress the market. Mgmt. noted that at a high-level interest is aligned between CPG and the largest shareholder. **Can the trust DRIP the shares to market? – yes, they can have a small program**, but mgmt. not sure if that is tactically necessary. PCG is making sure to keep the trust in the loop on growth plans and strategy to make sure both sides don't mis-manage information.

- **PCG is building confidence with regulatory and by virtue of legal settlement has reached alignment with stakeholders.** PCG sees current status quo on CPUC and stakeholder alignment better than before, as everybody took the most aggressive swings during bankruptcy and the new stage now has set up a lot of transparency. There is now a process for quarterly operational feedback, enhanced oversight from the CPUC, access for the governor and administrative team to have an operational overseer of the company. This type of structure is having full reach into the enterprise which is unusual but good for alignment, and PCG does not mind that this is forced alignment through legal agreements.

- **Wildfire Risk Mitigation is in plan and working, but the proof of construct will require time.** PCG noted that the intent of the legislature and the governor was clear – resolve asymmetric risk, and they believe that has been accomplished. While the question came up on a demonstration of the process from start to finish, mgmt. noted that would require a massive wildfire with imprudent management, which is not a case that anyone wants to see for any utility (especially as the process could take years). What PCG seeks to offer is operational improvements, wildfire mitigation plan certification and managing risk through wildfire season. PCG noted that retroactive analysis of power shutoffs has shown many instances of foreign debris on de-energized lines and current protocols have worked well, including new sectionalization, which helped limit the extent of the outages.

- **Securitization process remains a hurdle, PCG notes constructive signs from intervenors.** Intervenors filed positions in mid-October which had a range of issues, but PCG notes that even historically opposing stakeholders have recognized the need for securitization as a low cost financing option for wildfire resolution. PCG noted a focus of stakeholder goals being the customer credit trust ability to deliver on keeping rates flat, which is aided by the low interest rate environment. **In an adverse scenario of not receiving the level of securitization PCG**

asked for, PCG maintains a 5 year capital structure waiver at the CPUC which will allow for some flexibility in managing the overhang. The resolution is important to the fire victim trust payouts so the January 22, 2021 date will be important for ALJs to take ~90 days for a proposed decision, and another ~30 for a final CPUC commissioner decision vote (peg mgmt.); this takes the process for financing resolution to 2Q20 as PCG mentioned on 3Q earnings.

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COMPANY VALUATION/RISKS

DUK

Valuation: We utilize our regulated electric utilities multiple of 18.0x and apply a 2.0x premium to account for incremental distribution spending not yet in plan. We then apply this 20x multiple to our $5.25 2021 EPS estimate to arrive at our $102 valuation.

Risks: Risks to our rating and to achieving our price target for DUK mainly encompass traditional risk factors inherent with all electric utilities including: 1) rate case risk, 2) lower capex outlook, and 3) interest rate changes above what we account for in our regression mode.

OGE

Valuation: We arrive at our valuation utilizing a sum-of-the-parts analysis, which is composed of: (1) ~$35/share for the regulated electric utility, using our base regulated multiple of 18x P/E, and (2) ~ $2/ share for OGE's ~26% ownership of ENBL's LP units using ENBL stock price. Adding the segments, we arrive at our $36 PT.

Risks: Outside of noise around ENBL, downside risks include (1) negative rate case outcomes (e.g., regulatory risk including AR), (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

PNW

Valuation: We take our target multiple of 18x, which we derive from our regression model, which uses the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years, and apply it to our 2021 EPS estimate of $5.11 to arrive at our $92 PT.

Risks: Risks to our thesis for Pinnacle West mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk, (2) lower CapEx outlook, and (3) interest rate changes above what we account for in our regression model.

DTE

Valuation: We arrive at our valuation utilizing a sum-of-the-parts analysis based on an 18x P/E base regulated multiple and a 2x premium. Our SOTP analysis is comprised of: (1) ~$87 for DTE Electric utilizing our target multiple; (2) ~$21 for DTE Gas utilizing our target multiple; (3) ~$15 for Power & Industrial Projects; (4) ~$26 for Gas Storage and Pipelines; (5) ~$2 of value for Energy Trading; and (6) -$13 for corporate drag. Adding the DTE segments we arrive at our $138PT.

Risks: DTE downside risks mainly encompass traditional risk factors inherent with all electric utilities, including: 1) rate case risk, 2) lower capex outlook, 3)

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interest rate changes above what we account for in our regression model, 4) decline in allowed ROE, and 5) risks associated with the contemplated spin-off of the GS&P segment.

CMS

Valuation: We arrive at our valuation utilizing a sum-of-the-parts analysis based on an 18x P/E base regulated multiple and a 4x premium for CMS's constructive regulatory environment and strong organic growth. The SOTP is composed of: (1) $68/sh for the Consumers Electric and Gas utilities and (2) -$5/share for the Enterprises merchant generation and Corp. & Other segment. We then arrive at our consolidated SOTP $63 PT.

Risks: CMS risks mainly encompass traditional risk factors inherent with all electric utilities, including: 1) rate case risk, 2) lower/higher capex outlook, and 3) interest rate changes above/below what we account for in our regression model. Additional risk factors include: Executing and implementing the Michigan Energy law and commodity risk exposure through CMS' Enterprises segment - a decrease/increase in power prices and spark spreads can negatively/positively impact the merchant generation business.

PPL

Valuation: We apply our regulated utility group target multiple 18x to our 2021 EPS estimate of $1.29 for PPL's US utility franchises (i.e., PA and KY utilities) to arrive at a ~$23 valuation; we combine this with the ~$8bn equity value we estimate for PPL's UK franchise above (~$11/ share) and subtract ~$2/share of holding company drag to arrive at our $31 12-month price target.

Risks: Downside risks include: PPL's UK segment performance, which accounts for a portion of consolidated results, can be impacted by fluctuations on FX rates between USD/GBP as well as potential deterioration in regulatory construct and actions outside of the US. Outside of the UK segment, risks to estimates for PPL Corp mainly encompass traditional risk factors inherent with all electric and gas utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

FE

Valuation: We use a sum-of-the-parts analysis to value FE shares. We maintain our NEUTRAL rating but do not ascribe a price target while we await additional clarity on the ongoing investigation.

Risks: Beyond the potential for large fines stemming from the DOJ and SEC's investigations, downside risks mainly encompass traditional risk factors inherent with all electric utilities, including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

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Upside risks include: (1) improved regulatory constructs; (2) higher capex outlook; (3) if interest rates fall lower.

AEP

Valuation: Our $78 PT is derived by applying a target multiple of 17x (a discount to our regulated group multiple of 18x given balance sheet and equity needs vs. utility peers and adjusting for externalities created by the current market dynamics) to our 2021 EPS estimate of $4.63.

Risks: Upside risks: AEP could breach our estimates/valuation if capital investments exceed our modeling assumptions, or with interest rate changes below those reflected in our regression model.

D

Valuation: We utilize our regulated electric utilities multiple of 18x including a 5x premium to account for spending not in plan and constructive regulatory environments and apply this multiple to our 2021 EPS estimate of $3.88 to arrive at our $89 valuation.

Risks: Risks to our thesis for D mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

NI

Valuation: We apply an 18x multiple on the electric utility and 21x multiple on the gas LDCs. We arrive at our valuation utilizing a sum-of-the parts analysis, based on: (1) ~$10/share for the regulated electric utility; (2) ~$20/share value for the regulated gas segment given the limited spread from LDCs after recent market volatility; and (3) (~$-3)/share for other adjustments for Corp and Other. We use this sum of the parts to arrive at our $27 valuation.

Risks: The primary risk on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

ALE

Valuation: We value ALE using a sum of the parts valuation. To the entire business excluding ACE, we take our regulated group multiple of 18x and apply a two-turn discount, which is applied to our 2021 EPS (ex-ACE) estimate of $2.85 for an equity value of ~$46. We then apply a 20x premium to our 2021 ACE EPS of $0.18 for an equity value of ~$17. The combination of the two parts equals our $62 price target.

Risks: Outside of the smaller base of large industrial customers and weak industrial demand, downside risks to achieving our PT for ALE mainly encompass traditional risk factors inherent with regulated utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

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KEY RESEARCH

1. Li-Ion the End-All-Be-All Battery Storage Solution? Not in Our Book – Zinc-Based Battery Presents Compelling Alternative
2. Ohio Policy Call Part Two – Federal and Political, Not State and Regulatory
3. Ohio Policy Call Part One – Investigation Churns On
4. Guggenheim Call Series: Power Gen Economics Expert Confirms Robust Solar/Wind Demand as Tech Moves to Parity with Fossil
5. FERC - Life's Absolutes: Death, Taxes, and Transmission ROE Complaints
6. 2020 LCOE Update – Nothing Is Constant but Change: Renewable Economics Point to Persistent Disruptions
7. FERC: Commission Revisits Base ROE Methodology, Boosts MISO Allowed
8. ERCOT: Another CDR to Take with a Grain of Salt
9. Utility and IPP 1Q20 Model Sweep: Price Target and EPS Adjustments
10. PJM: Proposed Auction Timeline Features State Policy Accommodation
11. FERC ROE Policy Call: Different Commissioner, Similar Expectations
12. FERC ROEs: Former Commissioner Policy Call Points to No Easy Answers
13. Illinois Policy Call: Too Clean to Drain the Swamp? Will Springfield Lawmakers Reach Criticality? Still Too Early to Say…
14. PJM: As Fluid as It Gets - Expert Call Highlights Still-Challenging Auction Dynamics
15. Two-Way Better Than One-Way: Open Dialogue With MO, GA Commissioners – Fruitful Discussion
16. '20 Utility Outlook: Ride the Cyclical Wave as It Crashes Through Bond Proxies – Be Selective, Pick Your Names Wisely
17. PJM: Does MOPR-Ex Bring Closure? Not Quite…
18. Quick Take: Win for Wind – PTC Gets Potential One-Year Extension… Modest Positive for Utilities
19. ERCOT: Another CDR Points to Looser Reserve Margins, But Take With a Grain of Salt
20. EEI: So Where Did We Shake Out? The Good, the Bad and the Not So Ugly
21. Guggenheim EEI Takeaways - Day Three
22. Guggenheim EEI Takeaways - Day Two
23. Guggenheim EEI Takeaways - Day One
24. PJM: Not So Fast - FERC Puts the Brakes on August Auction
25. Utility and IPP 2Q19 Model Sweep
26. ERCOT: Guggenheim Texas Power Market Luncheon Recap

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Key Company Research

1. SRE NDR: Catch Up With SRE Mgmt. Puts Light on Commitment to Value and NorAm Strategy
2. CPK – 3Q Beat; Strategy Remains Nimble, Opportunistic Expansions, Balance Sheet Strengthening
3. ED – 3Q Miss as Covid Lingers, Impacts Could Carry Into 2021; Fundamental LT Trajectory Reiterated
4. SJI – 3Q20 Earnings Beat; Inflection Point Starting to Come Around While Investor Experience Grounded
5. NWN – No Surprises in Off-Season Quarter as 2020 Still Tracking to Low End of Guide
6. SRE 3Q: Earnings Miss, but 2020 Remains Strong; Oncor Capex Raised, Catalyst Opportunities Remain in The Mix
7. D – 3Q Solid; Simplicity the Best Form of Flattery; Clear Cut Beat, Confidence in OSW
8. AWK: Heat and Demand Drive 3Q Beat as 2020 Remains On Track
9. PPL: Waiting for WPD… Few New Details as Sale Process Continues
10. AEE – 3Q Miss; FY20 Guidance Narrowed But '21 Drivers Point to a Solid Year Ahead
11. DUK – Solid Beat; Shifting Focus to '21 – Conservative Plan & All "Good" in the Carolinas
12. OGE: 3Q Miss on Weather; Fundamentals Remain Intact, Looking Forward to a Solid 2021 Base
13. CNP 3Q: Priming the Pump? More Like Firing on All Cylinders… We See A "Webb" of Event-Driven Catalysts Ahead
14. NRG – Financing Tweaks Eliminate Equity as Transformation Moves Along, Solar Delays Slightly Cloud '21
15. EVRG – Solid Print; No Material Updates as We Expected; Holding Pattern with STP Updates, IRPs and CEO Search
16. AVA – 3Q Miss; 2020 Capex Raise On New Customer Connects
17. VST – Consistent Message as Integrated Model Weathers 2020 Well
18. ES – 3Q Earnings; Upside Remains in Plan; OSW Update Within Our Expectations
19. LNT – 3Q Beat, 2020 Narrowed and LT 5-7% Growth Intact Following Capex Roll
20. WEC – Klappa/Fletcher 2020: 4 More Years… and a Growth Rate You Can Count On
21. EXC – Integrated Platform Increasingly Endangered as Exelon "Formally" Announces Strategic Review
22. OGS 3Q – Earnings Beat, Customer Growth, Transport Volumes Bring Back 2020 Fundamentals to "Top-End"
23. NEP: 2020 KKR Deal; New Assets Accretive to Growth, Cheap Financing Deal Sets Up 4x Investment Capacity
24. NI – 3Q Earnings Beat; Renewables Projects Taking Shape, COVID Remains Factor to Watch Headed into Heating Season
25. FE – Darkest Before the Dawn? A New Day Will Come…
26. PNW – No Surprises as Summer Heat Drives Beat

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27. POR – Putting a Rough Quarter to Rest – Update Checks Most Boxes
28. PEG – 3Q In-line; PSE&G Growth Set to 7-8%; Strategic Shuffle Continues on Fossil, Offshore Wind
29. POR – Putting a Rough Quarter to Rest – Update Checks Most Boxes
30. PNW – No Surprises as Summer Heat Drives Beat
31. FE: CEO and Two Other Executives Terminated over Internal Investigation
32. NWE – Colstrip Transaction Terminated; What's Next? NWE Is Left Severely Short of Peak
33. CMS – 3Q Earnings Beat, O&M Flex Sets Up Reinvestment Into 2021-22; Firm "7%" Visibility Continues
34. ETR – 3Q EPS Beat; Boring? Not Quite; ETR Shows Strong Core Growth, Working Through Hurricanes and COVID Recovery
35. DTE 3Q20 – GSP Spin Announcement Could Unlock SOTP Value, DTE New-Co Undervalued vs. Peers
36. EXC: Downgrading to Neutral, Lowering PT – Taking the Spring out of Springfield
37. AEP – 3Q Earnings; Sound Print Driven by Better-Than-Expected Load, Cost Mgmt.
38. NWE – 3Q Solid; Finally Moving to EPS Guidance, Healthy Start w/ Incremental Opportunities
39. NEE/NEP: NEE EPS Beats, NEER Sets Records; Credit Metrics Loosened, Balance Sheet Flexible for Growth
40. SRE– Franchise "Sale" Saga Next Step? San Diego Releases ITB Q&A, City Maintains Strict Tone, No Upsets Yet, in Our View
41. ETR NDR – C Suite Event Highlights Conservative Planning & Incremental Opportunities; "Premium" View Reinforced
42. DUK – CEO Group Call; Alignment with Stakeholders Driving Capital Growth While Setting Manageable Expectations
43. FE: Incremental Details on DOJ Probe Emerge; Energy Harbor Executives in Focus
44. AEE – CEO Client Event; Environmental Stewardship in MO; Navigating the Policy Environment in IL
45. FE: Incremental Details on DOJ Probe Emerge; Energy Harbor Executives in Focus
46. DUK – ESG Investor Day; A Win-Win for ESG and Fundamental Investors
47. NEE-DUK: "Spreadsheet Exercises" Aside – Easily EPS Accretive, But Value/Credit Risk, Regulatory Hurdles Are High Risk
48. ES - CT House Passes Bill in Special Session to Reform Utilities' Construct
49. OGS NDR – Simple Story, Covid Recovery, Supportive Jurisdictions and Capex Ahead of Plan; RNG, Hydrogen on the Radar
50. NI Investor Day – Robust Update, Though Mostly In Line with Expectations
51. VST: A Platform Evolves, a Platform Matures
52. EVRG NDR: Smooth Sailing to 2024? Standalone Course to Top Tier Growth Follows Well-Worn Routes
53. AEE – MO IRP Brings Step Function Increase in Renewable Energy Investments
54. ETR Analyst Day– Expanding Capex with Equity Needs; EPS Growth Remains 5-7%, but ETR May Become a "Premium" Utility
55. SRE – Cat Out of the Bag: San Diego Issues ITB, Minimum Fee, Balanced by City's Right to Reject; No Upsets at This Point
56. SRE – San Diego Franchise Deep Dive; Competitive Process? Yes; Benefits to Transfer? No! Downside Risk Appears Minimal

57. POR NDR: Upgrading to BUY on CEO Conversations; Clarity on Wildfires Implies Sound Entry Point
58. ED – Upgrade to NEUTRAL; COVID Bites a Hole in the Big Apple; ED's Return to Normal Limits Downside From Here
59. POR: Where There Is Smoke, There Is Fire, But Not Likely in This Case – Additional Fire Details
60. EVRG: KCC Staff file Report and Recommendation Regarding Evergy's Pre-STP Capital Plan
61. AWK NDR: Thirst Quencher - Top Tier Growth Platform Built to Last
62. EXC: No Pressure, No Diamonds…
63. POR: CAISO's Collateral Damage - Losses Contained, L-T Fundamentals Intact Post Mgmt. Call
64. ES – Downgrading to NEUTRAL on Valuation; Want Offshore Wind Exposure? Try Dominion…
65. EXC: Neutrons Starting to Flow in Springfield; Criticality Still Far from Certain
66. OGE – Anticipated Alignment of Views on ENBL Causes Us to Upgrade; Strategic Optionality Becoming More Apparent
67. PPL: The Long Goodbye – PPL Initiates WPD Sale Process
68. EVRG – Robust Plan but Needs Buy-In from Commissions, Investors, and Legislators: Will Take Time to Prove Out
69. WEC – Straightforward Update Underscores WEC's Consistency and Top End Growth Trajectory – The Gale Way
70. EXC – Preexisting Conditions Back in Focus; IL Resolution on the Horizon
71. EVRG: Nothing Ceases to Amaze Us
72. DUK – DEC & DEP Settlement with Staff; Healthy ROE and GIP Deferral, Coal Ash Remains Contentious
73. EXC: Illinois Probe Concludes; Fallout for Madigan and Energy Policy Still Coming into Focus
74. PNW: Door to Settlement Remains Open as Commissioner Peterson Lays Out Issues for Parties
75. FE: Optics Worsen for FE Linkages as Additional Details on HB6 Scandal Emerge; Downgrading to Neutral
76. SRE NDR – Post Guidance Raise and Capital Rotation, Regulated Fundamentals Remain Strong, LNG Remains Opportunistic

GUGGENHEIM'S EEI CONFERENCE AGENDA

GUGGENHEIM

Save the Date: 55th EEI Financial Conference

Dates

November 8-11, 2020

The Guggenheim Utilities Research Team will be hosting virtual meetings with company management

Guggenheim Hosted Utilities Investor Discussion Panel

Wednesday, November 11, 2020

4:30 p.m. | Virtual

Company Meetings

Sunday, November 8th	
Time	*Co.*
1:00PM	HE
2:00PM	WEC
3:00PM	CNP
4:00PM	ETR

Monday, November 9th	
Time	*Co.*
8:00AM	DUK
9:00AM	OGE
10:00AM	PNW
11:00AM	DTE
12:00PM	CMS
1:00PM	PPL
2:00PM	FE
3:00PM	AEP
4:00PM	D
5:00PM	NI
6:00PM	ALE
7:00PM	PCG

Tuesday, November 10th	
Time	*Co.*
8:00AM	EVRG
10:00AM	NEE
11:00AM	EXC
12:00PM	PEG
1:00PM	SO
3:00PM	ES
4:00PM	AEE
5:00PM	LNT
6:00PM	NWE

Wednesday, November 11th	
Time	*Co.*
8:00AM	ED
11:00AM	POR
12:00PM	SRE
1:00PM	AVA

Participating Guggenheim Analyst

Shar Pourreza, *Managing Director, Equity Research Analyst – Power, Utilities & Alternative Energy*

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NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of between plus 10% and minus 10% within a 12-month period.

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NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

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			IB Serv./ Past 12Mos.	
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NEUTRAL	140	35.71%	6	4.29%
SELL	6	1.53%	0	0.00%

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ES

- The most significant read-through from the Vineyard Wind cumulative EIS would be any judgement on spacing/transit lanes that differs from previous 1x1 nautical mile guidance. Subsequently, any required efforts to mitigate the impact to commercial fishing will be in focus. No significant changes from the Draft EIS are expected.

- Management anticipates awards in the NY offshore wind RFP to be announced by EOY. There is opportunity for ES to invest in transmission upgrades along Cape Cod to support the interconnection of offshore wind generation. ISO-NE recently initiated its cluster transmission study of the Cape, and whether onshore transmission upgrades fall to the offshore wind developer or to ES is yet to be determined.

- Management views the regulatory outcomes at NSTAR Gas and ES Gas Co. of MA as constructive frameworks which include ROE sharing bands, ten- and eight-year respective stay outs, and a performance based rates-esque design for rate increases.

NI

- Replacement power from the recent RFP is on track for the same PPA/BTA mix as anticipated from the 2018 IRP. To date, NI has executed contracts for $1.25 billion of the $1.8 billion planned renewables investment.

- The impact of COVID-19 on gas load in the winter heating months remains a close focus. Management anticipates it will be similar to that of electric, though gas load may be stickier in that vacant buildings still need heat to prevent burst pipes.

- Despite investor concerns regarding the potential for electrification of heating to diminish future gas need, management notes they have not sensed a similar tone from regulators. Management believes that the need for gas in NI service territory will continue to be strong and the potential for electrification of heating to reduce gas demand is overstated due to economic and technological constraints.

- Tax equity markets remain liquid, and investors may find the opportunities for regulated PPA deals are attractive. Management has no concerns regarding future access to tax equity financing.

NWE

NWE initiated $3.40-$3.60 2021 adjusted EPS guidance. The range is a bit wider than 2020 given COVID-19-

Goldman Sachs | Equity Research

11 November 2020 | 1:27AM EST

Utilities: Tidbits and takeaways from EEI

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PM Summary

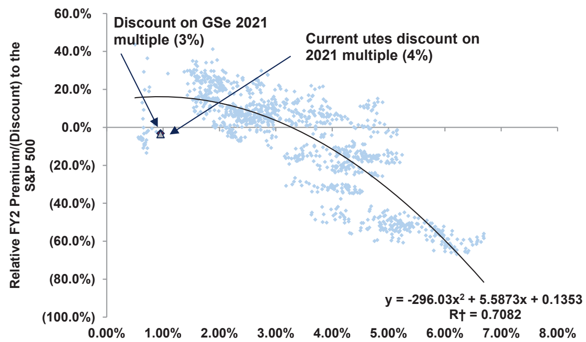
We come away from our 2020 Edison Electric Institute (EEI) meetings with management with two major themes:

1. **Clean energy transition and lowering emissions:** Companies remain focused on transitioning their generation fleet towards renewables, reducing emissions while supporting increased investments. Both state policy (Renewable Portfolio Standards) and federal tax credits (ITCs/PTCs) along with declining renewable costs are driving the transition.
2. **Shrink to grow opportunities:** Corporate simplification - either announced or in consideration - are driving many of the Diversified Utilities (CNP, DTE, EXC, PPL) as management teams seek to simplify the story and close valuation discounts.

We remain positive on utilities despite recent upticks in share prices and valuations as the sector still trades at a discount to the S&P500 versus a historical 20%-25% premium in a similar low-rate environment. Additionally, utility yields continue to screen favorably in comparison to IG bonds and the UST 10-year. Our top picks include renewable/green names such as NEP and WTRG (both Buy-rated and on the CL), while attractive generation fleet transformation plays include AEE, DUK, and PNW. For more value opportunities, we also see compelling upside in Buy-rated value names FE and PCG, along with Diversified Utilities with SOTP discounts like Buy-rated DTE, EXC and SRE (on CL).

Exhibit 1: Utilities currently trade at a discount to the S&P 500, at a 20%-25% discount to what history would imply in a low rate environment

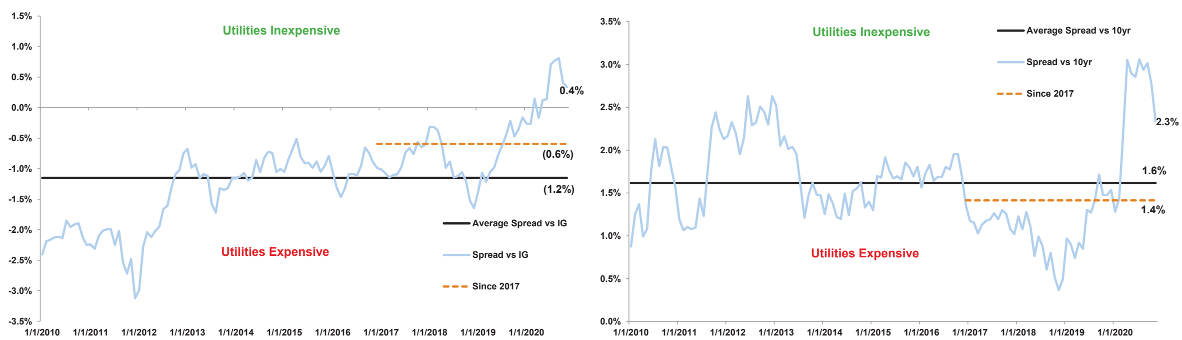
Utilities FY2 P/E premium/(discount) to the S&P vs UST 10-year yields



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 2: Utilities continue to trade above average yield spreads in relation to IG bonds and US 10-year treasuries

Utilities yield vs IG bonds vs UST 10 year



Source: FactSet

Top 10 Takeaways from EEI

1. **WTRG expects increased municipal water system acquisition opportunities,** driven by potential increased focus on water quality at both the federal and state levels.
2. **SRE appears still super bullish LNG growth** and financing options for developing new LNG without needing sizable contributions from SRE to fund construction.
3. **Securitization and the wildfire certificate process could drive relief rallies in PCG** – as PCG does not seem significantly concerned on receiving the wildfire safety certificate in the near term and securitizing debt in the longer term.
4. **EVRG maintains high conviction in its Sustainable Transformation Plan (STP)** — recognizing though that new state legislation in KS/MO is the key driver to this, with no clarity coming before early 2021.
5. **D highlights its sizable clean energy related growth at its core regulated VA**

electric utility - but recognizes permitting hurdles and rate making in VA (longer term) and SC (near term) present risks.

6. **EXC remains a sum of the parts story - and the company does not embed a "carbon value"** in its assessment of its ExGen subsidiary's potential value.
7. **CNP continues to see upside to its regulated growth plan,** at both the electric and gas utilities, while continuing to assess options to reduce its midstream exposure as expeditiously as possible.
8. **PNW remains confident in its robust renewable/storage investment plans,** which should achieve both de-carbonization and long-term customer rate benefit, while looking for a constructive clean energy recovery mechanism.
9. **DTE's 2021 guidance includes more contingency than normal.** Management indicated that given the ongoing pandemic and the uncertainty related to load and margin mix, they believe that they incorporated more than the typical level of conservatism in their initial guidance.
10. **More settlements in Michigan?** With both DTE/CMS announcing rate case settlements this year, the management teams indicated that the new MPSC composition coupled with significant multi-year filings approving large chunks of capex ahead of time could bode well for more settled rate cases in the future.

Company Takeaways

We hosted meetings at the fall EEI (Edison Electric Institute) conference - an industry conference for US utilities. We highlight the following company updates:

- **PPL expects to compare all options against simply reducing debt and buying back shares with potential UK sale proceeds**, but debt reduction remains key post sale to elevate FFO/debt target ~15%-16% from current ~12%-13% level - as detailed in our prior note on this topic. The company hopes, once becoming a pure play US utility, to trade more in line with peer levels post the sale. Likely a federal cash tax payer soon, diversifying into renewables may allow PPL to utilize tax credits and we note management prefers solar over wind from a competitive perspective. Upside may exist to rate base growth in Kentucky — but not till 2022 or later - as they plan to file an Integrated Resource Plan (IRP) in the state to outline gradual generation fleet changes in this coal heavy state.
- **With AZ commission elections complete, PNW remains confident in medium-term renewables/storage investment plans with conviction in ability to demonstrate cost competitiveness.** The company continues to target procurement of utility scale solar coupled with storage aggressively and believes higher clean energy in resource mix creates significant fuel savings despite initial bill impacts. In the ongoing APS rate case, PNW proposed in the recent rebuttal testimony the Advanced Energy Mechanism (AEM), which would provide rider recovery of renewable/storage investments. If not approved in the rate case, the company looks to push the proposal separately, reducing rate case filings while

aligning clean energy investment goals. On the financing side, while the outcome of the rate case would give additional clarity on the timing/magnitude of equity issuance (current forecast at around $300-$400mn), management expects issuance timing as prior to the next rate case filing, while noting that an approval of a clean energy rider could help push back such a filing and/or mitigate the amount.

- **CMS remains well positioned to continue executing with supportive regulation and a constant eye on operational improvements.** Management reiterated the low hanging fruit of fuel (Palisades; MCV) and O&M (Karn 1&2 and defined contribution vs benefit) tailwinds benefiting the customer over the current 5 year plan. However, CMS emphasized that the real value continues to come from operational cost improvements that heighten the quality of experience for both customers and employees as ways to benefit all stakeholders in MI. The state remains focused on decarbonizing and CMS believes that their current targets and plans already remain on track or exceed those goals while offering significant growth. However, management did note that energy storage remains an area where the next IRP could see more investment sooner and the coal Campbell Units 1 &2 could potentially retire earlier. Management sees multi-year filings as providing support for potentially settling rate cases given more known and already agreed upon factors during future rate cases, but noted the ongoing electric rate case is already far along given the PFD. CMs does not view longer-term trackers as likely, preferring the flexibility with annual or near annual filings, indicating that performance based ratemaking has come up and is already evident in energy efficiency and RPS spend.

- **ETR sees, as part of its multi year guidance, modest under earning levels continuing — and sizable rate base growth as well - but regulatory risk remains.** The company anticipates earning 9%-9.5% RoE levels - below authorized - given rate increase caps or regulatory lag in a few jurisdictions like AR, MS and LA. The FERC docket for its SERI segment could present downside - they've highlighted $0.15+ of EPS at risk, largely to finance refunds, but believe they could potentially mitigate this. Recent 2020 storms likely cost roughly $2bn - they hope to securitize these, based on precedents in Louisiana and Texas - otherwise financing this could weigh on earnings slightly. Low utility rates relative to other utilities remains a tailwind for rate base growth - they seek to add $1.4bn of renewables to the system over the next few years and could add emerging technologies (a new CCGT that is hydrogen capable) as well - RFP processes, especially for its Texas utility, remain key for investors to monitor. Finally, the company - while not a large coal fired generator - still owns the sizable White Bluffs facility in Arkansas with plans to retire in the late 2020s - an earlier expected retirement, being evaluated now, could add to rate base and earnings growth.

- **AGR remains confident in its offshore wind timeline, in addition to its growth through PNM and NECEC.** On Vineyard Wind, the company is expecting final environmental impact statement (EIS) this week and final approval by end of year, but notes an approval delayed until 1Q2021 would not alter their 2024 COD target. Given this timeline, AGR would still qualify for 18% ITCs, while looking to take advantage of any extensions/changes to offshore wind ITC rules if appropriate. The company also reiterated its interest in onshore transmission for future offshore wind projects, which is not embedded in the current capital plan. On the New England Clean Energy Connect (NECEC) transmission project, AGR continues to monitor the Maine citizens' initiative as the group plans for a 2nd referendum in opposition, but management believes the project's clean energy and economic benefits to the state will outweigh the opposition arguments. Despite the hurdles to overcome with a project of this magnitude, management expressed interest in considering other future large-scale transmission projects to route clean energy to the NY/NE area to meet clean energy targets. Regarding the company's balance sheet forecast, while AGR looks for Moody's to relax the downgrade threshold for post the PNM acquisition, the guided 14.5%+ FFO/debt from 2022-2025 embeds a potential one-notch downgrade at Moody's.

- **The Florida utilities remain a growth engine for NEE while seeing only modest rate case risk - the renewable segment benefits from massive tailwinds and advantages.** NEE anticipates filling a joint rate case for FP&L and Gulf Power in Florida, where 4 of the current 5 PSC commissioners will oversee the 2021 rate case process. While they likely will seek a rate increase, they recognize RoE risks exist - but they also see potential for continued lower costs going forward that would create headroom for higher rate base growth. The company still sees buyer power, financing advantages, lower O&M costs, site selection skills and economies of scale as their biggest advantages in renewables given their status as the biggest US operator - and an extension of renewable tax credits would not change this, if the new administration in Washington pushes for this. Hydrogen grabs a lot of mind share today - they do not see this as a major near term (2021-25) contributor to earnings, but like energy storage 8-10 years ago, see this as worth monitoring as cost curves improve.
- **CNP sees incremental capital spend spread across its electric/gas jurisdictions,** with 2/3 of the $3bn incremental plan expected at the electric utilities (TX/IN). Electric items include transmission connections for increasing solar build in TX, investments to support customer growth (2-2.5% in TX, 1% in Indiana), while gas investments primarily consist of accelerated gas pipe replacements. Management expects the guided 1-2% annual O&M reductions through 2025 driven by unearthing sustainable O&M savings, conversion from coal to natural gas/renewables, and utilizing technology to improve efficiencies. CNP looks to shift to a majority electric utility profile - partly driving its plan to divest one or two of its regulated gas utilities - while continuing to assess options to reduce its midstream exposure as expeditiously as possible.
- **WEC benefits from a favorable service territory - especially for gas utility service - and believes the current state administration will back its recently announced fleet transformation plan**. With Governor Evers' climate task force still underway, WEC does not fully know the impact of any proposals that will emerge - but they believe retiring older coal/gas units and replacing with solar and storage, along with new gas capacity, will fit in well with broader policy objectives. Cost management could continue in the coming years — while 2020 benefited from greater than originally anticipated levels, more integration could drive even lower

costs. As a utility in a cash tax paying status, WEC could continue buying renewable projects and keeping the tax benefits - a competitive advantage versus others who need tax equity.

- **DTE maintains outsized regulated growth and contingency in its initial 2021 guidance, noting more cost headroom over time translates to more investment from their substantial backlog of opportunities.** The current 5-year plan assumes regulated net income growth in excess of 7-8%/9% at DTE Electric/Gas, offsetting REF roll-offs and equity conversion headwinds during 2022-2023. While the current capital expenditure forecast implies slower levels during the back half of the 5-year plan, if management can find more cost savings they can pull forward more distribution and potentially renewable capex into the plan. DTE noted that given the uncertainty related to the ongoing pandemic, their initial 2021 guidance implies more than their typical 1 standard deviation below normal load in cushion. Other topics included an expectation to assess retiring the Belle River (2030) and Monroe (2040) coal plants earlier in the next IRP, which could require more capex in 2024/2025 to replace the Belle River capacity but would also require accelerated depreciation of the rate base. Management believes that providing more granularity on a standalone GSP/DTE Midstream company will create value for shareholders, highlighting the strength of their platform and opportunities for growth – especially in the Haynesville as well as the Nexus/Link platforms.
- **Potential corporate structure changes - as initially outlined by EXC in its 3Q2020 release - drove a sizable portion of our discussion with EXC,** as the company evaluates a possible separation of ExGen from the regulated businesses. Realizing higher valuation levels remains a key aspect of the decision making process - but regulatory approvals at state/federal levels remain key as well to whether they move forward or not with any changes. They do not "price in" or assume a value for carbon or a carbon tax when assessing the company's largely nuclear ExGen fleet — as they do not seem overly optimistic of a national carbon regime emerging soon - but see this as a "call option" not embedded in their base case. The company reiterated plans to meet its regulated utility EPS growth guidance given out previously - despite the impact of weak demand driven partially by COVID 19.
- **For AEP, while earned RoE's may decline, higher equity layers could offset this partially.** In our chat with management, they discussed that guidance assumes a low 9% range for earned RoE's - driven by regulatory lag in jurisdictions like Oklahoma and Louisiana - but hope to offset this with increased investment in projects with trackers and with higher equity layers in rates. The new 5-year capital spending plan incorporates not just the North Central wind project, but other smaller scale renewable spend as well as incremental transmission investment.
- **Dominion faces limited regulatory risk in the near term, but acknowledges longer term risk still exists.** The 2021 triennial earnings review in Virginia creates limited risk given the $50mn cap on revenue reductions, but the company did recognize that (1) risk in Virginia exists in the 2024 review, where no revenue reduction caps exist and (2) the ongoing South Carolina rate case may see

intervenor testimony that seeks a far lower rate increase than sought by Dominion. Potential changes at the state utility regulatory commission remain worth monitoring in Virginia. D stays positive on gas utilities given trackers that exist in markets like Ohio, paired with opportunities to grow renewable natural gas and even do its first small scale hydrogen pilot test in Utah. D also iterated that it does not expect change in the company's views on its remaining contracted assets like Cove Point LNG or Millstone nuclear in CT.

