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 I.

Year	Attachment	Folder Name	Documents Included
2020	A	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
	B	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 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
	C	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 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

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			Wells Fargo 3Q – 2020 BMO 3Q – 2020 Evercore 3Q – 2020 Wolfe 3Q – 2020 Bank of America 3Q – 2020 Credit Suisse 3Q – 2020
	D	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
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	F	2Q	Barclays 2Q – 2021 Bank of America 2Q – 2021 Goldman Sachs 2Q – 2021 Guggenheim 2Q – 2021 Evercore 2Q – 2021 J.P. Morgan 2Q – 2021 Wells Fargo 2Q – 2021 BMO 2Q – 2021 Morningstar 2Q – 2021 Guggenheim 2Q – 2021 Wolfe 2Q – 2021 Barclays 2Q – 2021 Bank of America 2Q – 2021 Citi 2Q – 2021 Evercore 2Q – 2021 Goldman Sachs 2Q – 2021 Evercore 2Q – 2021 J.P. Morgan 2Q – 2021 J.P. Morgan 2Q – 2021 UBS 2Q – 2021 Wells Fargo 2Q – 2021 Wolfe 2Q – 2021 Wolfe 2Q – 2021 Goldman Sachs 2Q – 2021
	G	3Q	Goldman Sachs 3Q – 2021 Bank of America 3Q – 2021 UBS 3Q – 2021 Wolfe 3Q – 2021 J.P. Morgan 3Q – 2021 Guggenheim 3Q – 2021 Evercore 3Q – 2021 Wolfe 3Q – 2021 BMO 3Q – 2021 Morningstar 3Q – 2021 Goldman Sachs 3Q – 2021 Bank of America 3Q – 2021 UBS 3Q – 2021 Wolfe 3Q – 2021 J.P. Morgan 3Q – 2021 Guggenheim 3Q – 2021 Bank of America 3Q – 2021 Barclays 3Q – 2021 Goldman Sachs 3Q – 2021 Wells Fargo 3Q – 2021
	H	4Q	Barclays 4Q – 2021 BMO 4Q – 2021 Bank of America 4Q – 2021 Bank of America 4Q – 2021 Evercore 4Q – 2021 Goldman Sachs 4Q – 2021 J.P. Morgan 4Q – 2021 J.P. Morgan 4Q – 2021 Wells Fargo 4Q – 2021

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			Wolfe 4Q – 2021
	I	Misc	Goldman Sachs – 2021 Citi – 2021 Bank of America – 2021 Argus – 2021 Barclays – 2021 BMO -2021 Bank of America – 2021 Bank of America – 2021 Bank of America – 2021 Bank of America – 2021 Citi – 2021 Goldman Sachs – 2021 J.P. Morgan - 2021 Morningstar – 2021 UBS – 2021 Wolfe – 2021 Wolfe – 2021 Wolfe – 2021 Wolfe – 2021 Wolfe – 2021 Wolfe – 2021 Wolfe – 2021 Wolfe – 2021 Wolfe – 2021 Guggenheim – 2021 Guggenheim – 2021 Guggenheim - 2021

NiSource Inc NI (NYSE) | ★★★★

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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

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, visit http://global.morningstar.com/equitydisclosures

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

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.

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.

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Morningstar Analysis

NISource's Heavy C&I Customer Exposure Increases Impact Of COVID-19 30 Mar 2020

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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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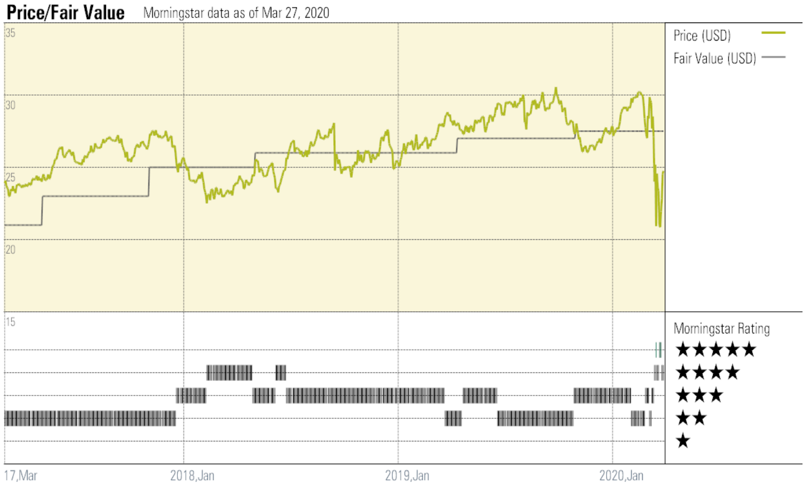
Price/Fair Value Morningstar data as of Mar 27, 2020



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

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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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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.

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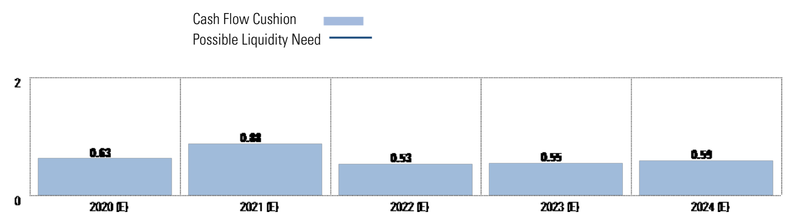
Five Year Adjusted Cash Flow Forecast (USD Mil)

	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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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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Analyst Notes

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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
25.60 USD	27.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

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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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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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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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2017	2018	2019	Forecast 2020	Forecast 2021	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.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2017	2018	2019	*Forecast 2020*	*Forecast 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***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2017	2018	2019	Forecast *2020*	*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***

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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***

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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	2019	2020(E)	2021(E)	2019	2020(E)	2021(E)	2019	2020(E)	2021(E)	2019	2020(E)	2021(E)	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

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2019	2020(E)	2021(E)	2019	2020(E)	2021(E)	2019	2020(E)	2021(E)	2019	2020(E)	2021(E)	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

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2019	2020(E)	2021(E)	2019	2020(E)	2021(E)	2019	2020(E)	2021(E)	2019	2020(E)	2021(E)	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.

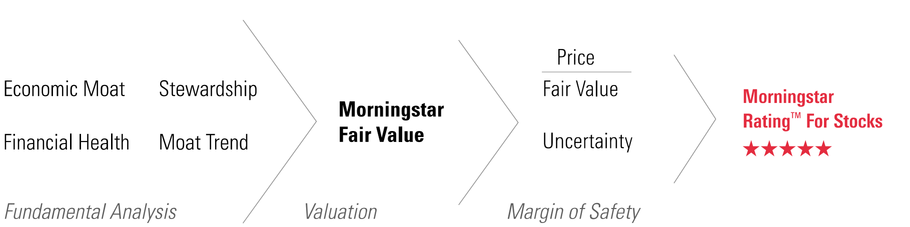
To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages 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.

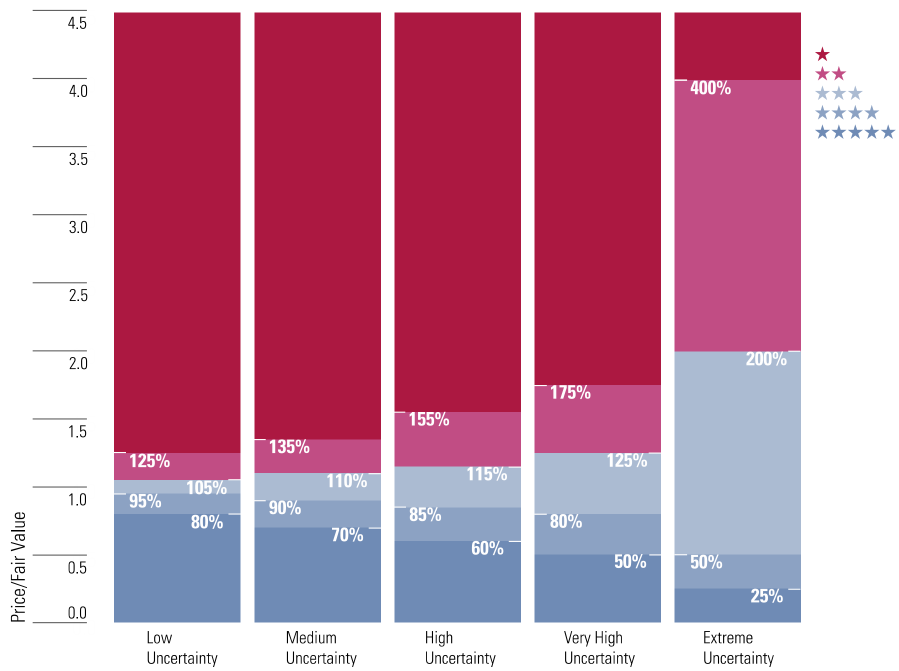
- ► Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ► Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ► High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ► 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.