- **SRE remains very bullish its mix of US utilities and infrastructure businesses - and expects positive LNG related news in the coming months.** With SRE having sold its Latin American utilities and its US renewable business in the last year, the company's new simplified structure should prove easier for investors to understand going forward. Rate base growth remains material in California given the transition to clean energy - and even with a potential risk to authorized RoE's for 2022 there, authorized levels remain above national averages. Texas remains a growth opportunity - they just raised rate base growth projections by $300mn and could see another $775m+ upside in the coming years - and do not expect an overly contentious rate case proceeding in 2021. On the LNG front, Sempra expects to FID the Costa Azul LNG project - and assume limited construction risk — with only $250m of Sempra's equity capital used to finance this project - and still see Port Arthur LNG as one of the few US facilities potentially moving forward in the coming years.
- **WTRG highlights increasing water quality focus as a potential catalyst to support municipal water acquisitions.** While increased federal funding for water infrastructure, if implemented, could deter certain acquisition opportunities, management expects smaller systems to continue to face funding shortages, especially when combined with potential increase in water quality standards. On its recently acquired Peoples Gas system, WTRG expects pipeline replacement to fuel robust rate base growth at Peoples, while its low pressure systems and above-ground checkpoints enhancing its operational safety.
- **ED continues to face uncertainty related to COVID-related costs and storm response,** while reiterating its equity issuance plan (up to $600mn in 2020, $1.1bn total from 2021-2022) with an update expected with 4Q2020 earnings. At CECONY, ED sees potential investment opportunities to improve grid reliability, including potential for additional undergrounding of its distribution system. ED also looks to continue growing its renewable footprint, although offshore wind remains above its risk tolerance level except for associated onshore transmission investments. Finally, management reiterated its view that its midstream equity stakes in Mountain Valley Pipeline (MVP) and Stagecoach are non-core while looking to mitigate the exposure.
- **DUK anticipates trying to put together a coalition to seek electricity related state legislation in N Carolina** – seeking (1) revised rate making – including multi-year plans, decoupling and/or trackers, (2) policy support for a timeline around coal plant retirements, (3) detailed emission reduction targets and (4) policy support for offshore wind. Cognizant of managing the rate impact, which remains key to get industrial customers on board, the company may need to agree to annual or multi-year rate caps. However, we note their IRP (Integrated Resource Plan) base

case assumes ~1% annual rate change and the more aggressive no carbon plan assumes ~2.5% annual increases - so none that appear overly material or that would drive rate concerns for customers. Increased spend at the gas utilities will help drive overall rate base growth - they still see these businesses as attractive growth opportunities - as would higher solar related spend at the Florida electric utility. Florida remains worth monitoring given (1) a proposal to add 750 MWs of community solar, which will go before the PSC in late 2020 and (2) next year's rate case, where DUK will likely seek small rate increase levels.

- **The regulatory front and wildfire recovery will drive EIX from here**. EIX remains bullish regarding changes in California utility regulation — they see faster regulatory decisions as showing the state utility commission wants to work in a more expedited approval process. Recent approvals on securitization, insurance cost recovery, COVID 19 cost deferral and recovery, and wildfire spend recovery (2018-2020), show the state continues to see utilities as necessary "partners" in moving to a cleaner energy economy. They view the cost estimates for 2020 wildfires as likely falling within insurance recovery levels and continue to work to resolve claims related to the 2017/2018 wildfires, after reaching settlements with public entities and the subrogation claims holders. EIX still plans to issue $1bn in common equity - more likely doing so after wildfire season ends in late 2020 and as they get closer to reaching settlements with claimants from prior wildfires — and can utilize $800mn of insurance to pay out claims for now on the 2018 wildfires.
- **XEL looks to continue its robust renewable investment pipeline,** while ITC/PTC extensions - if realized - could support incremental renewable PPA buyout opportunities. Along with the renewable theme, XEL highlighted its commitment to support EV infrastructure and increased EV adoption, with $500mn of planned investments across its various jurisdictions. Finally, XEL expects to be able to grow at the upper half of 5-7% EPS growth guidance with just its base capital plan, while the proposed $1.4bn in incremental wind/solar investments could pad the growth toward the upper end of the guidance range, supported by a flattish base O&M CAGR through the mid-2020's.
- **In our discussion with PG&E Corp's (PCG) interim president and other officers, the company highlighted skills sought in incoming CEO/CFO** level personnel - with announcements likely in the months ahead on who will fill these seats. Operational experience, political and regulatory expertise remain key to the skillset needed for PCG's incoming CEO — while the CFO search focuses on individuals with strong investor relations skill sets as well as in balancing capital spend goals with the impact on customer rate levels. The company did not seem overly concerned regarding the Wildfire Safety Certificate process - they view the delay as more of a technical issue - and hope to get resolution soon. The 2019 certificate remains in place unless the state regulator outright rejects their 2020 application. PCG still anticipates $625m of costs related to the 2019 wildfire - but upside to this may exist and certainty may not emerge for another 1-2 years. They remain optimistic about cost savings opportunities as well as on securitization - they hope to finalize the regulatory docket by late spring 2021 and utilize securitization proceeds to pay down temporarily issued debt in the near term (up to $6bn), with

plans to pay down $3bn of outstanding holding company debt over the next 2-3 years. Upside may exist to rate base forecast levels - but risks to the authorized RoE for 2022 remains given the state's cost of capital mechanism.

- **Grid infrastructure investment remains top of mind for AEE, while continuing its fleet transition initiatives.** In Illinois, while management continues to pursue passage of the proposed legislation to extend formula rate-making (expiring in 2022) while opening the doors for renewable investments, they view traditional rate-making as relatively constructive as well given a future test year and de-coupling. In Missouri, the utility noted positive feedback and reception from all stakeholders on the recently filed Integrated Resource Plan (IRP) which, combined with ongoing grid investments in the state, should provide robust long-term rate base growth. Management noted that an extension of renewable tax credits - if implemented, could warrant further acceleration of its renewable growth plan.
- **EVRG remains focused on the state legislative front in Kansas and Missouri - outcomes next year likely will significantly impact earnings growth** and realizing EPS targets. The company still believes, as outlined at 2Q2020 earnings, that retiring up to 500 MWs of coal generation earlier than planned - and securitizing these costs - and redeploying the proceeds into new renewables remains, along with raising transmission/distribution investment, the best growth strategy available. They believe strong support exists for energy transition planning in Kansas — and will seek consensus backing on this in Missouri next year - but risks exist that other low cost alternatives, besides simply company owned generation in rate base, could emerge and present a modest risk to their goals of adding more renewables to rate base. Higher transmission spend comes with limited lag — they anticipated higher levels for multiple years to help Kansas integrate wind capacity, but actually see a bit of an uptick in its smaller segment in Missouri (Missouri West). EVRG does not see asset sales as likely needed or leading to lower costs - early retirements remain the core driver.
- **AWK spoke on opportunities to address water contaminants even in the absence of a federal water quality mandate,** which could drive both organic and inorganic growth via continued acquisitions of small municipal water and wastewater systems. While private capital is present in larger systems, AWK is best positioned to do tuck-in deals with 20,000 customers or less, as they can provide investment and improved service while spreading costs across the entire AWK business. The company still expects the NY utility sale to close in early 2021, with NY commission approval the only outstanding condition. AWK continues to replace water pipes within its system, and is targeting a 100-year replacement cycle versus 120-130 years currently compared to many municipal systems at 200 years. AWK's military business continues to see good traction, with numerous opportunities and proposals currently in the works while the Homeowner Services Business has seen some headwind from COVID-19 in 2020 but margins should be stable moving forward ex-COVID.
- **NI continues to see both electric and gas utilities as integral components of the US energy mix.** Management sees an attractive growth trajectory for both types of Utilities, noting that the recent pressure on regulated natural gas valuations

in the public markets does not appear to reflect the fundamental value they deliver for customers that is not easily replaced. The company does see opportunities to decarbonize on the natural gas side through infrastructure replacement as well as RNG, especially given Ohio and Indiana offer attractive RNG resource – noting this will represent a small amount of volume. On the electric side, management highlighted that potential renewable tax credit extensions could potentially support further acceleration of coal retirements, pulling Michigan City earlier than 2028. Separately, NI reiterated that management remains comfortable with current guidance, incorporating ~$0.05 of impact related to COVID.

- **POR continues to see state-driven clean energy goals supporting on-going renewable/storage investments in Oregon,** as well a growing focus on EV infrastructure opportunities, especially for industrial customer base. With the recent state wildfires mostly contained, POR continues to assess the overall cost from an expense/capital standpoint, although they see the levels as largely manageable and supported by the approved cost deferrals from the state commission. POR in 4Q2020 earnings looks to provide an update on both the wildfire cost estimate as well as thoughts on timing of the next base rate case; for 2021, the company looks to grow earnings (using 2019 as the base and 4-6% long-term growth forecast) driven by cost management, benefit from the completion of the Wheatridge renewable facility, and lower costs associated with the retired Boardman coal plant.
- **OGE focuses on maintaining and growing its regulated electric utility profile, primarily through continued transmission & distribution investments at its Oklahoma/Arkansas jurisdictions, supported by improving regulatory frameworks through certain investment recovery mechanisms.** While fleet de-carbonization is not a primary investment driver near-term, OGE does see select solar opportunities that could combine with gas-fired generation in replacing retiring coal plants. Finally, management views the growth of its regulated utilities as the primary use of any capital allocation opportunities.

Valuation and Key risks

PPL Corp. (PPL, Neutral): $31/sh 12 month target price is based on a sum of the parts analysis. Key risks include regulatory risk, power demand and financing.

Pinnacle West Capital Corp. (PNW, Buy): $94, 12-month price target based on 19.5x P/E multiple on 2021 EPS. Key downside risks include 1) APS rate case outcome corresponding to our bear-case scenario that could pressure valuation multiples in the near-to-medium term, 2) realized electric demand is worse than expected, impacting earnings and cash flows, 3) the November 2020 election results in a non-constructive commission, and 4) PNW is unable to secure much ownership in future renewable generation build-out, limiting rate base growth.

CMS Energy Corp. (CMS, Buy): $69, 12-month price target based on 24x 2021 P/E multiple. Key risks include regulation, legislation, cost management, and financing.

Entergy Corp. (ETR, Buy): $119, 12 month target price based on a sum of the parts analysis. Primary risks include regulatory risks, power demand and financing.

Avangrid Inc. (AGR, Sell): $45, 12-month price target based on a sum-of-the-parts analysis. Key upside risks for AGR include 1) AGR receives approvals to defer all COVID-19 related costs, mitigating the earnings impact, 2) incremental O&M savings help offset other EPS headwinds, and 3) U.S. government extends federal renewable tax credits, which improve future renewable investment return profiles for AGR's renewable business.

NextEra Energy Inc. (NEE, Neutral): $74, 12-month price target based on a sum-of-the-parts analysis. Key risks include Florida utility regulation, renewable development, tax credit legislation, and operating cost management levels.

Centerpoint Energy Inc. (CNP, Neutral): $22, 12-month price target is based on a sum-of-the-parts valuation. Key risks include customer demand/growth, COVID-related costs, and financing.

WEC Energy Group (WEC, Sell): $88, 12-month target price based a 22x P/E multiple on our 2021 EPS. Key risks to our view include higher than expected capital spend and rate base growth for 2021+, lower than expected operating costs and improved demand.

DTE Energy Co. (DTE, Buy): $142, 12 month price target derived from a sum-of-the-parts valuation. Multiple risks exist to our current view of DTE: (1) Unlike a sale, spinoff valuation remains an unknown for shareholders, if midstream valuations change due to adjustments in legislation, taxes, or supply and demand balances in a negative way, this could impact DTE's valuation. (2) The regulated asset base – representing ~70% of earnings today and theoretically 90% post spin-off – maintains a single state regulatory environment. If MI sees significant changes in regulatory quality – especially the ability to earn timely recovery on investment as well as authorized returns — this could impact our view. (3) Similarly, demand, cost, and investment trends in the state remain critical. (4) DTE currently offers a substantial regulated growth profile, in order to finance this DTE may require equity beyond our forecasts or debt financing costs ahead of our expectations.

Exelon Corp. (EXC, Buy): $53, 12-month price target based off a SOTP analysis. Key risks include retail MWh sales, power prices, generation output, and utility regulation.

American Electric Power (AEP, Neutral): $90, 12-month target price based on SOTP. Key risks include power demand, rate case and regulatory risks, as well as financing.

Dominion Energy Inc. (D, Neutral): $84, 12-month target price based on SOTP. Key risks include regulation, project execution, power demand and financing.

Sempra Energy (SRE, Buy on CL): $150, 12-month price target derived using SOTP. Key risks include project awards, regulatory approvals, construction, and financing.

Essential Utilities (WTRG, Buy on CL): $51, 12-month price target based on SOTP. Key risks include regulation, municipal water system acquisition approvals, and longer-term growth concerns about the gas utility weighing on valuation.

ConEdison (ED, Sell): $78, 12-month price target based on 18x P/E on 2021 EPS. Risks include NY utility commission authorization of COVID-19 related costs and bad debt expense, NY economic conditions, renewable segment growth.

Duke Energy (DUK, Buy): $99, 12-month price target based on 19x P/E on 2021 EPS. Key risks include utility regulation, power demand and coal ash related issues.

Edison International (EIX, Buy): $74, 12-month price target based on 17x P/E on 2022 earnings discounted back to 2021. Key risks include wildfire related costs, litigation claims, utility regulation and financing.

Xcel Energy (XEL, Neutral): $71, 12-month price target based on 20x P/E on 2021 EPS. Key risks include upward revisions to rate base/EPS growth, O&M savings, renewable tax credit extension, negative rate case outcomes, less generation in rate base, materialization of PPA buyouts, COVID-19 related cash drag.

PG&E Corp. (PCG, Buy): $15, 12-month price target based on 14x P/E on 2022 EPS discounted back to 2021, and DDM. Key risks include wildfire risk, continued underearning due to legacy holding costs, financing risk and trading risk.

Ameren Corp. (AEE, Buy): $93, 12-month price target based on 24.5x P/E on 2021 EPS. Key risks include regulation, project awards, and financing.

Evergy, Inc. (EVRG, Neutral): $58, 12-month price target based on 18x P/E on 2021 EPS. Key risks include utility regulation, power demand and cost management.

American Water Works (AWK, Buy): $166, 12-month price target based on 39x P/E on 2021 EPS. Key risks include water quality issues, cost management, regulatory environment, growth at non-regulated segments, reduced ESG fund flows.

NiSource (NI, Buy): $27, 12-month price target based on 20x P/E on 2021 EPS. Key risks include Indiana regulatory approvals for renewables, earnings/cash impacts due to COVID-19, higher than expected O&M, electricity demand and customer growth, and financing.

Portland General Electric (POR, Sell): $39, 12-month price target based on 16x P/E on 2021 EPS. Key risks include COVID-19 impacts on earnings/cash, level of COVID/wildfire related cash drag, renewable ownership, and M&A target risk.

OGE Energy (OGE, Neutral): $35, 12-month price target based on 18.5x P/E on 2021 EPS. Key risks include upsized rate base growth, the company could be a target of a take-out, customer and demand growth, further distribution cuts at ENBL, COVID-19 headwinds.

Disclosure Appendix

Reg AC

We, Michael Lapides, Insoo Kim, CFA, David Fishman, CFA, Rebecca Yuan and Adam Williams, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The latest trends at this year's virtual mega conference

We provide our latest day of conference takeaways with our most substantive set of meetings on Tuesday. We include takes from AEE, AES, ALE, AVA, AWK, BKH, CMS, D, EVRG, FTS, IDA, NI, NWE, OGE, PEG, PNM, PNW, POR, WEC, and XEL. While there are few substantive updates we continue to stress several key themes: 1) rate cases are to be avoided as much as possible – we see delay efforts across the sector to limit scrutiny of authorized returns: examples include BKH, XEL, WEC among a litany of others that have been successful in avoiding these outcomes. 2) Expansion of contracted renewables remains a key point of discussion as this is increasingly affording latitude for companies to backfill their EPS growth with undefined project acquisitions as ratebase otherwise slows or is unable to meet the 5-7% growth contemplated. 3) Continued elevated residential trends, and *especially* sustained cost cuts from 2020 into 2021 provide substantive latitude in earnings. While we've remarked before at just how confident companies are already within their stated or implied '21 EPS guidance ranges, we reiterate this focus. By contrast, those with challenges to achieve '21 EPS appear outliers and the greater risks for performance vs utility peers. 4) Debate on sector valuations remains clear, with substantial focus on just whether there is value in gas LDCs. On balance near every executive agrees on LDC merits – in northern latitudes and central geographies so dependent on winter heating – and hence we see clear bias for consolidation whether driven by strategics or financial sponsors. See our earlier takes from Day 1 and Day 2. AVA PO to $38 (from $35) on mtm of17.3x for electric (from 16.5x) and 15.5x for gas (from 13.8x); POR to $48 (from $42) on mtm (from 16.2x).

So what about company specifics? Some high points

AES remains among the best meetings of the conference given continued discussion of positive EPS factors driving extension of EPS CAGR, further divestments, constructive sales prices on recent sales, and ultimately upside surprise on other smaller start-ups (Uplight). We saw NEE as among the better Day 1 meetings as well. A few of the key points from our meetings: AEE doesn't see '20 EPS as intermediating on its '21+ outlook; this is important to consider given recent pressures. AES see even more latitude than we realized (out to '25) and could see further halving of its coal capacity by end of '21. BKH quite confident on its ability to scale incrementally still – more upside on the come despite constructive '21 guide release. D aspires to provide *consistent* 6.5% EPS growth despite lumpy nature of its growth; see some modest positive tailwinds as roll its outlook ever deeper into the core of its offshore upside (expect ratebase likely still 7-8% if not higher). EVRG offered some caution on earned ROE trends heading into '21/'22, but affirmed updates on new executives would be forthcoming well before 4Q roll; appears confident on getting approval for ratebase wind investment of 700MW with clarity likely by YE21 to bolster confidence in stand-alone plan. NI divestment remains a key focus of debate – appears to be still interested, but not entirely clear. PNW has put together an intriguing rider package for clean energy recovery tied to economic support for impacted native American communities: positive update, but *how much* can it address lag? Finally XEL appears poised to kick out rate cases in its two core geographies – and sustain its current level too. *See company specific write-ups enclosed.*

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Ameren (AEE)

Shares of Ameren experienced weakness following the company's Q3 report and reduction in the top end of its guidance range. Without a significant update as part of its EEI release, mgmt. reiterated its focus on executing its updated resource plan in Missouri as well as ongoing efforts to extend IL formula rates as its top priorities. Maintain Neutral on Ameren.

Focus on 6-8% growth with MO rate review filing expected by mid-2021

Mgmt flagged its upcoming MO rate filings for both its electric and gas utilities as key H1 items on the regulatory agenda, with the filing at the electric utility intended to capture the $1.2B of wind entering service by the end of 2020. We perceive some sensitivity to the overall trajectory of O&M reductions as well given the test year period for an electric filing is ongoing, and accordingly are less concerned about the 2020 guidance reduction as a sign of persistent execution issues. The bulk of 2020 Covid impacts affected the MO Electric business, mgmt. indicated that the majority of offsets were undertaken at that utility rather than across the enterprise. Looking ahead some investors are identifying natural gas demand in the key Q1 period as a potential tail wind for non-decoupled gas distribution utilities, similar to the boost seen in residential electric demand from Covid-related changes in usage patterns. AEE mgmt. see this as less of a consideration given that its larger gas business is in IL (decoupled) with a relatively small number of gas customers in MO (120k).

Constructive on ROEs, Liberty not a blueprint, Formula Rates key in IL

The MO Electric rate settlement received earlier in 2020 is seen constructively by mgmt. (and indeed led to upward estimate revisions and enthusiasm around AEE shares), though the precise ROE and equity remain part of the black box settlement. Mgmt. does not expect that the Liberty Utilities decision from earlier in the year serves as a leading indicator for the path of ROEs in MO broadly (a view echoed by other stakeholders in our previous conversations). Generally we believe that the commission maintains a constructive stance toward AEE Electric and see a pathway to a potential settlement in the upcoming 2021 filing as well. In Illinois, the extension of formula rates and corresponding increase in adder from 580 to 680 bps remains top priority – mgmt. indicates that formula-based ROEs today are lower than would otherwise be expected under a traditional rate case process, though the advantages of the formula rates in terms of stability and procedural simplification are seen as key. Remains constructive on *eventual* resolution of lingering IL extension question.

Latitude to move up coal retirements, but currently key part of gen mix

Mgmt. did not rule out further acceleration of coal plant retirements in Missouri after the resource filing in September moved forward planned shut downs at Sioux, Rush Island, and Labadie. Mgmt. sees the current planned lives of the facilities as appropriate given the plants' capacity factors, which remain high (unlike EVRG's KS facilities). Also worth noting is the significant rate base associated with coal generation at AEE's Missouri facilities – mgmt. indicated a preference for accelerating depreciation of these assets (Merrimac will be nearly depreciated when retired in 2022) over securitization, which remains uncertain at this point. While stakeholder conversations indicate a degree of momentum and support for securitization, AEE mgmt. is not indicating that the legislation is a key component of its coal strategy – we continue to see this as more of a factor for Evergy.

AES Corp (AES)

Watch Fluence Selldown with Developments Imminent

After an S&P upgrade to Investment Grade and coming off of a positive 3Q report last week, discussions with management continued to highlight pending developments around Fluence – the battery storage JV with Siemens - as the company looks to do a capital raise to establish a value marker for the biz and drive continued investment ahead of an IPO in two or three years. We continue to perceive the most likely construct as a 5% sell down each of AES/Siemens' 50% stakes. While R&D has kept the business about a $0.02 drag on AES consolidated results, latest discussions continued to stress the company as margin positive with management guiding to a 45% revenue CAGR ($500Mn in 2020) as a base case to grow to ~$3Bn in five years. Current expectations under base forecasts are for the company to yield positive earnings in a couple of years. That said, conversations suggested potential for accelerated growth given the scope of possibilities for energy storage in transmission – which could push out inflection in earnings contribution while further driving longer term value. It remains to be seen just how elevated a valuation the company can achieve with the initial sell down and how the recent acquisition of AMS contributes to driving interest and margin potential over time.

Divestments continuing and could even *accelerate* too

Meanwhile, we expect potential for additional asset sale announcements through year end to further clean the portfolio after announcing last week that that it has signed an agreement to sell a 35% interest in the Southland repowering for $424Mn (meaningfully more than our prior valuation and translating to 14x+ EV/EBITDA multiple), pushing total announced asset sales this year to $650Mn and above their full year target of $550Mn. Look for further divestments of coal by year-end and substantively more even in 2021. We could see a further halving of total coal exposure over 18-months. While EPS dilution from sales remains a clear risk.

Uplight: another efficiency emerging biz within the AES family

While likely more protracted, watch any developments overtime around Uplight – with the biz currently driving 20% top line growth and our model only incorporating the equity invested in the valuation - and other potential partnerships that could yet materialize in coming months. This remains another emerging angle to the story; we value it at book value in our SOTP. Admittedly this could see some growing enthusiasm.

Poised to Extend 7-9% EPS CAGR: *growing clarity*

Overall, we see the company as well positioned to extend their 7-9% EPS CAGR with their typical roll forward early next year to '24. While only 15% of the biz, we expect the utilities to be a key driver of EPS post 2022 with management guiding to high single digit rate base growth for DP&L and mid-single digit rate base growth for IP&L. Recall the company recently reached a constructive settlement in Ohio and has a 1.2GW renewable RFP in Indiana emerging as a potential contributor of EPS through 2025: we see potential for half of the 1.2GW to ultimately make its way in to rate base with participation through a build-own-transfer. While Panama opportunities appear the most immediate, management remains optimistic around LNG prospects broadly with potential additional contribution from the DR in the near term; Vietnam appears a bit more protracted with COD in early 2025 (more then offsets other headwinds in this year) but management sees five cents of earnings upside from LNG in the nearer term (we believe we largely reflect this already).

Meanwhile, with the change in administration, we could see potential extensions of tax credits to help further push renewables domestically – and any extension to applying the tax credits for storage could drive further benefits. With a much greater international exposure, we see renewable subsidies as less critical for AES as they look to deploy 2-3GW annually. Look for possible additional disclosures with the full year results to include a comprehensive disclosure of earnings tied to renewables across its disparate businesses. We see this as yet another angle.

We reiterate our Buy rating ahead of key upcoming catalysts.

Allete (Not Covered)

FY20 headwinds on COVID impacts, but maintaining long-term trajectory

With C&I customer exposure, discussions focused on COVID load impacts. Although ALE has only seen ~5c EPS impact through 3Q on reduced C&I load, mgmt expects 15c impact for FY20 with 4Q impact as US Steel's Keetac and Verso Paper will be idle (Keetac restarting in Dec) coupled with broader C&I load slippage. The company expects COVID impacts to have a lingering effect into 2021. As such, EPS growth for 2020 YTD is ~4% relative to FY19 EPS, below long-term EPS guidance of 5-7%. FY20 utility growth is ~3% while Allete Clean Energy (ACE) growth was ~30%. Despite FY20 headwind, ALE maintained 5-7% long-term EPS growth off 2019 as base for CAGR, 4-5% high-visibility regulated utility earnings growth and 15%+ growth from energy infrastructure & related services.

Upcoming Feb 2021 IPR filing to focus on remaining coal retirements

Discussions also focused on early expectations into the upcoming Feb 2021 IRP filing at the Minnesota Power utility subsidiary. Mgmt expressed a focus on accelerating coal unit retirements, with 7 units already retired. Only Boswell 3 and 4 coal units are remaining without defined retirement dates. As such, mgmt expects the IRP filing to also focus on most cost effective ways to retire the two remaining coal baseload units, expressing additional T&D solar, wind, storage, DSM, and gas as all within discussions. In terms of PPA vs ratebase investments for clean energy, mgmt expressed that while low cost is a priority for regulators, ratebase may get an advantage as well given state focus on local economy benefits.

Clean Energy segment facing pressured wind development returns, akin to solar

For its ACE business segment, mgmt emphasized wind energy development competition and forward curve prices pressuring return profiles. With increasingly shorter contracted PPA tenors towards 10-15 years relative to 30-yr PPA asset life, merchant pricing curves have become more critical for the return profile. Mgmt emphasized focus on a return profile of a few 100bps spread relative to its CoC. That said, with merchant curves having declined ~20% in last 12 months, mgmt expresses a 100-150bps impact on IRRs. In terms of key markets with attractive wind development still, mgmt highlighted MISO, where it holds an advantage as a Midwest utility as well as PJM. Mgmt expressed shifting from wind development into complementary renewable energy spaces including solar and storage, including coupling these at wind sites. In particular, existing commercial customers have asked to add storage to wind projects, which helps support higher returns. Mgmt expects to provide greater details in coming quarters. We view compressing wind development returns and increasingly shorter contracted tenors expressed by mgmt as unsurprising and largely in-line with similar trends across utility-scale solar development.

Avista Corp (AVA)

Our meetings with AVA discussed a range of topics from the recently filed rate case to the ongoing wildfire investigations, M&A, and the IRP. We perceive the WA rate case request to be palatable although watch the tax credit flow-back for multi-jurisdictional approval and impacts to equity needs. On wildfires, the $135-150mn of liability insurance (not wildfire specific) should be adequate to cover any damages, although we wouldn't expect an update from the Department of Natural Resources (DNR) investigation anytime soon. With the IRP filing expected in WA in fall '21, we continue to remain somber on ownership opportunities given AVA cannot take advantage of in WA (state law) and smaller developers requiring lower rate of returns making competition a higher hurdle; Purchase Power Agreements (PPAs) would allow for the ability to earn on the payment stream. Some of the more interesting commentary came from the strategic side where mgmt. acknowledged that once it achieves *earned ROEs near authorized levels it could capitulate and noted that its current size/scale was challenging; from a consolidation standpoint mgmt. was not interested in further Gas LDC exposure, although continues to evaluate Alaskan assets. Net-net we reiterate our Neutral rating given several moving pieces and unresolved items. Our PO moves to $38 (from $35) as we mark-to-market our SOTP valuation with peer multiples on '23 EPS at 17.3x for electric (from 16.5x) and 15.5x for gas (from 13.8x).*

Some interesting M&A commentary

While mgmt. continues to remain committed to improving its earned ROE toward authorized levels, it acknowledged that once it achieves this feat it could entertain those options. We think this is likely because mgmt. feels its current P/E implies a lower earnings power than what it can eventually achieve; although given more fixer-upper type deals tend to get through the finish line, we wonder if a more substantial premium offered could get mgmt. to the table. Mgmt. also acknowledged that not having the scale is challenging because it can't spread costs over a larger customer base, and that it could look for partnership opportunities on the Social side to more align with the ESG trends. While the company was previously involved in M&A in the past through the eventually failed Hydro One deal, we wonder if more attention will come its way on this front.

What about gas LDCs or Alaska?

We perceive mgmt. continues to like its gas LDC assets given the cost considerations in the NW relative to electric despite the electrification trends. Despite some of these assets being on the market (i.e. CNP and NI both disclosing it intends to divest), mgmt. did not seem interested in gaining more exposure here. Rather, similar to meetings in the past, the company highlighted that it continues to look for opportunities in Alaska and has evaluated some of TransAlta's assets, although has yet to pull the trigger.

Puts and takes of the WA rate case filing

On the regulatory front, mgmt. recently filed its rate case in WA requesting a $44.2mn increase for electric (8.3%) and $12.8mn increase for gas (7.9%) with an overall flat increase in customer bills as it requested to accelerate the flow back of the Tax Customer Credit by 2yrs (to 10yrs) to offset the increase. Mgmt. highlighted that feedback from stakeholders has been limited so far, and it would need approval from <u>all commissioners</u> (WA, ID, and OR) for the accounting changes to flow-back tax credits. To that end, mgmt. feels confident in the request as the accounting change is an IRS acceptable method. While mgmt. would get the earnings uplift (assuming commissioners agree to this solution), there would be a cash flow impact, potentially impacting the company's equity needs in '21 (which have typically ranged from $50-70mn/yr). We also note that mgmt. has requested to recover $165mn of Advanced Meter Initiative (AMI), acknowledging it needs 100% recovery of this compared to 50-60% in the past (although has had dialogue with the commission prior to this request). Net-net, while WA has been somewhat challenging in the past we perceive the overall request as palatable yet slightly cautious.

DNR fire investigation ongoing; $135-150mn insurance

AVA continues to have an open dialogue with the Department of Natural Resources (DNR), which is currently investigating the fires where AVA's equipment was involved in early September. AVA previously disclosed that the fires were caused by extremely high winds, but to date, the company has not found any evidence that the fires were caused by any deficiencies in its equipment, maintenance activities or vegetation management practices. Although there is no statutory timeline around the DNR's investigation, mgmt. reiterated that it believes the company followed protocols and was prudent. In terms of wildfire insurance, mgmt. noted that wildfires fall under its general liability insurance coverage where AVA has total coverage of $135-150mn. We expect the wildfire associated insurance costs likely trend higher going forward, especially following this recent worse than normal fire season. We would highlight that in AVA's recently filed WA rate case, the company included an O&M tracker of $5.4mn. This O&M tracker incorporated higher insurance costs along with all the other costs embedded in O&M. Wildfires are not necessarily new to the area, and we note that AVA filed a wildfire resiliency plan prior to occurrence of these recent fires. That said, given the uncertainty around regulatory treatment as it pertains to wildfires across AVA's footprint, we believe this dynamic will add an overhang for shares in the near term.

Renewable RFPs related to IRP likely lack self-build

AVA management noted it is going to have additions related to wind, solar and additional hydro upgrades associated with its latest Integrated Resource Plan (IRP). However, we think most of these will be PPAs rather than self-build. Recall, AVA issued a renewable Request for Proposal (RFP) in June for 120 MW that did not consider self-build. In its next renewable RFP, AVA noted self-build options could be again limited highlighting that there are certain tax credits AVA cannot take advantage of in its WA jurisdiction given state law and smaller developers requiring lower rate of returns makes competition more fierce. We believe further extension of tax credits would likely further limit the ability for AVA to seek self-build options in its IRP, although we could see some hydro plant upgrade opportunities. We also note there is ability to earn on PPAs in WA through legislation recently enacted that will be based on the payment stream (rather than capital deployed) of these contracts). Look for an IRP filing in the fall of 2021 in its WA jurisdiction, although we continue to remain more somber on substantial earnings opportunities from the capacity replacement needs.

American Water Works (AWK)

Ahead of their upcoming 2021 guidance, investment, and outlook roll forward, discussions with AWK management highlighted confidence across their business and their ability to execute on their strategy through both COVID and the longer term. Despite the pandemic, latest disclosures with their 3Q update brought the midpoint of full year 2020 guidance back to the original adjusted 2020 guidance on an adjusted basis – and we see the company as poised to extend expectations another year: We don't perceive a pivot from the strategy with management seemingly committed to their growth triangle and the largely regulated portfolio: *don't expect any changes to outlook with the 4q roll forward of their 5-year outlook and '21 guide.*

Muni & Legislative Tailwinds Continue Unabated

Across the US, favorable legislation continues to materialize for the water sector with particular highlights including HB254 and HB1131 in Indiana for recovery without full rate cases and fair market value, HF2452 in Iowa to allow systems to qualify as a distressed system when they don't have a certified operator and establishing a 180 day timeline to approve acquisitions, S831 in Virginia to establish FMV and authorize a water or sewer public utility acquiring a system to establish rate base through FMV, and S551 in West Virginia to allow for expanded asset valuation, combined water and wastewater ratemaking, and the expansion of how munis can utilize proceeds from the sale of a system. Across their footprint, the company now enjoys FMV legislation in ten states, consolidated tariffs in 12, and water quality accountability legislation in three.

Despite the steep discounts in valuations between AWK and even water peers, we perceive less appetite for public water acquisitions given the constructive legislation and elevated number of muni opportunities in and of itself. We see the latest pressures put on munis from the ongoing pandemic as only further accelerating consolidation in the industry.

Meanwhile, management remains confident around their ability to execute on the pending sale of NYAW to Liberty Utilities despite a somewhat protracted process on the margin and amid the latest legislation introduced in New York to hold utilities accountable – and expectations are to close on the transaction in early 2021. Despite other regulatory setbacks such as the latest decoupling developments in California, we see management as largely committed to the rest of their regulated portfolio.

While Military Wins Continue to Materialize

Recall Joint Base San Antonio and US Military Academy at West Point became operational in June with Joint-Base Lewis-McChord further awarded in September. After the latest win, the company has now won 17 military bases across the footprint with active engagement for another four military solicitations - with two expected to be awarded in the near term. After largely being driven by the Air Force and Army, interest from the Navy could yet drive further opportunities and management alluded to potential for ~70 opportunities over the next bunch of years.

Related to home services biz, mgmt. remains confident it can scale this biz further too based principally on expanding its reach through a variety of channels including its military efforts. Bottom line, no concerns on slowing on even this angle of the biz too. Limited expansion of products it would appear. Focus on owning the customer is an expanding theme in our coverage.

Overall, management continues to look to have market-based business contribute 1-2% of their EPS growth over the current plan.

We maintain our Underperform rating given the steep valuation premium.

Black Hills Corp (BKH)

Contemplating Trajectory after Latest Updates and Prior Concerns

After an early guidance cut against the uncertainty of the pandemic, management re-raised 2020 guidance to $3.60-$3.70 (with the midpoint back to the same level as the original guidance of $3.55-$3.75) and latest discussions continued to suggest confidence around their ability to navigate COVID despite the latest surge in virus cases throughout the US. While the 2021 guidance assumes no material net impact from COVID for the year despite the latest spike, management has thus far been able to execute (even aside from some favorable weather) and we stress the large resi nature of their gas biz (~55%) as likely to limit any potential headwinds as we go in to peak heating season and with moratoriums now lifted in all of their jurisdictions except for Arkansas. Rate relief, Corriedale, and rider recovery should help drive y/y earnings into 2021.

Meanwhile, we expect disclosed equity needs to be financed through the ATM next year after the successful block acceleration in 2020, with the bulk coming through in 2Q and beyond.

While FERC recently approved the Wygen PPA after a rather protracted process - helping to de-risk longer dated estimates - and the company scored a political win in Pueblo earlier this year, we critically watch prospects for higher rate base and add'l recovery mechanisms against lower potential ROEs - and if the overwhelming franchise vote at CO electric and the new aligned leadership strategy can translate to a more constructive outcome with their re-filed rate case in the state. Recall the company opted to forego consolidation after earlier pushback and re-filed a new rate review and separate docket for an integrity rider in September. While there is potential to combine the two, we ultimately expect both processes to play out over 9-10 months, putting resolution at the middle of next year (no procedural docket has been established around the outstanding items). Meanwhile, we have less concern around NE following the recent constructive settlement and hearing.