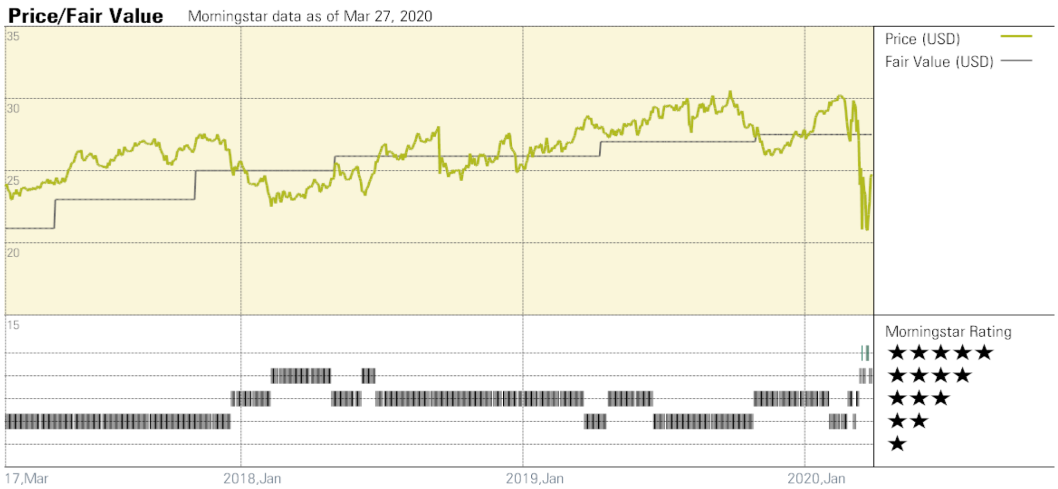
- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

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.

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



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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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NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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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*			

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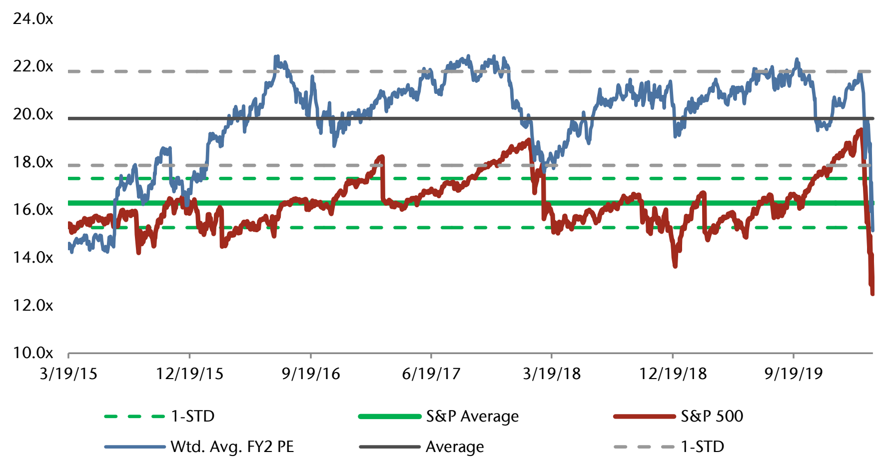
Chart 1 - Weighted Avg. Gas LDC FY2 PE (Trailing 5-yrs) vs. S&P 500



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%
Utility 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

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Exhibit 2 - NI Valuation Analysis

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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**

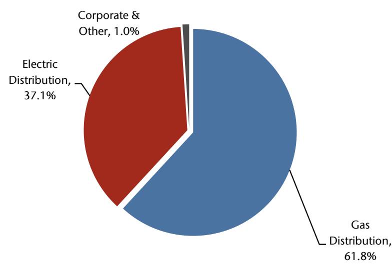
Assumptions	
EPS CAGR 2019-2024	4.3%
Dividend CAGR 2019-2024	5.4%
Terminal Growth Rate	2.25%
Stable Period Payout Ratio	63.1%
Stable Period ROE	9.0%
Implied 2021 EV/EBITDA	9.8x
Implied 2021 P/E	14.9x

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

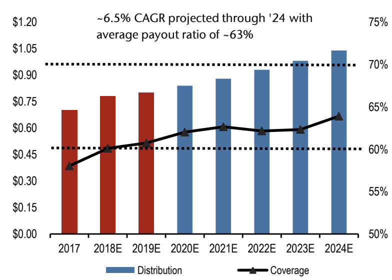
Total Return Expectations	
NI Current Price	$20.94
Appreciation to PT	33.7%
Yield over 12-months	4.1%
Total Return Potential	**37.8%**

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

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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

Jefferies

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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**

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

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

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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

Jefferies

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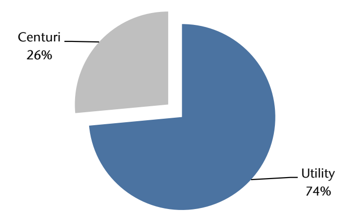
Exhibit 7 - SWX Valuation Analysis

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

Jefferies

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Exhibit 8 - 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	$34.0	$34.0	$34.0	$34.0	$135.8	$146.0	$155.0	$166.4
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	$333.0	$370.7	$397.3
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	$82.3	$92.2	$99.1
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**	**$239.2**	**$250.7**	**$278.5**	**$298.3**
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	$236.5	$248.0	$275.8	$295.5
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	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	46.9	47.5	47.7	49.4	53.4	53.9	54.7	55.0	54.2	57.1	57.6	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	**$2.92**	**$3.03**	**$3.41**	**$3.84**	**$1.63**	**$0.34**	**$0.13**	**$1.52**	**$3.61**	**$1.50**	**$0.29**	**$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)	($0.5)	$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	$1.50	$0.29	$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	**$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%**					**61.7%**					**57.0%**	**57.6%**	**54.9%**	**54.2%**
Payout Ratio (on SWX methodology)	**59.7%**	**61.8%**	**54.6%**	**62.1%**					**61.8%**					**70.9%**					**65.0%**	**66.0%**	**62.4%**	**61.5%**
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%	**11.3%**					**8.1%**					**8.3%**	**7.7%**	**7.7%**	**7.5%**

Source: SWX reports, Jefferies estimates

Jefferies

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Exhibit 9 - 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	630
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**	**1,015**
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**	**10,375**
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	3,027	3,223	3,304	3,353
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**	**6,169**	**6,400**	**6,531**	**6,631**
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	2,933	3,160	3,405	3,659
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**	**2,698**	**2,793**	**2,793**	**3,018**	**3,245**	**3,489**	**3,744**
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**	**10,375**
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	(2)
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%	112%
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	95
Average Collection Period	**47**	**42**	**50**	40	49	48	48	**52**	46	53	55	51	**55**	45	55	50	55	**61**	**56**	**56**	**55**	**55**
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	3,077	3,223	3,304	3,353
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**	**2,781**	**2,836**	**2,836**	**3,032**	**3,176**	**3,257**	**3,305**
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	2,933	3,160	3,405	3,659
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	6,964
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**
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*	*3.5x*	*3.0x*	*3.1x*	*3.2x*	*3.2x*	*3.3x*	*3.3x*	*3.4x*	*3.4x*
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*	*6.3x*	*5.7x*	*5.8x*	*5.8x*	*5.8x*	*5.9x*	*5.8x*	*5.8x*	*5.7x*

Source: SWX results, Jefferies estimates

Jefferies

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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**

	2015	2016	2017	1Q	2Q	3Q	4Q	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020	2021	2022	2023	2024
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

	2015	2016	2017	1Q	2Q	3Q	4Q	2018	1Q	2Q	3Q	4Q	2019	1QE	2QE	3QE	4QE	2020	2021	2022	2023	2024
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

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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

Jefferies

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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

Jefferies

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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

Jefferies

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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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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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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

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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.

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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.

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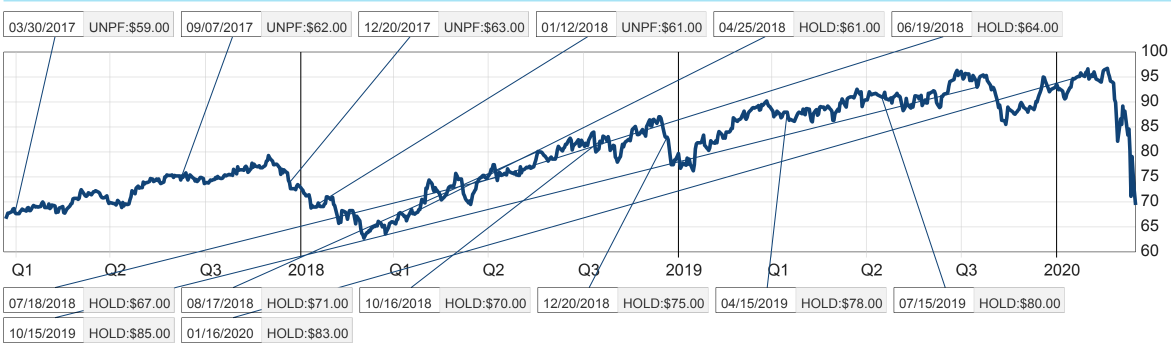
Rating and Price Target History for: National Fuel Gas Company (NFG) as of 03-16-2020