With a relatively depressed currency and given the more complicated portfolio vs. SMID-peers, we wouldn't expect the company to be too active around M&A – but we nonetheless highlight the overlap in the Arkansas jurisdiction for CNP's LDC assets given their recently noted desire to divest some of their gas assets.

Will Renewables Materialize in Rate Base with Scale?

Under the current status quo, management doesn't anticipate being a cash tax payer until 2027 or 2028. While seemingly less likely under a split government, a partial reversal of tax reform could somewhat expedite this process – accelerating any appetite for renewables. We see further extension of tax credits as more likely under current government composition expectations. Recall the latest previously announced 200MW of renewables in Colorado is being done through a PPA, but management remains confident in ability to participate in more renewables in the future. We await further developments around transition to cleaner sources following the recently released sustainability report and amid CO's (& other states outside BKH's jurisdictions) recent moves to look into gas utilities' role in de-carbonization.

Overall, we see risk/reward as balanced. Maintain Neutral.

CMS Energy (CMS)

Clear-cut confidence on positioning into '21 with reinvestment de-risking in 4Q
Mgmt emphasized strong confidence in FY20 earnings, in particular with more than substantial earnings cushion from ~$100mn cost savings (~28c) realized through 3Q, well above prior historic record of 15c cost saving EPS offset. Rather, discussions focused on ability to drive reinvestment pull-ahead spend in 4Q to de-risk '21. Further, FY21 earnings are not impacted by any pending regulatory outcomes following the upcoming Dec '20 electric order that will be in effect Jan 2021 and with the latest gas case settled with a filing stay-out through Dec '21. Mgmt expressed optimism for FY21 trajectory given leeway to manage negative weather and without full extent of COVID load impacts, with its guidance of $2.82-$2.86, *reflecting long term EPS CAGR of 6-8%*, typically rebasing off year-end results. We continue to view CMS mgmt's best-in-class ability to manage earnings, even in a pandemic-impacted year without decoupling, as underscoring confidence in shares and the forward trajectory. Reiterate Buy.

Cost savings sustained into '21+ with focus driving rate headroom as well
With cost savings materialized through FY20, mgmt emphasizes roughly half of savings is driven by the CE Way, focused on waste elimination (~$50mn), which is fully recurring savings. Additionally leveraging O&M resources during outages or when not being used for full capacity and applying it to capital projects provided another ~$20mn of savings. Additionally, non-operating savings through refinancing further provided cost savings among others. Among other cost levers highlighted include leaner supply chain and remote work by employees expected to continue to an extent post-COVID as well. Overall, mgmt emphasized sustainable cost reduction and management systems, supporting customer bill head-room to continue supporting incremental investments, with support from MPSC in proceedings around capex spend proposed. Bottom-line, mgmt emphasized O&M cost reductions as still merely scratching the surface, expecting to continue ~4% run-rate annual cost reductions.

Incremental to the broader O&M cost reduction trajectory, mgmt emphasized further ability to drive headroom through costs with ~$150mn in cost savings from the roll-off of Palisades PPA (~$90mn) along with MCV PPA expiration in 2025 (based expected extension through 2030 at lower capacity price). Additionally, mgmt expects ~$30mn O&M savings from retirements of Karn 1 and 2, among other opportunities.

IRP filing in 2Q21 to focus on acceleration in coal retirements, renewables
With its upcoming IRP filing in 2Q21, discussions express likely focus on accelerating coal retirements with Campbell 1 and 2 scheduled for 2031 and Campbell 3 scheduled for 2039 given latest state emission targets set could drive incremental renewables spend. In terms of replacing capacity with accelerated retirements, mgmt expressed IRP filing to focus upon incremental renewables beyond 6GW of solar through 2030 already approved in the last IRP as well as on battery energy storage deployment, and demand-side management. Although CMS is only required to file an IRP every 5 years, mgmt expressed a preference in filing more frequently with a voluntarily submission every 3 years, given the clarity provided from tri-annual IRP filing cycles around capital spend around resource planning. Additionally, CMS expects to propose a higher level of earning on the PPA adder towards S&P's methodology rather than weighted average cost of capital. With an IRP approval in Jun '22, we could potentially see an update for the 10-Yr capital outlook in 3Q22, albeit mgmt noting such an update requires material change.

Strategically – don't expect *anything*
With DTE pursuing a substantially back to basics effort, it appears CMS is very much set on status quo. Having achieved an excellent risk rating already despite ownership of an IPP gas asset and a bank, we see no rating agency 'upside'. Focus remains on staying the course with additional spend likely to backstop its outlook by early next year.

Dominion Energy (D)

We had a generally constructive meeting with D mgmt. where the company exuded confidence in its offshore wind permitting timeline (~27 months vs Orsted at 30 months), cost and capital expenditure timeline ($1bn in '22/23 with more substantial chunk in '24-26. Given a large part of this spending initiative will be included in mgmt.'s roll-fwd outlook on the 4Q call, we could see potential upside to VA rate base growth of 7-8% (at a min reinforcing confidence in this trajectory). Related, mgmt. remains adamant that its 6.5% annual EPS growth will indeed be consistent despite the potential lumpiness of its forthcoming Offshore build – managing other elements including cost structure through their in-service to smooth trajectory. While we do not anticipate a fully defined 10yr capex outlook, we expect mgmt. to provide some parameters on how to think about spending into the 2H of that 5yr window. Moreover, we see tailwinds to the '21 guidance range given execution of the share repurchase program and '20 tracking at the high-end of the range.

Additionally, we wouldn't expect further sell down of Cove Point LNG, despite some peers looking to go this route and interest from private capital as mgmt. likes its current 50% passive stake after executing on sales previously. Lastly, we highlight that the S.C. rate case is likely to be noisy with intervenor testimony this week where we could see recommendations for sub-9% ROEs; while this rate case remains critical to watch, mgmt. continues to bake in conservative assumptions in its outlook. Net-net, we maintain our Neutral rating as shares appear fairly valued at these levels based on our SOTP analysis.

Offshore wind angles: confidence continues

Mgmt. continues to highlight confidence in its offshore wind permitting process with a Construction of Operation Plan (COP) expected to be filed shortly with a Bureau of Ocean Management (BOEM) filing thereafter with total timeline of roughly 27 months. (~24months for the BOEM permit). Further, despite challenges faced by projects in the NE, mgmt. continues to highlight commercial shipping, fishing, environmentalist (whale migration from Nov-March), and coast guards shouldn't provide much as an impediment given the engagement with these stakeholders and project in federal waters. In terms of capex, mgmt. expects roughly $1bn of spend between late '22/23 with the more substantial chunk to occur in years '24-26 (we currently assume $5.9bn total from '22-25). On the cost front, mgmt. continues to point to slightly less than ~3% annual bill inflation, and we stress that potential for offshore wind tax credit extensions could further help with the customer bill impact. At the end of the day, we view the permitting timeline as generally in-line with Orsted (D's 3 months tighter slightly) with cost considerations largely manageable as best we can tell at this point.

What to expect on the 4Q call update?

With mgmt.'s upcoming 4Q call we expect to get the roll-forward view of the outlook ro years 2021-2025 as well as capex by year and by program (i.e. offshore wind, battery storage, solar, transmission, nuclear relicensing, S.C. spend, gas pipeline replacement, etc.) In addition, we expect to see rate base growth (potentially annually but more likely a CAGR). While we do not anticipate a fully defined 10yr capex outlook, we expect mgmt. to provide some parameters on how to think about spending into the 2H of that 5yr window. Given a large chunk of offshore wind will be included in this capex outlook, we could see potential upside to rate base growth in VA (vs. guidance of 7-8%).

Where is 2021 guidance shaping? Positive tailwinds

While '21 guidance is expected to equate to 10-11% growth, we could see some slight tailwinds to the $3.85-3.90 guidance with 2020 trending toward the top-end of guidance ($3.37-$3.63). Further given the weighted average price of the share repurchase program for the $2.1bn executed upon was done at the $77-79 range with the remaining amount likely at higher levels (shares currently trading near $85/sh), this could also create a modest tailwind. We would expect to see a clean share count from '21 going forward as buybacks are in the rear-view. Lastly, mgmt. expects to grow at 6.5% annually thereafter despite some lumpiness with capex more back half weighted through

O&M levers to help smooth out the growth trajectory. We think this would be viewed constructively similar to many of D's more aspirational peers (i.e. WEC, CMS, AEE, etc.).

Watching South Carolina: expecting some noise ahead

With the single digit rate increase requested (7.75%) in South Carolina, we perceive the case to be palatable, albeit political considerations are likely to come in the mix given the first rate request since D purchased SCANA. We would not be surprised to see a sub 9% ROE in upcoming Staff/Intervenor testimony (potentially 53% recommended cap structure) given the more consumer friendly Office of Regulatory Staff (ORS) and emotional connection from past nuclear transgressions in the state. That said, mgmt. sees a relatively straightforward case with $3bn of grid hardening related investments, equating to just 1% annualized bill inflation and continues to remain conservative in its guidance assumptions. We stress D is on track to earn low 8% ROEs this year. We also expect mgmt. to provide a full update in its SC spending on the 4Q call despite the rate case process ongoing as it has already filed its IRP in the state and continues to see grid hardening needs.

Federal renewable procurement: early, but nice exposure

Following recent Presidential elections, one potential avenue that we perceive could be a tailwind for D is through federal procurement of renewables (i.e. the President mandating federal buildings to procure renewable generation). Given D's close proximity to these buildings in VA, this could present a potential opportunity. While mgmt. highlighted it is still too early to quantify the impact, it highlighted that 10% of its sales are from government entities and continues to have conversations with its federal customers.

Evergy Inc. (EVRG)

Following recent media reports that EVRG once again rebuffed NEE's offer, mgmt. pointed out the statement in response to Elliott, highlighting that it evaluated the stand-alone plan (STP) and elected to go that route with the activist at that time. Mgmt. went further to say that it doesn't believe they are fairly valued and there is no process going on or offers in front of them. Instead, most of our meetings focused on the stand-alone plan where mgmt. discussed potential securitization with legislation in Jan., an IRP filing in April and July for MO and KS, respectively, that will provide a parallel path with the legislation, and how it intends to execute on renewable ownership, and earning its allowed ROEs while combating rate inflation in order to execute against the 6-8% growth targets. While we note the confidence from mgmt. in its ability to execute against its own targets, we wonder whether the ~13% implied premium (from the $15bn reported offer) relative to EVRG's current stock price (or ~18.8x P/E multiple) can be achieved on a stand-alone basis. Transitioning to a new CEO (internal?) by YE could potentially lead to capitulation. Still we see stand-alone prospects as attractive at current levels and look for more tangible data points in early Jan. with the MO response to the STP on 1/29 (pushed from 11/13) and securitization progress, although do acknowledge potential downside to our estimates in '21/22 to reflect lag dynamics. Maintain Buy on shares.

Securitization process marching forward

Mgmt. continues to expect securitization bill to be filed in early Jan., putting it on a parallel path with its IRP filings in MO and KS (April 1 and July 1, respectively) where the company intends to provide a path w/ and w/o securitization. Given the engaged stakeholder process with other key players in the state, including AEE, the NRDC, Sierra Club, and Staff, commissioners we continue to see momentum on this front.

Targeting 500MW of retirement w/ potential for more through securitization

In the IRP, mgmt. will likely target 500MW of coal to retire that has a modest remaining un-amortized balance that would have minimal financial impact through the loss of rate base earnings. We believe this could be La Cygne given it fits that profile. With securitization mgmt. could accelerate retirements over the next 10 years that would normally be slated for retirement in the 2030-2040 timeframe. Mgmt. further highlighted that maintenance spend for these plants are below depreciation rates so it continues to work down the life of these assets. Given the potential cost savings from these retirements and the reinvestment of proceeds into rate base renewables (700MW expected with IRP) this would likely alleviate any material earnings divot.

Rate case considerations: expect some lag in ‘21/22

While mgmt. expects to file a rate case in 2022 and 2023 for MO and KS, respectively, earning its authorized ROE in the interim through cost savings, we would expect some lag to build in ’21 and 22 in MO and KS prior to the filings. Additionally, given EVRG does not have a rider for the contemplated renewables, it wouldn’t be able to earn on these assets until placed in rates in ‘23/24. While our initial assumptions were that mgmt. could execute on cost savings into the rate case, we believe there could be some additional lag ahead of the ~40bps we assume for Evergy Metro, ~50bps in MO west, and ~75bps in KS Central (we had earlier thought cost synergies from the closed Westar integration could well minimize lag vs historical levels). That said, we appreciate that there is a delicate balance here and perceive this as a trade-off to ensure more constructive regulatory treatment. On balance, we see strategic updates including CEO role as key over next few months *prior* to 4Q.

Cadence of updates: 4Q expectations

While mgmt. provided capex and O&M trajectory updates at an unusual time in the past given the activist involvement, we expect 4Q will be back to the ‘regularly scheduled program’. Look for a 5yr capex program to coordinate with the IRPs but <u>not</u> necessarily a roll forward of the 6-8% EPS growth rate. This will be perceived awkwardly potentially – a new CEO remains critical to providing the latest view forward.

Fortis (FTS)

Can Upside Materialize after Latest Roll Forward?

Latest discussions with management followed the recent roll forward at their Fall update when the company laid out a $19.6Bn investment plan over the next five years, translating to a slightly lower ~6% rate base CAGR (vs. ~7% previously through ’24) – and as the company continues to await key regulatory updates. Commentary suggested confidence in the positioning of the company under the incoming administration, particularly given efforts around clean energy and with AZ in a prime position to capitalize on the renewable push. The company has highlighted an opportunity of $4-$6Bn at UNS from the 2020 TEP IRP while we perceive the ~6% rate base growth at ITC as potentially conservative under a Biden administration if some of his clean energy policies are able to materialize (with a small amount of associated transmission interconnection in the plan). We await further details around large-scale transmission opportunities beyond reaffirming its longer-term aspirations. Meanwhile, we view any pursuit of contract renewables to be more nimble on the margin as opposed to a larger focus area as the company is now largely T&D.

Risk from Reg Agenda Still Lingers

Management continues to anticipate a final decision in the outstanding TEP rate case in late 2020 and is awaiting next steps from FERC’s notice of proposed rulemaking on incentives. With latest results weighed down by the regulatory lag as we await new rates in AZ, this remains the key data point to watch into elections and the end of the year. We continue to perceive confidence from management around a resolution in the TEP rate case for new rates to be ready to take effect in January. Recall the company’s last ask was a 10% ROE (vs. 9.75% currently) compared to staff at a recommendation of 9.28% - with a further bump from the Fair Value Increment Adjustment. While we see downward bias to the current 9.75%, favorable weather has provided some further relief more recently given changing weather patterns in AZ - and we assume this could continue going forward.

While earlier action from FERC around methodology for establishing base ROEs helped de-risk returns at ITC, the future of just what the all-in returns for the biz will be are still unclear with a NOPR on incentives still outstanding. With the latest ruling, FTS's all in ROE at ITC is currently 10.77% – with the 10.02% base, 50bps for RTO participation and a 25bp independence adder. The initial NOPR contemplates a potential elimination of their independence adder – while boosting RTO participation an additional 50bp. If ultimately adopted, we see a 25bp net benefit under new incentives not currently reflected in estimates. It remains to be seen what the future of FERC just may look like under a Biden administration.

In New York, the company filed a rate case in August 2020 with the NYPSC requesting an electric rate increase of US$33 million and gas delivery rate increase of US$14 million, with a decision expected in mid-2021. Given the scrutiny in the state as of late and the recent efforts by Cuomo to hold utilities more accountable, we could yet see pressure here.

Meanwhile, the Alberta Utility Commission issued a decision in November 2020 rescinding the September 2019 order with Fortis Alberta retaining ~$400 million in transmission investments in rate base.

We reiterate our Underperform rating, seeing regulatory risk and a lack of clear cut EPS trajectory as underappreciated at the current valuation.

IDACORP (IDA)

Ratebase Growth – Robust upside opportunities ahead drives confidence

Discussions emphasized robust rate base growth with upside opportunities not included within IDA's current 5-Yr forecast including Hells Canyon re-licensing, increasing ownership of the Boardman-to-Hemingway (B2H) transmission line, and additional distribution system modernization. Additionally, mgmt emphasized that its strong balance sheet should limit any equity needs. Recall the potential for Idaho Power to acquire Bonneville Power Administration's ownership share – which would result in Idaho Power owning up to 45% of the transmission line with a normal return on the capital investment.

Mgmt expressed that they will continue to evaluate whether or not to file for a ratecase annually after having stayed out since 2011. That said, with potential for a meaningful increase in spend within a couple of years as highlighted, we see a rate case as more likely than not over the next couple of years despite the strong growth.

Overall, we remain constructive about further future rate base upside and see IDA as well positioned to execute on their NT plan. We probability-weight rate base upside opportunities from Hells Canyon relicensing and B2H ownership expansion at 75% and 50%, respectively. Reiterate Buy.

Customer load growth trends – remains elevated at 2.6% TTM

Mgmt noted load growth into Idaho from other states with increasing population due to work-from-home flexibility. In terms of customer growth trends, resi remains elevated (+3%) as with most utilities given work-from-home. Agriculture/irrigation load has been stronger this year (+1%), but mostly as a result of a return to normalized weather (colder and weather in prior years). That said, smaller commercial load has been hit harder, while large C&I load was hit earlier but has largely returned. Nonetheless, we stress overall load growth trends of 2.6% TTM even against the pandemic backdrop.

NiSource (NI)

We came away from our NI meeting with increased confidence that mgmt. is evaluating potential portfolio optimization options (i.e. Gas LDC sales) to replace a portion (or all) of the planned equity/equity-linked financing behind its renewables strategy (this remains a key debate after earlier stating it was a prospect at its Analyst Day and holding back on affirming this intention in recent weeks at it 3Q call). However, it is clear to us mgmt. does not believe the discount where Gas LDCs are currently trading is warranted. Additionally, NiSource is not in a rush to get a deal done as the company indicated its equity-linked hybrids issuance (the first portion of its renewable strategy equity financing) can be anytime in 2021. We continue to view the divestiture route as quite attractive for the NI narrative along with the broader Gas LDC subsector. We believe any M&A in the depressed subsector likely brings a re-rating higher for both NI shares and the group. We reiterate our Buy rating as we believe NI shares continue to present a unique opportunity on the wide relative discount in Gas LDCs with M&A optionality, renewables upside in rate base, and potential for positive revisions.

Portfolio optimization still an option – potential smaller Gas LDC sales in focus
Considering mgmt. commentary regarding portfolio optimization to maximize shareholder value, we think it is apparent mgmt. is looking closely at potential asset sales such as it smaller Gas LDCs in lieu of some (or all) of the equity financing behind its renewable strategy. With a sale of any Gas LDC, NI would effectively be replacing gas rate base with renewable electric rate base. Mgmt. does not agree with where Gas LDCs are currently trading (~3x discount vs electric utilities) highlighting that electrification cannot replace gas particularly in the colder climates. We continue to argue that a sale of a Gas LDC could drive the group (and specifically NI) to re-rate higher and drive a material inflection in shares. We perceive unique sensitivity for the wider sector to any M&A. Also, even excluding a potential asset sale, we flag that with NI shares now at ~$25/share, each move higher only implies less dilution in the out years, assuming it can hold these levels into next year and '22.

On the flip side, we note mgmt. affirmed during our meeting that all its Gas LDCs are earning close/at their authorized ROEs (as mentioned on the EPS call last week) – likely screening less attractive for potential buyers. Just in the last week, CNP announced its Gas LDCs are up for sale and the asset sales are baked into its financing plan. We note this is quite different from NI financing strategy, which does not include any asset sales. With the timing of NI's equity-linked hybrids issuance slated for anytime in '21, the company has a wide window of time to get a deal done (likely wider than CNP) to offset some of this financing. Note in our recent NI upgrade, our theoretical scenario analysis indicated that a potential asset sale of NI's three smaller Gas LDCs (VA, KY & MD) could offset most of the renewable equity financing in a likely accretive manner.

Renewables financing: equity-linked hybrid options with 50% equity treatment
Excluding any potential asset sale, more than half ($600-1,000mn) of NI's $1.2bn equity financing of the renewable strategy will be comprised of equity-linked hybrid securities. NiSource reiterated that the primary requirement of these equity-linked hybrids is that the company receives at least 50% equity treatment by the credit rating agencies. Mgmt. outlined that the two main types of securities under consideration at this juncture include: 1) mandatory convertibles, and 2) perpetual preferreds.

Equity-linked Hybrids: Mandatory Converts vs Perpetual Preferreds

NI noted that mandatory converts would look similar to the securities recently issued by Dominion. When assessing a utility's debt metrics, Moody's treats mandatory converts as 50% equity pre-conversion while S&P treats mandatory converts as 100% equity. For perpetual preferreds, the credit rating agencies all use 50% equity treatment. NI has issued perpetual preferreds before at 6.5% and 5.65%, but mgmt. believes it could price perpetual preferreds today at ~200bps lower rates. While perpetual preferreds obviously have greater earnings drag and lack tax deductibility, NI believes the benefit of avoided equity dilution outweigh the income statement friendly mandatory converts. Meanwhile, NI will also have to assess the balance sheet implications when looking at the more favorable equity treatment under the mandatory converts. That said, we believe it is still early stages to make a decision here on the hybrid equity financing strategy considering that any portfolio optimization and the stock price in the interim can influence subsequent decisions.

7-9% EPS growth ('21-'24) with or without the -5c COVID impact in '21(base yr)
Mgmt. noted that that the base year (2021) of the +7-9% EPS CAGR (2021-2024) may include or exclude the -5c COVID EPS impact baked into the mid-point of 2021 EPS guidance of $1.28-1.36. This indicates that the mid-point or roughly the high-end of the guidance range can be used as the base year for the +7-9% EPS CAGR, effectively implying a wider range of EPS outcomes in the out years.

How does guidance commentary reconcile with our EPS CAGRs?
We model 2021 EPS (base year) at $1.32 (the midpoint of guidance including -5c COVID impact). Off of our 2021 EPS estimate at the midpoint of guidance, our implied EPS CAGR ('21-'24) is 10.3%, which is above NI's +7-9% EPS CAGR. However, when the -5c of COVID impact is added back to our base year estimate of $1.32, our implied '21-'24 EPS CAGR is 8.9%, which lands inside NI's +7-9% EPS CAGR. Bottom line, while mgmt. color around the LT EPS CAGR points to a wider perceived range, we believe there is a clear bias to the upside of the range given the conservatism baked into the base year guidance range. Pending execution this winter heating season, this provides potential for positive estimate revisions.

Northwestern Energy (NWE)

2021 Shy of Street but Add'l Spend on the Way

Ahead of upcoming EEI meetings, NWE reaffirmed full year 2020 EPS of $3.30-$3.45 while launching 2021 guidance of $3.40-$3.60. The initial 2021 guidance came in line with our model, but below Street estimates of $3.60 – with the midpoints of '20 and '21 implying 4% growth y/y. Drivers include 1% volumetric growth and less of an impact from COVID, with O&M largely flattish y/y. We perceive the hope from management is to tighten the range in February when we have a bit more clarity around COVID implications and how the pandemic recovery plays out over the next couple of months. Given the fluidity of the pandemic backdrop and latest spike in cases, it remains to be seen how even 4Q will shape up: recall latest load expectations factored into full year guide are +2% resi, -4% commercial, and -9% industrial. Meanwhile, we estimate another nickel at risk if the company isn't able to get a constructive outcome around COVID expense recovery. Look for an outcome in the next month or so.

With the latest update, the company also refined and rolled forward its capex forecast, adding $317Mn through '24 and an initial investment wedge of $400Mn in 2025: we estimate about ~80% of capital is T&D driven as we await clarity around potential generation spend in MT and given what we expect to be some repairs tax eligible spend, we see downward pressure to the tax rate relative to that previously communicated for 2023. Look for more clarity with full year results.

The company continues to target a 3-6% EPS growth over time after latest messaging on the 3Q call: discussions from our meeting clarified expectations for it to be somewhat lumpy with earnings on the lower end without rate relief, and rate cases to provide support to the 4-5% level. We suspect a constructive outcome around generation efforts in MT as necessary to achieve the top end of the range.

Are Cost Cuts Sustainable & Contemplating Equity Needs

We see less concern on the margin around using 2020 as a test year given what is seemingly more sustainability around the cost cuts than feared. That said, we still see a pre-approval filing as more likely if the company is ultimately able to win some generation in Montana. A firm decision around a rate case will likely be communicated with 1Q21 results.

Meanwhile, we await clarity around timing and magnitude of equity needs which we think is likely to come in February after resolution of the ongoing MT RFP. Overall, management continues to allude to the ~14% FFO/Debt threshold to keep credit metrics intact. While outcomes in MT have been more constructive over the years, we stress the Colstrip challenges and PCAM developments more recently as more concerning – and critically wait to see how the regulatory dynamics change under latest commission developments.

We maintain our Underperform rating on shares, stressing limited growth prospects without rate relief and meaningful generation spend longer term.

OGE Energy (OGE)

Following the recent 3Q update last week where OGE lowered FY20 consolidated EPS guidance to $2.00-2.06 (from $2.08-2.18) due to milder weather (-0.09 EPS impact YTD), our EEI meeting was centered mostly on strategy and the moving pieces into '21. Mgmt. continues to provide no comment on any strategic action as it relates to ENBL. We expect an update on ENBL at CNP's Analyst Day on December 7th with OGE now aligned with CNP in terms of strategic decisions at the shared Midstream entity. We flag that excluding the weather impact YTD (i.e. adding the 9c weather impact back to new guide), this implies 2021 consolidated EPS is roughly $2.16 +/- 3c at the high and low end, potentially indicating slight downside to consensus. Perhaps more importantly, mgmt. remains committed to its organic growth profile with Gas LDCs not very high on its list and do not screen well from an ESG standpoint. We maintain our Buy rating as we think OGE continues to present one of the only stocks we cover with such a pristine balance sheet (22% 2020E FFO/debt) where we can apply a 1x discount vs peers, and still arrive at such substantial upside in our SOTP.

+4-6% growth off '19 normalized EPS implies 2021EPS of ~$2.16 (cons = $2.21)
During the meeting, mgmt. reiterated that weather normalized 2019 EPS at OGE utility of $1.65 should be used as the base year for OGE's LT EPS CAGR guidance of +4-6%. Assuming midstream (ENBL) EPS in 2021 is flat y/y at the midpoint of 2020 midstream EPS guidance of $0.32-0.36 and HoldCo 2021 EPS is flat y/y at breakeven, this implies 2021 consolidated EPS is roughly $2.16 +/- 3c at the high and low end. Hence, we suspect there may be more negative estimates revisions to come given 2021 consensus EPS is currently at $2.21 and OGE's long history of providing relatively conservative guidance. We expect OGE to provide 2021 guidance alongside its 4Q update in early 2021 per typical reporting cadence. Note in 3Q, OGE reduced O&M by $20mn to offset load impacts from COVID and milder summer weather. Most of this O&M reduction will carry through into 2021 providing operating leverage tailwind into next year. However, this will be partially offset by some deferred costs that that OGE pushed out, but will have to eventually incur. Bottom line, despite potential negative revisions on the margin, we continue to expect solid execution at the utility into next year as OGE notes it is seeing improvement in its service area economy in terms of load and remains disciplined on costs.

Focus is on electric: Gas LDC M&A seems unlikely
With a number of utilities looking to monetize their gas LDCs and considering OGE's balance sheet strength, it would seem OGE could be a potential acquirer as the company was previously in the gas distribution business and some of the assets for sale are adjacent to its service territory. There is also the question of whether a Gas LDC sale at CNP would be tied into a strategic action with ENBL at OGE and CNP. Recall, Bloomberg Headlines recently stated that OGE is joining CNP in putting its ENBL stake up for sale. While mgmt. emphasized that it would never say never, the company noted its focus is on the electric business and gas LDCs would not be high on their list of potential acquisition targets. Additionally, mgmt. highlighted that Gas LDCs do not screen well

from a de-carbonization standpoint – a key consideration now at OGE. We would highlight the Gas utilities continue to trade at record-wide discounts to electric utilities. Recall, CNP stated outright on the 3Q call, that it is putting the company's gas LDCs up for sale. NI has also noted it would consider portfolio optimization via the monetization of smaller Gas LDCs to replace a portion of its equity financing of the renewables.

Renewables: Favor solar over wind – 2021 IRP filing likely includes renewables
As OGE looks to build new generation while also off-setting its carbon footprint, mgmt. noted it prefers to build solar over wind. To date, the company has built four solar farms to date and is adding a fifth in 2021, including its first in Arkansas. While OGE recognizes it needs to align with de-carbonization trends, mgmt. made clear it wants to balance this with keeping its rates at the lowest vs peers across the nation. We perceive OGE's upcoming 2021 IRP likely lends its self to more renewable generation, specifically solar, providing potential incremental capex opportunities. In the past, OGE has noted it prefers solar due to higher capacity factors and the company already has a tracker for solar. We will keep our eye out for stakeholder discussions around the upcoming IRP filing.

Public Service Enterprise Group (PEG)

We remain confident on PEG's power pivot with prospects of capturing the ESG premium (admittedly not yet seen in shares) with the divestment of its non-nuclear power business by YE-2021 in addition to a shift out of coal to be finalized by July '21 with Bridgeport Harbor's closure. While investors may voice concerns on the nuclear side (particularly given recent scrutiny of nuclear subsidies in IL and OH), we see some possibility around lower ZEC pricing but overall perceive a different regulatory backdrop in NJ, along with clear necessity for supporting clean energy targets. With election-related uncertainty largely set to the side for now, mgmt will likely make an announcement on its involvement in Orsted's 1100 MW Ocean Wind project (we anticipate a 25% equity stake). It appears that NJ Senate regulators have resolved disagreements with Orsted around economic benefits to NJ communities. At the utilities, the remaining $1bn CEF (AMI, EV, ES) will be the focus with resolutions by end of Q1 (AMI may come slightly earlier of the three). Longer term, we see potential for capex at the utilities driven by infrastructure improvements to spur NJ's economy. Maintain Buy.

Power asset sales & ESG premium

Mgmt expects to start marketing its non-nuclear assets later this year with a deal targeted by YE-2021. While not seen just yet, we continue to perceive this as a re-rating opportunity from an ESG angle. The exit from coal by July 2021 should also help benefit ESG ratings. We further highlight the benefit from improvement in FFO/debt metrics from the current ~20%; mgmt has been in multiple discussions with the rating agencies and feel comfortable in their estimates. The question will be valuation; while PEG has noted meaningful investor interest in the assets, we note the historical trend of declining transaction multiples (albeit admittedly few in recent years for comparison purposes). Separately, we note the possibility of PEG considering sale of the nuclear plants, as well, if insufficient regulatory support is received for the assets.

Offshore decision to come by end of November

PEG expects to reach a decision on a potential ~25% equity stake in Orsted's Ocean Wind project by the end of the month, with the election trajectory adding more certainty around the project. Recall that NJ Senate President Steve Sweeney and two other regulators had requested that the BPU suspend approval of Ocean Wind, arguing that Orsted had not delivered sufficient benefits to state and local communities. We believe that this disagreement between Orsted and regulators has since been resolved, and Orsted has enhanced their commitment; while Orsted had planned for more assembly to take place in Europe, they are now committed to shifting more of the work to NJ.

Nuclear, subsidies, and the clean energy transition

Mgmt continued to voice confidence in the need for the state to consider FRR (Fixed Resource Requirement) election given the alternative of paying twice for capacity under a MOPR construct in the PJM market, if offshore wind enters the mix. However, we note that given the critical role of offshore wind, any FRR election would be on a longer dated timeline (with offshore wind COD ~2025). Mgmt stated they would assume any FRR would be at least for a five-year period, for planning purposes. The further question will be whether the FERC changes/adds seats under a Biden administration and consequently makes FRR considerations less necessary. Meanwhile, the NJ BPU expects to make a final decision on ZECs in April '21; we see a range of outcomes possible between $0/MWh and $10/MWh vs. the prior round which only offered a binary outcome.

Utilities: CEF and other capex opportunities

Mgmt remains focused on the remaining $1bn CEF ($600mn AMI, $300mn EV, $100mn ES) and expects resolution by end of Q1 (AMI could come sooner, however – even by year-end, albeit likely more early '21, in our view). Longer term, we see potential for capex from infrastructure improvements in order to stimulate job growth given the state's economic circumstances. Gas distribution has potential to grow further.

PNM Resources (PNM)

Our meeting focused on the anticipated AGR/PNM merger including renewable prospects and transaction risks as well as latest NM political developments such as the ballot initiative. While PNM has never owned any wind and only has some small solar projects in rate base, their ability to own future renewable generation remains a critical question and likely a key strategy for AGR. Non-PPA renewables will be a key focus in NM and TX given limited presence of AGR at present. While we see room to expand further particularly in New Mexico, the question in our view will be whether AGR will be able to successfully navigate the RFP process in the state as PNM was recently rebuffed on its efforts to pursue ratebase investments. Key considerations for the RFP process going forward will likely be reliability (likely a greater issue now following San Juan) and cost. AGR should have a cost-of-capital advantage in addition to their expertise in development with likely lower costs. We also note opportunities for export out of New Mexico, which AGR would be in a better position to do. We note a number of regulatory hurdles including NMPRC (8-14 mo), PUCT (6-8 mo), FERC (3-6 mo), Hart-Scott Rodino (1 mo), CFIUS (3 mo), FCC (1 mo), and NRC (6-8 mo). Given a cash deal, the risk is the lack of a breakup fee for PNM in the event of a shareholder vote rejection (although a breakup fee would apply in certain other circumstances).

PinnacleWest (PNW)

We continue to view PNW as facing elevated risks associated with its pending rate case. That said it has been taking efforts to minimize the impact of the outcome. The recently-filed rebuttal testimony's inclusion of an Advanced Energy Mechanism (AEM) rider addresses questions about recovery of a significant portion of 2021-22 capex, though stakeholder and staff support for inclusion remains uncertain and in our view affects prospects for a subsequent case filing. We note the bundling of multiple revenue recoveries at once (including an economic angle to soften impacts to native communities) as particularly key to gaining support of the commission. Approval of renewables rider and recovery of environmental spend is tied to economic support to these regions. When coupled with potential for further O&M (expecting flat) into '21, this could help minimize our real lag concerns heading into next year.

While the AZ commission election points to a 3-2 Republican majority, we acknowledge uncertainty about rate case outcome persists while recent amendments to Energy Rules have largely clarified the outlook from a state policy perspective. If anything emerging anew is a (concern) around retail competition. We see this as having limited traction, but perceive this could once more gain some attention to little outcome (given the colorful, and cautious history in Western US). Maintain Underperform on PNW.

Coal commitment added in concert with AEM rider mechanism

Rebuttal testimony include a proposal for the AEM, a rider which would allow for concurrent recovery of renewable energy investments while also consolidating the existing Demand Side Management Adjustment, Renewable Energy Standard, and Lost Fixed Cost Recovery mechanisms. Among the key nuances with the proposal for the rider is the expectation for the case process to proceed to a fully litigated outcome – the previous AZ Sun renewable rider serves as a template for the new proposal, however that rider was included as part of a settlement. We think that were the AEM to not be included in the final order, the timing of the *subsequent* filing could be moved up in order to speed recovery of $600m of clean generation spend included in the 2021 spending plan. PNW is framing the inclusion of a further proposal for the Four Corners Coal Community Transition as working in concert with its AEM, with $100m in commitments to support the Navajo Nation economy impacted by the scheduled retirement of the Four Corners facility. With the inclusion of financial support for the key Native American stakeholder groups in the state, mgmt. expressed confidence in garnering support for its AEM rider along with the scrubber recovery which remains a significant portion of the rate case revenue requirement ask. We note that at this stage of the rate case process it remains unclear whether staff will support additions of these mechanisms (or whether a petition outside of the case process may be needed).

Election outcome sees Republican majority intact at 3-2

The incoming Democrat commissioner Anna Tovar received the largest individual share of votes, potentially driven by name recognition having served as mayor of Tolleson. Incumbent Rep commissioner Lea Marquez Peterson recently supported an amendment to state energy rules that calls for a transition to zero carbon – this aligns with PNW's own decarbonization goals and is a key nuance relative to the other proposals which would have required a 100% renewable goal, and overall supportive of PNW's goal to include Palo Verde as an ongoing component of its generation fleet. The third elected commissioner is Republican Jim O'Connor who waged a successful write in campaign – while his specific policy leanings remain uncertain we perceive some likelihood of alignment with Commissioner Olson. While Olson's position as in line for the title of chair suggests that the topic of retail competition may receive renewed attention in the coming months with the potential for additional proposals and workshops, we note that support among the other three commissioners is unclear given lack of majority support from the current bench (and we perceive incoming Dem Tovar is not a natural ally). Mgmt additionally noted the closing of the rate tool docket as an indicator that the relationship with the commission is improving – we look to the next round of testimony submitted by staff in response to the latest PNW proposals as the next key data point.

Portland General Electric (POR)

Trends Continue to Improve after Conservative Scale Back

After introducing 2019 as a base year for their 4-6% LT EPS CAGR with 3Q results, discussions with management continued to suggest confidence around the long term trajectory of the company despite the challenging year. Commentary noted robust opportunity from both in-migration and grid upgrades, and we continue to expect the remaining delta in capex after earlier cuts as likely to re-materialize over the next several months (recall $100Mn was added back to the plan with the 3Q update after a $180Mn cut between the first couple of quarters).

While management will launch 2021 guidance with full year results, both loads and the economy have been much better than expected and we suspect an expectation to get back to more normalized levels with trends across the board coming in above management's more conservative forecasts. We see the current base capex plan as translating to the lower end of the 4-6% LT CAGR with additional spend resulting from customer growth, generation, and electrification and storage opportunities longer term as driving a growth rate elevated from the low end of the range.

Although management hasn't clarified any rate case plans, we see less concern around their current equity layer after the trading loss shifted their capital structure – and management doesn't anticipate any equity needs under the current plan.

Recall POR also recently announced that it has permanently shuttered its Boardman Generating Station in Eastern Oregon's Morrow County, fulfilling the previous agreement with stakeholders in 2010 to significantly reduce air emissions from power production in Oregon by ending operations at Boardman 20 years ahead of schedule and transitioning to cleaner energy resources. Following the closing, their partial ownership in Colstrip (non-operating) is their only remaining coal exposure and we see potential to exit before 2030 given the latest developments.

Our PO moves to $48 (from $42) as we mark-to-market our SOTP valuation with peer electric utility multiples on '23 EPS at 17.3x (from 16.2x). We also lower the discount to 1x (from 2x) as wildfire risks dampen given seasonal change.

Board Review Still Pending Resolution

Meanwhile, we await developments from the ongoing Board Special Committee review of the energy trading losses and company procedures and controls related to trading. While a subsequent investigation following any outcome internally could still be initiated by the commission, we stress constructive developments from the OR PUC with deferral dockets around both COVID and wildfire related expenses.

We reiterate our Buy rating: we see a constructive setup after a challenging year given the deep discounted valuation and positive developments.

WEC Energy (WEC)

WEC's rolled-forward update focused on continued support for robust growth of its regulated electric and gas asset base, targeting ~7% growth in rate base through 2025, along with a meaningful acceleration of the Energy Infrastructure spending planned over the coming 5 years to $2.2B. While the non-regulated infrastructure segment remains the fastest growing at the company, mgmt. reiterated that it sees an EPS contribution of ~8% by 2025 and no more than 10% over the long run. Perhaps more meaningfully, mgmt. reiterated the opportunity to rate base its infra renewables as a way to offset the Point Beach PPA which is set to roll off in the early 2030s. We continue to see WEC as offering one of the more high-quality and low-volatility earnings profiles in the space, with both factors reflected in shares' meaningful premium to the rest of the sector. Maintain Underperform on WEC.

Framing the expanded Energy Infrastructure capex plan

The $2.2B targeted spend at the infrastructure business is evenly spread through the out years of 2022-25 as those years represent mostly whitespace spend. We note that while the *initial* iteration of the previous spending plan also included largely evenly-distributed investments, projects were largely pulled-forward into 2020. While mgmt. did not comment on specific projects it intends to announce, the company has consistently discussed to expended opportunity set seen in its pipeline of attractive investment opportunities of late. While investments have thus far focused on wind, we see potential latitude for adding solar or battery storage over time as well. Geographic mix has been largely focused on the Midwest US, and while an expansion to other regions is possible we do not expect significant expansion beyond WEC's existing territory (i.e. CA less likely). Mgmt continues to flag ~3% EPS contribution in 2020 with an expectation of the segment accounting for ~8% of consolidated EPS by 2025. *Bottom line, unclear precisely to what the investments in energy infra will be tied, but stress this appears a key component of overall growth objectives. We see this as a lingering uncertain element within mgmt's historically specific EPS targets. Mgmt appears to suggest earnings growth from energy infra will remain relatively consistent, albeit see capex bias as accelerated towards initial years suggesting front-end loaded growth. We bias towards seeing largely wind investments in upper Midwest, but could well shift to solar here too.*

Gas LDC business seen as a key in Upper Midwest

WEC's updated carbon reduction goal calls for 55% cuts vs 2005 baseline levels by 2025, while reaching 70% in 2030. Importantly, the updated emissions goals *do not* contemplate an early retirement of the Power the Future (PTF) assets which earn ROEs of 12.7% with 53% and 55% authorized equity capital – mgmt. continues to see these as a key part of the portfolio and among the most efficient coal generating facilities in the US, with coal assets in particular fully scrubbed. With the Wisconsin Governor's energy task force set to announce the recommendations of its climate plan soon, WEC mgmt. is confident that its plan will align well with state-level goals. The gas LDC business remains a key component of the long-term strategy given the cold weather states that make up WEC's service territory, electrification and more marginal solutions such as heat pumps are not seen as replacements for gas distribution over the intermediate term. The company continues to evaluate inorganic growth opportunities within the context of its 3 key criteria for M&A.

Sales forecast reduced at the margin, still see +1% or better through '25

The long-term sales guidance for electric and gas was reduced in the rolled forward 2021-25 forecast to 1.0-1.3% for electric and for gas, down from 1.2-1.5% previously. Mgmt highlights ongoing development in the SE Wisconsin industrial corridor as a key component underpinning its updated forecast – with $900m in targeted investment by industrials in the area growing to $1.3B in the current year. Also of note, the load growth forecast includes announced projects only and does not account for potential halo effects of second-order projects clustered around large development zones such as Foxconn. Transmission remains an opportunity for enhanced spend as well – though WEC reflects its pro-rata portion of ATC's investment profile which is tapered through 2025 – as WEC mgmt. sees potential need for additional buildout following the significant renewable generation put in service in recent years. *On balance, despite the shift in sales forecast, numerous levers persist to avoid a rate case in 2021. We see further delays of regulatory risk ensure their relative premium.*

Xcel Energy (XEL)

XEL's rolled-forward update focused on the incremental opportunities to its five-year regulated capex program which now targets $24B in investment through 2025, with the increment representing stimulus spend targeted at wind repowering and solar generation in MN. On the policy front, we see XEL as largely aligned with state-level initiatives in its key MN, WI, and CO jurisdictions. Over the long run we expect that XEL will be among the more aggressive utilities in terms of decarbonizing its gas LDC business, though mgmt. indicates that meaningful investments are expected on a 10-15 year timeframe, notable because of the northern US service territory which makes alternatives such as heat pumps difficult to scale. Maintain Neutral on XEL.

Election impacts in MN and NM; tax credit angle for further renewables

At the state level, MN's local elections resulted in a split state government with both the state house and senate in Republican control. We view this as largely preserving status quo in the state in terms of energy policy – while stakeholders we had previously spoken with expressed some expectation of renewable portfolio standard legislation passing, this is now more of a remote prospect given the split government. XEL has been involved in the stakeholder process around the WI governor's energy task force as well, with those recommendations expected to be published soon (company sees its strategies aligned). Last week's elections had a meaningful impact on New Mexico with that state's commission moving to an appointed from an elected body – while this is a constructive development its impact on XEL should be muted given EPS exposure (sub-5%) in the state. XEL is not making assumptions about federal policy as it relates to renewable tax credits – some proposals have been floated including cash up front in exchange for credits generated by renewables – with the principal concern around potentially accelerating more coal retirements and renewable build in its MN and CO jurisdictions centered around customer bill impacts – watch the MN resource process which is expected to take 6-9 months to conclude.

MN stayout decision due soon, CO lag seen as manageable

The MN commission is expected to rule on XEL's proposal for an extension of its current rates sometime in December. The components of the request seen as key to an extension remain the continuation of the sale true up provision, nuclear decommissioning costs, and property tax deferral. *We see a further extension of rate case need as adding to de-risking backdrop to the company heading into 2021.* The Colorado electric utility last had rates approved in Dec 2019 with an approved ROE of 9.3%; given that filing's use of a historical 2018-19 test year there is a degree of lag relative to the filing that is expected to remain through the duration of the forecast period. Among the key open issues in Colorado is the wildfire rider which seeks ~$130m of incremental wildfire investment recovery through 2025 with the commission decision expected in mid 2021. We expect that XEL will be able to maintain earned ROEs *with a relatively consistent level of earnings lag relative to the 9.3% authorized (we est 8.8% in '21). We perceive an ability to stay out of rate case here is a key element of sustaining its outlook with less risk.*

Gas LDC a key part of the business mix, exploring RNG and hydrogen

XEL expects to make meaningful investments in reducing the emissions profile of its gas distribution business within the coming 10-15 years, seeing the overall opportunity as akin to the company's decision to embrace wind generation. While significant emissions reduction is not a major part of the spending plan right now the company is exploring hydrogen and RNG applications. Partnering with suppliers in addressing upstream emissions issues is a key area of focus as well. With additional gas LDC systems potentially for sale in contiguous territories, the company has not ruled out inorganic growth as well.

Holdco debt seen manageable, below 25% of total

XEL's $24B of capex through 2025 is underpinned by a financing strategy whereby holdco debt remains at 22-23% of total company debt through the forecast period (we see 2c increase in parent interest expense through '23); note the upper bound from Moody's perspective is 25%, leaving XEL latitude on its forecast.

Table 1: Stocks mentioned

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AES	AES US	AES Corp	US$ 21.36	B-1-7
AEE	AEE US	Ameren Corp	US$ 83.19	A-2-7
AWK	AWK US	American Water	US$ 164.98	B-3-7
AVA	AVA US	Avista Corp	US$ 37.66	B-2-7
BKH	BKH US	Black Hills	US$ 63.94	B-2-7
CMS	CMS US	CMS Energy	US$ 67.31	B-1-7
D	D US	Dominion Energy	US$ 86.16	A-2-8
EVRG	EVRG US	Evergy	US$ 57.50	B-1-7
FTS	FTS US	Fortis	US$ 42.34	A-3-7
YFTS	FTS CN	Fortis	C$ 55.35	A-3-7
IDA	IDA US	Idacorp	US$ 94.69	B-1-7
NI	NI US	NiSource Inc	US$ 24.66	B-1-7
NWE	NWE US	NorthWestern Corp	US$ 59.05	B-3-7
OGE	OGE US	OGE Energy Corp	US$ 34.15	B-1-7
PNW	PNW US	Pinnacle West Capit	US$ 91.35	B-3-7
PNM	PNM US	PNM Resources Inc.	US$ 49.24	-6-
POR	POR US	Portland General	US$ 44.56	B-1-7
PEG	PEG US	Public Service	US$ 60.81	B-1-7
WEC	WEC US	WEC Energy Group Inc	US$ 105.28	B-3-7
XEL	XEL US	Xcel Energy	US$ 75.07	B-2-7

Source: BofA Global Research

Price objective basis & risk

AES (AES)
Our price objective is $23 and is based on a sum of the parts analysis applying a blended valuation approach, the summation of 1) EV/EBITDA approach across global generation assets. We use an 8.0x group multiple for US IPPs and apply a 5.0x premium for US distributed generation for further growth expectations. Meanwhile, we value the DevCo using a 15% discount on 2.5GW of annual renewables beyond '22. In Asia, we apply various multiples based upon jurisdiction risk across the rest of the portfolio. We use mark-to-market value of publicly listed LATAM subs as well as apply a P/E methodology for US regulated utilities of 16.5x including a 1x premium multiple at IPALCO and at DPL. We also credit the company with Vietnam and its $114Mn investment in Uplight. We further apply a 5x P/Sales our '21E for AES share of Fluence.

Downside risks to our price objective are negative regulatory outcomes in the US, international currencies devaluing against the US dollar, and expensive M&A acquisitions impacting value and a reduction in emerging market power demand growth.

Ameren Corporation (AEE)
Our $88 price objective is predicated on a P/E based sum of the parts, valuing each business subsidiary relative to the 2023E ratebase weighted peer multiple of 16.6x for electric. We apply a 3.0x premium to peers at AEE Missouri to account for the improving prospects of capital spend, supplemented by a regulatory jurisdiction becoming more favorable - but lack of decoupling. We apply a 3.0x premium to peers at AEE Illinois to account for decoupling on the distribution business which aids in earnings predictability. The overall business is expected to grow at a more meaningful clip than that of peers - we see a 10% EPS CAGR at IL 2020-2024. At ATXI, we apply a 2x premium to peers to reflect the FERC ROEs. At the Parent, we assume 2.5x multiple premium reflecting average of the subs and given the healthy debt metrics with FFO/Debt at 17%+. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. The upside (downside) risks to our price objective are the utilities earning their allowed returns or better (worse), a significant increase (decrease) in 30-year U.S. Treasury bond yields, and positive (adverse) regulatory outcomes that could impact mgmt's ability to earn its allowed return

American Water Works (AWK)
Our PO for American Water Works is $139. We apply the sector average 25.7x to American Water's 2023E earnings based on the water peer multiple and a 8.1% group EPS CAGR for '18-'23E. We think this multiple is justified as in our view AWK largely drives the peer multiple as the largest publicly traded water utility. We ascribe a 3x premium for NJ, PA, and IL, and a -3x discount to the military biz. Meanwhile, we ascribe a 12x multiple to the non-regulated Retail biz. Also a -1x P/E for Cali utility. no prem/discount for 'Other' segment with smaller state exposures.

Risks to the downside are increase in market interest rates, potential impact of tax reform on utilities, operational errors, changes in valuation levels for water utilities. Risks to the upside are accelerating muni acquisitions, multiple expansion, and constructive legislation in regulatory jurisdictions.

Avista (AVA)
Avista (AVA) Our $38 PO is based on our 2023E sum-of-the-parts (SOTP) analysis, based on the large cap electric group multiple of 17.3x and the gas regulated multiple of 15.5x. Both electric and gas peer P/E multiples are grossed to reflect the group's 5% CAGR to reflect capital appreciation across the sector. We then use a blended electric and gas multiple of 77% and 23%, respectively, for AVA's WA and ID jurisdictions given the

composition of its rate base. We apply the gas multiple to its OR jurisdiction as it is entirely comprised of natural gas distribution assets. Meanwhile, we apply an electric multiple to its Alaska subsidiary, AEL&P, as it is a vertically integrated electric utility. We apply a 12.0x multiple to AVA's Corp & Other businesses as we cannot apply a full utility multiple given it consists of investment funds with a lack of visibility in earnings relative to utilities. We stress that AVA does not have any HoldCo. debt, thus no need to net out debt. Lastly, we now apply a 2x discount to all AVA's utilities to capture increased uncertainty associated with fire risk. Risks to achieving our price objective are 1) execution risk, 2) improving regulatory relationships, 3) decrease in interest rates, 4) ability to deploy incremental capital spend, 5) constructive rate case outcomes in any of the jurisdictions.

Black Hills Corporation (BKH)
Our $64 PO is based on a SoTP valuation.Gas Utilities: We apply a 1x discount to the 14.2x peer P/E multiple on 2023E EPS. Electric Utilities: We apply a 1x discount to the 16.8 peer P/E multiple on 2023E EPS. Both electric and gas peer P/E multiples are grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. Coal Mine: We apply an 8x peer EV/EBITDA multiple, which is in line with other PRB coal producers. Based on our view of the strength/maintainability of different coal plant output contracts, we apply a discount/prem multiple to that portion of the mine. IPP Assets: We use the recent sale price and '23/EVEBITDA multiple for Pueblo Airport and Wygen I assets, respectively. Parent Expense, Debt, and Eliminations: We apply an average regulatory P/E multiple to this segments income. This captures some Interco revenues that are double counted as well as parent SG&A drag and debt.

Downside risks: operational errors, increasing interest rates, and difficult regulatory environments.
Upside risks: favorable weather, favorable regulatory outcomes, higher capex deployment

CMS Energy (CMS)
Our PO of $69 is based on a SotP relying on 2023E forward P/E multiples for the utility and banking business and a 2023E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 5.0x prem to the avg regulated multiple P/E of 16.5x for the electric seg and of 14.7x for the gas seg, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as cont'd favorable regulatory environment, and finally historically proven ability to consistently perform at the high end of guidance range. Both electric and gas peer P/E multiples are grossed up to 2020 by 5% to reflect capital appreciation across the sector. For CMS' merchant business we apply a 8x EV/EBITDA multiple, in line with current market value of CMS power plants (specifically DIG), moreover DIG has relatively favorable contracts for the near future which strengthen plant earnings. Finally, we apply a 15.5x P/E multiple on CMS' consumer lending subsidiary Enerbank, in line with forward P/Es other smaller regional banks with similar growth profile.

Risks are: 1) earned ROEs declining which reduce CMS utility earnings 2) execution risk on capex and cost cutting which would primarily affect the utility earnings, 3) negatives changes to market energy prices which could affect the DIG plant's ability to re-contract at the assumed prices.

Dominion Energy (D)
We use SOTP to derive our $86/sh PO. Utilities: We value VEPCO at 4x prem multiple to elec. peers of 16.6x '23 P/E and 13.9x w/ 2x prem on '23 P/E to D's portfolio of gas LDCs (East Ohio, Hope Gas (WVa), and Questar (UT)). Mults are grossed up to by 5% to reflect capital appreciation. We value Wexpro at 10x disc to gas utility peers for declining rate base/ROEs and reg. risks. We ascribe a 2x premium multiple for SCANA legacy utility assets, and a 2x disc. for the NND asset. We also net out NPV of ongoing bill credits.

Merchant: We apply an 8x FCF multiple for Millstone and separately apply a 100% wt to our NPV est of the ZCP cash flows. We include the full EBITDA from the contracted renewables with a 11x '23 EV/EBITDA multi w/ 3x prem in line with peers. Cove Point: We apply an NPV approach with to our DCF adjusted for the 50% sell-down in the facility. For remaining debt beyond that allocated to state utilities, we incl a 50% wt towards a str netting of leverage, with the remaining 50% using a P/E multiple on associated interest expense, in line with the methodology employed for more highly levered diversified utilities.

Downside risks: increase in rates, capex below assumptions, unconstructive regulatory outcomes, delays and/or cancellation of key projects vs our expectation.

Evergy, Inc (EVRG)

Our $62 price objective for EVRG shares is based on sum of the parts valuation, applying an in-line utility peer 2023E P/E of 16.6x. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We further apply a -1.0x turn discount across the Kansas Central subsidiary based on our perception of a slightly more punitive regulatory stance toward electric utilities ahead of further stakeholder engagement on the standalone plan.

Downside risks to our price objective are adverse regulatory outcomes in rate cases, higher interest rate environments, adverse and unexpected risks associated with operating a nuclear facility, the possibility that the strategic review committee does not result in a transaction recommendation and that a modified standalone plan disappoints in rate base and earnings growth when presented later in 2020.

Upside risks to our price objective are favorable regulatory outcomes in rate cases, lower interest rate environments, higher than anticipated O&M benefits and merger synergies, ability to recover capital tied to retired coal plant.

Fortis (YFTS / FTS)

Our PO is C$53 / US$39.85. We assign a 2023E forward base peer P/E multiple of 16.2x to the US utility business with a premium of 2.0x for UNS Energy (AZ), a 1.5x premium for ITC, and an in line multiple for Central Hudson (NY).
For Canadian utilities, we assign a base peer 2023E P/E multiple of 15.4x. Lower ratebase growth profiles and generally lower authorized equity layers/ROEs, paired with a more challenging regulatory environment, will continue to warrant a discount to US peers, in our view.
At Caribbean utilities, we apply 60% ownership share to the publicly listed subsidiaries' current market cap.
We assign an 8.0x EV/EBITDA multiple to FTS's non-regulated segment seeing the contracted nature of its non-regulated segment positively offset lower growth opportunities. We account for FX upside based on current spot prices

Upside risks are: 1) favorable weather 2) higher USD/CAD exchange rate given FTS has substantial unhedged exposure to the US 3) favorable regulatory actions

Downside risks are: 1)unfavorable weather 2) lower USD/CAD exchange rate given FTS has substantial unhedged exposure to the US 3) unfavorable regulatory actions

Idacorp (IDA)

Our $104 PO is based on a sum-of-the-part valuation (SOTP) of the utility and parent segments.

Our utility valuation is based on applying a 16.3x peer P/E multiple to our 2023 EPS estimates. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We apply a 3.0x premium to Idaho Power to account for acquisition premiums and ROE floor mechanism. We factor in probability-weighted opportunities for more ratebase from Hells Canyon & large-scale transmission ownership announced at EEI.

Upside risks to our PO are getting additional capital approved on expedited basis. Downsides risks are regulatory shifts or using up ADITC bank which ensures consistent ROE and earnings floor.

NiSource Inc (NI)
Our $26 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2023 forward P/E multiples of 13.9x for gas utilities and 16.6x for electric utilities with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex beginning in '22, but acknowledge industrial risk. Also, we now assign a 3x M&A premium to the VA, KY and MD gas utilities and a 0.5x premium on OH, PA and NIPSCO gas utilities to account for their embedded re-rating potential following any hypothetical sale. We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

NorthWestern Corporation (NWE)
Our $57 price objective is based on a 3.0x discounted multiple to the 2023E peer multiple of 16.6x on our 2023E EPS given higher risk and slower growth. We note that electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector.

Downside risks to our price objective are 1) adverse regulatory outcomes, 2) inability to recover costs via the traditional mechanisms, 3) changes in the Commission constructs, and 4) further equity dilution. Upside risks are 1) improvement in regulatory environment 2) capex increases.

OGE Energy Corp (OGE)
We value OGE at $35/share based on a sum of the parts, separating the utility business from the Enable stake. For the utility business we apply the peer multiple of 16.6x on 2023E EPS. Electric peer P/E multiple is grossed up for a year to 2021 by 5% to reflect capital appreciation across the sector. Note we apply a 1x discount vs peers to be conservative accounting for risks in Oklahoma reopening the state more aggressively. For the Enable Midstream stake we rely on the current market price of ENBL multiplied by the number of the shares owned by OGE to determine the equity value. We attribute no value to the GP shares, as we don't anticipate IDRs materializing over the next three years.

Downside risks are further declines in the regulatory environment possibly resulting in lower ROEs or other hurdles hindering OGE's ability to earn its authorized return. While not as exposed due to low parent interest, we see interest rate hikes as another potential downside risk. Finally, execution risk on existing capex schedule could put further pressure on earnings growth. Declines in value of ENBL share could also provide downside to our valuation.
Upside risks are shifts towards a more favorable Oklahoma regulatory environment, which could ease OGEs ability to earn its authorized return in the jurisdiction and

possibly increase capex plan as management views prospects in the state more positively. Improvements in value of ENBL share.

Pinnacle West (PNW)
Our price objective of $76 is based on a peer utility 2023E P/E multiple of 16.1x with a -2.5x discount to account for PNW's risk around its pending rate case as well as headline risk related to disconnect policy review. Electric and gas peer P/E mult is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We ascribe an in-line premium despite clear renewable capex backdrop given ongoing regulatory risk associated with the company's upcoming rate filing and 2020 election risk.

Upside risks: 1) Regulatory relationships/outcomes could improve, including changes at the elected commission 2) load growth in territory above expectations 3) Riders and capital trackers could help achieve ROE 4) positive weather helps earnings 5) interest rate risk changes cost of capital - lower rates could improve 6) Consumer advocates or utility staff could become focused on issues that improve ROE

Downside risks: 1) Regulatory relationships/outcomes could decline, including changes at the elected commission 2) load growth in territory below expectations 3) Riders and capital trackers could hurt ROE 4) negative weather hurts earnings 5) interest rate risk changes cost of capital - higher rates could worsen 6) Consumer advocates or utility staff could become focused on issues that hurt ROE 7) Solar advocates in the state have engaged in public confrontations with the utility, which could change public relations in the future.

PNM Resources Inc. (PNM)
We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

Portland General Electric Company (POR)
Our $48 price objective is based on our 2023E EPS estimate discounted back to '21. We value shares based on a 2023E P/E methodology applying a 2.0x discount multiple to the 2023 regulated utility PE multiple of 17.3x. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. Our 1.0x discount multiple is based off the near time uncertainty and lack of clarity on trajectory and negative sentiment following the Aug 2020 reported energy trading loss. While our PO is a 12-month forward projection, we use a 2023 multiple, which is reflective of a discount back to 2021.

Downside risks are 1) the ability to secure commission approval for future wind builds, 2) power market risk due to the Power Cost Adjustment Mechanism (PCAM), 3) liabilities under a negligence standard for current or future fires caused by POR equipment. Upside risks are 1) continuation of small/midcap regulated rally, 2) better than expected weather adjusted load growth, 3) further strengthening of company balance sheet, 4) power market risk due to the PCAM.

Public Service Enterprise Group (PEG)
Our $63 PO is derived from our SOTP valuation. For the utility we use a 2x premium to the 16.3x our 23E group multiple to value the regulated and parent side of the business. Electric peer P/E multiple is grossed up by 5% to reflect capital appreciation across the sector. PSE&G has meaningful growth capex planned, and while pressure on earned ROEs exists, the regulatory environment is favorable.
Downside risks to PO 1) interest rate increases, 2) unfavorable regulatory outcome, and 3) weather, all of which could lower PEG's earnings ability, 4) we caution dilutive asset sales, capacity auction uncertainty, and overall power headwinds as potential overhangs on the stock 5) BPU approvals.

WEC Energy Group Inc (WEC)
Our $87 PO is based on a 2023E SoTP analysis, based on the large cap electric group multiple of 16.8x and the gas regulated multiple of 14.2x. Both electric and gas peer P/E multiples are grossed up for a year to reflect capital appreciation across the sector.

We apply a 4.0x premium to WEC's WI electric & gas subs to compensate for surety in earnings growth for the next two years following the Commission's affirmation of the recent settlement on above average ROE's of 10%+. We apply a 1x premium to the gas utilities, incl IL's Peoples Gas and North Shore Gas with the Gas System Modernization Program (GSMP) and capex forecasts de-risked following the ICC order. We ascribe a 2x premium vs. the group at ATC to account for the steady nature of earnings growth as well as above average ROE's that are set at a federal level by FERC. We give Power the Future (PTF) a 1.0x premium multiple given the ROE is set indefinitely on historical and new investments. We ascribe an in line multiple for the parent accounting for the interest expense which finances overall utility operations. For the HoldCo adjustment to debt, we net out 50% of HoldCo debt from equity valuation and adjust to add back the parent drag on interest exp.

Upside risks are stronger than expected execution and accelerating capital oppt'y. Downside risks are inability to achieve historical track record on cost cutting and ability to cont. to scale regulated investments given growing portion from contracted renewables.

Xcel Energy Inc (XEL)
Our PO is $72. We value Xcel Energy using a sum of the parts (SOTP) approach. Given the difference in geography, earnings strength, growth opportunity and risk profile, we divide the segments by subsidiary.

We use 2023E forward P/E multiples to derive a value for the different business segments, including the parent segment. We use a peer multiple of 16.6x . Electric peer P/E multiple is then grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We apply a 4x premium to most subsidiaries except in MN and CO where we apply a 5.0x due to additional stimulus upside. We see this multiple as appropriate as the company has growth opportunities, resolving regulatory drag and resolving uncertainty around rate cases. We stripped Mankato as a non-reg asset in our SOTP due to the sale. We also net back 50% of the parent interest expense and instead subtract out 50% of parent debt to more accurately reflect HoldCo leverage.

Downside risks are interest rate increases, regulatory risk such as lower authorized ROEs or less favorable riders/trackers for renewables and transmission, interest rate risk, execution delays, and weather anomalies.

Analyst Certification

We, Julien Dumoulin-Smith and Richard Ciciarelli, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
NEUTRAL				
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Richard Ciciarelli, CFA
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	Northwest Natural Holdings	NWN	NWN US	Richard Ciciarelli, CFA
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

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Important Disclosures

Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	87	53.70%	Buy	64	73.56%
Hold	35	21.60%	Hold	26	74.29%
Sell	40	24.69%	Sell	21	52.50%

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	79	51.63%	Buy	59	74.68%
Hold	36	23.53%	Hold	24	66.67%
Sell	38	24.84%	Sell	25	65.79%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1749	54.79%	Buy	1114	63.69%
Hold	677	21.21%	Hold	415	61.30%
Sell	766	24.00%	Sell	386	50.39%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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November 11, 2020 | 03:26 ET | 03:26 ET~

Utilities, Power & Renewables

EEI 55th Financial Conference Takeaways

Bottom Line:
Similar to Presidential election there are still some votes to count as we finish our meetings at EEI tomorrow. **However, after two days and 18 meetings we found the conference updates from CNP, ETR and PEG to positive relative to our expectations**. And while we did not uncover any material negative surprises this year, **we believe the expectations surrounding AEP's renewable capital program and the lack of incremental clarity on AEE's own capital refresh (4Q20) and sales mix questions are likely to disappoint**. Inside we outline in more detail the broad sector themes coming out of the conference as well brief summaries of the takeaways from our meetings through today.

Key Points

We continued to be impressed by CNP's newly assembled management team in rapidly restoring investor confidence in an improving outlook. We look forward to the company's upcoming December 7th analyst day for its plans with respect to its 54% ownership in ENBL, which remains the last key piece to the re-rating of the story.

ETR continues to be one of our preferred GARP oriented names in the sector and our EEI meeting further solidified our already positive view that despite unique challenges within its service territory (Storms, Load Growth) its management team remains positioned to deliver on its 5-7% EPS growth outlook through 2023 as its cost management efforts can be tailored to near-term challenges.

We thought our meeting with PEG was one of the better meetings we had at this year's conference. The concrete steps the company has taken to resemble other premium utility companies is a result of the favorable regulatory outcomes at the BPU (recent $1 billion CEF – energy efficiency program approval) and decisive action the company has taken (planned sale of non-nuclear generation). Post asset sales, PEG may be in a position to give longer term EPS guidance that will be underpinned by 6-8% rate base growth and may result in addition improvement of its multiple.

For AEE, we had hoped to get some additional clarity on the company's 4Q20 capital refresh including the impact of the company's 2020 IRP filing. The integration of the company's 2020 IRP plan in MO added $3,000mm to its 2020-2029 pipeline of capital investments. In addition to the 700MW/$1,200mm included in its 2017 RFP, AEE sees an additional 950MW by 2024 in its preferred plan which it believes is also its least cost plan. Negotiations are ongoing as management assesses individual project attributes including cost, where they are in MISO queue, transmission interconnections, and PTC qualifications. AEE will give a full 5-year refresh to its capital expenditure program on its 4Q conference call.

Although in aggregate AEP's EEI update was largely in line with our current forecast and 6.3% EPS CAGR, after much excitement regarding its renewable spending program we think investors came away disappointed by the update and a small miss at the midpoint of its 2021 guidance. The company has included 450MW via RFP at I&M (300MW owned) to replace a portion of the capacity associated with the Rockport 2 lease. Given the net length at I&M we now do not expect the remaining capacity to be replaced but the $144mm of lease payments should provide ample headroom for future investments.

Please refer to pages 13 to 15 for Important Disclosures, including Analyst's Certification.

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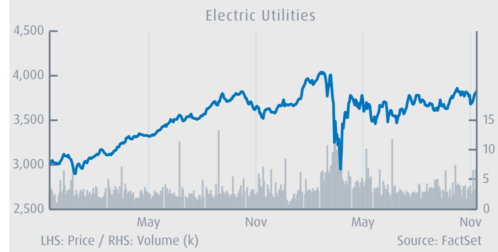

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Key Sector Themes – 55th EEI Financial Conference

1. Incremental expansion of renewable strategies across the sector as utilities seek to improve their profiles and grow regulated earnings with lower cost supply.

2. Refinancing opportunities will be a tailwind in the near-term given the sharp move lower in rates. In addition to continuous cost saving programs and the residual flow back of unprotected ADIT, this should position utilities well in aggregate to minimize rate case activity as COVID weighs on the economy and interest rates remain a risk to allowed ROEs.

3. Sales mix outlook remains robust for most into the 1H21- strength in residential sales should be a tailwind for the next few quarters but most expect this to taper into the back half of the year.

4. Lean cost practices have become a way of life and portions of the 1H20 COVID-related cost mitigation is likely to be reversed in 4Q as managements pivot to derisking 2021 and adding to headroom.

5. M&A is in headlines again, but most managements appear to prefer their own stand-alone strategies at 1x rate base relative to time-consuming, higher risk acquisitions at 1.5-2.0x. Although some see tuck-in acquisitions of gas distribution as possible, most view it on an opportunistic basis and prefer to grow their electric franchises and carbon-friendly non-regulated businesses. CNP's upcoming divestiture should prove to be an interesting valuation marker for the subsector.

6. The future of gas distribution and its associated multiple remains a debate. Although most do not see materially adding to this exposure especially inorganically, winter-peaking utilities continue be comfortable with their gas operations given heating penetration and much of the capital spending is related to reliability and safety.

7. Green hydrogen remains all the buzz and is finding its place as a more scalable storage alternative, but most agree this is likely still at least 5-10 years from a large-scale commercial roll out.

8. Corporate tax policy remains topical post the election but still viewed as potentially 12-months away. Impacts on customer bills (including EDIT balances) and marginal impacts rate base growth are the negatives while the improvement to cash flow and an associated benefit to credit metrics are the positive offsets.

9. The consensus remains that utility investment in wind, solar and battery storage should continue to grow as renewables cost come down. Tax equity is starting to play a larger role in management's ability to make the transition to cleaner supply affordable to customers.

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AEE – (Outperform, $89 Price Target)

- We had hoped to get some additional clarity on the company's 4Q20 capital refresh including the impact of the company's 2020 IRP filing. The integration of the company's September 2020 IRP plan in MO added $3,000mm to its 2020-2029 pipeline of capital investments. In addition to the 700MW/$1,200mm included in its 2017 RFP, AEE sees an additional 950MW by 2024 in its preferred plan which it believes is also its least cost plan. Negotiations are ongoing as management assesses individual project attributes including cost, where they are in MISO queue, transmission interconnections, and PTC qualifications. The use of tax equity is also a consideration in this evaluation as a way to manage overall cost. As previously discussed, AEE will give a full 5-year refresh to its capital expenditure program on its 4Q conference call.
- Management still feels comfortable with rate headroom under the MO cap given the ~4% cumulative reduction in rates from the change in corporate taxes (3%) and decrease in its 2020 rate case (1%) relative to the 2.8% annual cap which began in April 2017. New renewables would be able to utilize recovery through the state's PISA mechanism (85%) but not the RESRAM mechanism (15%) as that applies only to compliance expenditures under the 2008 legislation. We will be watching for future updates from the company on what the Y-O-Y rate increases will be within the current rate cap mechanism.
- Despite management's solid operating and regulatory execution this year, the company's relative sales mix in 3Q was not as robust as some of its peers and weather reduced the end of its outlook for the year. We look to its 4Q update for a formal update on its retail sales expectations including the outlook for commercial sales impact on retail sales.

AEP – (Outperform, $99 Price Target)

- Although in aggregate the company's EEI update was largely in line with our current forecast and 6.3% EPS CAGR, after much speculation around a more robust renewable spending program we think investors came away disappointed by the incremental renewable capital plan and a small miss at the midpoint of its 2021 guidance.
- A 2021 outlook was initiated at $4.51-4.71 ($4.61 midpoint). This was a bit shy of our $4.65 estimate and represents a 6.0% increase off the midpoint of its 2020 range of $4.35 and at the top end of the company long-term CAGR. Of note, 2021 guidance assumes retail Load is 5c drag reflecting the impact of a more negative mix in 2021.
- Management sees its '21-25 capital plan at $37.4bn which is up $2.5bn from its most recent 5-year forecast. The primary changes underlying this update include $700mm in regulated renewables, $500mm at generation and $600mm in transmission. Rate base is now expected to grow at 7.4% ('19-25).
- Important to the '21-25 forecast, the Pirkey Plant will be shut down in 2023 and the turn back of the Rockport 2 lease will add the need for 450MW of capacity in the intermediate-term. The company has only specifically included ~450MW of planned replacement via an RFP at I&M (300MW of owned solar and 150MW of PPA wind) in its capital plan related to the Rockport 2 capacity.
    - Given the company's net resource length at I&M we do not expect the remaining 850MW of capacity to be replaced but the $144mm of lease payments should provide ample headroom for future investments.

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- At SWEPCO, the Pirkey and Welch retirements in 2023 and 2028 represent ~$700mm of net book value which should be replaced partially through the addition of North Central Wind, the company's IRP and incremental transmission spending.