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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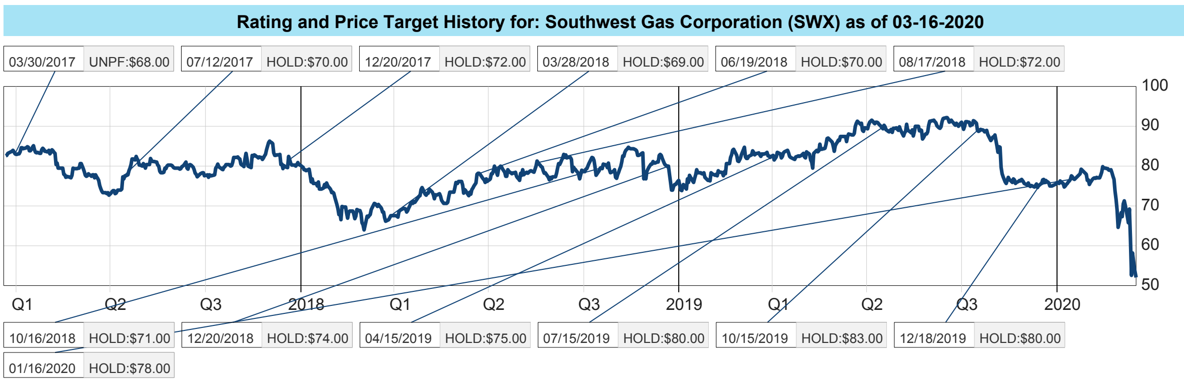

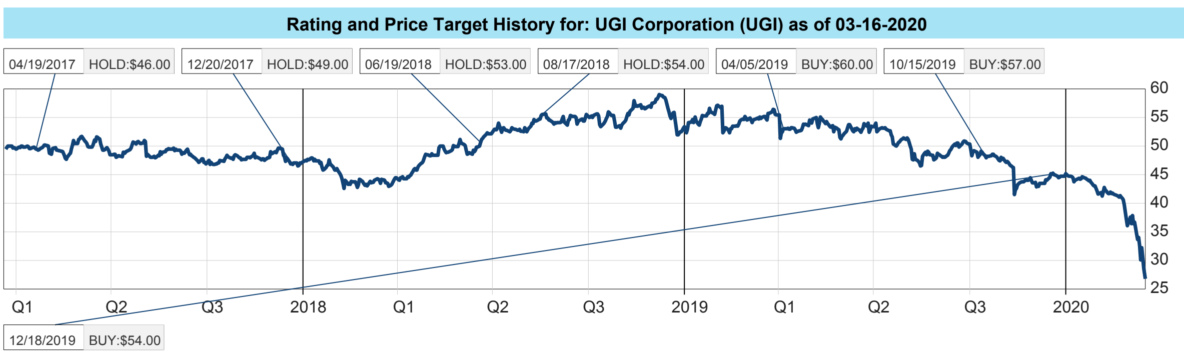

Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

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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CORE

BARCLAYS

Equity Research
12 March 2020

North America Power & Utilities

Repositioning the Portfolio

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.

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.

North America Power & Utilities
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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

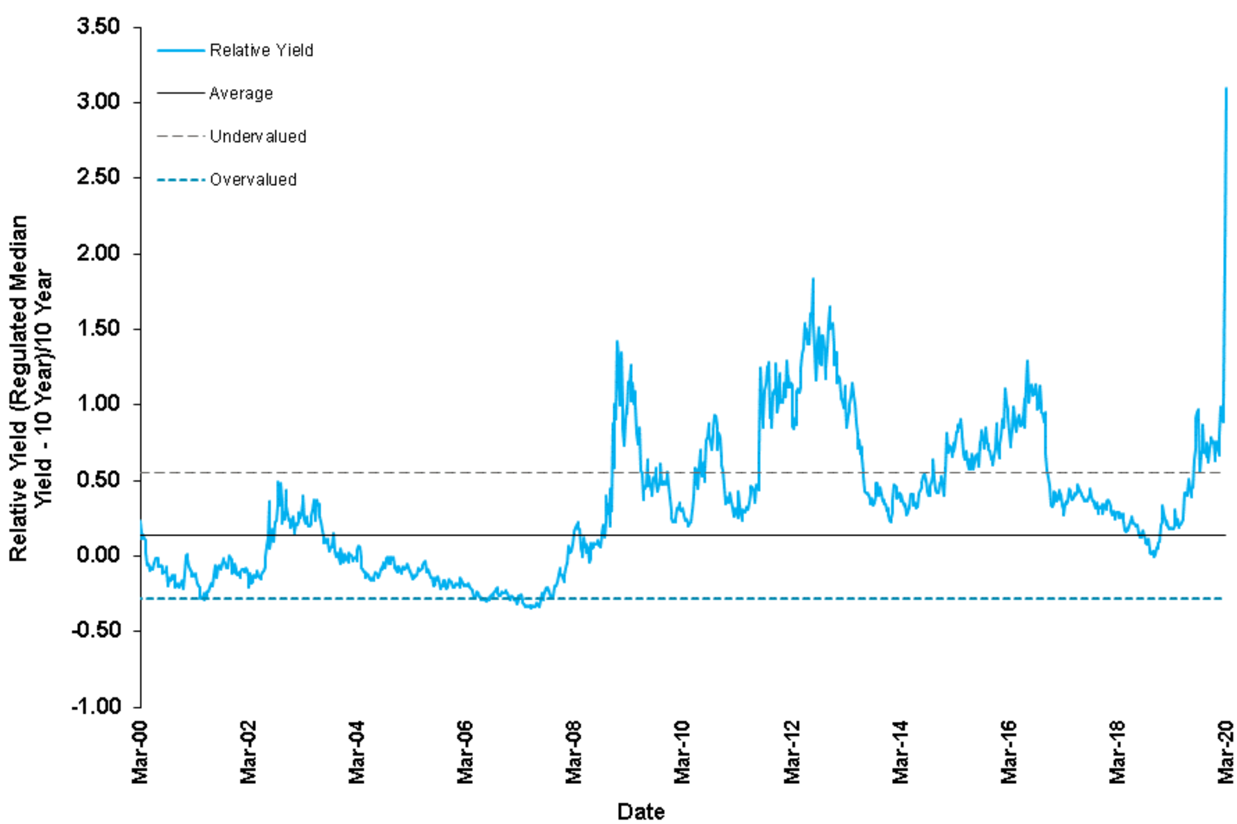
Group Valuation

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.

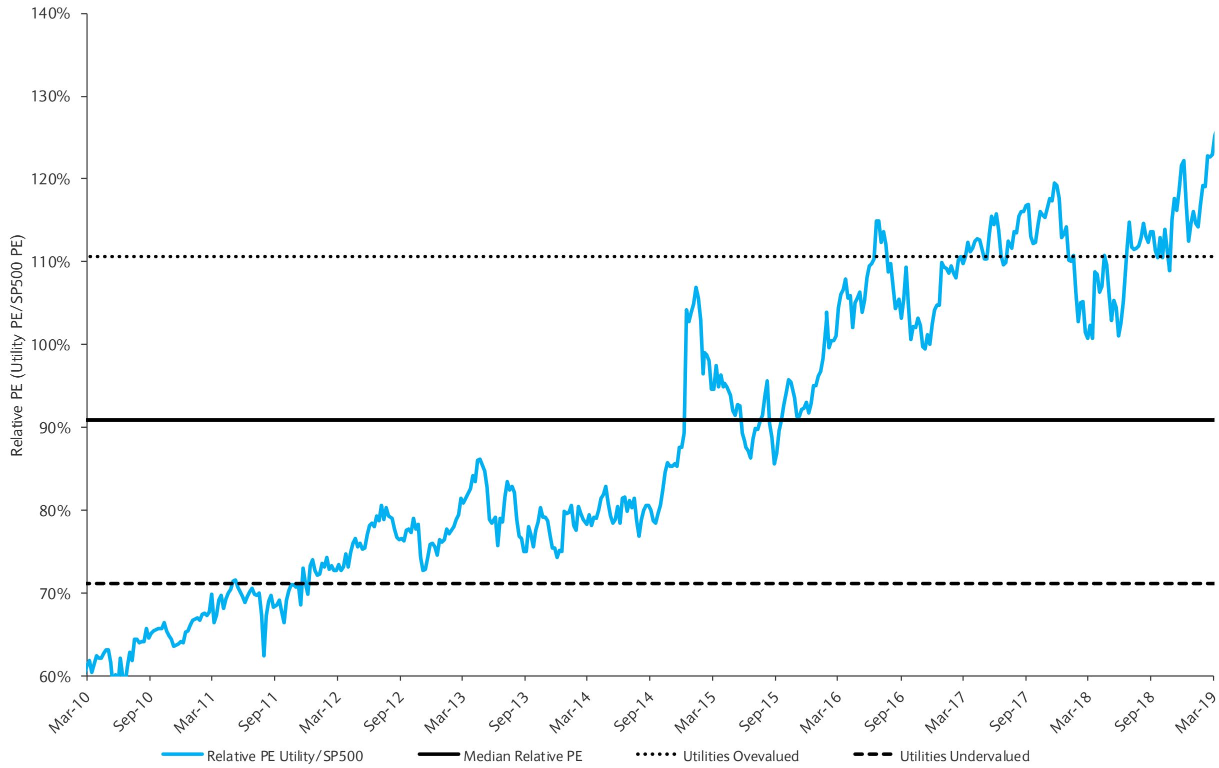
While the utility group has had an extended period of positive relative performance as compared to the broader market, we expect utilities to maintain their current premium during the predicted Fed easing along with the broad uncertainty of Coronavirus and the pending 2020 elections. The dividend yield, 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.