- Management outlined a slightly higher CFO outlook 21-23 while equity timing has shifted due to the timing of the Traverse acquisition. CFO is up ~ $200mm, net due to fine tuning of working capital, D&A and fuel. Although the total equity over the three- year planning horizon is still ~$2,100mm, the weighting has shifted from $1,300mm in 2022 to $1,400mm in '23 to reflect the timing of the Traverse acquisition.

AES (Not Rated)

- Our EEI meeting with AES was positive. We see the company's narrowed America's (U.S. + Latin America and Caribbean) focused strategy combined with one of the industry's most robust renewable pipeline as an attractive potential energy transition leader. The company remains focused on furthering progress to unlock value as the company still trades at a meaningful discount to pure-play U.S. utilities despite its strength across Energy Storage, Solar and Wind in multiple countries.

- Unlocking value may get a kickstart with sale of a small minority stake (10%, AES ~ 5%) of the company's Fluence energy storage business (Co-owned with Siemens AG), likely some time before year-end. Buyer will likely be a financial player that share's AES and Siemens long-term vision to continue to grow the business which will see revenues grow 40% per annum the next several years. Proceeds from salle will be reinvested into Fluence with a longer-term eye to a potential IPO as company's growth while impressive may not translate into substantial earnings that utility focus investors tend to focus on. That said for now company likes the marriage of its various renewable development arms (sPower, AES DE, etc.) with its traditional electric distribution and conventional generation businesses and investments in new energy technologies (Uplight, 5B)

- AES has numerous opportunities to leverage its extensive experience and presence in key Central and South American and Caribbean and is positive about the potential for LNG and CCGT development in Viet Nam. That said, we came away with the impression that growth in the U.S. as well as continuing to grow its 2 U.S. T&D businesses organically remains front and center in terms of management priorities as it works to become a bigger energy transition player and helps increase confidence in 7-9% EPS growth.

- AES is clearly following a road map set out by ESG investors like Norges Bank as evidenced of its de-carbonization efforts via coal shut-downs globally. We think as a result AES could start making its way into more ESG focused baskets which could provide an additional tailwind.

CMS – (Outperform, $70 Price Target)

- Management remains confident in their 6-8% LT EPS CAGR guidance given its strong capital backlog, favorable regulatory construct, and high visibility. With commercial sales continuing to slowly improve and positive sales mix remaining persistent off early 2Q20 lows, management believes sales could be upside in their plan.

- CMS doesn't anticipate any material changes to the upcoming IRP in 2Q21. Over the next five years Consumers' reliability and efficiency-based rate base growth will be supplemented by a ramping renewables investment plan funded in part by the roll-off of the Palisades Nuclear PPA in 2022 ($90mm) and savings from the retirement of Karn Units 1 &2 ($30mm). Post 2025, the expiration of the company's contract with MCV will create incremental headroom

($50-60mm) in addition to savings from the retirement of the larger Campbell units 1 & 2 (255MW and 364MW, respectively). Management continue to evaluate the cost effectiveness of energy storage opportunities which if economic could accelerate renewable development and retirements of fossil assets. If the retirement of fossil unit benefits customer affordability and reliability, management will consider other options outside of securitizing the retired assets.

- CMS's has shown its ability to identify O&M efficiency and savings through energy waste reduction of ~2% YoY as well as identifying incremental O&M and possible fuel savings from the retirement of its older fossil fleet. Management feels comfortable and optimistic about their organic capital investment opportunities and aren't likely to pursue M&A opportunities despite the recent market noise.

CNP (Market Perform, $23 Price Target)

- Our EEI meeting with CNP was positive. We continued to be impressed by CNP's newly assembled management team in rapidly restoring investor confidence in an improving outlook. We look forward to the company's upcoming December 7th analyst day for its plans with respect to its 54% ownership in ENBL, which remains the last key piece to the re-rating of the story. We are most curious on the transaction structure CNP will pursue given the current tax basis in ENBL (-$1.8 billion).

- Starting point helps. We note that the O&M savings the company is targeting will be key to help provide the necessary headroom to help facilitate its robust rate base investment CAGR of 10%/year. However, we see a few factors that will work to CNP's advantage. Investment in renewables prior to the current Indiana IRP had not been made at the legacy Vectren business and allows for lower O&M at conventional plants that will be replaced by renewable generation. Cost structure particularly in terms of supply chain management following the close of CNP's acquisition of Vectren had never really been brought to bear and likely is low hanging fruit in our opinion. Finally, operational improvements in terms of number of trips into the field are improved along with customer service should also drive costs lower. We view these as all tangible steps unlike some other cost cutting initiatives that have been more amorphous.

- Company likes its gas LDC business, but increased investment will be geared towards the electric business. The company's recently announced $3 billion increase to its 2021-2025 capital expenditure program will be geared towards its electric utilities (2/3). Although success in the upcoming Indiana IRP process will help facilitate cost savings and a more ESG friendly story it's not an overly large part of the growing electric investment. Rather we see investment in the grid and reliability as being larger components.

- Financing focus on reducing parent leverage. With the company's very limited equity needs going forward ($75MM/year starting in 2022) as being one of the takeaways we highlighted in our 3Q recap, we see CNP management turning towards reducing its prior reliance on debt at the parent level. This along with a potential divestiture of ENBL could allow CNP to eventually to enjoy a lower FFO/debt downgrade threshold.

D – (Outperform, $88 Price Target)

- Management expects a noisier rate case in South Carolina give it's the long timeframe between cases and nearly $3bn in investment associated with the case. However, the company continues to believe the outcome will not have a major impact on its 2021 earnings guidance. Above average population and economic growth in South Carolina provides

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Dominion with the opportunity to pursue robust investments in grid hardening and solar in region, which we'd expect to be recovered through a rate case review occurrence approximately every 1-2 years.

- Following the sale of it's GT&S assets to Berkshire, management can now narrow its focus on the execution of growing it's primarily regulated businesses and transition to an ESG leader in the sector.
- As it had already started a methane reduction program years ago for its LDC business, management thinks LDCs with relatively lower emissions will play an integral role in supporting the clean energy expansion
- With two large partnerships focusing of agriculture renewable natural gas, management believes there's opportunity for up to $2bn in RNG capital investments through 2025.
- Dominion is pursuing pilot hydrogen projects in 1Q21 at it's mock training town to test the level of hydrogen blend that could be used in it's existing systems. If the pilot is successful, Dominion plans to take the project into an actual town the following year. Management expects it can blend up to 5-10% of hydrogen in it's existing systems before having to make modifications to reach up to a 30% blend.

DTE – (Market Perform, $130 Price Target)

- Following the announcement of the spinoff of its midstream assets, DTE's focus turns to its regulated gas and electric businesses which now account for ~90% of earnings power and future growth. With a slightly elevated capex up front, the 7-8% growth guided to at DTE Electric and the ~9% growth at DTE Gas assumed in its 5-year forecast will be skewed higher the first few years, offsetting the dilution from equity converts in 2022. Management continues to believe the current capital plan and expected rate base growth positions DTE towards the high end of the guidance range.
- Following the spin transaction, management reduced its FFO/debt target to 16% from 18%. The lower threshold is more in-line with its purely regulated peers and it's been noted by credit agencies that this transaction is credit enhancing, supporting this lower threshold. In line with our pro-forma estimates, parent leverage is expected to decrease to 30% from 40% prior to the transaction announcement and we'd expect it to trend near that level.
- Management believes post spin its midstream business could trade in a range of 8-10x EV/EBITDA reflecting its conservative 4x leverage, 2x coverage, low maintenance capex, visible Haynesville growth profile and solid northeastern footprint. Coverage should provide some flexibility to grow its dividend but DTE also sees growth through low cost expansion capex as well as medium sized inorganic growth. Its Form 10 should be filed in the spring 2021 and this should provide some additional color on the company's outlook for initial DCF outlook that will incorporate the maintenance capex and interest expense cost of its external debt financing.
- Management continues to see its P&I and T&M as solid businesses in the portfolio post spin. RNG growth of around $7-8mm of net income per year is in line with the company's risk appetite. Although trading & marketing business not a core focus for DTE, it provides a risk management tool and generates ~$50mm/year in cash without the need to post material collateral given a facility in place to support the business.

ES – (Outperform, $99 Price Target)

- In February we expect ES to update its capital plan which should push growth to the top end of its 5-7% LT EPS CAGR guidance. Management continues to exclude $1bn of AMI (MA & CT) as well as solar opportunities in MA in capital plan. We'd expect incremental investment opportunity to be funded with similar equity levels as in the past ~50% equity.
- CT political rhetoric has cooled since the legislation passed
- Regarding its offshore wind program, all eyes will be on the Vineyard Wind permitting updates next week. Investors will also be watching the upcoming offshore solicitation in NY where ES and Orsted submitted a bid in the 2500MW solicitation with winners determined by the end of December.
- Management sees plenty of room over next few years to earn within sharing bands in MA (electric and gas) and CT given its multi-year rate deals. O&M will provide some help we do not expect it to be as large of a driver going forward. Returns in MA are expected to be a bit more back end loaded given their historic test years vs CT's forward test year.

ETR (Outperform, $124 Price Target)

- Our EEI meeting with ETR was positive. ETR continues to be one of our preferred GARP oriented names in the sector and our EEI meeting further solidified our already positive view that despite unique challenges within its service territory (Storms, Load Growth Slowed vs Initial Estimates) that its management team remains positioned to deliver on its 5-7% EPS growth outlook through 2023 as its cost management efforts can be tailored to near-term challenges. Given that the management only recently concluded a comprehensive Analyst Day presentation with a refreshed 5-year outlook we did not expect or see much new at EEI.
- The company remains confident with respect to its upcoming Arkansas FRP extension. ETR sees talks with the Arkansas PSC staff potentially picking up ahead of a December 4th settlement deadline, particularly given that the company just settled its last FRP filing under the current FRP regime and now the focus returns towards the potential of an extension. The company remined us that this is the first-time regulators in Arkansas have had an opportunity to evaluate an extension after the initial move to FRP process so some of the noise and fits and starts to the process were expected.
- Louisiana FRP also remains on track despite the apparent need for a run-off election for 1 of 2 LAPSC commissioners who was up for re-election. ETR indicated to us that despite the need for Commissioner Eric Skrmetta (Republican) to face a run-off against Democratic challenger Allen Borne that it's sees no impact on timing of the LAPSC to take up the FRP extension.
- FFO/Debt metric path back to 15% by mid-2022 remains on track with cadence towards reaching goal determined by when storm securitization process is finalized.

EXC (Outperform, $52 Price Target)

- Our EEI meeting with EXC was neutral. Given EXC is in the midst of its process to potentially separate its EXC Generation business (we think via spin) there was not too much we gleamed in terms of incremental financial information on what the pro-forma companies may look like, particularly with respect to credit. Having said, that we think that a separation of EXC

Generation is very likely. Company will provide update on 4Q call on where the process stands.

- Company tone on IL legislation but timing or outcome will not determine fate of EXC Gen separation in our view. EXC expects energy legislation may find a new sense of urgency for Governor Prtizker since his other key legislative initiative (progressive state income tax) was defeated. In addition, company has not closed the door on the FRR option as eventually finding more support in Illinois. That said legislation will not be taken up until the start of the next legislative session and will not feature in Veto session in November/December.

- Pending CENG Put Option will not present meaningful issue in separation evaluation. Timing on resolution of the exercise price of EDF's put of its interests in its co-owned nuclear plants with EXC in MD and NY remains outstanding but company has run scenarios with and without completion of the put option and also doesn't see it as major complicating factor in evaluating EXC gen as a viable standalone entity.

LNT – (Not Rated)

- Management continues to execute its Phase 1 Clean Energy Blueprint in Wisconsin (2019) and Iowa (2020). The focus in Phase 1 has been on an evaluation of the company's whole generation fleet and distribution system. LNT management sees their Blueprint model as an iterative strategy that can be updated as they approach future retirements and to reflect the future changes in the cost of clean supply. Phase 2 will focus on repowering, storage and transmission. Its 5-year forecast assumes no equity to fund its regulated growth which drives its outlook for a consistent 6% EPS CAGR. In WI this has resulted in the addition of 1000MW of new solar through the end of 2023 (in addition to its 500MW of owned wind), incremental battery storage and the retirement of the 414MW Edgewater Station by the end of 2022. The company field in May for recovery of the six project, 670MW tranche with a 2Q21 order expected.

- In IA, the company sees adding up to 400MW of solar by 2023 (in addition to its 1,300MW of owned wind), adding incremental battery storage, the retirement of the 275MW Lansing Station, and the conversion of its Burlington Station from coal to natural gas. LNT will utilize tax equity for its 400MW of IA solar implying 60-65% of the project cost will be reflected in rate base. Looking forward, the use of tax equity should help bring forward additional retirements given the lower impact to customer.

- Management continues to work on taking costs out of the system with nearly $60mm achieved and driving headroom in rates for future investments. In IA $30mm has be taken out through lower energy efficiency costs and other $30mm from the mitigation of COVID-19 impacts and the recent Derecho as well as its transformation process which has been using automation/technology and headcount attrition (5-10%) to lower its cost structure. Looking forward LNT expects annual O&M to decline 3-5% off a $500mm base as its technology investment and distribution enhancements return efficiencies.

NEE – (Outperform, $79.25 Price Target); NEP (Outperform, $70 Price Target)

- Although NEP didn't need the assets dropdown from NEER to drive its distribution growth, we view the dropdown and deal with KKR as a win-win for all parties, allowing NEP to recapitalize while simultaneously better positioning itself for future growth. With a mandate of clean energy assets with long term contracts with credit worthy parties, we don't expect NEP to pursue incremental pipeline assets especially given their shorter expected lifespan.

- At NEE, management remains very interested in transmission assets acquisitions given their favorable regulatory treatment and the long-term opportunity to support renewables development growth.
- With Hydrogen projects Management highlights hydrogen as the last leg to get to zero carbon emissions with the largest opportunities coming from the power generation industries push to decarbonize, followed by the transportation industry and industrial parties feeling the pressure from ESG investors.

NI – (Outperform, $27 Price Target)

- NiSource reaffirmed their 2021-'24 growth plan that drives an estimated EPS CAGR of 7-9% fueled by renewable investments replacing the retirement of fossil units.
- Management believes the compression of the LDC valuation is overdone given the support it provides to further decarbonization. Although management will continue to look at capital rotation opportunities we do not see the company actively pursuing the sale of any of its smaller LDCs at this time. If the company would undergo a strategic review of its gas distribution franchise we would look at VA, KY and MD as the most likely sale candidates.
- NiSource's current capital investment plan includes ~$1.8-2bn renewable investments which would be funded by approximately 60% equity. Timing of the dilution remains aligned with the assets in-service dates through the end of 2023. The company still expects to fund equity portion with $600-1,000mm of hybrid/mandatory convert in 2021 and the balance to be topped off with block equity sales in 2022 & 2023. Management noted that it has already received several revers inquires on the 2021 financing but has not gotten firm commitments or discussed the coupon on the product. It is expected that any structure would support at least 50% equity credit which favors a preferred host structure as well as treasury accounting to avoid dilution.

PEG (Market Perform, $61 Price Target)

- Our EEI meeting with PEG was positive. We thought our meeting with PEG was one of the better meetings we had at this year's EEI conference. The concrete steps the company has taken to resemble other premium utility companies is a result of the favorable regulatory outcomes at the BPU (recent $1 billion CEF – energy efficiency program approval) and decisive action the company has taken (planned sale of non-nuclear generation). PEG once it completes its asset sale may be in a position to give longer term EPS guidance that will be underpinned by 6-8% rate base growth and may result in addition improvement of its valuation multiple.
- Asset sale on track for close by 2H of 2021. Given the size of the portfolio, softness in gas gen sale comps and the company's receptiveness to sale of pieces of the portfolio to likely at least 2 or more buyers we had thought there could be a scenario where PEG could end up retaining some of the fossil generation assets but that is not something management is entertaining and is determined to move towards more regulated operations.
- Some noise around extension of NJ ZEC for next 3-year is possible. PEG is in the process of attempting to secure a 3-year extension of ZEC payments for its NJ nuclear plants and also advocating for an increase to the current $10/MWh payment with management keenly aware of the potential for some initial potential for blowback. However, given recent favorable outcomes and the importance for these assets to reach the state's ambitious carbon reduction goals we remain optimistic that at the least an extension is secured. The final BPU decision is

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due in April of 2021 but we are waiting for a preliminary decision next month to see where the starting point will be for final negotiations. The transparency of the timing and the procedural schedule is in stark contrast to what we have seen in Illinois and what transpired in Ohio. While PEG echoed its previous statement that it felt like maintaining ownership of the nuclear assets as they request an extension of ZEC payments was the "right thing" to do by the state, we think that should an opportunity or need later down the road to re-think continued ownership, PEG would consider a sale.

- Offshore wind the wait continues but we think the company will ultimately proceed with Orsted on Ocean Wind and likely participate in other offshore solicitations in the mid-Atlantic. We had anticipated that one of the potential big reveals in an EEI conference year short of them would be PEG's formal announcement it is moving forward with its option to invest in Ocean Wind, Orsted's winning bid in the first NJ offshore wind solicitation. However, the company continues to exercise its full allotment of time for due diligence.

SRE – (Market Perform, $138 Price Target)

- We believe management is moving closer to a partial monetization or alternative structure around its LNG business – will "give update on 4Q call or before." The message to investors is management remains very committed to the LNG business and believe there is incremental value to shareholders in the platform
- Any transaction is about sourcing lowest cost of capital in market. Feel very good about LNG developments and strategy and looking at lowest cost of capital to grow business, strengthen balance sheet and highlight LNG value. Although credit rating agencies have noted that if SRE were to expand its LNG exposure in a meaningful way that it could be negative to credit quality, SRE believes that Cameron as example, has no commodity exposure and no volume exposure which offset pressures from other credit negative implications. This would be done with the purpose to grow its business, strengthen the balance sheet and crystalize the value of its LNG program. Any proceeds would not be used for the $2bn buyback authorization. This authorization remains a placeholder for opportunistic buybacks.
- SRE will provide more details of its 5-yr capital plan at the investor day in March. Management noted Oncor has the scope to increase CAPEX at least another $1bn above its $12.2Bn 5-year plan. With 100GWs of renewables in que in TX, there's plenty of opportunities to deploy capital. Even with its increases capital plan, Oncor is still expected to have the lowest rates in TX

WEC – (Not Rated)

- Management taking advantage of low interest rates to refinance $1,650mm of debt at holding company. $950mm of this was called early. In addition to extending the maturities, WEC reduced its coupon from 3.3% to 1.6% and left the $20mm+ of prepayment costs in 2020 EPS guidance while still expecting to be at the top end of the $3.74-3.76 range.
- Day-to-day cost savings initiative continuing to pay dividends with 2021 forecast calling for a 4% reduction off a ~$1,100mm base and in line with a similar decrease (~3.4%) off its 2019 base of $1,140mm.
- WI rate case cycle calls for spring 2021 filing with rates effective 1/1/22. Management is continuing to work on a strategy to potentially stay out of this upcoming case through unprotected ADIT, and cost savings and CAPEX-related deferrals. Rates have increased ~1% since 2019 and management expects a small increase should they file in 2021,

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- In addition to the 1,100MW of scheduled retirement's at Oak Creek (units 5-6 2023 and units 7-8 2024), WEC sees an additional 300MW of retirements to be identified in the next year. Its 5-year ESG plan includes ~$600mm of undepreciated book balance which represents ~2% of total assets and ~5% of WI rate base.

XEL – (Market Perform, $70 Price Target)

- Management remains very comfortable with the 5-7% LT EPS CAGR range. The incremental capex from its MN R&R proposal could drive above the range but management remains mindful of its credit position and will fund any increase with the appropriate amount of equity.
- With the possibility of several LDCs hitting the market in the next year, we think it's more likely the company will focus on organic opportunities rather than M&A. Management noted they have benefited from a higher than average P/E multiple given their focusing on growing organically and the ability to build at ~1x rate base vs purchasing at 1.5-2x rate base. Management does believe scale and consolidation led by premium companies will take place, but it remains difficult due to social and regulatory issues.
- Entering 2020 XEL forecasted a modest increase in O&M which is now down YoY led by initiatives to offset COVID-19 impacts. Management believes their O&M efforts to combat COVID-19 impacts have likely brought forward their cost program and with technology they would expect it to pay dividends long-term. YoY we should expect to see a flattish O&M profile.

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UTILITIES & POWER

Regulateds – Market Overweight
Integrateds – Market Overweight
IPPs – Market Overweight
Gas/Power Infrastructure – Market Overweight

November 11, 2020

UTILITIES & POWER

EEI takeaways – more conviction in bullish views

- **Premium utilities remain strong and the laggards are catching up fast**
  Nearly all of our meetings at EEI were positive this year. Rate base growth keeps rising, regulation has stayed broadly constructive and earnings growth rates are seeing upward bias – NEE, NI, CNP, SO, DUK – among others have all suggested higher EPS growth. The premium ESG friendly utility stories keep getting better. And the discount value names are becoming more and more investable. Diversified utilities are de-risking their business mix (D, PEG, PPL, EXC, DTE, CNP). Project and regulatory risk companies like SO, DUK and SRE have better visibility. The CA utilities (EIX, PCG) are nearing the end of a manageable fire season. Even the gas LDCs finally got some positive datapoints with CNP's plan to sell some of theirs and positive tone from owners and potential buyers at the conference. **Utilities have been led by the high quality ESG leaders, but it feels like the pack is starting to catch up.**
- **Is the GREEN trade still good? Yes**
  The transition to renewables from coal continues unabated. We had several announcements at EEI and earnings – AEP, WEC, LNT, etc. The GREEN trade is spreading to a broader group of companies and becoming a key part of most utilities' plans. Most see a Biden Administration and Congress being supportive even with no blue wave with potential for renewables tax credit extensions at the very least. NEE sees acceleration of general business credits as N-T stimulus driver and NEE/FTS highlight transmission as another driver of more renewables. Offshore wind will also be a key growth area for ES, D, AGR and maybe PEG – even if BOEM siting somehow goes bad this week (11/13 decision), there is a Biden "put" once he takes office.
- **Business mix de-risking a bullish theme – PEG, EXC, DTE, CNP**
  DTE and EXC both announced plans to separate their non-utility businesses this earnings season. This follows D, PEG and PPL in Q2. CNP/OGE are a matter of time and SRE is considering small steps for LNG. We are bullish as we see multiple expansion as these transactions come to fruition. PEG, DTE and D all had very positive stories at EEI. EXC is a bit early but likely has the most upside and we came away more confident they will take action on the YE call. CNP has been an amazing turnaround story even before any ENBL action which we think is just a matter of time.
- **Gas LDC debate, CA utilities, FE, and NEE/EVRG**
  The tone on gas LDCs has improved. CNP plans to sell some of theirs, which many thought was not feasible a month ago. High quality utes like XEL and WEC speak constructively of theirs and XEL said willing to buy if overlapping. This is constructive for names like NI and CNP. EIX and PCG stories sounded constructive as fire season has been noisy but with limited damage – see our PCG upgrade note. To the negative, our FE meeting left us expecting more shoes to drop – see our note here. EVRG had another noisy conference with the quickly squashed NEE merger story. And investors are getting dizzy from the monthly NEE merger rumor.
- **Ideas: EXC, PEG, EIX/PCG, CNP, NI for value; D, NEE, DTE, ES for growth**
  We see EXC and PEG re-rating as they execute on their de-risking transactions in 2021. CA is nearing the end of fire season and we think it's the right time to buy EIX and PCG. CNP continues to be a great turnaround and NI is low-risk and cheap. On the quality side, we like the growth and clean energy plays at NEE/NEP, D and ES.

Please see full report for individual company takeaways

Exhibit 1: Top Ideas

Name	Ticker	PT
High Quality / ESG		
Ameren	AEE	91
Dominion Energy	D	91
NextEra Energy Partners	NEP	78
NextEra Energy	NEE	82
DTE Energy	DTE	143
Eversource	ES	99
American Electric Power	AEP	100
Value Plays		
CenterPoint Energy	CNP	26
Edison International	EIX	73
PSEG	PEG	64
Exelon	EXC	51
NiSource	NI	27
PG&E Corp.	PCG	15
NRG Energy	NRG	47
FirstEnergy	FE	33
PPL Corp	PPL	31
Vistra Energy	VST	33
Sempre Energy	SRE	147

Source: Wolfe Utilities & Power Research

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EEI – What's Hot and What's Not

What's Hot

EEI from home – got my weekend back
Becoming pure play utilities; business mix de-risking
Everyone's an ESG winner
Gas LDCs – not going away, weakness overdone
Storage and Hydrogen
IRPs and RFPs are bigger events than rate cases
Offshore wind – concerns and delays but it's not stopping anyone
EVs and electrification
Equity needs – more to come in 2021 – NI, ETR, AEP, ED, EIX, NEE, PCG, AGR

What's Not

NEE merger stories with someone
FE and Ohio
Midstream
Diversification
Big financial impacts from COVID

EEI takeaways – one line per company

AEE – Solid story, we think EPS growth of 6-8% into mid-decade, renewables upside possible
AEP – A lot of talk on renewables opportunities; but still unclear how much will be owned
AES – Management saying all of the right things; story sounds promising, watching financial discipline
AGR – Still a lot of work to do to build credibility; financing uncertainty, weak credit metrics; worried on offshore returns
AWK – Fundamental growth story with no end in sight; recent rate case execution was key
CMS – Impressive cost cutting in '20, continued cushion in hitting numbers; committed to growth in LDC biz
CNP – Story sounds awesome; new management team making a world of difference
D – Solid meeting; management understands that consistent execution is key to re-rating the stock higher
DTE – Not missing a beat post midstream spin; still targeting high-end of 5-7% EPS growth with strong B/S
DUK – Confident tone on NC legislation; several data points coming up in the next month or two
ED – Still not much to get excited about; Midstream separation seems inevitable, timing lot less clear
EIX – Bullish tone on CA, solid defense of the stock and clear messaging
ES – EPS growth of 5-7% from core biz intact; BOEM, offshore delays NT overhang but Biden tailwind
ETR – Constructive outcomes expected from the AR and LA FRP extension requests
EVRG – Messy meeting in the midst of Elliott/NEE noise; sticking with standalone plan, but investors hesitant on STP process
EXC – Constructive tone on IL legislation in '21; our sense is ExGen spin decision will be made by YE call
FE – Downbeat meeting; seem to be bracing for more shoes to drop; confident in liquidity, but no assurances on regulatory front
FTS – Lots to like with leverage to transmission buildout around renewables in Midwest; regulatory resolution in Alberta, soon in AZ
LNT – Capex sweet spot with no equity needs and 5-7% EPS growth; lots of rate-based renewables
NEE/NEP – Ideal election outcome, focused on renewables-related policy changes in Biden admin.; more bullish on NEP; little more guarded on M&A
NI – Talked down potential LDC sale; 7-9% growth on track, confident on financing, execution
OGE – Frustratingly shy on details about ENBL
PEG – Upbeat meeting, confidence in regulated growth and asset sale execution; offshore wind decision coming soon
PCG – Reasonable job so far during wildfire season; new leadership to be announced soon
PNW – A lot of things to like but still cautious on AZ regulation

POR – Board review of trading losses still pending; will there be an equity need next year?
PPL – Announcement on UK sale in 1H21 appears on track; use of proceeds remains unknown
SO – Confident on Vogtle schedule; sees 6% EPS growth once past near-term Vogtle penalties
SRE – utility growth a highlight, comfortable with LNG/Mexico strategy, LNG financing appearing more likely
WEC – Solid as always; stepping up fleet transition with big coal to renewables shift
XEL – Rate case stay-out and capex upside in MN look promising; supportive commentary of gas LDCs

Estimate and Price Target Updates

Exhibit 2: Wolfe Research Earnings Estimates vs. Consensus

		2020E		2021E		2022E		2023E	
Company Name	**Ticker**	**New**	**Prior**	**New**	**Prior**	**New**	**Prior**	**New**	**Prior**
American Electric Power	AEP	$4.35	$4.34	$4.62	$4.68	$5.00	$5.03	N/A	N/A

Source: Wolfe Utilities & Power Research

Price target changes reflect premiums/discounts to the average sector multiple of 19x in 2022; this is up from 18.5x prior.

Exhibit 3: Wolfe Research Earnings Estimates vs. Consensus

Company Name	Ticker	Price	New PT	Old PT	Rating
AES Corp.	AES	$21.29	$21	$21	Peer Perform
Alliant Energy	LNT	$57.42	$57	$56	Peer Perform
Ameren	AEE	$82.37	$91	$89	Outperform
American Electric Power	AEP	$91.15	$100	$98	Outperform
American Water	AWK	$164.37	$165	$160	Peer Perform
Avangrid	AGR	$51.44	$47	$46	Underperform
Clearway Energy	CWEN	$30.64	$29	$29	Peer Perform
CMS Energy	CMS	$67.01	$67	$65	Peer Perform
CenterPoint Energy	CNP	$24.07	$26	$25	Outperform
Con Edison	ED	$81.72	$77	$75	Underperform
Dominion Energy	D	$85.68	$91	$90	Outperform
DTE Energy	DTE	$130.06	$143	$140	Outperform
Duke Energy	DUK	$97.31	$98	$95	Peer Perform
Edison Int'l	EIX	$62.90	$73	$70	Outperform
Entergy	ETR	$109.83	$116	$113	Peer Perform
Evergy	EVRG	$57.30	$59	$58	Peer Perform
Eversource	ES	$94.42	$99	$97	Outperform
Exelon	EXC	$43.84	$51	$50	Outperform
FirstEnergy	FE	$29.79	$33	$40	Outperform
Fortis	FTS	$42.10	$44	$41	Peer Perform
NextEra Energy	NEE	$77.54	$82	$80	Outperform
NextEra Energy Partners	NEP	$66.21	$78	$78	Outperform
NiSource	NI	$24.64	$27	$26	Outperform
NRG Energy	NRG	$32.22	$47	$47	Outperform
OGE Energy	OGE	$33.95	$38	$37	Peer Perform
PG&E	PCG	$10.71	$15	$11	Outperform
Pinnacle West	PNW	$89.59	$84	$80	Underperform
Portland General	POR	$44.57	$45	$43	Peer Perform
PPL Corp.	PPL	$29.41	$31	$31	Outperform
PSEG	PEG	$60.88	$64	$61	Outperform
Sempra Energy	SRE	$133.64	$147	$147	Peer Perform
Southern Company	SO	$63.92	$62	$61	Peer Perform
WEC Energy Group	WEC	$104.43	$101	$99	Underperform
Xcel Energy	XEL	$74.69	$73	$70	Peer Perform

Source: Wolfe Utilities & Power Research

Q3 Results Takeaways; Sales Growth Update

Q3 reporting rolled right into EEI so we combine our Q3 results and sales growth data in here. Earnings for the quarter YoY ended up 3.8% better than our estimate of about flat. See Exhibit 4-5 for quarters vs. expectation and guidance changes by companies. See the actual and weather normalized sales data in Exhibits 6-7.

Exhibit 4: Wolfe Research Earnings Estimates vs. Consensus

		Q3 2020		Q3 2019A		Q3 2020		2020 Midpt	2020E		Guidance Updates
Company Name	Ticker	Actual	Variance	Actual	Growth	WR	Cons	Guidance	WR	Cons	
The AES Corporation	AES	$0.42	-5%	$0.48	-8%	$0.44	$0.44	$1.37	$1.41	$1.38	Pointing to the top-end of 2020 guidance
Alliant Energy	LNT	0.94	7%	0.94	0%	0.88	0.88	2.43	2.43	2.43	Narrowed and raised 2020 guidance, 2021 guidance in-line and continued 5-7% growth
Ameren	AEE	1.47	-2%	1.47	0%	1.47	1.50	3.48	3.47	3.46	Lowered top end of 2020 guidance by $0.05 to $3.40-3.55
American Electric	AEP	1.47	0%	1.46	1%	1.51	1.46	4.35	4.34	4.33	2021 guidance $4.51-4.71 vs $4.68 then-consensus
American Water	AWK	1.36	-2%	1.33	2%	1.39	1.38	3.89	3.90	3.88	Raised 2020 guidance on strong weather YTD
Avangrid	AGR	0.32	-21%	0.40	-20%	0.39	0.40	1.95	1.99	2.04	2020, 2021, and 2022 guidance all missed consensus; 2021/2022 matched our estimates
CenterPoint	CNP	0.34	12%	0.53	-36%	0.27	0.30	1.16	1.29	1.32	Raised the low-end of 2020 utility guidance; targeting annual utility EPS growth at top end of 5-7% target
CMS Energy	CMS	0.77	11%	0.73	5%	0.75	0.69	2.66	2.66	2.67	2021 guidance in-line and continued 6-8% growth
Con Edison	ED	1.48	-2%	1.54	-4%	1.50	1.51	4.23	4.22	4.23	Lowered the top-end of 2020 gudiance
Dominion	D	1.08	9%	1.18	-8%	1.00	0.99	3.50	3.57	3.53	
DTE Energy	DTE	2.61	28%	1.91	37%	2.15	2.03	7.00	6.98	7.00	Raised 2020 guidance, 2021 guidance in-line and 7% growth off original 2020 guidance
Duke Energy	DUK	1.87	4%	1.79	4%	1.73	1.80	5.13	5.12	5.10	Lowered 2020 guidance to $5.05-5.20 from $5.05-5.45
Edison Int'l	EIX	1.67	15%	1.50	11%	1.47	1.45	4.55	4.56	4.49	Raised low end of 2020 guidance by $0.10 to $4.47-4.62
Entergy	ETR	2.44	1%	2.52	-3%	2.38	2.41	5.65	5.59	5.61	Raised, narrowed 2020 guidance to $5.60-5.70 from $5.45-5.75
Evergy	EVRG	1.73	10%	1.57	10%	1.58	1.58	3.03	3.02	3.01	Raised low-end of 2020 guidance
Eversource Energy	ES	1.02	0%	0.98	4%	1.00	1.02	3.65	3.65	3.64	
Exelon	EXC	1.04	20%	0.92	13%	0.86	0.87	3.10	3.03	3.07	Raised 2020 guidance to $3.00-3.20 from $2.80-3.10
FirstEnergy	FE	0.84	8%	0.76	11%	0.78	0.78	2.50	2.52	2.53	
Fortis	FTS	0.65	-1%	0.66	-2%	0.67	0.66	N/A	2.55	2.56	
NextEra Energy	NEE	0.67	2%	0.60	11%	0.66	0.65	2.24	2.30	2.29	
NiSource	NI	0.09	215%	0.00	N/A	0.03	0.03	N/A	1.30	1.30	
OGE Energy	OGE	1.04	-7%	1.25	-17%	1.03	1.12	2.03	2.04	2.09	Lowered 2020 utility guidance due to unfavorable weather
PG&E	PCG	0.22	-22%	1.11	-80%	0.26	0.28	1.62	1.61	1.61	
Pinnacle West	PNW	3.07	8%	2.77	11%	3.13	2.85	5.05	5.10	5.03	Raised 2020 guidance on record summer heat
Portland General	POR	(0.19)	57%	0.61	-131%	(0.27)	(0.45)	1.50	1.55	1.56	Expecting 2020 to finish in the top half of the range
PPL Corp	PPL	0.58	-6%	0.61	-5%	0.59	0.62	2.45	2.40	2.43	Lowered 2020 guidance to $2.40-2.50 from $2.40-2.60
PSEG Corp	PEG	0.96	-1%	0.98	-2%	0.99	0.97	3.43	3.42	3.42	Raised low-end of 2020 guidance
Sempra Energy	SRE	1.31	-16%	1.50	-13%	1.46	1.56	7.50	7.72	7.65	Expecting to be at upper end of $7.20-$7.80 for 2021, reiterated 2021 of $7.50-$8.10
Southern Co.	SO	1.22	1%	1.34	-9%	1.20	1.21	3.16	3.22	3.19	Raised 2020 guidance to $3.22 from $3.10-3.22
WEC Energy Group	WEC	0.84	10%	0.74	14%	0.76	0.76	3.75	3.76	3.75	Narrowed and raised 2020 guidance, pointing to top-end
Xcel Energy	XEL	1.14	6%	1.01	13%	1.06	1.07	2.78	2.78	2.78	Narrowed 2020 guidance range, targeting the same midpoint; initial 2021 guidance in-line

Source: Wolfe Utilities & Power Research
*Q3 WR and cons estimates are what was published in our Q3 earnings preview on 10/20/20

Exhibit 5: Wolfe Research EBITDA Estimates vs. Consensus

		Q3 2020		Q3 2019A		Q3 2020		2020 Midpt	2020E		Guidance Updates
Company Name	Ticker	Actual	Variance	Actual	Growth	WR	Cons	Guidance	WR	Cons	
Clearway Energy	CWEN	$312	-2%	$300	4%	$305	$320	$1,120	$1,105	$1,114	Initial 2021 guidance a little light on new project ramp up timing
NextEra Energy Partners	NEP	312	-6%	315	-1%	325	332	1,313	1,355	1,301	
NRG Energy	NRG	752	-4%	792	-5%	770	779	2,000	2,065	2,007	2021 EBITDA tracking to lower half of range on solar delays
Vistra Energy Corp.	VST	1,185	11%	1,064	11%	1,098	1,072	3,585	3,552	3,578	

Source: Wolfe Utilities & Power Research
*Q3 WR and cons estimates are what was published in our Q3 earnings preview on 10/20/20

Exhibit 6: Nominal and Weather-adjusted Sales Growth (3Q20 vs. 3Q19)

Company	Ticker	Residential	Commercial	Industrial	Total Retail	Residential Weather Adjusted	Commercial Weather Adjusted	Industrial Weather Adjusted	Total Retail Weather Adjusted	Decoupling
Alliant Energy	LNT	2.2%	(4.6%)	(2.7%)	(1.5%)					No
Ameren Corp	AEE	(4.4%)	(8.2%)	(5.5%)	(6.2%)					No
American Electric Power	AEP	(1.0%)	(7.7%)	(9.4%)	(5.7%)	3.8%	(4.6%)	(7.8%)	(2.6%)	No
Centerpoint - CEHE	CNP	0.1%			(1.2%)					No
Centerpoint - Indiana Electric	CNP	(4.2%)			(8.6%)					No
CMS Energy	CMS	8.6%	(3.8%)	(11.7%)	(0.8%)	6.1%	(3.9%)	(11.7%)	(1.8%)	Yes
Consolidated Edison	ED	8.5%	(7.2%)	(7.2%)	(7.0%)					Yes
Dominion Energy	D									No
DTE Energy	DTE	10.1%	(6.1%)	(9.2%)	(0.5%)	8.7%	(6.4%)	(11.7%)	(2.5%)	Yes
Duke Energy	DUK	3.4%	(5.7%)	(7.4%)	(4.4%)	4.1%	(5.3%)	(7.5%)	(2.1%)	No
Entergy Corp	ETR	0.1%	(8.3%)	(6.7%)	(4.1%)	1.6%	(7.5%)	(6.7%)	(4.1%)	No
Evergy	EVRG	(2.5%)	(6.4%)	(4.2%)	(4.4%)					No
Exelon - ComEd	EXC									Yes
Exelon - PECO	EXC	9.0%	(8.4%)	(7.7%)	(1.6%)	6.4%	(9.4%)	(8.3%)	(3.2%)	No
FirstEnergy	FE	5.1%	(5.5%)	(6.3%)	(1.7%)	5.3%	(5.5%)	(6.4%)	(1.8%)	No
NextEra Energy - FPL	NEE	7.6%	(3.5%)	5.9%	2.9%				3.0%	No
NextEra Energy - Gulf	NEE	(5.2%)	(9.1%)	(9.6%)	(7.1%)				(1.0%)	No
NiSource	NI	3.8%	(7.5%)	(11.0%)	(6.3%)				(4.7%)	No
Pinnacle West	PNW	11.5%	(0.2%)	(0.2%)	6.0%	5.6%	(3.5%)	(3.5%)	1.3%	No
Portland General	POR	11.3%	(3.8%)	11.2%	5.0%	11.0%	(5.0%)	9.0%	4.0%	Partial
PPL - Kentucky	PPL					7.1%	(6.7%)	(6.7%)	(1.9%)	No
PPL - Pennsylvania	PPL					4.9%	(4.0%)	(4.0%)	(0.5%)	No
PSEG	PEG	9.0%	(5.0%)	(5.0%)	0.0%					No
Southern Company	SO	(4.1%)	(8.8%)	(7.3%)	(6.7%)	3.5%	(5.1%)	(7.3%)	(3.0%)	No
WEC Energy Group	WEC	7.1%	(2.5%)	(5.4%)	(0.3%)	4.2%	(3.3%)	(5.4%)	(1.5%)	No
Xcel Energy	XEL	9.1%	(5.0%)	(5.0%)	(0.9%)	3.7%	(4.8%)	(4.8%)	(2.4%)	Partial
Average		**3.9%**	**(5.9%)**	**(5.2%)**	**(2.5%)**	**5.4%**	**(5.4%)**	**(5.9%)**	**(1.5%)**	

Source: Wolfe Utilities & Power Research

Exhibit 7: Nominal and Weather-adjusted Sales Growth (YTD20 vs. YTD19)

Company	Ticker	Residential	Commercial	Industrial	Total Retail	Residential Weather Adjusted	Commercial Weather Adjusted	Industrial Weather Adjusted	Total Retail Weather Adjusted	Decoupling
Alliant Energy	LNT	1.0%	(4.9%)	(3.8%)	(2.8%)					No
Ameren Corp	AEE	(1.6%)	(8.2%)	(6.8%)	(5.5%)					No
American Electric Power	AEP	(0.5%)	(6.2%)	(7.3%)	(4.6%)	2.6%	(4.9%)	(7.0%)	(3.0%)	No
Centerpoint - CEHE	CNP	2.6%			(0.2%)					No
Centerpoint - Indiana Electric	CNP	10.9%			1.7%					No
CMS Energy	CMS	7.3%	(4.9%)	(18.9%)	(3.8%)	4.8%	(5.8%)	(19.1%)	(5.0%)	Yes
Consolidated Edison	ED	5.3%	(5.7%)	(5.7%)	(5.8%)					Yes
Dominion Energy	D									No
DTE Energy	DTE	9.2%	(7.8%)	(17.4%)	(3.9%)	7.7%	(7.9%)	(18.9%)	(5.6%)	Yes
Duke Energy	DUK	(0.8%)	(6.9%)	(7.5%)	(5.0%)	2.7%	(5.9%)	(7.5%)	(2.8%)	No
Entergy Corp	ETR	(0.8%)	(7.6%)	(2.3%)	(3.2%)	(2.5%)	(7.1%)	(2.3%)	(2.1%)	No
Evergy	EVRG	(0.4%)	(7.4%)	(5.5%)	(4.4%)					No
Exelon - ComEd	EXC									Yes
Exelon - PECO	EXC	2.9%	(9.8%)	(9.2%)	(5.2%)	4.5%	(8.4%)	(8.9%)	(4.2%)	No
FirstEnergy	FE	1.8%	(9.0%)	(6.9%)	(4.2%)	5.4%	(7.1%)	(6.8%)	(2.4%)	No
NextEra Energy - FPL	NEE	6.3%	(3.9%)	3.3%	1.7%				0.7%	No
NextEra Energy - Gulf	NEE	(1.8%)	(7.0%)	(8.7%)	(4.7%)				(1.1%)	No
NiSource	NI	4.1%	(5.5%)	(16.5%)	(8.8%)				(8.4%)	No
Pinnacle West	PNW	11.2%	(1.3%)	(1.3%)	4.8%	4.5%	(3.5%)	(3.5%)	0.4%	No
Portland General	POR	3.6%	(6.5%)	9.4%	0.7%	6.0%	(6.0%)	7.0%	1.6%	Partial
PPL - Kentucky	PPL									No
PPL - Pennsylvania	PPL									No
PSEG	PEG	5.0%	(7.0%)	(7.0%)	(3.0%)					No
Southern Company	SO	(3.5%)	(8.4%)	(7.8%)	(6.6%)	3.7%	(5.9%)	(7.8%)	(3.4%)	No
WEC Energy Group	WEC	6.0%	(4.4%)	(7.1%)	(2.1%)	3.6%	(5.3%)	(7.9%)	(3.4%)	No
Xcel Energy	XEL	5.8%	(5.2%)	(5.2%)	(2.2%)	3.2%	(5.5%)	(5.5%)	(3.1%)	Partial
Average		**3.3%**	**(6.4%)**	**(6.6%)**	**(3.0%)**	**3.8%**	**(6.1%)**	**(7.3%)**	**(2.8%)**	

Source: Wolfe Utilities & Power Research

Company Summaries

AEE: Waiting on MO RFP

- **2021 guidance, 2021-25 capital plan, rate base and EPS growth expected on Feb call.** AEE's 2020-24 capital plan of $16B implies 8.7% rate base growth and drives 6-8% EPS growth. However, the utility sees over $39B of investment opportunities in 2020-29. On the YE20 call in Feb, AEE will provide 2021-25 capex. AEE's preferred option in its MO Integrated Resource Plan calls for 1.2 GW of solar/wind by YE25, but whether that would be additive to its rate base and EPS growth outlook remains to be seen. Regardless, AEE's investment opportunities suggest at least 6-8% EPS growth into mid-decade.
- **MO RFP for solar/wind.** AEE currently is conducting a RFP for its solar/wind needs, considering not only the lowest cost to customers, but also execution risks, deals with landowners, MISO interconnections and other factors. AEE expects to negotiate with the bidders and will provide an update on the YE20 call, but management suggested it may be too early by then to incorporate RFP-related investments, if any. AEE does not need to wait for PSC approval of its IRP to determine which option to pursue.
- **MO rate case in 1H21 but recent regulatory outcomes have been constructive.** AEE plans to file MO rate cases sometime in 1H21, with the 700 MW ($1.2B) of wind projects expected in-service by 2Q21. AEE's last two rate cases were settled, as were other regulatory proceedings, including CCNs for said wind projects. MO constitutes just under half of AEE's rate base and over 8% rate base growth through at least 2024.
- **IL formulaic framework has provided stability but low ROEs.** The current 30Y Treasury yield is a headwind on electric distribution ROEs (every 50bp = $0.04) under IL's formulaic framework, but management believes it can mitigate the impact. Despite the low ROEs, the framework has provided stability. AEE proposed legislation that included an extension of the framework beyond its YE22 sunset and an increase in the ROE formula by 100bp. However, comprehensive energy legislation is unlikely this year. Still, AEE expects the state to address energy legislation next year, given the priorities of policymakers. Even if the framework ends, IL electric utilities have decoupling, bad debt recovery and allowed ROEs that could be in the mid-9s vs the mid-7s implied today.

AEP: What comes after the precipice?

- **Still would be disappointed if not on the upper half of 5-7% EPS growth target.** AEP introduced 2021 guidance of $4.51-4.71 vs then-consensus of $4.65, and provided 2021-25 capex of $37B, implying 7.4% rate base growth. AEP repeated that it would be disappointed if it does not achieve the upper half of 5-7% EPS growth, despite the midpoint of 2021 guidance implying 6% growth off the expected 2020E of $4.35. North Central Wind ($2B of rate base) is expected to be completely in-service by early 2022, slightly slipping from YE21 target. We updated our 2020-23E to reflect the latest disclosures; our 2020-23E are now $4.35/4.62/5.00/5.29 vs $4.34/4.68/5.03/5.29 previously.
- **AEP expects to own majority of renewables additions to system.** CEO Nick Akins last month said AEP is on the "precipice of transformational change to renewable resources." AEP now projects 8,029 MW of wind/solar resource additions onto its system in 2021-30. AEP sees the majority of those opportunities being owned by AEP, including NCW's 1,485 MW and other identified renewables projects totaling 475 MW.
- **Leadership changes reflective of strategic execution and portfolio optimization goals.** AEP recently shuffled senior management, with Lisa Barton becoming COO (from her EVP of Utilities role), Brian Tierney becoming EVP of Strategy (from his CFO role) and Julie Sloat becoming CFO (from her SVP of Treasury & Risk role). CEO Nick Akins said he plans on being around for a while, but the changes are part of a years-long succession planning. AEP believes the new leadership roles will facilitate execution on its strategy and manage/optimize

the portfolio. We anticipate underperforming subs, such as Kentucky Power, could be used to mitigate the equity needs for NCW in late 2021, early 2022.

- **Transmission needs.** Given the fleet transition and move to renewables, more transmission will be needed. AEP's transmission business is its largest segment after growing in the double-digits since 2016, and robust growth is expected to continue.
- **AEP confident that FE issues won't have negative implications on OH regulation.** Despite the headlines out of OH this year, AEP believes it is in good shape. AEP has not seen any impact on the regulatory environment or in its ongoing rate case in OH.

AES: Saying all of the right things

- **A leader in the transition to a clean energy future.** Over the past few years, AES has aggressively ramped up its growth capabilities in renewables and through other clean energy / digitization investments. Management's messaging has been extremely effective, in our view, and we think there could be more upside if the company can continue to execute and create tangible benefits through its strategic alliance with Google, investment in Uplight, etc. The one thing we remain a little wary of is financial discipline given just how much growth AES has/is pursuing and in a relatively short period of time.
- **Fluence value marker still expected by yearend.** Fluence is in the midst of a capital raise where both AES and Siemens intend to sell down a 5% stake in the company. The idea being, to provide a value marker for investors and set Fluence on the path toward an IPO in a few years. On the latter, AES mentioned adding an independent financial investor to the Board of Fluence would be beneficial from a governance standpoint and help establish Fluence as a standalone company. We recently updated our S-O-P to include value for Fluence and ascribe $1/sh. for AES' 50% stake in the company.
- **Positioned well out of the election.** Heading into the election, AES had pitched itself as a big beneficiary in the event of a Democrat sweep. For now, that doesn't appear to be the outcome, but AES still sees a lot of potential under a Biden administration. Specifically, management thinks it is likely to see an extension of the PTC/ITC and is hopeful for an ITC on standalone storage. This could all culminate in helping accelerate the adoption of renewables where AES sees itself as a big beneficiary. AES recently bought a wind team located in the US to better position itself to take advantage of future growth opportunities in both solar and now wind.
- **In the final stages of IPL's RFP.** IPL is toward the tail-end of the RFP/IRP process in Indiana where there is the potential to add 600 MW of renewables to replace retiring coal units. AES is hopeful to do most of this through rate base and expects to have clarity by the Q4 call in February.
- **Making some progress on LNG.** AES is close to signing contracts for an additional 20% of its excess LNG capacity in the Dominican Republic (another 20% remains, with more under construction). This could be worth as much as $0.02 of EPS, which would likely contribute to earnings starting in 2023. We expect to hear more hear on the Q4 call when AES rolls forward its guidance through 2024.

AGR: Big new plan, but still lacking visibility

- **Last week's Analyst Day set new 6-8% EPS growth trajectory through 2025, but funding plan uncertain.** AGR laid this out in detail just a week ago, with new CEO Dennis Arriola highly focused on execution and setting a track record of hitting financial targets. The long-term growth plan factors in accretion from the PNM deal (3%), where there was at least some transparency on assumed financing ($3.6B equity / $700M debt). However, the lack of visibility on the long-term funding plan was odd. Mgmt. seemed to indicate there would be some level of equity issuances, but was reluctant to commit to an amount.
- **Weaker credit metrics also not comforting.** AGR is targeting 14.5%+ FFO/Debt on a pro forma basis while maintaining solid investment grade credit ratings. While the PNM merger

helps move the company toward being 85% regulated, we view that as a relatively weak balance sheet for a diversified company pursuing offshore wind in a meaningful way. Mgmt. hopeful that other ratings agencies adopt S&P approach and view AGR as core holding of Iberdrola with tethered rating.

- **Focused on improving earned ROEs.** This is a key focus area after underearning in recent years. The New York rate case settlement is expected to be approved by year-end, with rate relief a big driver of growth, and vegetation management helping to deal with storms. In Maine, CMP has been under a 100bps ROE penalty, but is currently hitting all its metrics to see this lifted in September 2021. The final NECEC permit from the Army Corps was a positive and construction is expected to start imminently.
- **Offshore wind process finally set to move forward.** Unclear if BOEM issues a timely EIS later this week (11/13) or COP next month (12/18), but believe there is wide support for 1x1 nautical mile spacing and nascent industry is set to get off the ground. We're a little worried on potential returns given delays and bid prices, however improvement in turbine technology and site synergies between Vineyard/Park City helps offset. Mgmt. pointed to targeting unlevered returns that are shy of regulated rate base ROEs, but on a levered-basis would be in the 'teens.
- **Dividend growth still on hold.** AGR has been holding its dividend flat as it remains above its payout ratio target. Mgmt. is hopeful to potentially revisit growth around after the 2022 time frame.

AWK: Fundamental growth story with no end in sight

- **More upside to go?** Despite trading near all-time highs on a relative and absolute basis, management sees even more room for upside. Underpinning their confidence is decades of investment needs that support AWK's 7-10% EPS CAGR as well as a burgeoning appetite from ESG focused investors to own the stock. This is the reason that AWK has elected to hold off on issuing the $500M of equity that isn't needed until the middle of its 5-year plan.
- **Recent rate case execution has been impressive.** Heading into 2020, this was the biggest question for AWK's stock with rate cases pending in its three largest states – NJ, PA, and MO. Over the past couple of weeks AWK has made a lot of progress on this front by getting a settlement approved in NJ and reaching a settlement in PA. Through the settlements, AWK has been able to maintain its allowed ROEs and even increase its equity ratio in NJ. This hasn't been the norm for most utilities given the low rate environment.
- **M&A preference is muni acquisitions.** With a P/E multiple a lot higher than even other water utilities, we were curious to get management's view on M&A. AWK said it looks at all options, including other IOUs, but thinks the most efficient use of capital is through its municipal tuck-in strategy. While these transactions typically take 2-5 years to close from start to finish, our sense is that the pipeline could continue to grow and potentially accelerate post COVID as a lot of struggling municipalities may find themselves in need of support.
- **Watching NY sale process.** There continues to be noise around AWK's sale of its NY subsidiary to Liberty Utilities (Algonquin). This was ratcheted further by Gov. Cuomo's proposed legislation which would require the NY PSC to do a public takeover study. AWK maintains the belief that the sale will close in 1Q21 and the recent noise shouldn't derail the process.

CMS: Cost savings and capital plan upside

- **Record level O&M savings in 2020 helps build cushion.** Set to achieve $100M in operating savings in 2020, which more than offsets any COVID-related headwinds. Sets the company up to enter reinvestment mode in Q4 and build further cushion for 2021. Leveraging the "CE Way" lean operating system that still has a long runway for future cost cutting opportunities.
- **Michigan regulatory backdrop remains constructive.** Settled gas rate case earlier this year. Electric case currently pending, though ALJ recently recommended higher ROE than recent decisions (10.0% vs. 9.9%). Like being a regular rate case filer, as it gives ability to toggle based on latest sales and O&M trends.
- **Capital plan refresh coming with year-end call.** Will refresh 5-year plan with the Q4 call. Still lots of opportunity for upside spend. Somewhat limited by customer bill. Still see no need for block equity, though possible annual issuance ticks up above the previous $150M/year projection.
- **Fleet transition continues, comfortable with gas business.** Set to add 1,100 MWs of solar by 2024 and 6 GWs by 2040. Will submit next IRP in June 2021, where there could be an opportunity to further accelerate coal shutdowns and add storage to the plan. Not concerned about future of gas LDC business in Michigan – electrification is too expensive for home heating//cooking. Could also look at using gas system and storage fields for RNG and hydrogen in the future. Actually see mix of rate base shifting further to gas (40% from 35%) over time, but seem very comfortable with this.

CNP: Christmas come early

- **The dream team.** Wow, what a difference a new management team can do for a company. We continue to be very impressed with what we hear from CEO Dave Lesar, CFO Jason Wells as well as Special Advisor Tom Webb. Lesar highlighted his background managing companies with a lot more complexity than CNP, which gives him high confidence in being able to hit the top end of the 5-7% EPS growth target year after year. We can't help but recognize some of Tom Webb's blueprint from his days at CMS, which in part facilitated an environment for continuous improvement to help harvest meaningful cost savings over time. We see CNP in a position to unlock a lot of value with this management team at the helm.
- **EPS growth target contemplates a range of potential headwinds.** One of the more impressive things out of Q3 earnings/EEI is that CNP expects to grow 7% off wherever 2020 EPS lands. Our previous thought was that EPS growth would be more muted in 2021 due to equity dilution. However, CNP noted that the opportunity set to cut O&M next year is robust after seeing what the team was able to accomplish this year. Most importantly, CNP's expectation to be at the top end of its 5-7% target annually includes the ability to absorb any corporate overhead/debt that is currently allocated to ENBL.
- **Actively working on gas LDC sale(s).** CNP noted that it had received reverse inquiries with respect to its LDC sale process. The company has engaged advisors and is targeting a sale(s) to close toward the end of 2021 or early 2022. CNP will disclose which property(s) it plans to sell on December 7th. Our sense after talking to XEL is that it would not be opposed to owning an LDC property adjacent to where it currently serves (i.e., MN gas); WEC also provided a similar view.
- **ENBL process might take time.** CNP held all the details on next steps for ENBL until the December 7th Analyst Day**.** Management did caution that the process could take time given that ENBL is a standalone public company. We interpreted this to mean that an actual transaction could likely be a little way away still.
- **Confident on renewable investments.** $1.3B of CNP's new $16B capital plan relates to renewables in Indiana. Of the $3B of capex that was added to the prior 5-yr plan, a little over $500M relates to IRP capital. Management has already had a lot of dialogue with the IURC

and is very confident in getting Commission approval. Our sense is CNP will enter into contracts later this year to kick off the CPCN process at the Commission early next year.

D: Building the foundation for consistent execution

- **Focus going forward is on execution**. Management understands that for D to trade in-line with the highest quality utilities, a consistent track record of execution is needed. CFO Jim Chapman noted that under his purview, the financial outlook includes cushion such that meeting or exceeding annual guidance should be well within reach. We were encouraged to hear that management understands the importance given that, in our view, this is the one missing item D needs to move into the mega premium group.
- **Virginia capital plan is unique.** While not new, it is worth highlighting again – D's clean energy capital program in VA is the best in the sector. The reason being is because the VA Clean Economy Act was prescriptive in what amount of the offshore wind, solar and storage would be owned by D in rate base. The $34-43B of rider eligible capex over the next 15 years has all been deemed in the public interest, meaning there shouldn't be much ambiguity when D goes in for cost recovery at the SCC.
- **Confident in outcome of triennial review.** The one knock we hear on D is some concern over the 2021 and 2024 triennial reviews in VA. On the former, D will file its review next year in March and a decision will be rendered in November. Management is confident it will file a case where no refund is warranted; recall, there is a $50M rate reduction cap in place. The 2024 triennial review won't impact numbers until 2025 and we will be watching the review next year closely for any readthroughs given that there is no rate reduction cap in place at that time. That said, D has long demonstrated an ability to manage the regulatory environment in VA effectively.
- **DESC rate case data point coming.** Intervenor testimony in DESC's rate case was due on 11/10. As of this writing, it has yet to be posted given the government holiday. D maintains that it filed a very defensible case and that once new rates are finalized in March of next year, it will be close to earning its allowed return. Longer-term, D see opportunities to implement a coal transition plan similar to what is taking place in VA right now.

DTE: Not missing a beat post midstream split

- **Still targeting 5-7% EPS growth on pro-forma basis through 2025, focused on hitting high-end.** DTE believes it can continue to grow 5-7% at the remaining pure play utility company following the midstream spin. This is off a pro forma 2020 base, which merely excludes the midstream earnings contribution, and no material expected dis-synergies. Part of this is because DTE already allocated interest and other costs to the midstream segment. This seemed to quell some investor fears. Furthermore, mgmt. pointed to its track record of historically hitting the high-end of 5-7% EPS growth and hopes to continue this going forward. 2020 would mark the 12^{th} consecutive year of exceeding original guidance.
- **Utilities are actually growing faster than 5-7%.** Sees electric operating earnings growth of 7-8% and gas growth of 9%. This exceeds earnings growth, but in the near-term is offset some by the REF roll-off and already issued equity convert ($1.3B). Capex plan largely supported by distribution and renewables investment – hoping to pull forward additional investment. May actually look at potentially accelerated remaining coal plant retirements – currently set Belle River for 2030 and Monroe for 2040.
- **Midstream spin set for mid-2021**. Believe business will be better valued on a standalone basis (as will the utility business). Didn't want to constrain midstream growth potential by trying to hold 70/30 utility/non-utility business mix. Will file Form 10 next year and then see when-issued trading, before official listing. Believe 4x leverage target screens well versus peers. Combined dividend growth of 8-10% post-spin is better than prior plan of 6%. Could do some type of Analyst Day for the RemainCo following the spin.

- **Sticking with P&I business, seeing growth in RNG/cogen**. Cogen business is all 10-15 year agreements with fixed fees and pass-through commodities exposure. Achieving higher returns compared to utilities. Renewables natural gas business is a mix of long-term offtake agreements, hedged low-carbon fuel standard/RINs (~3 years), and some open to market. Expected to achieving 3-5 year simple cash payback.
- **Balance sheet will remain strong.** At the prevailing utilities business DTE plans to maintain a strong balance sheet. Sees minimal equity needs in the 5-year plan post-2022. Currently targeting 18% FFO/Debt, but believe business mix improving to 90% regulated will allow for threshold to be relaxed to ~16%.

DUK: We just got to wait, NC

- **All eyes are on NC.** DUK is currently awaiting decisions in rate cases, a state Supreme Court ruling on coal ash, progress on its NC IRP, and reports on clean energy that could ultimately result in constructive legislation.
- **NC rate cases and coal ash.** DUK expects decisions in its DEC and DEP rate cases in early Jan and Feb, with the NCUC likely approving the settled items (e.g., 9.6% ROE) and ruling on coal ash cost recovery and accelerated D&A. The hearings went well. In a decision earlier this year, the NCUC allowed a return of coal ash spend but not a return on for Dominion. Relatedly, on 12/11 or later the NC Supreme Court is expected to issue a ruling on NCUC's 2018 decision allowing DUK a return on coal ash, which was appealed by the NC AG and NCUC Public Staff.
- **2021, equity plans intact regardless of outcome on NC coal ash.** DUK sees $0.08-0.10 of earnings if no return is allowed on coal ash. But DUK's 2021 guidance midpoint of $5.15 already reflects no return on coal ash. DUK committed to no new equity issuances beyond its plan to chase any credit downgrade, as at least one rating agency has suggested no return on coal ash would reduce its FFO/Debt metric. DUK may issue incremental ATM/DRIP (beyond the $500M/yr through 2022) depending on capital plans.
- **Confident that NC Clean Energy Plan will result in legislation.** Last year, NC Gov Cooper (D) set out clean energy plan goals, including a target of 70% greenhouse gas emissions reduction by 2030 and carbon neutrality by 2050. A two-prong Clean Energy Plan initiative (carbon policy and regulatory reform) is being conducted, with reports expected around yearend or early next. DUK is confident legislation will follow in the 2021 session, even with a divided statehouse in NC, and expects to have significant capex opportunities. Last month DUK raised its 2020-24 rate base growth to 6.5% and its 2025-29 growth to 7%, assuming any scenario under its NC IRP. On DUK's Feb call, management will provide an update on the Clean Energy Plan initiative and legislative proposals.

ED: Not much to get excited about

- **Working to own utility-scale renewables in NY.** ED is working behind the scenes to be able to rate base renewables at CECONY. Management pitched it similar to its effort on energy efficiency and EV infrastructure where initially the utility didn't have a role but is now able to earn a return. This would be a big deal for ED as the state of NY needs 2,500 MW of renewables annually to meet its 70% renewable target by 2030. ED said it has started to get some traction with stakeholders, though nothing is firm, and noted that the pace at which the renewable need to be added make the most compelling argument for ED. This would need NY PSC approval and there is no active document currently exploring the idea. ED said to watch the Reforming Energy Vision (REV) docket as that would be the most likely avenues. Ultimately, it didn't sound like this would come to a head in 2021 and the process would be a bit more long dated.
- **Midstream separation seems inevitable, but timing less clear.** ED said that both MVP and Stagecoach fall in the same category as assets that have since been sold – non-core – as the

political landscape has changed dramatically for gas infrastructure investments. ED does a review of these businesses at least annually and noted that a potential transaction doesn't necessarily need to include both assets. On MVP, ED sounds keen to wait until the project is complete to maximize the value it would receive. Since Stagecoach is a JV with Crestwood Equity Partners, they would be entitled to a right of first offer; there is no contractual limitations to exiting Stagecoach.

- **Capital recycling opportunities in renewables business.** Unlike Midstream, ED sees its renewables development business as core and will continue investing there for the long haul. In the future, ED intends to fund more projects with tax equity given the amount of non-monetized tax credits that it still has to work through. ED mentioned that it would be selling projects over the next 3-5 years to recycle capital and improve returns.
- **Watching COVID impact on NY, Gov. Cuomo legislation.** Customers in arrears greater than 60 days has amounted to a $320M increase vs normal in aged receivables. ED took steps to bolster liquidity earlier in the year and the enhanced cash drag is expected to impact equity plans in 2020 (still up to $600M of block equity by YE). The earnings drag is primarily from foregone late fees that are included in its revenue requirement. This could continue into 2021, so we will be watching this closely. Gov. Cuomo recently proposed legislation which would remove caps for fines related to storm response. A second aspect was to lay out a process for potentially revoking the utilities' franchise agreements.

EIX: Bullish tone on California

- **Stock overreaction to fires given less destruction, liability caps.** EIX sounded bullish on CA, given policy-driven investments in the grid and limited wildfire risk. EIX was surprised by the stock reaction on reports of any fire in its service area, noting that the corresponding decline in the market cap assumes the fire was started by EIX's equipment, damages would exceed insurance and the reimbursement to the Wildfire Fund would equal the decline in market cap. In other words, EIX sees AB 1054 as mitigating fire risk, and the market still doesn't understand that.
- **Bobcat and Silverado fires.** EIX suggested damages from these two fires this fall would be covered by its roughly $1B of insurance. CAL Fire and the USFS continue investigations into Silverado and Bobcat, respectively.
- **Rate base growth of 7%, storage could be modest upside.** EIX projects 6.5-7.6% rate base growth through 2023. Storage could be modest upside, as the state accelerates the onset of additional storage. EIX has some EV (Charge Ready 2) in its plan and would participate in more if available. Electrification is the long-term driver of potential investment opportunities.
- **GRC decision expected early 2021.** EIX suggested the SCE GRC was relatively predictable. The contested items include speed and amount of overhead conductors, wildfire insurance, D&A and incentive comp. EIX expects the CPUC to issue a proposed decision after the new year, with a final decision in 1Q21.
- **Dividend payout 45-55% of SCE earnings; FFO/Debt expected to be 15-17%.** EIX still sees the dividend within 45-55% of SCE earnings. EIX sees only minimal equity needs beyond its $1B related to 2017-18 fire damages. The recent approvals of some of EIX's memo accounts was good to see from a cashflow perspective. The FFO/Debt projections should be within 15-17%.

ES: Take a load off(shore)

- **ES sees 6% EPS growth from core business, Columbia should help.** ES feels good about its 5-7% EPS growth target through 2024, and has indicated growth could be 6% just from the core business. The recent Columbia Gas acquisition should improve growth within the range. There could be upside from AMI in MA and ultimately CT, though unlikely by the YE20 call in Feb, when ES provides 2021 guidance and new 5yr capital plan. ES' growth target excludes any earnings from its offshore wind venture with Ørsted; the 50/50 JV is developing offshore wind projects in New England and NY.
- **Offshore is main focus, given delays and BOEM's final EIS on Vineyard Wind this week.** We and investors asked several questions about ES/Ørsted's 1,704 MW of projects, given the one-year delay in South Fork (130 MW) to YE23 and delays in Revolution (704 MW) and Sunrise (800 MW) to at least 2024-25. Relatedly, on 11/13 the Bureau of Ocean Energy Management is expected to issue a final EIS for AGR's Vineyard Wind offshore wind project, which will include the spacing of wind projects; developers want 1x1 nautical miles, whereas fisheries want more. The USCG is supportive of the developers' proposals. BOEM will also issue a decision next month on Vineyard Wind's COP filing, which will also have implications on ES' projects.
- **Biden administration should be more constructive on offshore; ES to continue bidding**. Under a Biden Administration, ES expects are more supportive BOEM. But offshore wind is driven by state policy, and policymakers in New England and Northeast are supportive. ES said the JV bid into the NY RFP last month; but it will only proceed with projects if ROEs are in the "mid-teens."
- **CT noise has quieted down, performance-based rates fair.** There was a lot of political pushback in CT, following the a spike in customer bills and ES' response to Tropical Storm Isaias. The CT legislature passed a bill that included refunds/penalties, but it was not as bad as feared. The bill directed CT regulators (the PURA) to implement performance-based ratemaking by mid-2021. ES' next CT rate case is expected to be filed sometime in 2H21, and ES will incorporate PBR into its filing.

ETR: Après le déluge, recovery

- **History of storm cost recovery, securitzation.** With several Hurricanes hitting ETR's region this summer/fall, storm costs will top $2B, mostly in LA. ETR expects securitization and has a lot flexibility. ETR would like to roll up all the costs and go through one proceeding. No major opposition is expected, given the history of storm cost recovery. ETR noted its customer rates are the lowest in the country, and the bulk of the storm costs are in LA, which has the lowest rates among ETR's subs. Securitization probably adds less than 1% rate increase. The rating agencies appear to understand the temporary hit to FFO/Debt.
- **Settlements on FRP extensions expected.** ETR is in settlement talks in both AR and LA for extension of the formula-rate plans. ETR anticipates some puts and takes but is confident the parties ultimately settle. In AR, the parties will file an update by 12/4. In LA, an update is expected this month or next. Final decisions are expected in 1Q21.
- **Equity needs beginning in 2H21; preferreds possible**. ETR's needs are just over 10% of 2020-24 capex, with the first issuance in 2H21. Through 2024, equity needs are expected to total $2.5B. ETR said it plans to get shareholder approval in May 2021 to authorize convertible preferreds, which ultimately become equity.
- **Continuous improvement to create headroom for accelerated capex.** ETR is focused on creating headroom for incremental capex among other things. ETR previously said $2B of post 2024 capex could be accelerated into its 2020-24 plan.

EVRG: Eventful couple of days, but sticking with the standalone plan

- **Committed to standalone STP, despite recent M&A/Elliott headlines.** We met with EVRG mgmt. latter in the day Tuesday, after a number of news headlines had hit. First on Monday, Reuters reported that EVRG rejected a recent $15B bid from NextEra. This was followed up by an Elliott statement pre-market on Tuesday, indicating that as one of EVRG's largest investors, the Board must immediately reengage with NextEra to explore the possibility of a transaction. EVRG subsequently responded to this with a statement that its Board unanimously believes the STP is the best path forward, there's been no change in circumstance, and there is currently no offer or bid for the company.
  - EVRG caveated all this that it is always open to ideas that enhance shareholder value. However, in our meeting it was very clear that the current mgmt. team believes that the Sustainability Transformation Plan is the best risk-adjusted path forward. As of this writing, we've yet to see a further response from Elliott, but it seems likely that this becomes a hostile situation. Though without an active bid for the company, it's not clear what can be done.
- **CEO search still in process and expected to conclude by year-end.** Looking at both internal and external candidates. Current CEO Terry Bassham not planning to leave until a replacement is named. New CEO not expected to revisit STP strategy and don't believe Elliott presence is impacting search.
- **STP process kicking off with no official approvals needed.** There are dockets related to the STP underway in both Kansas and Missouri. While no formal approvals are needed or expected in this process, EVRG views this as a way to get feedback on its plan. Alongside this, EVRG will file IRPs in both states next year (MO on 4/1 and KS on 7/1), which will be more focused on the future generation outlook. Primary stakeholder focus likely to be on rate levels, with EVRG planning to keep below inflation at 2%. Encouraged that KCC Staff found overall capex plan is still in the lower half of utilities.
- **Legislative initiatives focused on securitization and investment deployment.** As part of its longer-term focus, EVRG is planning to transition from its sizable amount of coal in rate base to more renewables. This will require securitization, which will be proposed in early-2021. Mgmt. believes there is stakeholder buy-in, though the near-term plan isn't reliant on this and there is capital plan flexibility from a timing perspective. Moreover, EVRG is focused not just on the cash proceeds from securitization, but being able to use this to fund any future investment growth, so as to mitigate any regulatory lag or earnings shortfall.

EXC: Separation (review) anxiety

- **Update on separation review expected in Feb.** EXC has teams reviewing a potential separation. There are many considerations and it is a complex situation. EXC will have to deal with all of its stakeholders. And the decision will have meaningful implications. Still, EXC suggested a decision is likely by the YE20 call in Feb.
- **IL energy legislation expected in 2021, not a gating issue for decision on separation.** There were 25 working group meetings on clean energy this fall. Although the veto session this month and next has been canceled, EXC expects energy legislation next year. And there is a good chance that EXC's preferred FRR option will be included, given it remains the best way to factor in carbon, which stakeholders want addressed. IL Gov Pritzker (D) had originally opposed a FRR option, but his office has not proposed an alternative. Regardless of the IL legislation, EXC does not see it as a gating issue for making a decision on separation.
- **Biden still focused on climate; but FERC unlikely to change PJM MOPR any time soon**. Biden's top four priorities include climate; that could result in clean energy provisions in a stimulus bill, given the potential for infrastructure and job creation. Under Biden, FERC is still unlikely to have a Democratic majority until after Comm Chatterjee's term ends in June. And

even then, it would take time for FERC to reverse PJM's capacity market rules assuming a presumptive-Chair Glick were to pursue that.