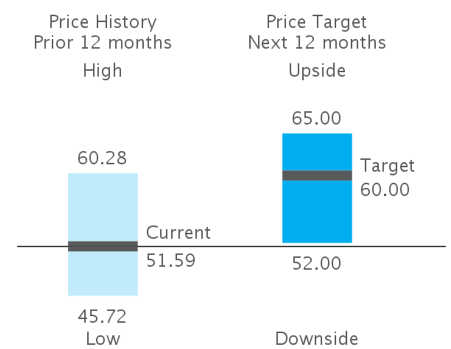
Upside case **USD 65.00**

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 renewable 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.

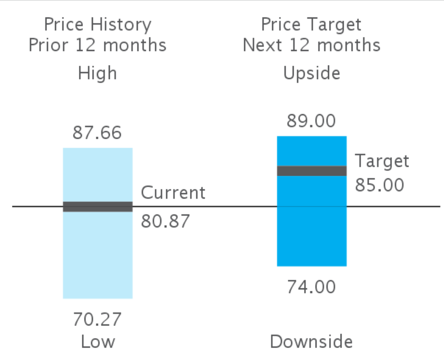
Upside case — **USD 89.00**

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.

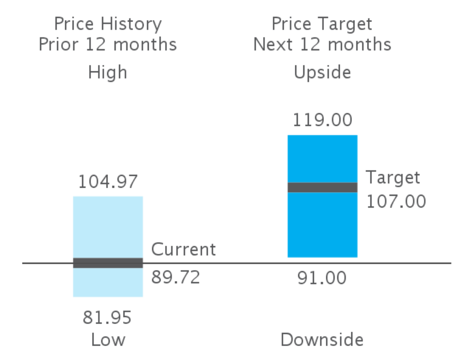
Upside case **USD 119.00**

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.

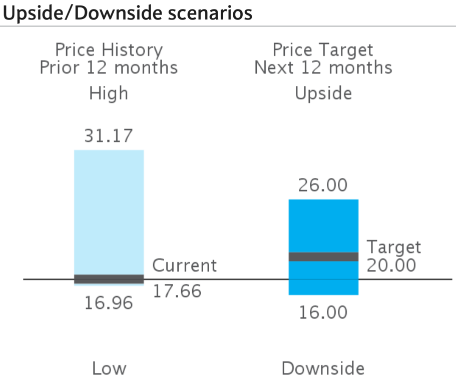
Upside case USD 26.00

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.

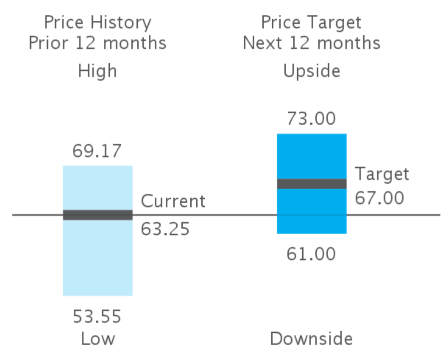
Upside case — **USD 73.00**

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.

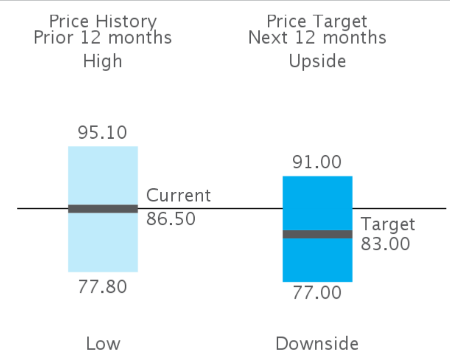
Upside case USD 91.00

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.

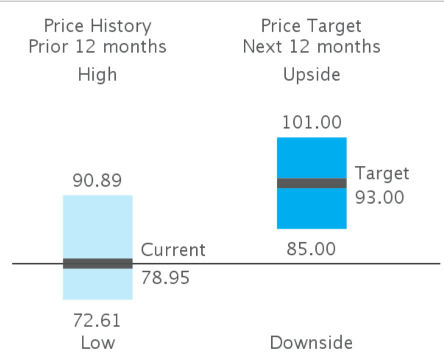
Upside case — **USD 101.00**

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.

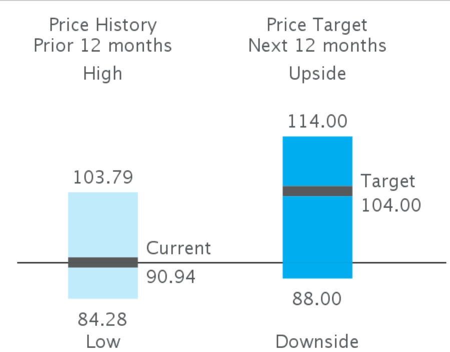
Upside case — **USD 114.00**

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.

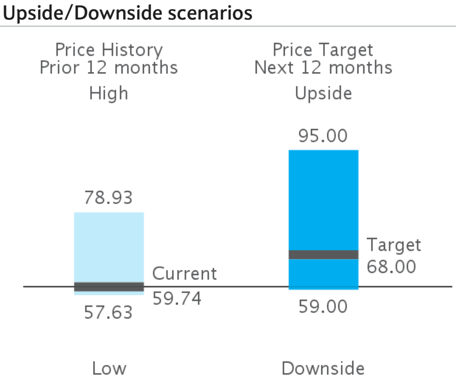
Upside case USD 95.00

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.

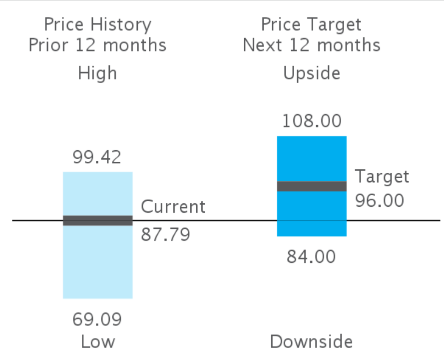
Upside case — **USD 108.00**

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.

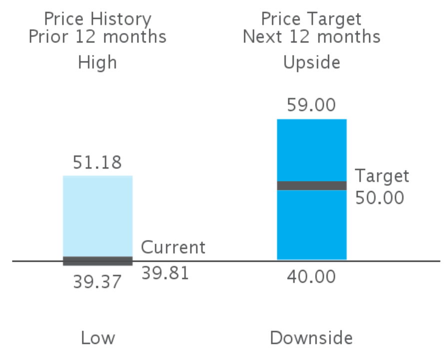
Upside case — **USD 59.00**

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.

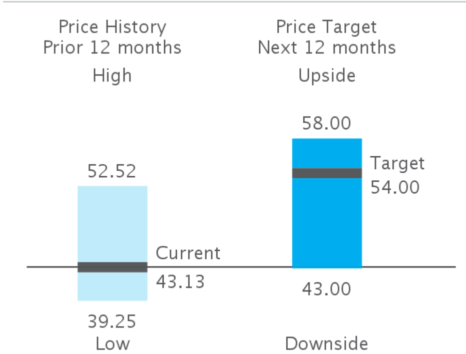
Upside case — **USD 58.00**

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.

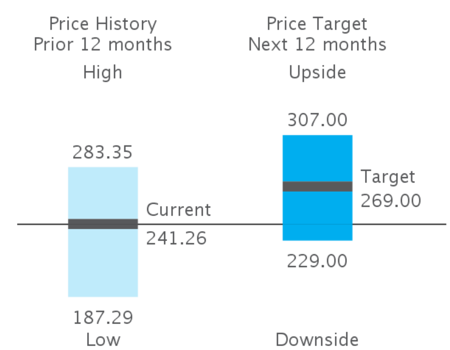
Upside case — **USD 307.00**

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.

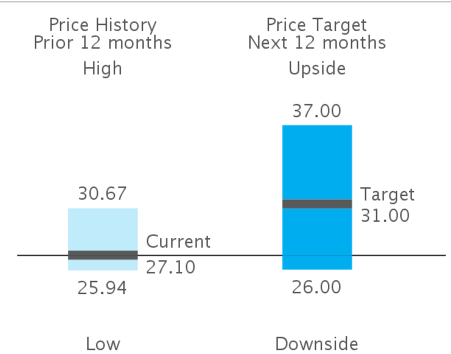
Upside case USD 37.00

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.

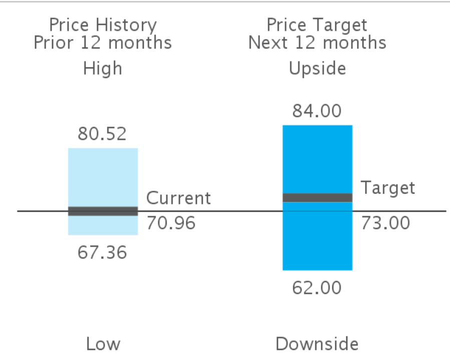
Upside case **USD 84.00**

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.

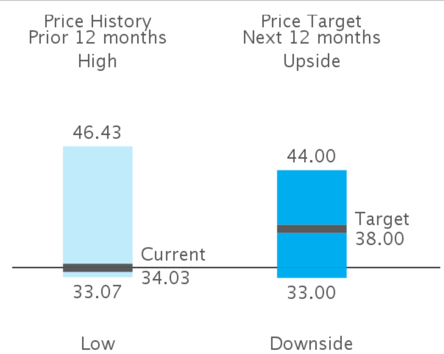
Upside case — **USD 44.00**

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.