- **Utility segment still solid.** EXC still feels good about its utility businesses, which are wires only and generally operate under reasonable regulatory environments. Multiyear rate plans are expected in MD and DC. IL is the exception for now, given the ComEd DPA. But the regulatory model is formulaic through YE22 for now.
- **IL formulaic framework has provided stability but low ROEs.** The current 30Y Treasury yield is a headwind on ComEd ROEs under IL's formulaic framework. Still, the framework has provided stability. EXC noted the positive benefits to stakeholders, including being one of the largest employers and taxpayers in IL. Even if the framework ends, IL electric utilities have forward test years, decoupling, bad debt recovery and allowed ROEs that could be in the mid-9s vs the mid-7s implied today.

FE: This sounds like it will stay messy; waiting for more shoes to drop

- **Downbeat meeting overall.** In the wake of the termination of former CEO Chuck Jones, this meeting clearly struck a negative tone. Just hours before we met with management an 8K was filed disclosing that the top 2 legal executives at the company were "separated". No color was given on the reasoning or the difference between "termination" and separation". Mgmt. committed to provide updates in the ongoing investigations (both internal and external) and regulatory proceedings, but many investor questions simply couldn't be commented on. The independent Board review will continue to look at oversight and governance. To the positive, there was some comfort given that Acting CEO Steve Strah had distance between himself and what ultimately resulted in the termination of Chuck.
- **Taking steps to maintain financial flexibility.** Pulling back on capex and opex, while holding the dividend flat. Will reevaluate after investigations conclude. Still targeting 5-7% EPS growth through 2023. Delayed 10Q filings as company works through disclosure process – hopes to have it filed by Monday.
- **Feel good about liquidity in various scenarios.** Liquidity stands at $3.4B. Confident will be able to get any necessary waiver from bank group should anti-corruption provisions on debt be triggered. Have history of working with bank groups, including through FES bankruptcy, and believe they remain supportive. If downgraded again by ratings agencies, would see 25bps step-up provision on $4B of debt, but earnings impact is very modest.
- **Numerous proceedings pending at PUCO.** Corporate separation audit will see report published on April 21 2021. Looking at November 2016 thru October 2020 period. Been through audits like this before. Also pending 2018/2019 SEET and Quadrennial review. Continue to have discussions with regulators. Current rate deal (ESP) remains in effect through May 2024 and believe it is good for customers, but could be called in at any time.
- **Ohio legislature looking at HB6 repeal and repeal/replace.** Unclear what ultimately happens here (repeal or repeal and replace) or what the timing will be. However, for FE the loss of decoupling is manageable. Don't expect any blowback from Energy Harbor impacts – bankruptcy emergence wasn't dependent on nuke subsidies and FE only has guarantees around environment liabilities and surety bonds – worth just over $200M. Move to consolidated SEET filings was done through budget bill, but seems unlikely to impact much if reversed either – never been above Safe Harbor threshold.

FTS: No change in outlook under new CEO, strong organic growth prospects

- **Managing well through pandemic year, new 5-year outlook reflects organic growth.** Capital plan fully on track and most of sales protected by regulatory mechanisms or residential (82%). Recently unveiled new 5-year capex plan (~$20B up $800M YoY) and in process of CEO transition from Barry Perry to Dave Hutchens. Remain focused on organic growth with less interest in M&A.
- **Renewables transition and Democratic FERC should be supportive of transmission.** Seeing massive amounts of renewables sitting in MISO/SPP interconnection queues that presents big opportunity for transmission buildout. Could see changes to RTO planning process and potential for advancement of large portfolios of projects (similar to MISO MVP process). Believe focus could shift more towards incentive policies. Like their strategic location of transmission business, given incumbency and where best wind resources are.
- **Expecting Arizona rate case resolution by year-end, then attention shifts to renewables transition.** Waiting on ALJ recommended order any day now. Expecting final decision at ACC open meeting in December. Delays in case have caused regulatory lag this year, but this has been more than offset by favorable weather. Over the summer, filed IRP that laid out transition out of coal (by 2032) and significant renewables buildout. Hoping to establish renewables rider similar to what PNW has proposed in its rate case to help in recovery and avoid lag, while sharing fuel/O&M savings. Overall viewed ACC election results as a good balance (3-2 Republican majority) with continued focus on energy rules, which should align with the IRP.
- **Alberta jurisdiction turning the corner.** Pleased with recent order on transmission-related rate base (saves ~$0.03/sh). Also constructive to see cost of capital proceeding pushed out until next year.

LNT: Rate based renewables buildout continues

- **New capital plan features continued fleet transition.** Refreshed its 5-year capital plan along with Q3/EEI, with more spend continuing to be directed towards renewables as coal plants are shutdown. Mgmt. excited about the new Clean Energy Blueprint in Iowa – featuring 400 MWs of solar, 275 MW coal shutdown, and up to 100 MWs of storage. Still targeting $1.2-1.4B/year in capex (~7-8% rate base growth), which supports 5-7% EPS growth without the need for equity beyond the DRIP (~$25M/year). Indicating there is still a backlog of more renewables to add beyond the Iowa plan and 1 GW of solar in Wisconsin, in addition to ample distribution-related spend.
- **Strong 2020 results despite COVID and record storm in Iowa.** Sales metrics starting to bounce back towards pre-COVID levels now, particularly in Iowa. Derecho storm in Iowa as the worst in company's history, but negligible political/regulatory backlash. Built some conservativism around COVID sales into 2021 guidance. Pursued a number of cost cutting initiatives to hit numbers in 2020 and offset headwinds.
- **Deferred Wisconsin rate case this year and planning to file in 2021.** Pushed out planned 2020 rate filing, using tax/fuel savings to offset needed rate relief for wind and gas investments. Will file in Wisconsin next year, but period of 1-3 years (forward test-year) is still to be determined. Will address recovery of solar additions, retirement of Edgewater coal plant. Have long track record of settlements. Expecting only mid-single-digit rate increase. In Iowa, have renewables rider to recover wind investment, but similar mechanism is not yet in place for solar (though both get advanced ratemaking with higher ROEs).

NEE: Ideal election outcome, strong renewables growth tailwinds; measured M&A commentary

- **Constructive federal and state election outcomes.** Fans of divided government. Biden Presidency sets up positive tailwinds for renewables business. Focused on 3 main issues with new administration: getting rid of renewables tariffs, transmission reform at FERC, renewables/hydrogen tax ideas. Believes there will be bipartisan support for much of this. At the state level, believe Republican majority at House/Senate and PSC sets up for constructive regulatory environment.
    - Addressing unutilized tax credits via general business credits is top of the list in terms of doable bipartisan change. Hydrogen support with something like a PTC is likely longer-term. Standalone battery storage credit is also possible, but more of a "nice to have". Lots of commentary on FERC transmission – NEE likes the Texas format (CREZ) in terms of ISO reform, cost allocation. ERCOT much more efficient than MISO and SPP
    - Biden winning is bad for Mountain Valley Pipeline, but still feel good that biological opinion prevails and project is ultimately built.
- **Renewables business as good as ever.** Scale, pipeline, interconnects, customers, financing – all best in class. Still see mid-teens solar and high-teens/low-20s returns for wind. Not having any construction issues during pandemic.
- **Utility rate case coming next year.** Feel good about FPL as best run utility. Will ask for performance adder. Will try to settle at some point during the process next year.
- **More bullish than ever on NEP.** Recent deal acquired good assts for NEP and allowed NEE capital recycling through KKR. Convertible equity portfolio financing at 6.75% pre-tax IRR is a cheap form of equity.
- **M&A commentary.** Love organic growth prospects and don't have to do M&A. Same rhetoric on requirements: would have to be significantly accretive, doable, and regulatory environment that is constructive or where NEE can make a difference in. Acknowledged not easy to do and will be disciplined. Also acknowledged that following DUK merger stories became more sensitive to shrinking the renewables component of its business mix given the embedded higher valuation it garners. Note: we met with mgmt. prior to the EVRG story.

NI: Ability to execute is well within reach

- **Making the case for NI post-CMA.** With the Columbia Gas MA sale now complete, management is confident in the investment case for NI moving forward. Notably, all of NI's other subsidiaries have continued to execute despite the noise in MA over the last two years. NI highlighted all the safety enhancements that have been made since, a realignment of its management team and a robust dialogue with its revamped Board to ensure that the ability to execute going forward is well within reach. The kicker now is an expansive renewable buildout program in Indiana which is expected to help drive 7-9% EPS CAGR through 2024.
- **Portfolio optimization**. If CNP is successful in selling one or two of its gas LDCs at an attractive price, we believe this will be a nice catalyst for LDCs as a whole and a potential blueprint for NI. At this point, NI doesn't appear to be committed to asset sales in lieu of issuing equity for its renewable investments, though it is open to the idea. We continue to believe asset sales make sense given the size of equity NI needs over the next few years (~25% of current market cap).
- **Flexibility in renewables financing strategy.** Management mentioned that it has received reverse inquiries from parties that are interested in supplying capital for NI's renewable program. This level of interest gives NI confidence in its financing plan. NI does not intend to issue the hybrid financing ($600M-1B) before yearend and noted that it has a lot flexibility for when it needs to actually complete the financing in 2021.

- **Renewables plan looks locked and loaded.** We expect to see CPCN filings at the IURC for NI's recent renewable announcements over the next month or two. NI reiterated that the blueprint for the renewable additions has already been laid out – the early retirement of its Schaefer and Michigan City units were already approved in NIPSCO's last rate case and the IURC has already approved CPCNs for other renewable JV projects.

OGE: Waiting for clarity on ENBL

- **Keeping thoughts on ENBL close to the vest.** Similar to the Q3 call, management refrained from entertaining too many hypotheticals on ENBL but reiterated the recognition of investor preference for pure-play utilities. In a scenario for OGE didn't have ENBL, the sense is that OGE could target FFO/D of 15-18% to maintain the same credit. In general, management does not view a stock buyback as an ideal use of capital in the event that there were to be proceeds available from a sale of ENBL units; ideally that capital would be redeployed into rate base investments.
- **Adding an LDC seems like a non-starter**. In the spirit of theoretical scenarios where OGE had sale proceeds from ENBL and additional balance sheet capacity, we were curious to get management's thoughts on M&A – specifically gas LDCs since CNP has publicly stated the intention to sell one or two properties that would make geographic sense for OGE. Management was clear that LDCs would not be high on its list given sentiment from an ESG standpoint. OGE's focus is on growing the electric business.
- **Ice storm could lead to additional capex.** The recent ice storms that came through Oklahoma were far and away the worst in OGE's history. While the expected cost of the storm hasn't been disclosed yet, OGE has the ability to defer the capital costs and recover the O&M portion through a tracker. When asked on potential capex opportunities in grid resiliency, OGE said it was possible to see some incremental work there in light of the storm; stay tuned for the Q4 refresh. Management mentioned that the political response has generally been supportive of the company.
- **Bullish on L-T load growth.** OGE sees a lot of future sales growth being driven by the industrial sector, particularly defense/aerospace and steel mills. What is also beneficial is that it has the lowest rates in the country, helping attract a variety of businesses to the Oklahoma City area. Weather adjusted load growth north of 1% on an annual basis is still the expectation once we get beyond the impacts from COVID.

PEG: Offshore wind decision soon, confidence in regulated growth and asset sale execution

- **Decision on offshore wind is extremely close.** Originally expected to make decision by now on 25% option in Ørsted's 1.1 GW Ocean Wind project, but continuing due diligence while there have been some BOEM delays. Sees project risk with returns "sufficient, not celebratory". Would only participate if part of a bigger long-term growth opportunity, which seems likely given the direction of public policy, particularly in New Jersey.
- **Regulated growth opportunities still ample.** Sees potential incremental and accelerated capex as part of economic stimulus in state. Strong support for continued gas business investment as part of GSMP program. Recently approved energy efficiency program likely to be extended and is long-term commitment by the state. Drives 7-8% rate base growth. Only limitation seems to be customer bill.
- **Constructive tone on asset sales.** Already seeing interest for the entire portfolio of fossil and solar assets, but will launch sale process in coming weeks. Offer prices have been reasonable. No specifics, but indicating that any earnings dilution from asset sales would be very modest. Once beyond the sale, planning to give long-term earnings growth rate for regulated pure play business.

- **Transmission ROE discussion in a holding pattern.** Very small gap between company and BPU and ratepayer advocate, but have been in similar position for a while now. Bid-ask spread on ROE seems to be 9.6-10.0%. If an agreement can't be reached, expect a complaint to be filed. Seems like chances of settlement have fallen on the margin.
- **ZEC process to play out in coming months.** Recently filed second application. Believe nukes need more than $10/MWh. State unlikely to let plants shutdown, but seems possible there is a negative preliminary decision from BPU Staff in December, followed by ultimately a constructive final decision next April.

PCG: New leadership to be announced soon; like risk/reward skew

- **We are upgrading our PCG rating to Outperform from Peer Perform, as we now like the risk/reward skew.** See our accompanying upgrade note.
- **Announcement on new CEO expected soon.** PCG plans to announce the new CEO by yearend, and he or she will have a say on filling in the COO (utility president) and CFO positions. We think the selection will have utility experience. PCG's Board envisions the new CEO will pursue a back to basics approach and implement more technology into operations.
- **Good job so far this wildfire season, notwithstanding Zogg.** PCG has only had its equipment implicated in one fire – Zogg. This is notable, given all the fires this year in CA and PCG emerging from bankruptcy this past summer. There is still a few weeks left in the fire season, but the weather forecast so far is cooperating.
- **Safety certificate expected soon.** The CPUC has yet to issue a decision on PCG's 2020 wildfire safety certificate. However, PCG expects to receive a decision soon, and the 2019 certificate remains in place until the CPUC issues a decision.
- **Equity needs in 2021.** PCG sees $450-750M of equity needs, with the potential for the low end if the company is successful in some noncore asset sales. PCG said its securitization proceeding is on track and expects resolution and issuance by 2Q21.

PNW: A lot to like but still worried about AZ regulation

- **ACC election results finalized.** After sorting through several hundred thousand votes post-election day, it appears that the ACC election races have been called. There were no changes from what the results showed initially – Lea Marquez Peterson (R) won re-election, Anna Tovar (D) and Jim O'Connor (R) are the newcomers. PNW believes the results were constructive as the Republicans maintain a 3/2 majority at the ACC. It is expected that Commissioner Olson will be named Chairman, which means it is likely there will be more discussion directed on retail competition; Jim O'Connor is likely to be aligned with Commissioner Olson on that topic. There is still more work needed to finalize the clean energy rules – we will be watching to see if the new Commission steps back from the renewable portfolio standard that was tentatively agreed to by the current Commission.
- **Approval of Advanced Energy Mechanism is key**. PNW filed its rebuttal testimony in APS' rate case last week and, in our view, the most important aspect was the request for a renewable rider – Advanced Energy Mechanism (AEM). It sounded like support from Staff might be a tough ask, but the Navajo Nation agreed to support the request as part of the Coal Community Transition plan for Four Corners. Surebuttal testimony will be filed on 11/20 where will be interested to see where other parties stand. Absent approval of a renewable rider, PNW would become a serial rate case filer. Related to the rate case, prospect of a settlement still seems unlikely and PNW continues to operate down a fully litigated path.
- **A lot of opportunity for investments in renewables.** PNW is still intent on meeting its 45% renewable target by 2030. This will require the addition of 300-400 MW of wind/solar annually and 350 MW of storage annually (starting in 2022). Ownership opportunities will be decided through all-source RFPs which PNW expects to conduct annually going forward. PNW's current 6-7% rate base growth forecast includes renewable additions but there could

potentially be upside down the road once fossil units retire and the fuel savings can be used to effectively pay for the investments in renewables.

- **Load growth underpinned by robust economy.** PNW continues to expect 1-2% customer growth annually which is expected to lead to weather adjusted load growth of 0.5-1.5% each year. This is a key tenant of PNW's investment proposition as the local economy in the Phoenix area continues to grow even despite COVID challenges. Any load contribution from data centers remains upside to these numbers as well.

POR: Board review of trading losses still outstanding

- **Moving on from Q3 trading losses.** POR is unsure of when the Board's review of its energy trading losses will conclude. That said, management isn't sitting on their hands as is working to get out ahead of what might be in the report – Power Operations is now overseen by CFO Jim Lobdell (Brett Sims, VP of Strategy, Regulation and Energy Supply will take over when he retires), the former Chief Risk Officer from EXC was brought on board to help lead risk management, among other things.
- **Noncommittal on potential for equity next year.** We continue to believe that POR will file a rate case in February next year along with its Q4 earnings report. In doing so, we currently assume POR will issue ~$100M of equity to repair its balance sheet after the energy trading losses to keep its 50% authorized equity layer. Management didn't confirm or deny if this was required, saying that "it's not a black and white calculation…it's a negotiation".
- **Renewable RFP coming in the 1H of 2021.** POR will issue an RFP(s) for 150 MWa of new renewables and up to 600 MW of non-emitting capacity resources. Any capex from the RFP(s) would be upside to POR's current capex program and we expect there to be some excitement around the stock when the process nears an end in early 2022.
- **Well-aligned with the OPUC.** Management touted that the company's relationship with the OPUC, pointing to their swift action in approving their deferral request for Wildfire related costs. Further, POR said it received a lot of kudos in its handling of the Wildfires suggesting that there good be some political goodwill stored with the state.

PPL: Still don't know Union Jack about UK sale but will in 1H21

- **Mum on UK bids; sale announcement expected in 1H21.** Management did not have much to say on its UK sale process but remains optimistic based on the competitiveness and quality of potential buyers. Over the next month or so, UK's CMA will issue a final ruling, the Government will issue a White Paper that could suggest more capex for WPD, and Ofgem will give final determinations in the gas/transmission RIIO-2 and sector specific methodologies for ED. These could give positive momentum to the WPD sale. PPL still expects an announcement in 1H21, with a quick closing, and sees the sale immediately creating shareholder value and setting the company up for longer term growth, with a stronger B/S.
- **Use of proceeds**. PPL's base case with the use of proceeds is a share buyback. But management remains interested in acquiring utility assets, either directly or through a swap with a WPD buyer**.** Electric utilities remain the preferred target, but electric/gas combos would also work. And renewables could fit, especially given PPL's cash taxpayer status after the WPD sale and PPL's ESG profile.
- **KY fleet transition to take time.** The biggest fleet transition opportunity for PPL is in KY; however, the timing is not imminent. The coal plants, which came online in the 70s and early 80s have useful lives of 55 years or more. One coal plant is relatively new and efficient. and PPL will file a KY rate case this month. Parties have a history of settling rate cases.

SO: Southern charm offensive

- **SO was as charming as always and told a solid story to boot.** Continuing where it left off last month on its 3Q20 call, SO talked about its 4-6% EPS growth. SO said EPS growth is 6%, excluding temporary Vogtle penalties, and that should continue beyond 2024. SO will formalize its updated LT EPS growth target in Feb. And with the $800M of excess cash flow from Vogtle once fully in rates, SO could raise the fund incremental utility growth, raise the dividend faster, paydown debt, or buyback shares. Overall, SO sounded confident in its financial outlook.
- **High degree of confidence on Vogtle completion.** SO's next and second to last major milestone is Hot Functional Testing. SO expects to start HFT on Unit 3 in January. The test will take 45 days (including ramp down). SO expects to update investors on both the start and end of HFT. SO then has many filings (i.e., ITACs) with the NRC; the regulatory agency has suggested quick turnaround, maybe a couple of weeks, on the ITACs. From there, SO can move to fuel load for Unit 3. SO is confident Unit 3 will be in-service in 3Q21.
- **GaPSC Staff likely still adversarial.** SO still expects the GaPSC Staff to be adversarial in its 11/24 testimony in the VCM 23 proceeding. Last June, the Staff said SO's meeting the Nov 21/22 regulatory deadlines for Unit 3 and 4 is "highly unlikely." The upcoming hearings should also shed light on Staff and its experts' concerns over schedule and/or cost.
- **GaPSC commissioners could remain unchanged when prudency review.** With incumbent Comm Shaw winning reelection, and incumbent Comm McDonald in a runoff on 1/5, the likelihood is high that the Vogtle prudency review after Unit 3 is online will be heard by the same currently-seated five commissioners. Recall $3.5B of Vogtle costs have already been deemed prudent. And $2.2B on top of that is presumed prudent. Costs above $5.7B will still have to be shown prudent.

SRE – Executing well, defending diversified biz; LNG financing appears increasingly likely

- **Executing across the footprint.** Management highlighted its execution on strategic initiatives over the past couple years, including the S. American utility and renewable asset sales and successful completion of Cameron 1-3. It has also beat LT guidance numbers.
- **Utility growth is a highlight.** California momentum continues under the 5-year rate deal that gives certainty on growth investment and return for along time. On the LDC side, Sempra remains upbeat on the RNG and hydrogen opportunity as well as the need for natural gas to complement renewables penetration. At Oncor, there continues to be a lot of investment opportunity in a growing service territory. On the TX 2021 rate case, while 2020 will be an unusual test year, the company believes it is in good shape and pointed to recent earnings surveillance reports showing low-9% ROEs.
- **Comfortable with diversified strategy; talking financing alternatives for growth.** While other diversified companies are in the process of divesting their nonutility operations SRE management was clear that it sees value in the LNG and Mexico businesses with natural gas playing a big role in global energy for a long time. That said management continued to suggest the potential for a financing of the LNG operations to highlight the value disconnect between what it sees as embedded in its stock price and recent private market valuations (Cove Point, CQP). Timing and specifics remain unclear.

WEC: Upping the ante on ESG

- **Deeming new capital plan as "ESG".** Focused on efficiency, sustainability, and growth. New $16.1B capex plan over 5 years is up $1.1B versus last year's iteration and supports 7% asset base growth without the need for equity. Significant shift in resource mix – 800 MWs solar, 100 MWs wind, 600 MWs storage being added plus 100 MWs RICE gas; shutting 1,400 MWs coal and 400 MW older gas. Sees storage as more economic now and will help address peak demand periods. Targeting $1B in customer savings from O&M and fuel over 20 years from the fleet transition.
- **Still seeing strong economic growth.** Economic activity has rebounded sharply out of the pandemic. Long-term sales growth outlook down modestly from last year's iteration (1.0-1.3% over 2022-2025 vs. 1.2.1-5% over 2022-2024). However, companies like Haribo are an example of strong economic growth. Also seeing continued customer growth, particularly in the gas business. Importantly, sees very little connection between sales growth outlook and what ultimately happens with Foxconn.
- **Same M&A criteria, not ruling out LDCs.** WEC has the same view on M&A: accretive in year 1, no meaningful balance sheet degradation, EPS growth rate same of better. The latter is the most gating criteria. Wouldn't rule out interest in gas LDCs, but jurisdiction would matter. On it's own LDCs, WEC sees a long runway for the business. Natural gas heating is still necessary given the climates in its states and electrification would be meaningfully more expensive.
- **Infrastructure segment opportunities, but capped at 10%.** Seeing continued potential for contracted renewables – strong cash returns and accretive to credit metrics. Won't let it grow to more than 10% of asset base. Longer-term, could potentially rate base these assets, as WEC looks toward the huge investment need to replace the carbon-free power of the Point Beach nuclear contract in 2030/2023.

XEL: Capex upside in Minnesota looks promising; supportive of gas LDCs

- **Confident in Minnesota.** Management believes it has a pretty good shot in getting another rate case stay-out in MN. Same thing for their relief & recovery proposal that could lead to $1.4B of incremental capex for wind repowerings and solar. A decision on the stay-out request and wind repowerings is expected concurrently in mid-December. A decision on the solar proposal likely won't be until 2Q21.
- **Open to adding a gas LDC**. In light of CNP's announcement to sell one or two gas LDCs, we were interested to get management's view of potentially adding another gas LDC. XEL noted that if the price is right and the ability to get it over any regulatory hurdles was feasible, then management thinks it makes sense. More broadly, XEL doesn't believe gas LDCs are going anywhere anytime soon, particularly in their service territories as it would be prohibitively expensive to electrify home heating.
- **2021 – the year of IRPs.** Two significant IRPs will be in focus next year for XEL – MN and CO. The former has already been filed and a Commission decision is expected in Q1 or Q2. The headline in MN is a full exit of coal by 2030 and a significant amount of renewable additions (3.5 GW of solar, 2.3 GW of wind) in the back half of the decade. In CO, XEL intends to file its IRP in Q1, in which a similar picture is expected to be painted – potential accelerated retirement of the remaining coal and plans for the next renewable buildout in the state.
- **Potential rate case in Colorado next year.** XEL is hopeful to be able to stay out of an electric rate case in CO next year. However, given an ALJ's recent decision to deny its Advanced Grid Rider application, a rate case might be necessary. We expect to get a final decision on the strategy here on XEL's Q4 call in February.

Comparables Tables

Exhibit 8: Regulated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2020E	P/E 2021E	P/E 2022E	P/E 2023E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Alliant Energy	LNT	$57.42	250	$14,341	23.6x	22.3x	21.1x	20.0x	2.6%	7.0%	63%	2.5x	46%
Ameren	AEE	82.37	247	20,362	23.7x	21.9x	20.5x	19.3x	2.5%	4.0%	59%	2.4x	44%
American Electric	AEP	91.15	496	45,246	21.0x	19.5x	18.1x	17.2x	3.1%	4.5%	65%	2.2x	38%
Avangrid	AGR	51.44	309	15,895	25.8x	22.9x	21.5x	20.2x	3.5%	2.5%	91%	1.0x	63%
CMS Energy	CMS	67.01	286	19,187	25.2x	23.6x	21.9x	20.4x	2.4%	6.5%	61%	3.6x	26%
Con Edison	ED	81.72	335	27,365	19.4x	18.1x	17.2x	16.5x	3.7%	3.5%	73%	1.5x	44%
Dominion	D	85.68	816	69,899	24.0x	22.1x	20.8x	19.5x	2.9%	6.0%	65%	2.9x	41%
Duke Energy	DUK	97.31	736	71,616	19.0x	18.9x	17.9x	16.9x	4.0%	2.0%	75%	1.6x	41%
Edison International	EIX	62.90	379	23,809	13.8x	14.0x	13.4x	12.5x	3.9%	0.2%	54%	1.7x	38%
Entergy	ETR	109.83	200	21,992	19.6x	18.5x	17.4x	16.7x	3.5%	2.2%	68%	2.0x	33%
Evergy	EVRG	57.30	227	12,997	19.0x	17.6x	16.6x	15.4x	3.6%	6.2%	68%	1.5x	46%
Eversource Energy	ES	94.42	343	32,369	25.9x	24.1x	22.6x	21.3x	2.4%	6.1%	62%	2.3x	46%
FirstEnergy	FE	29.79	542	16,149	11.8x	11.4x	10.9x	10.3x	5.2%	0.0%	62%	2.3x	24%
Fortis*	FTS	55.02	465	25,584	21.5x	19.3x	18.1x	17.1x	3.5%	6.0%	76%	1.5x	43%
NiSource	NI	24.64	383	9,442	19.0x	18.5x	17.2x	16.4x	3.4%	6.0%	65%	1.9x	40%
PG&E	PCG	10.71	1,985	21,255	6.7x	10.7x	9.5x	8.8x	0.0%	N/A	0%	1.0x	34%
Pinnacle West	PNW	89.59	113	10,088	17.6x	17.8x	17.1x	16.1x	3.5%	6.1%	62%	1.7x	46%
Portland General	POR	44.57	90	3,989	28.7x	17.0x	16.4x	15.9x	3.5%	1.5%	99%	1.5x	45%
PPL Corp.	PPL	29.41	769	22,611	12.3x	12.0x	11.0x	N/A	5.6%	0.6%	69%	1.7x	36%
Southern Company	SO	63.92	1,056	67,515	19.9x	19.4x	17.9x	16.6x	4.0%	4.1%	80%	2.4x	35%
WEC Energy Group	WEC	104.43	315	32,941	27.8x	26.2x	24.5x	23.0x	2.4%	7.2%	67%	3.2x	45%
Xcel Energy	XEL	74.69	525	39,246	26.9x	25.3x	23.7x	22.3x	2.3%	6.2%	62%	2.8x	38%
Average					**20.6x**	**19.1x**	**18.0x**	**17.3x**	**3.3%**	**4.2%**	**66%**	**2.1x**	**41%**
Average (ex EIX, PCG, PPL)					**22.1x**	**20.2x**	**19.0x**	**17.9x**	**3.3%**	**4.6%**	**70%**	**2.2x**	**41%**

Source: Wolfe Utilities & Power Research
*Current price shown in CAD

Exhibit 9: Gas/Power Infrastructure Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2020E	P/E 2021E	P/E 2022E	P/E 2023E	Div Yield	Div Growth	Payout Ratio
The AES Corporation	AES	$21.29	665	$14,161	15.1x	13.7x	12.7x	N/A	2.8%	5.0%	43%
CenterPoint	CNP	24.07	545	13,114	18.7x	18.1x	16.5x	15.4x	2.6%	0.9%	49%
DTE Energy	DTE	130.06	194	25,174	18.6x	18.3x	17.4x	16.3x	3.4%	7.0%	63%
NextEra Energy	NEE	77.54	1,959	151,907	33.8x	30.7x	28.7x	26.6x	2.0%	9.7%	69%
OGE Energy	OGE	33.95	200	6,791	16.7x	15.0x	14.3x	13.7x	4.8%	5.6%	80%
Sempra	SRE	133.64	288	38,551	17.3x	16.6x	15.7x	15.1x	3.4%	8.0%	58%
Average (ex AES)					**21.0x**	**19.8x**	**18.5x**	**17.4x**	**3.2%**	**6.2%**	**64%**

Source: Wolfe Utilities & Power Research

Exhibit 10: YieldCos Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBITDA 2023E	Div Yield
Clearw ay Energy	CWEN	30.64	193	5,907	12.0x	11.6x	11.0x	N/A	4.2%
NextEra Energy Partners	NEP	66.21	156	10,329	9.6x	10.1x	9.6x	N/A	3.6%
Atlantica Yield*	AY	33.87	102	3,441	10.8x	9.8x	9.4x	8.3x	5.0%
Average					**10.8x**	**10.5x**	**9.6x**	**N/A**	**4.3%**

Source: Wolfe Utilities & Power Research; *Not covered by Wolfe Research, estimates based on consensus

Exhibit 11: Integrated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2020E	P/E 2021E	P/E 2022E	P/E 2023E	Implied Genco EV / EBITDA 2020E	Implied Genco EV / EBITDA 2021E	Implied Genco EV / EBITDA 2022E	Implied Genco EV / EBITDA 2023E	Div Yield	Div Growth	Payout Ratio
Exelon	EXC	43.84	976	42,764	14.5x	14.9x	14.0x	N/A	3.0x	2.4x	3.4x	N/A	3.5%	5.0%	50%
PSEG	PEG	60.88	506	30,796	17.8x	17.7x	17.5x	N/A	5.2x	6.1x	6.6x	N/A	3.2%	4.3%	57%
Average					**16.1x**	**16.3x**	**15.8x**	**N/A**	**4.1x**	**4.2x**	**5.0x**	**N/A**	**3.3%**	**4.6%**	**54%**

Source: Wolfe Utilities & Power Research

Exhibit 12: IPP Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBITDA 2023E	Free Cash Flow Yield 2020E	Free Cash Flow Yield 2021E	Free Cash Flow Yield 2022E	Free Cash Flow Yield 2023E
NRG Energy	NRG	32.22	244	7,869	6.4x	6.3x	6.2x	N/A	18.3%	19.9%	20.8%	N/A
Vistra Corp	VST	19.64	489	9,607	5.2x	5.4x	5.4x	N/A	24.3%	22.1%	23.8%	N/A
Average					**5.8x**	**5.9x**	**5.8x**	**N/A**	**21.3%**	**21.0%**	**22.3%**	**N/A**

Source: Wolfe Utilities & Power Research

Exhibit 13: Wolfe Research EPS Estimates for Regulated Utilities vs. Consensus

		2020E		2021E		2022E		2023E	
Company Name	**Ticker**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**
Alliant Energy	LNT	$2.43	$2.43	$2.58	$2.59	$2.73	$2.70	$2.87	$2.87
Ameren	AEE	3.47	3.46	3.76	3.77	4.01	4.02	4.26	4.33
American Electric	AEP	4.34	4.33	4.68	4.65	5.03	4.99	5.29	5.29
American Water	AWK	3.90	3.88	4.24	4.24	4.57	4.57	4.90	4.95
Avangrid	AGR	1.99	2.04	2.24	2.31	2.40	2.51	2.55	2.70
CMS Energy	CMS	2.66	2.67	2.84	2.85	3.07	3.06	3.29	3.27
Consolidated Edison	ED	4.22	4.23	4.53	4.50	4.76	4.71	4.95	4.95
Dominion	D	3.57	3.53	3.88	3.88	4.12	4.13	4.39	4.40
Duke Energy	DUK	5.12	5.10	5.16	5.21	5.42	5.47	5.77	5.79
Edison International	EIX	4.56	4.49	4.50	4.53	4.68	4.70	5.02	4.89
Entergy	ETR	5.59	5.61	5.95	5.95	6.30	6.32	6.59	6.72
Evergy	EVRG	3.02	3.01	3.26	3.25	3.46	3.42	3.73	3.66
Eversource Energy	ES	3.65	3.64	3.92	3.90	4.18	4.13	4.42	4.37
FirstEnergy	FE	2.52	2.53	2.62	2.62	2.74	2.75	N/A	2.87
Fortis*	FTS	2.55	2.56	2.85	2.84	3.04	3.01	3.22	3.22
NiSource	NI	1.30	1.30	1.33	1.35	1.43	1.43	1.51	1.56
PG&E	PCG	1.61	1.61	1.00	1.01	1.13	1.13	1.21	1.23
Pinnacle West	PNW	5.10	5.03	5.03	5.03	5.22	5.26	5.55	5.70
Portland General	POR	1.55	1.56	2.62	2.59	2.72	2.72	2.81	2.83
PPL Corp.	PPL	2.40	2.43	2.46	2.36	2.68	2.59	N/A	2.7
Southern Company	SO	3.22	3.19	3.30	3.32	3.57	3.55	3.85	3.81
WEC Energy Group	WEC	3.76	3.75	3.99	4.00	4.26	4.27	4.55	4.55
Xcel Energy	XEL	2.78	2.78	2.96	2.97	3.15	3.17	3.34	3.37

Source: Wolfe Utilities & Power Research, FactSet

Exhibit 14: Wolfe Research EPS Estimates for Gas/Power Infrastructure Utilities v. Consensus

		2020E		2021E		2022E		2023E	
Company Name	**Ticker**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**
The AES Corporation	AES	$1.41	$1.38	$1.56	$1.55	$1.68	$1.68	N/A	$1.80
CenterPoint	CNP	1.29	1.32	1.33	1.36	1.46	1.44	1.56	$1.51
DTE Energy	DTE	6.98	7.00	7.09	7.12	7.47	7.31	7.96	$7.51
NextEra Energy	NEE	2.30	2.29	2.53	2.50	2.70	2.71	2.92	$2.88
OGE Energy	OGE	2.04	2.09	2.26	2.21	2.37	2.31	2.48	$2.41
Sempra	SRE	7.72	7.65	8.05	8.03	8.49	8.45	8.88	$8.82

Source: Wolfe Utilities & Power Research, FactSet

Exhibit 15: Wolfe Research EPS Estimates for YieldCos v. Consensus

		2020E		2021E		2022E		2023E	
Company Name	**Ticker**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**
Clearway Energy	CWEN	$1,105	$1,114	$1,155	$1,142	$1,200	$1,176	N/A	N/A
NextEra Energy Partners	NEP	1,355	1,301	1,428	1,400	$1,622	1,524	N/A	1,643
Atlantica Yield*	AY		828		916		952		1,082

Source: Wolfe Utilities & Power Research, FactSet

Exhibit 16: Wolfe Research EPS Estimates for Integrateds v. Consensus

		2020E		2021E		2022E		2023E	
Company Name	**Ticker**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**
Exelon	EXC	3.03	3.07	2.95	2.97	3.12	3.03	N/A	3.09
PSEG	PEG	3.42	3.42	3.44	3.40	3.48	3.46	N/A	3.59

Source: Wolfe Utilities & Power Research, FactSet

Exhibit 17: Wolfe Research EBITDA Estimates for IPPs v. Consensus

	2020E		2021E		2022E		2023E	
Company Name	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**
NRG Energy	2,065	2,007	1,955	2,109	1,870	2,035	N/A	2,256
Vistra Corp	3,552	3,578	3,263	3,241	3,082	3,133	N/A	3,141

Source: Wolfe Utilities & Power Research, FactSet

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Market Underweight (MU):	Expect the industry to underperform the primary market index for the region (S&P 500 in the U.S.) by at least 10% over the next 12 months.