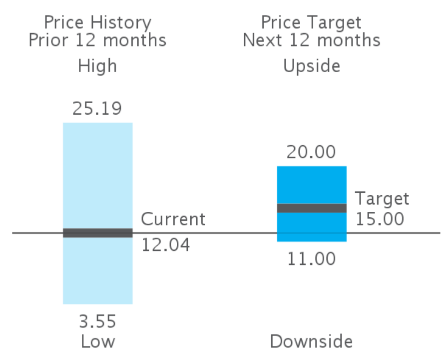
Upside case USD 20.00

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.

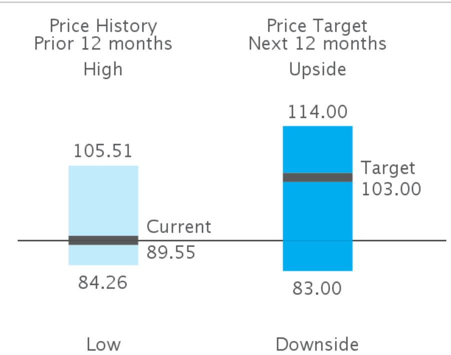
Upside case — **USD 114.00**

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.

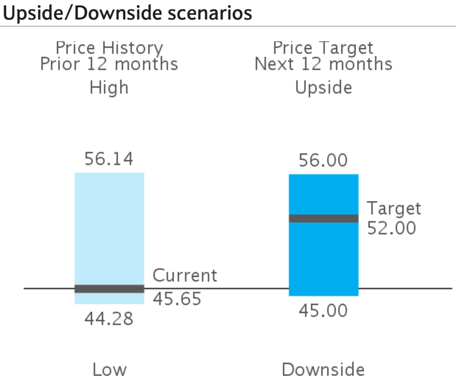
Upside case — **USD 56.00**

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.

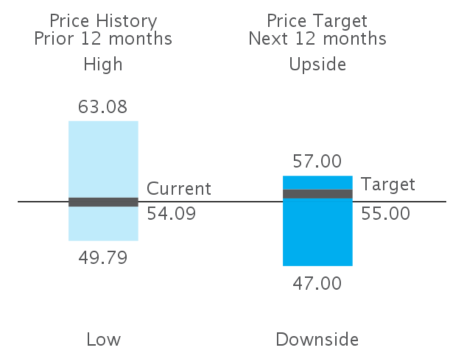
Upside case — **USD 57.00**

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.

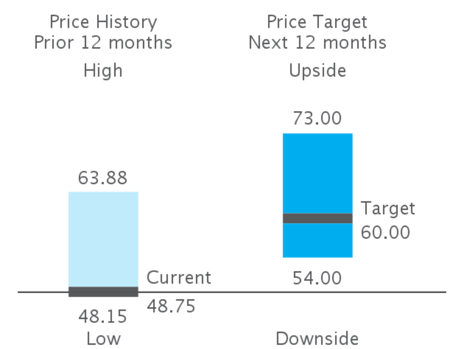
Upside case — **USD 73.00**

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.

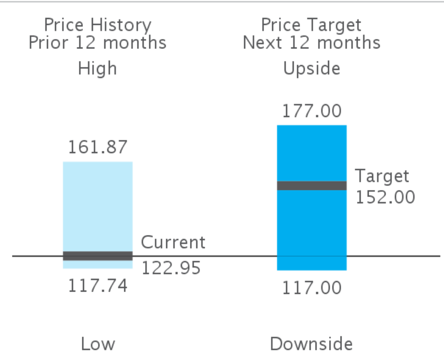
Upside case — **USD 177.00**

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 .

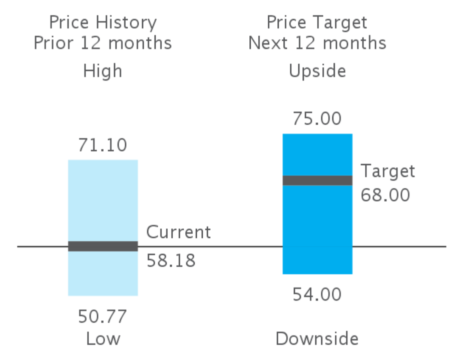
Upside case **USD 75.00**

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.

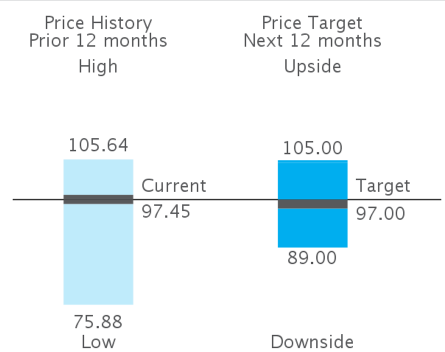
Upside case **USD 105.00**

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.

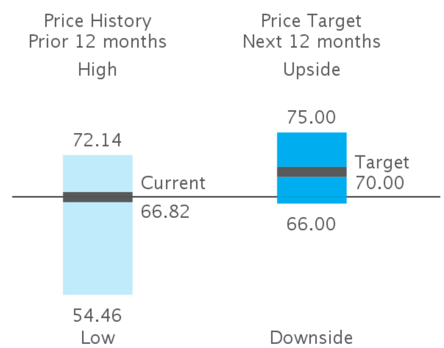
Upside case USD 75.00

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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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

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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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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)
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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.

Refer to important disclosures on page 9 to 11. Analyst Certification on page 6. Price Objective Basis/Risk on page 6. 12105302

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 SM NiSource Inc

iQmethod SM – 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 SM – 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 SM 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.

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
	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

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.

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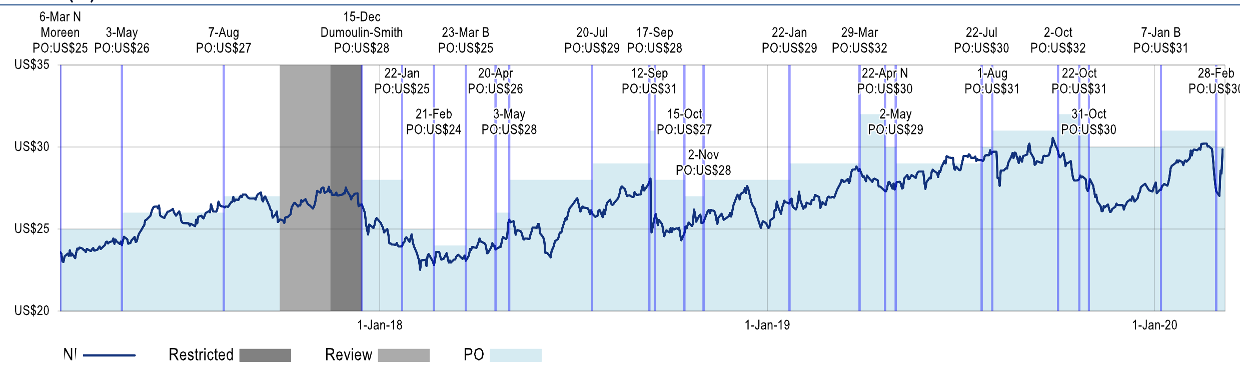
NiSource Inc (NI) Price Chart



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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)

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Goldman Sachs | Equity Research

2 March 2020 | 6:50AM EST

NiSource Inc. (NI): Remain Buy on attractive valuation

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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

O&M, (4) electricity demand and customer growth, and (5) financing.

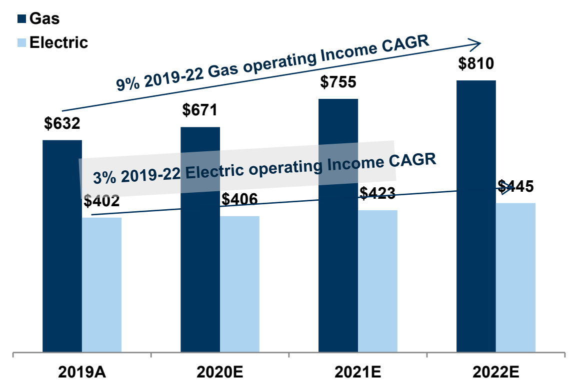
NI in Charts

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%)

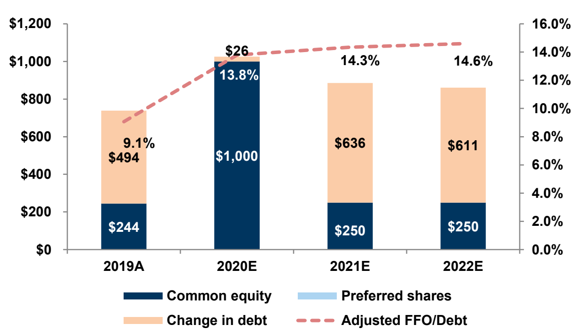
Source: FactSet, Goldman Sachs Global Investment Research

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.

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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.

M&A Rank

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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Rating and pricing information

Eversource Energy (Neutral, $86.46)

Coverage group(s) of stocks by primary analyst(s)

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, Magellan Midstream Partners, Plains All American Pipeline LP, Plains GP Holdings, 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, Xcel Energy Inc..

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Goldman Sachs Investment Research global Equity coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	44%	40%	16%	63%	57%	51%

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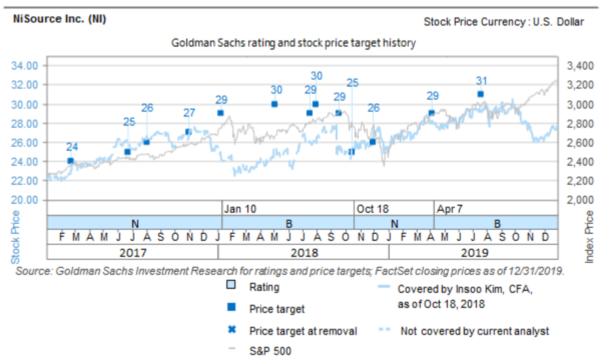
Price target and rating history chart(s)



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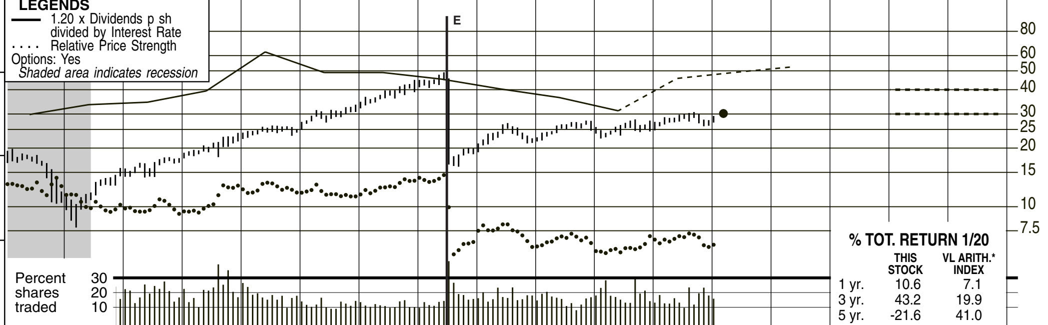
NISOURCE INC. NYSE-NI

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

LEGENDS
— 1.20 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area indicates recession



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%*

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		23-25
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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2YR Price Volume Chart

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.

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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

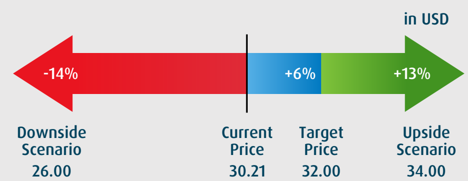
Our $32 target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2022E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook. For NI, we have removed EPS for its MA gas business from our P/E valuation 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

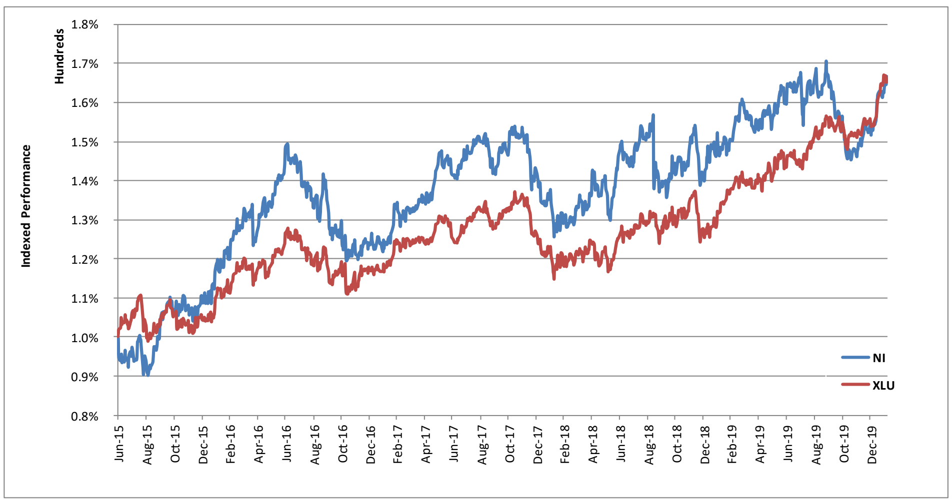
Initiating Coverage of NI at Outperform and $32 Target; Gearing Up for March Madness

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 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, 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.

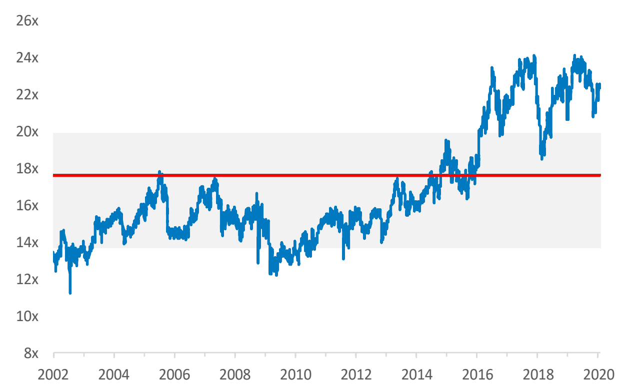
BMO Capital Markets

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.

BMO Capital Markets

Exhibit 4: NiSource 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	$0.84	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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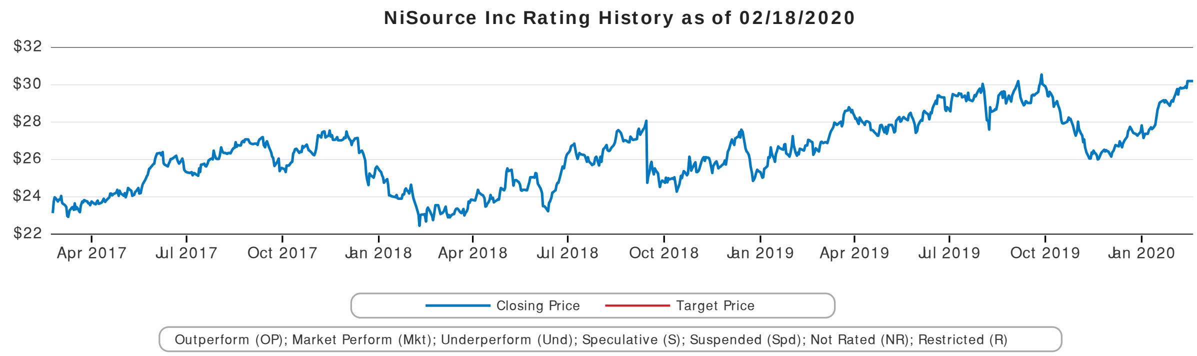

Source: FactSet, BMO Capital Markets

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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 $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.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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~ As of April 1, 2019.

Ratings Key (as of October 2016)

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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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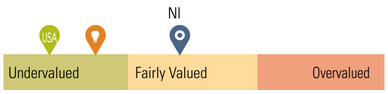
NiSource Inc NI (XNYS)

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 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.

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
★★ 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

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)

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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)

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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

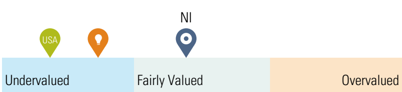
There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of 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

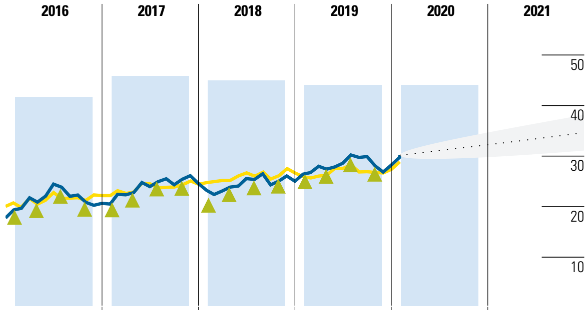
Financial Health

	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



- Quantitative Fair Value Estimate
- Total Return
- Sales/Share
- Forecast Range
- Forcasted Price
- Dividend
- Split

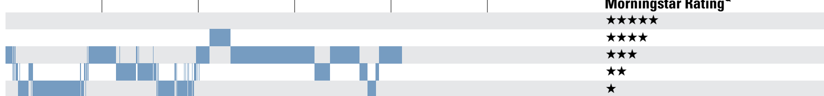
Momentum: Neutral
Standard Deviation: 15.13
Liquidity: High

25.92 52-Wk 30.67

16.04 5-Yr 30.67

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

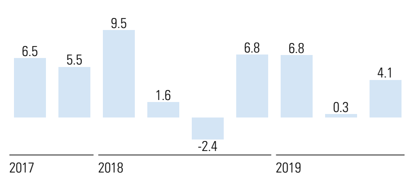


2014	2015	2016	2017	2018	TTM	Financials (Fiscal Year in Mil)
6,471	4,652	4,492	4,875	5,114	5,273	Revenue
14.4	-28.1	-3.4	8.5	4.9	3.1	% Change
1,184	802	857	916	126	851	Operating Income
8.7	-32.3	6.9	6.9	-86.3	575.9	% Change
530	287	332	129	-51	511	Net Income
1,320	1,457	803	742	540	845	Operating Cash 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.