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Outperform:	50%	3% Investment Banking Clients
Peer Perform:	38%	2% Investment Banking Clients
Underperform:	12%	0% Investment Banking Clients

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UBS

First Read

Gas Distribution

Virtual EEI Conf Takeaways on CNP & NI

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Key Topics and Recent Market Dynamics

Earlier this week, we hosted virtual meetings with CNP & NI management teams and investors during the Virtual EEI Financial Conference. The investor focus was on potential divestitures of gas utilities to fund electric utility & renewable growth capex. NI also discussed potential impact on its gas utilities during the heating season as most of its residential volumes are decoupled (fixed margin) and it likely would not be able to offset potential declines in C&I volumes with higher residential volumes. That said, since the vaccine news were announced on Monday we have seen some rotation to LDCs as with the potential vaccine later this year the risk of the lower earnings due to the COVID has deteriorated. Additionally, with a potential for a GOP majority in Senate the pace of energy transition may be slower than some anticipated in the "blue wave" scenario.

Takeaways from NI Meeting

During the call with NI's management team, investors asked about the COVID impact, cost reductions and if management would consider selling a gas utility instead of previously discussed hybrid financing and equity funding. NI noted that it will evaluate all options. Management continues to monitor the COVID impact, but noted that C&I sales have been back to normal and they haven't seen any material impact on its C&I customers from any financial distress. Bad debt has increased YOY, but NI has recovery mechanisms in place if the level is above normal, but that could have near -term cash flow impact. Management spent a lot of time talking about its renewable investments, cost reductions (flat O&M going forward) and safety initiatives (also including AI).

Takeaways from CNP Meeting

During the meeting with CNP's CEO, the investor focus was on recently announced plan to sell 1-2 gas utilities to fund $3B of incremental capex without a need for an equity block offering. CNP didn't specify which LDCs they would sell but they plan to provide more colour on which LDCs they are targeting, potential tax leakage and how the post sale balance sheet would look like during the Investor Day on December 7th. Notably, management also plans to use DRIP and ATM to fund future capex. Management noted that it continues to evaluate the options with Enable, but the potential sale would not impact the announced EPS growth range. CNP emphasized strong organic growth at Houston Electric and that it continues to work on improving its relationships with Texas PUC. CNP targets 14-15% FFO/debt and it works with credit rating agencies to rebuild the credibility as it executes on its sensibly funded capital program. See changes to CNP estimates on page 2.

Figure 1: Gas Utility Comp Sheet

Ticker	UBS Rating	Unit Price Current	Unit Price Target	Mkt Cap ($MM)	Enterprise Value	Current Dividend	Dividend Yield	DPS CAGR 3-Yr Hist	DPS CAGR 3-Yr Fwd	20-'23 EPS CAGR	P/E 2019	P/E 2020	P/E 2021	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBITDA 2021	UBS PEG 2021	Rate Base CAGR
ATO	Buy	$100.52	$113.00	$12,400	$17,162	$2.10	2.2%	7.5%	8.8%	7.3%	23.1x	21.4x	20.0x	15.1x	13.6x	12.4x	2.7x	13.7%
CNP	Neutral (CBE)	$24.09	$24.00	$13,125	$27,944	$1.15	2.5%	4.2%	-19.0%	6.3%	13.5x	17.9x	17.1x	11.1x	11.7x	10.5x	2.7x	10.0%
NI	Neutral	$24.57	$25.00	$9,416	$21,053	$0.80	3.4%	-1.8%	6.4%	4.8%	18.6x	17.9x	17.7x	11.9x	11.3x	10.6x	3.7x	11.0%
NWN	Neutral	$50.21	$48.00	$1,535	$2,772	$1.90	3.7%	0.5%	0.6%	6.6%	20.9x	22.3x	19.2x	11.5x	11.3x	10.2x	2.9x	5.0%
OGS	Buy	$77.30	$83.00	$4,104	$6,027	$2.00	2.8%	15.3%	7.3%	6.6%	22.0x	21.4x	20.2x	12.7x	12.1x	11.3x	3.0x	7.0%
SWX	Buy	$72.50	$78.00	$4,094	$7,080	$2.18	3.1%	8.7%	4.4%	6.0%	18.4x	18.4x	16.5x	10.3x	9.6x	8.8x	2.7x	8.6%
UGI	Buy (CBE)	$36.37	$45.00	$7,577	$14,055	$1.15	3.5%	5.0%	8.7%	7.7%	16.0x	14.4x	12.9x	13.1x	9.9x	8.7x	1.7x	11.5%
Average							3.0%	5.6%	2.5%	6.5%	18.9x	19.1x	17.6x	12.2x	11.4x	10.4x	2.8x	9.5%

Source: UBS estimates, Company Reports

Updating Estimates

We are updating CNP estimates with 10Q and recent announcement of incremental $3B of capex in 2020-2025. As a result, we are increasing our estimates and price target to $24 from $23. Our price target is based on 2022 estimates and sum-of-the parts valuation.

Figure 2: Changes to Estimates

	Price Target		2020e EPS			2021e EPS			2022e EPS		
Ticker	New	Old	New	Old	% Change	New	Old	% Change	New	Old	% Change
CNP	$24	$23	$1.34	$1.37	-2%	$1.41	$1.37	3%	$1.52	$1.45	5%

Source: UBS estimates, Company Reports

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. We use SOTP of P/E multiples for Regulated Assets and EV/EBITDA for non-regulated assets to calculate our price targets.

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Buy	FSR is > 6% above the MRA.	50%	31%
Neutral	FSR is between -6% and 6% of the MRA.	38%	29%
Sell	FSR is > 6% below the MRA.	12%	19%
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 30 September 2020.
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 Name	Reuters	12-month rating	Price	Price date
CenterPoint Energy Inc[4,16,20]	CNP.N	Neutral (CBE)	US$24.10	10 Nov 2020

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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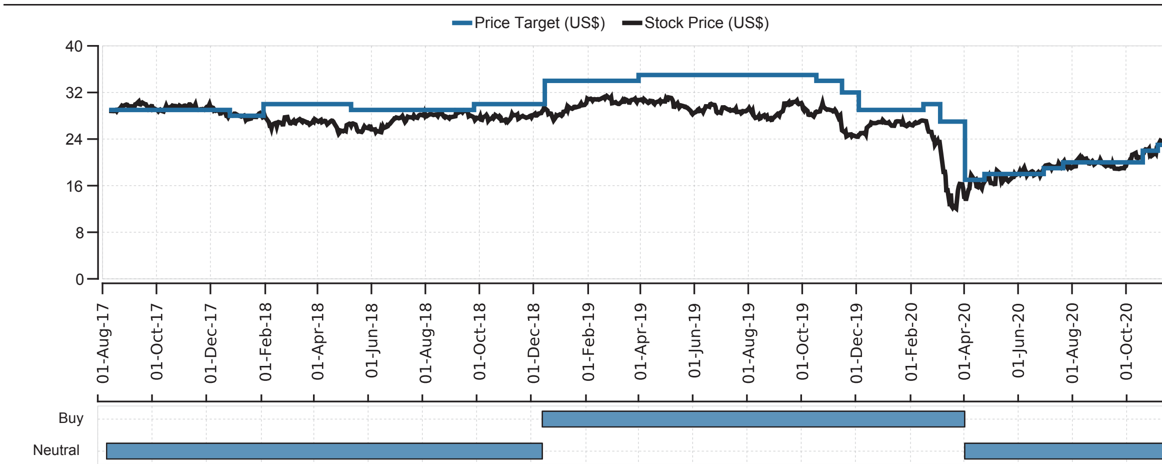
CenterPoint Energy Inc (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2017-08-10	29.13	29.00	Neutral
2017-12-22	28.07	28.00	Neutral
2018-01-29	27.73	30.00	Neutral
2018-05-08	26.55	29.00	Neutral
2018-09-24	27.82	30.00	Neutral
2018-12-13	29.34	34.00	Buy
2019-03-29	30.70	35.00	Buy
2019-10-16	28.62	34.00	Buy
2019-11-14	26.69	32.00	Buy
2019-12-03	24.40	29.00	Buy
2020-02-14	27.18	30.00	Buy
2020-03-04	23.82	27.00	Buy
2020-04-01	14.12	17.00	Neutral
2020-04-23	16.42	18.00	Neutral
2020-06-29	18.62	19.00	Neutral
2020-07-21	19.40	20.00	Neutral
2020-10-19	20.80	22.00	Neutral

Date	Stock Price (US$)	Price Target (US$)	Rating
2020-11-05	22.67	23.00	Neutral

Source: UBS; as of 10-Nov-2020

Additional Prices: ONE Gas Inc, US$77.57 (10 Nov 2020); NiSource Inc., US$25.07 (10 Nov 2020); UGI Corp, US$37.15 (10 Nov 2020); NW Natural, US$51.45 (10 Nov 2020); Enable Midstream Partners LP, US$5.01 (10 Nov 2020); Kinder Morgan Inc, US$12.89 (10 Nov 2020); Atmos Energy Corp, US$102.45 (10 Nov 2020); Southwest Gas Holdings, US$74.74 (10 Nov 2020); Source: UBS. All prices as of local market close.

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2020 Virtual EEI Financial Conference

Days 3 and 4 Key Takeaways from EEI Meetings

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- Over the last four days we hosted interesting investor meetings with management teams from 16 utilities. In this note, we address key takeaways from days 3 and 4: we met with ED, PPL, NI, CNP, PNM, CMS, ES and ETR. For days 1 & 2 takes, see 2020 Virtual EEI Conference Day 2(Monday) Takeaways & Kicking Off EEI Meetings.

- **Sentiment Is Positive on Gas Utilities, Although Several Assets Are for Sale:** In our meetings with both electric and gas utility management teams, there was overarching theme that the bearish LDC thesis and selloff was overstated. The end LDC customers switching (to electric) timeline is very slow. The LDCs can adopt to hydrogen market via continued investment in pipe replacement. The recent selloff of the LDCs is more driven by ESG priorities than fundamentals.

- **Active M&A Market:** We came away thinking that the potential PPL deal(s) has a lot of execution risks which may be difficult to manage. As the announced PNM acquisition heads toward Feb shareholder vote, a higher bid has potential but not our base case. CenterPoint's has made process in its LDC sale process which leverages the Vectren tax position, VUHI debt, and could announce more details at analyst day for the $1.0 to $1.5B deal. The 2nd CenterPoint LDC sale is unlikely, in our view. In our view, ConEd isn't likely to sell its midstream asset anytime soon given the MVP COD isn't likely until 2022 (mgmt. guidance is 1H21) and Stagecoach partners have ROFR/ROFOs but not great balance sheets. Nisource continues to consider LDC asset sales to avoid equity capital raise, but hasn't decided yet what to do. Lastly, CenterPoint is looking to structure its midstream exit in a manner that addresses allocated corporate debt to avoid rebasing the utility EPS.

- **Election Implications:** Interestingly, the setup for offshore wind permitting is improving as Biden is likely to better staff BOEM as the E&P permitting rush slows (E&Ps rushed for permits ahead of election) – incrementally positive for Eversource and ConEd in our view. Outside of wind, PNM benefited from the ballot initiative in NM and the Biden victory. ETR remains exposed to the runoff election in Louisiana.

- **Interesting Stock Takeaways from Day 3/4:** ConEd reiterates it still plans to raise $600M of equity by YE20 despite few days left. CenterPoint's O&M plan seems credible but the $1B bonus capex (above the $3B raise) is aspirational. CMS was seeing some sign of upside to its load forecast due to indoor agriculture. Entergy may have some opportunities for PPA buyouts (why does it still have a PPA from 1968?) even though the $2B storm cost recovery was focus. NiSource's $0.05 2021 EPS COVID impact may be conservative as the new vaccine improves load outlook.

- **Stocks:** We came away marginally more positive on CNP and NI, but slightly more concerned about PPL and ED. Our meetings earlier in the week left us positive on PCG despite increased concern about the safety certificate, and more positive on DTE.

Consolidated Edison

- **Midstream Portfolio Likely to Be Monetized but Not a Near-Term Decision:** Seems more a question of when than if. The ED team highlighted that they are waiting for the right market environment to execute on a deal, at these valuations a midstream deal doesn't seem likely. We hosted a call with regulatory expert, Brandon Barnes (Senior Energy Analyst – Litigation, Bloomberg Intelligence), today about MVP and left with the view that the earliest this could be in service is 2H 2021 but was not likely to be finished until 2022 (optimistic that it would reach completion). Until MVP is in service, we doubt ConEd would sell as it would be hard to get a good price. For Stagecoach, Crestwood, backed by First Reserve, has draft along and tag along rights for that asset. Crestwood don't have the balance sheet to buy Stagecoach currently and it is not a great market to sell to another party. If MVP sale isn't likely for a couple years, ED is in no rush to sell Stagecoach (would still be a pipeline owner).

- **Offshore Wind Transmission in Long Island:** ED submitted a bid to construct underwater transmission infrastructure for Sunrise wind 1 and onshore transmission infrastructure for Sunrise 2 as part of the NYSERDA RFP in October. ConEd is taking a conservative approach to wind development. In our research note, Global Offshore Wind - Change is in the Air, we highlight that return expectations are likely come down for off shore wind developers.

- **NYS Challenging Business Environment:** Recently, the NYS Governor issued language on utility reform. In short, the proposed legislation would remove caps on utility fines and penalties, create salary caps on executive compensation and allow for municipalization of utility infrastructure. Shareholders would be compensated to the amount of invested equity capital if a utility loses its franchise.

- **COV 19 Impact:** ED continues to fund under collections from customers via commercial paper and will issue $600m of planned equity sometime this quarter. To the degree that they cannot be made whole on the ~$200m of bad debts they would likely come to market and issue incremental equity at the regulated cap structure levels ~48%, which would likely come in 2022. Current financing plan calls for $1,100m of equity over 2021/22.

- **RNG Pilot Program and Hydrogen:** Con Ed is running a pilot program with RNG in their gas LDC. When we asked about the potential to support hydrogen, they indicated it is early days and would need to replace pipes with polyethylene.

- **Electric Vehicles:** Con Ed is allowed to have the meters and hookups in place to serve charging stations, however legislation would need to pass in order for ED to own the charging infrastructure.

CenterPoint Energy

- **BREC Objectives:** High level BREC objectives include being oriented towards electric and regulated business, 1-2% O&M decline outlook, $3B of new capex, 10% rav growth, ~7% earnings growth, and steps to improve regulatory relations. It also plans to reduce the midstream exposure and narrows its footprint by selling 1-2 LDCs.

- **Selling 1-2 LDCs for $1.0-1.5B in Tax Efficient Manner:** CNP identified one asset for sale but is staying vague to attract a good amount of inbound interest and reverse inquiries for its LDC assets in the marketplace as part of its BREC process, which should introduce more price discovery for various LDCs within its portfolio. There is little concern for the regulatory approval process towards the utility LDC M&A as management thinks the selected LDC resides in a friendly M&A regulatory environment. There will be some tax leakage expected but CNP will try to address that with strategic tax planning as the legacy Vectren assets have a higher trapped tax basis which could be used to offset tax leakage. The VUHI (Vectren Utility Holdings Inc.) debt restructuring is also part of the strategy. Remember, restructuring the VUHI was been an obstacle that CNP hasn't been successful in restructuring since the VVC deal. In our view, the PG&E restructuring was much more complex and CNP should be able to address given the new financial management. Management expects to reveal more details on the sale specifics in the upcoming December analyst day.

- **More Details on O&M Cost Reduction Plan:** CNP guided 1-2% annual O&M decline with a list of discreet and long-term opportunities to lower costs. CNP is on track to achieve a 1% cost reduction objective this year. CNP has identified a targeted list this year to lower costs. For example, conversion from coal to cleaner gas and renewables could drive lower O&M. There are also technology related cost levers to pull such as installing new grid and switch technology for the Houston electric. They were new hires including a new head of supply. Overall, management feels confident on the 1-2% reduction on costs on a yoy basis.

- **$3B Incremental Capex and Related Funding:** CNP plans a $3B incremental capex plan with a $1B additional capex, which will be included if CNP runs into challenges. CNP sees $1B additional capex as an insurance plan in case it needs to put more capex into the system, for either electric or gas side. $2B is weighted towards electric with $1B towards gas capex. With a strong regulatory approval backdrop, under $2.5B capex is subject to capital recovery mechanism and only $0.5B of Indiana IRP capex requires commission approval in 2021. Half of $3B capex will be funded through regular company debt. Sub-$1B could come from selling LDCs (selling for greater than book value). CNP plans to use DRIP and ATM issuance for $300mn over 5 years. The rest will be funded through internal CF. There will be no block equity.

- **Midstream Debt Impacts to Utility EPS:** CNP is looking at a few strategies to address the two issues such as negative tax basis and absorbing legacy debt. The allocated debt to midstream would need to be addressed as it could hurt utility earnings. CNP will try to find a solution to grow and address re-baseline utility earnings growth.

- **Capital Structure:** CNP plans to continue to shore up the balance sheet and be in a better place for the capital structure. It targets 20% parent company to total debt ratio and 14-15% AFFO to debt goal.

- **Hydrogen:** Despite being in the early days, CNP has dipped toes into renewable hydrogen pilots. CNP is planning for a few hydrogen pilots in MN and MS for the next few years (though 2023). For the LDC pipe, CNP believes the system could blend in hydrogen in the low single digit percentage. CNP will be studying and monitoring the hydrogen initiative as it replaces old vintage LDC pipes.

NiSource

- **LDC Valuation Defended:** NiSource continues to consider LDC sales, although not a foregone conclusion, and is part of its financing plan. In our meeting, NI management defended LDC valuation and its defensiveness into a low carbon future. Management argued the negative sentiment and depressed valuation for LDC is overdone with valuation disconnected from fundamentals. LDCs remain ripe for additional opportunities and investment, with RNG in the medium term and hydrogen in the long term. NI still has NOLs through mid-2020s to help with cash tax leakage and sale economics.

- **Load Forecast:** 2021 EPS guidance includes 5 cents of COVID impact, due to bad debt expense, load and O&M. ~60% of the $0.05 is from the gas business and 40% from the electric business. The gas business is less exposed to load impact in the winter than the electric business in the summer.

- **Hydrogen:** NI management thinks there are unknowns on the safety concern front. Its current view is 10-20% hydrogen blending in a modernized system to ensure safety and reliability. Plastics are relatively better positioned to blend in hydrogen, but there are no current plan to build hydrogen electrolyzers. The current focus is to understand hydrogen technology, all in cost structure and economics.

- **Election Impact:** Management views NiSource is well positioned regardless of DC policies. There is room for incremental renewable and hydrogen investment. NI plans to refresh IRP for Indiana in 2021 and 2024.

- **Guidance Reiterated:** NiSource reiterated its 2020 capex guidance of $1.7-$1.8B, and its 2021 EPS guidance of $1.28-$1.36 per share (including $0.05 COVID impact). NI continues to expect its 7-9% EPS CAGR for 2021-2024 (5-7% CAGR for 2021-2023), $1.9-$2.2B of annual capex and $1.8-$2.0B of renewable investments through 2023.

PPL Corp

- **Execution Risk with WPD Divestiture and Use of Proceeds:** In our view, there is significant execution for PPL given they need to find a buy(ers) for WPD, get regulatory approval in 30-60 days so deal closes ahead of RIIO-2, and find a US regulated utility(ies) to acquire, get approvals, and close on that deal without a large timing lag as it become expensive for shareholders to be underlevered for a period of time. There are a large number of potential acquisition targets but management indicated that they would be more inclined to buy an LDC if it is associated with an electric T&D business.

- **Tax Position** – A Biden tax plan unlikely goes through before the closing of the UK business. The management team did point out that the tax basis in the asset is not high, however they will utilize their $1.5B of NOLs and a to-be-disclosed tax strategy to mitigate the tax leakage of the proposed deal.

- **WPD Sale Plan if Standalone Event:** PPL discussed the benefits of a broadly marketed sale of WPD, highlighting the creativity that financial buyers and strategics could offer as consideration. The use of proceeds will likely include buying back equity if there are no other viable alternatives. The hurdle rate of value creation, from management's perspective, is the ability to derive accretion beyond a stock buy- back. The math would ultimately determine whether or not they pursue an acquisition post close. Management opined that they would not be interested in a special dividend at this time. Additionally, PPL would have to make whole ~$1B of callable hybrid debt and $750m of other debt maturing in 2022/24 time frame.

- **Pension Funded Status:** The under-funded status of the pension overall remains unchanged from YE'2019 given the changes in interest rates and broader market dynamics. We would note that the UK pension would part from PPL with the respective UK assets once the transaction closes.

- **Growth Strategy in Kentucky:** A primary objective for the Kentucky business is to transition away from coal to alternative energy. PPL will file its 15-year IRP in Kentucky likely in Q3'2021. Additional opportunities for growth in Kentucky are AMI and grid modernization.

- **UK Regulatory Regime:** CMA decision on water was recently announced. There remains RIIO developments before year end and energy whitepaper for OFGEM. These data points will help inform the buyer universe.

- **Talen Montana Litigation:** Not much new to report. There remains a deposition in Delaware and timing of any settlement is uncertain.

PNM Resources

- **Citi's Take:** We think the value of the PNM business increased since the deal was announced (Biden, NM ballot initiative, vaccine news, etc) and there is a possibility of a new buyer stepping in to top the existing offer ahead of the February 2021 shareholder vote but it is unclear if any strategic will step up. There are a lot of potential US acquisition targets (CNP's LDC, NI assets?, AEP Kentucky, etc) so not clear if strategics involved in the PNM process earlier in 2020 would still be interested. Management continues to work toward the closing of this transaction, believes it is likely to get approval from regulators and shareholders, and selected the AGR offer on the table because it was cash, credible, and had a lower risk of closing.

- **Reason for the Sale of the Company:** We discussed in depth the rationale for the sale of the business. The company continues to point out the balance sheet weakness and its heavy dependence on the equity capital markets to fund its growth, and the advancement of ESG.

- **Why Sell to AGR?** The attractiveness of the offer on the table came down to a perceived ability of the buyer (AGR) to close on the deal. AGR has a strong balance sheet, sponsor support, track record in New Mexico and Texas which some add synergies, the buyer's management experience with Sempra, and the deal being viewed as credit positive for the business. We were concerned that it was negative signal that PNM accepted a cash offer over stock, but management discussed the buyer's preferences and the motivation of their sponsor, which led to this deal structure.

- **Regulatory Approvals Risk:** In our view, there is some risk that the deal closes with the two states, New Mexico and Texas. New Mexico is a net customer benefit state and there is history of approvals with El Paso. The recent ballot initiative and future changes at the commission, in theory, should not impact the decision making process but practically there might be some new risks. We would expect to see some noise with interveners and other parties. Also in New Mexico, there is a 600MW project owned by the buyer but that should not matter from a market power perspective. In Texas, we have more concern given PUCT history with M&A, preference for local ownership, Texas utility industry history with bankruptcies, and ring fences issues the past. This deal has unique elements but Texas isn't always the easiest market to navigate.

- **Dividends Likely to Increase:** One attribute of the deal for the sellers is that PNM could potentially raise its dividend in 2021 consistent with prior guidance despite the deal being as cash deal.

CMS Energy

- **Long-term Load Expectations:** CMS continues to guide long term load as flat to down. There are wildcards to this thesis such as electric vehicle adoption and indoor agriculture. The state of Michigan recently passed legislation allowing for commercial grow operations of marijuana. There is implication on both of these fronts for future electricity demand.
- **Political Landscape of Michigan:** Post the election, the political environment of Michigan remains largely unchanged with the same split in the legislature. The Governor has two years left in her term. Management believes it to be unlikely that we see any major infrastructure bill in 2021, as the political agenda is more focused on roads, schools and public works.
- **Rate Design in Michigan:** CMS will file its electric rate case in Q1 next year. The rate case is predicated on a forward test year, in this instance it will model rates for 2022. This a positive, given the challenging environment of 2020. Additionally CMS has decoupling on the gas side of the business for about 4 months of the year, this does not occur in the peak months of gas utilization.
- **Aviator Deal – New Customers Coming:** The Aviator Wind acquisition earlier this year was sourced with existing relationship and there is a line of sight to growth with new customers.
- **Early Days Is an Understatement for Hydrogen:** CMS views the hydrogen campaign as something 10- 20 years away. In order to implement use of 100% hydrogen gas, virtually all customers would need to convert their furnaces, hot water heaters and other home utilities. Management believes the more expeditious way to decarbonize and use less natural gas is through incentivizing 95% efficient furnaces and insulating residences with newer windows and doors.
- **Hosting Meeting with Utility Commission:** We are hosting a meeting with the Michigan Public Service Commission please reach out to your respective sales contact to attend.

Eversource

- **US Election Implications:** Ahead of the election, BOEM was busy with offshore E&P permitting as the gulf of Mexico E&P producers were accelerating permit application in fear of a Biden executive order. This was slowing down the permitting timeline for off shore wind. Now that the election is over, the E&P related workload for BOEM is likely to slow which increase capacity for BOEM to handle off shore wind project. In addition, the Biden administration is likely to improve the resourcing for BOEM, which is also positive. This dynamic is positive for Eversource in our view.

- **Solar to Be Added to Rate Base at NSTAR Electric:** Recent legislation in MA will allow for rate based solar generation at NSTAR. ES plans to add 230MW of solar which is budgeted to be ~$400-$500m investment and will take place over the next 4-5 years. We would note that the legislation has not yet been signed into law but has been approved by both the House and Senate in the Commonwealth.
- **International Oil Companies (IOCs) Enter Offshore Wind Conversation, ES Pledges Discipline:** The recent NYS RFP included bids from AGR, ES and Equinor. In our premium research report (Global Offshore Wind - Change is in the Air), we argue that the competition is likely to drive down returns for all offshore wind developers. In our meeting with ES management, they reiterated their disciplined approach and they are not going to bid for the sake of gaining market share. The Vineyard wind decision due this Friday will be a good read through for ES projects. In 2021 management is hopeful they get NOIs for Revolution and Sunrise Wind projects.
- **Supply Chain Considerations and the Jones Act:** Offshore construction will involve a combination of European construction vessels while using US barges for material deliveries from the Deepwater Port in New London. The sea floor lease is also ~70 miles from the port of New London, which is closer proximity relative to competitor leases. As for the turbine technology, the wind turbines will likely be upgraded to 11MW turbines from the originally planned 6MW.
- **MA Gas Economics** – There is good visibility for earnings power at MA Gas. As part of the transaction approval process, the regulator approved rate increases in Nov. 2021 and 2022 as well as a true-up to rate base in 2024.

Entergy

- **Company-Wide Storm Costs ~$2B YTD:** The bulk of the $2B is in LA, some is from Zeta, a small amount is in Texas and very small amount is in Arkansas and Mississippi. ETR is in the process of collecting invoices and gathering information around the damages of Hurricanes Laura and Zeta. By Q1'21 they will file for approval for recovery of these damages in hopes to securitize the costs and minimize the impact to customer bills. As it stands now, storm escrow accounts in LA have been used up and will need to be replenished. In the near term the storm escrows are being replenished with callable debt issuances, so that they may be taken out once securitization is in place. In Texas it will likely be the case that ETR seeks cost recovery through T&D riders.
- **Equity Plan – ATM Focused Future:** ETR's financing plan does not call for equity until the end of 2021. Traditionally they have issued equity in blocks but they intend to issue ATM on their next issue. They will also be soliciting shareholders via proxy to seek approval for preferred or hybrid issuances in the future.
- **Louisiana PSC Election:** The biggest impact of the Election is the in Louisiana were a runoff remains. District 1 - Incumbent Eric Skrmetta (Republican) will face off Allen Borne Jr (Democrat) in a run-off election on Dec. 5.

- **PPA Buyouts:** While it has not been talked about for ETR, peers are buying out high cost PPAs. Our view is that rate basing legacy PPAs could prove to be a viable option of growing their business while keeping customer bills low. Below we detail the legacy PPA projects. It might not drive material accretion for ETR, but we wonder why they have a PPA in service since 1968.

Figure 1. Entergy Legacy PPAs

PPA Projects - Pre 2020

Plant	Capacity (MW)	In Service
Toledo Bend (LA)	41.0	1968
Vidalia Hydro (LA)	114.0	1990
Agrilectric (biomass) (LA)	9.0	2013
Rain CII (waste heat) (LA)	27.0	2013
Montauk (biomass) (LA)	3.0	2014
Blakely Degray Hydro (AR)	160.0	2016
Stuttgart Solar (AR)	81.0	2017

Source: Citi Research, Company Filings

- **Hydrogen Is Real Commercial Opportunity for Entergy:** Given the industry user base in the USGC, it is logical that the industrial customers in ETR service territory are inclined to exposure increased consumption of hydrogen.

- **Cost Management through Challenging Load Environment:** ETR highlighted their ability to manage load decline through cost management and the various levers they can pull to achieve their earnings targets. Some of these levers they included are the continuity of remote through June of 2021 and deferrals of plant outages. Recall that on the Q1'20 earnings call the management team illustrated $100m of O&M savings for 2020. Management believes the majority of these savings to be sustainable.

- **Rating Agency Discussions:** Following the storms, ETR had discussions with the rating agencies. Moody's has opined that they do not expect ETR to hit target credit ratios until 2022, while S&P upgraded their business risk profile and lowered FFO/Debt threshold to 13% from 14%.

- **Renewal of FRP** – ETR benefits from forward test years and true-up mechanisms in ARK and LA through their annual Formula Rate Plan Filings. In Arkansas, they plan to file a settlement for new rates by Dec. 4th. There remains a run-off election for a seat on LA public service commission and that has delayed the FRP process. The commission will rule in February on the FRP, once the election has concluded.

Covered companies mentioned: (CMS.N; US$67.01; 2; 11 Nov 20; 16:00); (CNP.N; US$24.07; 2; 11 Nov 20; 16:00); (DTE.N; US$130.06; 1; 11 Nov 20; 16:00); (ED.N; US$81.72; 2; 11 Nov 20; 16:00); (ES.N; US$94.42; 2; 11 Nov 20; 16:00); (ETR.N; US$109.83; 2; 11 Nov 20; 16:00); (NI.N; US$24.64; 2; 11 Nov 20; 16:00); (PCG.N; US$10.71; 1H; 11 Nov 20; 16:00); (PNM.N; US$49.09; 1; 11 Nov 20; 16:00); (PPL.N; US$29.41; 2; 11 Nov 20; 16:00); (AEP.O; US$91.15; 2; 11 Nov 20; 16:00)

Appendix A-1

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NiSource Inc

Awaiting key PA rate case outcome & other renewable strategy updates

Reiterate Rating: BUY | PO: 25.00 USD | Price: 22.22 USD

PA rate case order possible this Thurs (2/4)

We are flagging that an order may be issued on NI's PA rate case (Columbia Gas of PA) at the PA PUC meeting this Thurs. (2/4) – look for Thursday's official PA PUC agenda released on Weds (2/3) after 3pm ET. If the order is *not* issued on Thurs, it will likely be announced at the Feb. 25th meeting, subsequent to NI's 4Q EPS call on Feb 17th, barring a settlement. Hence, we perceive mgmt. is likely pushing to have this case resolved ahead of the EPS call driving or a resolution sooner than later (at Thursday's meeting or via settlement). To recap the latest on the PA case: after the ALJ's recent denial of NI's rate increase request in PA, which was a essentially a broad statement against raising rates amid a pandemic, NI filed an exception letter with the PUC rebutting the ALJ's denial rec. NI's exception letter offered a softened request, including a 9.86% ROE (vs 10.95% ROE requested inclusive of 20bps mgmt. performance adder) and added the phasing in of rates in '21 (50% in Jan & 50% in July) to appease the ALJ's concerns around a rate hike all at once amid COVID. NI also included an alternative revenue program, allowing revenue bookings in line with the total revenue requirement despite the phase in of rates creating no EPS impact, but small CF impact. Bottom line, NI's revised rate request in the exception letter is roughly in line with Staff's original rec of $76mn rate increase, which Staff reinforced by also submitting its own exception letter to the commission reiterating Staff's previous rec. Critically, other utilities such as UGI and AWK have had rate increases authorized in PA in 2020 during the pandemic.

$50-60mn rate increase baked into '21 guide

We continue to estimate ~$50-60mn rate increase is baked into NI's '21 guidance (vs original $100mn requested & Staff's $76mn rec) given NI's history of receiving 50-60% of rate requests in PA rate cases. However, we acknowledge that if the commission's order aligns with the ALJ there would be clear risk to '21 EPS – a maximum of 10c of '21 EPS at risk excluding likely O&M partial offsets vs '21 EPS guidance midpoint of $1.32 (every $5mn less of revenue requirement = -1c of EPS ex offsets). This implies a risk of up to 9% negative revisions to consensus EPS estimates. Note PUC has four commissioners with two republicans and two democrats. Net net, we still believe the fact pattern favors NI in this rate case. Reiterate Buy as we believe NI shares continue to present a differentiated play on the wide relative discount in Gas LDCs with M&A optionality, and renewables upside in rate base. We still arrive at >17% total return potential in our SOTP where we apply 2x discount (vs. peers) to Columbia Gas of PA to account for ongoing rate case risk.

1st two renewable projects online & await more BOT JVs

Separately, we highlight NI's subsidiary, NIPSCO Electric announced that it's first two wind projects in IN are online – Rosewater Wind (102MW BoT JV with EDP Renewables and TE) and Jordan Creek Wind (400MW 20-yr PPA). NIPSCO now has seven remaining renewables projects to bring online as part of the renewable strategy plus those yet to be announced. Note NI has procured a total of 2,445 MW (1,930MW net to NIPSCO), and we estimate this equates to ~$1.25bn in capex net to NIPSCO out of the guided $1.8-2.0bn of renewable strategy capex implying several renewable projects (primarily BOT JVs) likely announced in the coming months (potentially some ahead of 4Q call).

02 February 2021

Equity

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Stock Data

Price	22.22 USD
Price Objective	25.00 USD
Date Established	29-Jan-2021
Investment Opinion	B-1-7
52-Week Range	19.56 USD - 30.46 USD
Mrkt Val (mn) / Shares Out (mn)	8,515 USD / 383.2
Average Daily Value (mn)	68.30 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2020E)	9.4%
Net Dbt to Eqty (Dec-2019A)	158.6%

PA PUC = Pennsylvania Public Utility Commission

NIPSCO = Northern Indiana Public Service Company

Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.
12242948

Timestamp: 02 February 2021 06:47AM EST

Price objective basis & risk

NiSource Inc (NI)

Our $25 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2023 forward P/E multiples of 14.3 for gas utilities and 16.2x for electric utilities with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex beginning in '22, but acknowledge industrial risk. Also, we now assign a 3x M&A premium to the VA, KY and MD gas utilities to account for their M&A premium. We apply a -2x discount to PA to account for rate case risk in the next few weeks after ALJ denied the company's request late last year. We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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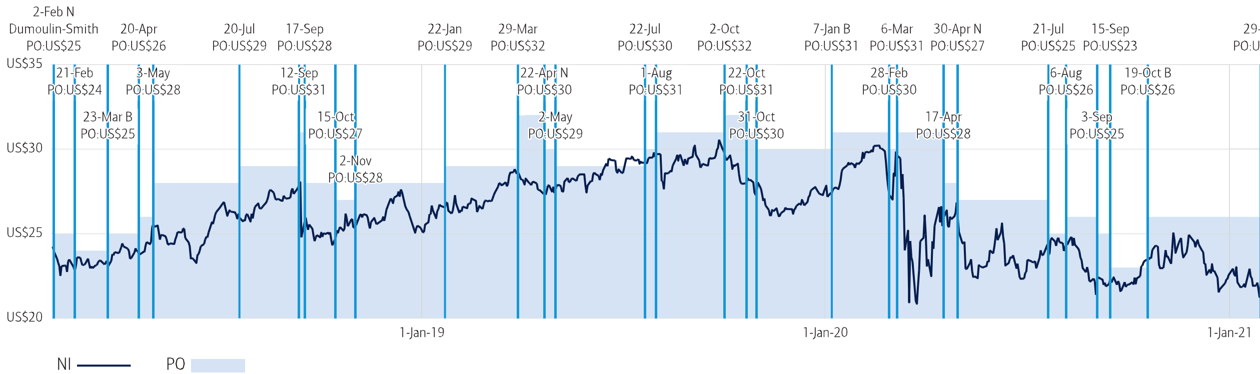
NiSource Inc (NI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	90	57.69%	Buy	69	76.67%
Hold	37	23.72%	Hold	24	64.86%
Sell	29	18.59%	Sell	15	51.72%

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	80	51.61%	Buy	58	72.50%
Hold	37	23.87%	Hold	28	75.68%
Sell	38	24.52%	Sell	22	57.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
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Hold	686	20.95%	Hold	426	62.10%
Sell	725	22.14%	Sell	358	49.38%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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