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

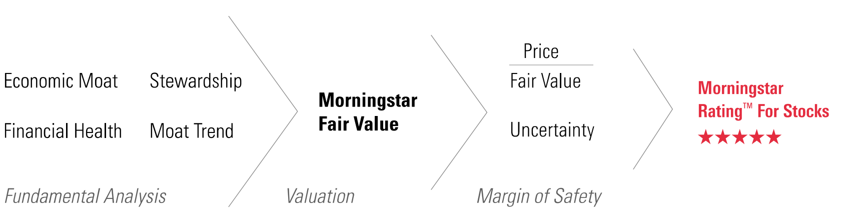
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling 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.

Morningstar Research Methodology for Valuing Companies



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.

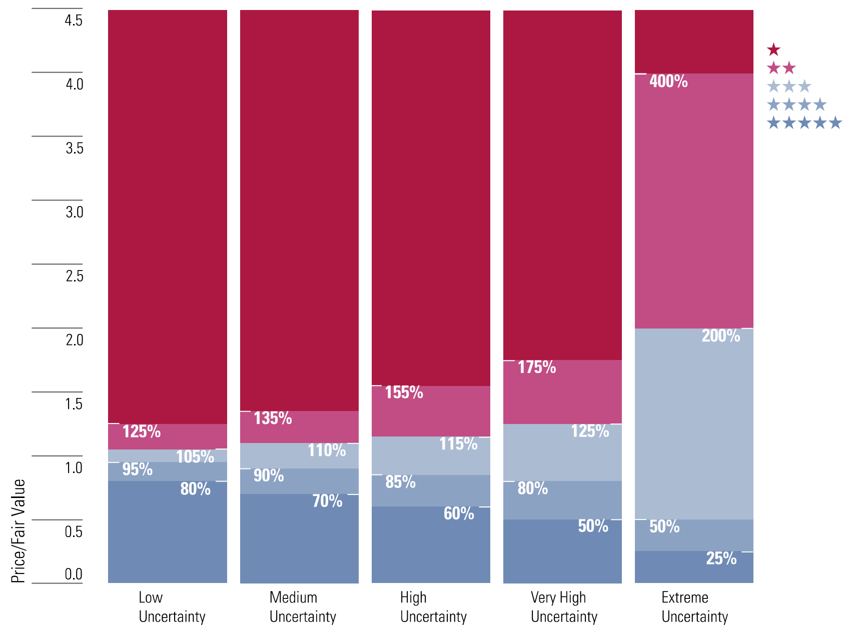
- ► Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ► Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ► High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ► 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

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

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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.

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.

The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions.

A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit http://global.morningstar.com/equitydisclosures.

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		

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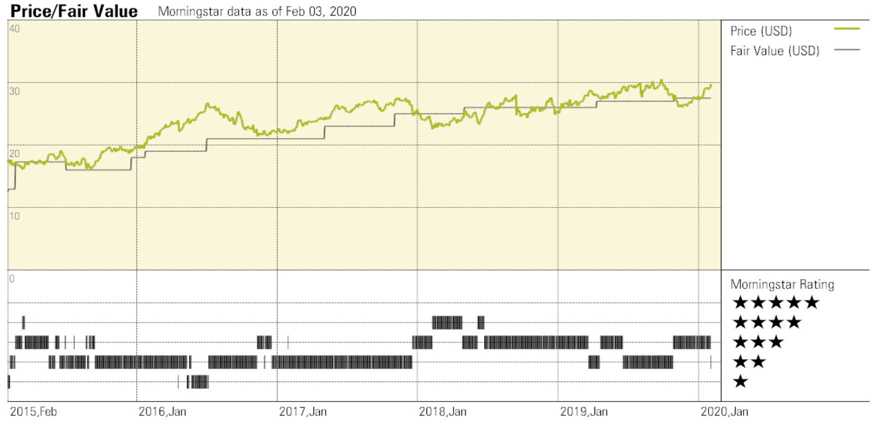
Price/Fair Value Morningstar data as of Feb 03, 2020



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NiSource Inc NI (XNYS)

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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%.

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Our Universe: We Cover 26 Regulated Utilities, 3 Diversified Utilities, 2 IPPs

- <u>Utilities are trading at risk-off P/E multiples, above what we saw in '16 / '17 / '18.</u>
- **P/E multiples average 22.3x '20, 20.9x '21, and 19.8x '22 EPS.**
  - <u>All of those P/E multiple averages remove the extreme discounts of three stocks: EIX, PCG, and PPL.</u>
- **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	ating 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

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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

EVERCORE ISI

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

EVERCORE ISI

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.**

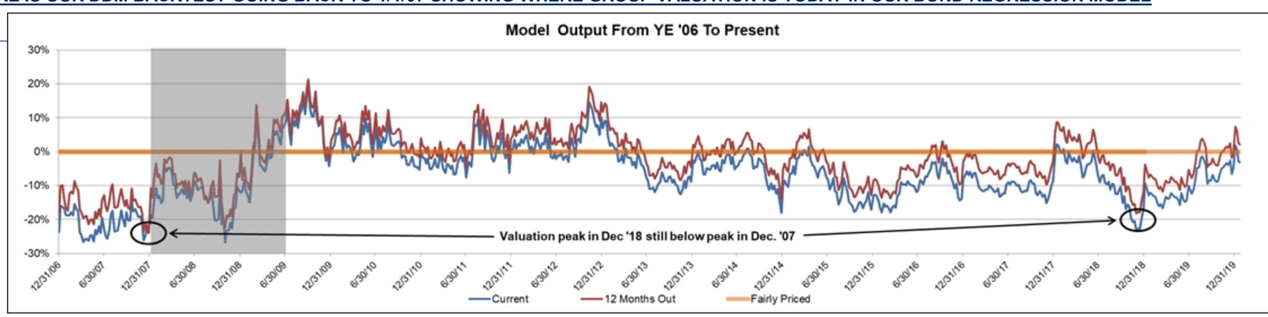
- **<u>But we also understand what the market is discounting when it decides to pay 19.5x+ '22 EPS for the average utility stock in our coverage universe.</u>**
    - **1) It is pricing in resiliency of rate base growth outlooks, given a persistent lack of inflation in the utility business model.**
    - **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.**

- **<u>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.</u>**
    - **<u>But the group is increasingly priced to perfection.</u>**
    - **<u>We consider these factors in greater detail on pages 20-21 of this note.</u>**

- **<u>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.</u>**
    - **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 <u>*an increase*</u> in group valuations.**
- **<u>HERE IS OUR DDM BACKTEST GOING BACK TO 1/1/07 SHOWING WHERE GROUP VALUATION IS TODAY IN OUR BOND REGRESSION MODEL</u>**



Updated as of 1/24/20 close

Source: FactSet, Evercore ISI Research

EVERCORE ISI

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			10 YR	2.91%
12/13/18			Baa	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			10 YR	2.91%
12/13/18			Baa	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			10 YR	1.74%
1/24/20			Baa	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			10 YR	1.74%
1/24/20			Baa	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

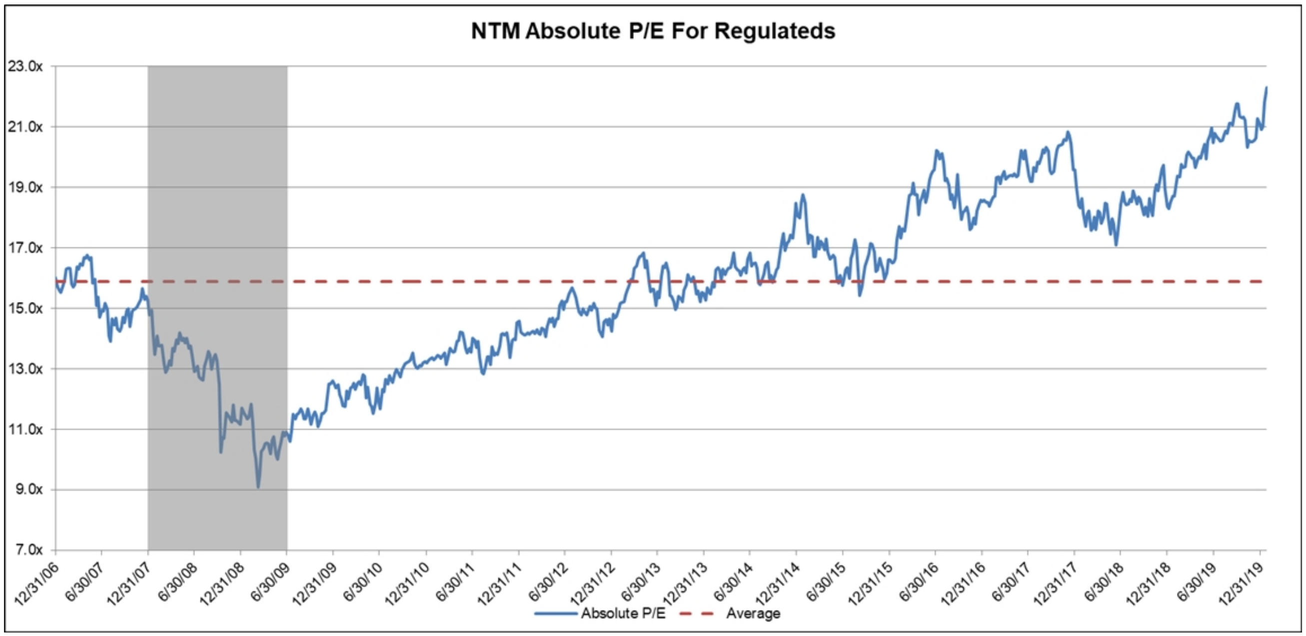
- **As we pointed out on the prior page, utilities are still trading at elevated valuations looking at absolute and relative P/E.**
- **They are above the levels we saw at the YE '18 valuation peak.**
- **We are close to fair value in the bond model assuming rates are flat to down over the next 12 months.**
- **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.

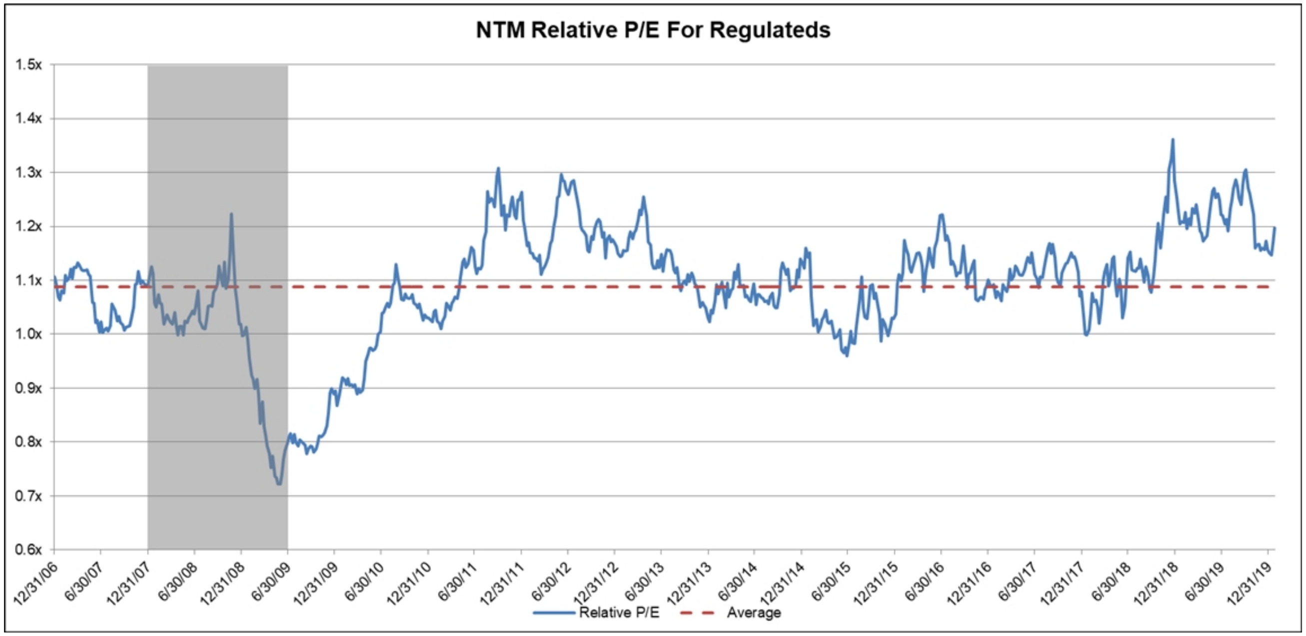


Updated as of 1/24/20 close

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%

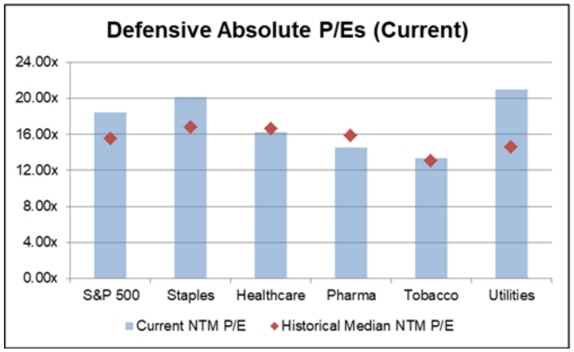
***Represents upside/downside to predicted valuation using Evercore ISI's proprietary dividend yield/bond yield regression looking at current yield vs. the corporate bond yields. Column 12/31/18's valuation vs. corporate bonds is reflective of '19 dividend yields. All other columns based on '20 dividend 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.

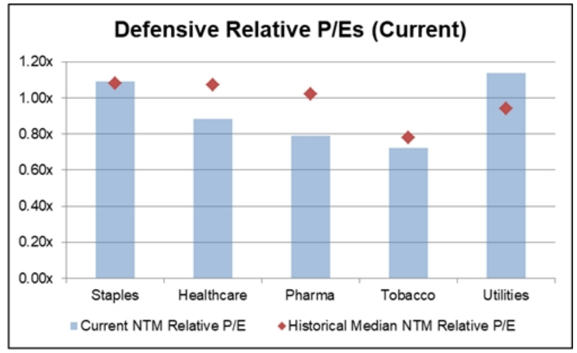
Updated as of 1/24/20 close

Source: FactSet, Evercore ISI Research

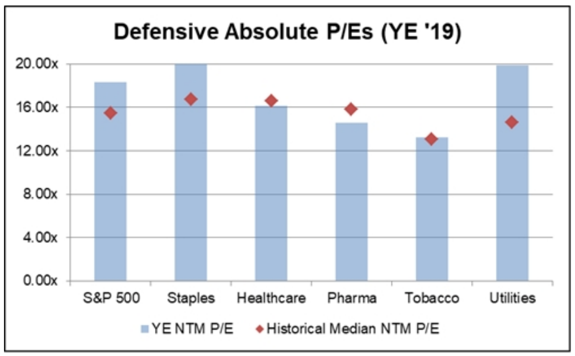
Utilities Look Pretty Rich Relative To Several Other Defensive Sectors



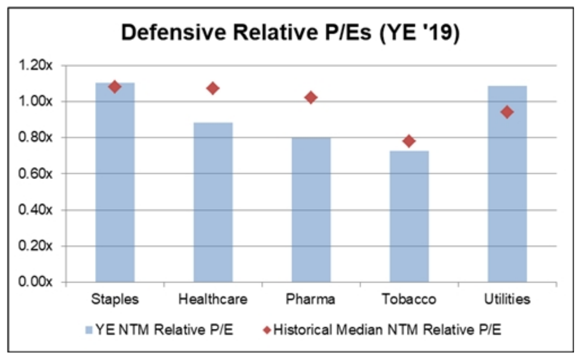
	Current NTM P/E	% Change Since YE '19
S&P 500	18.44x	0.8%
Staples	20.09x	-0.6%
Healthcare	16.26x	0.7%
Pharma	14.56x	-0.3%
Tobacco	13.32x	0.4%
Utilities	21.00x	5.6%



	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

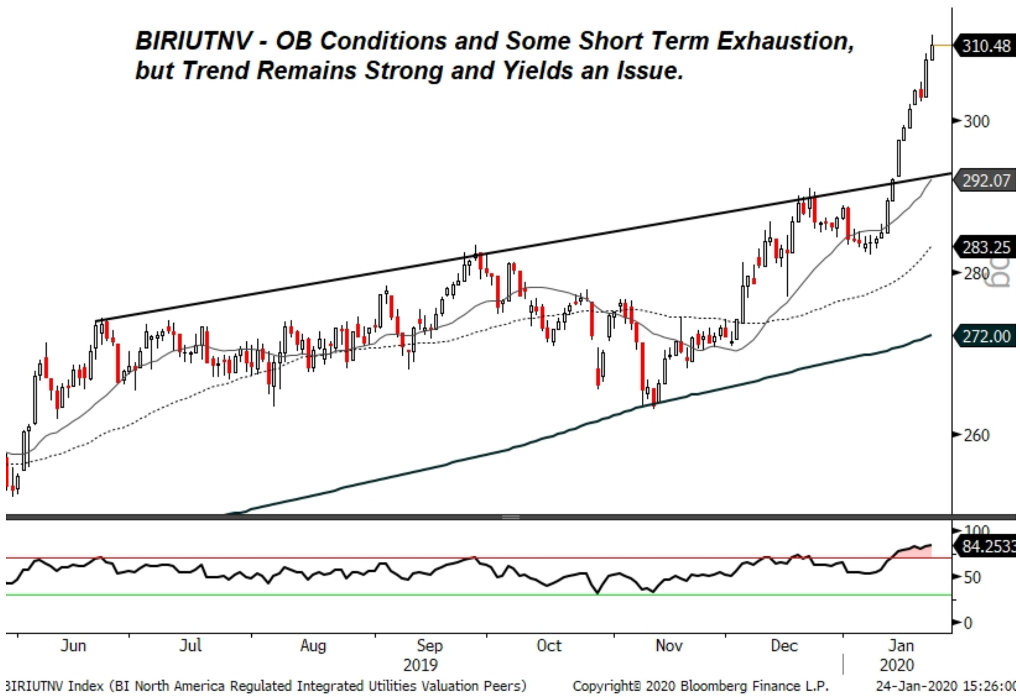
- **Our historic base case ("case 1") assumed an orderly transition to higher interest rates, with authorized ROEs falling to 9.25% from 9.75%, and 10- year Treasury yields rising over the next several years, resulting at the end in a 2.25% spread between the return on equity and the calculated cost 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

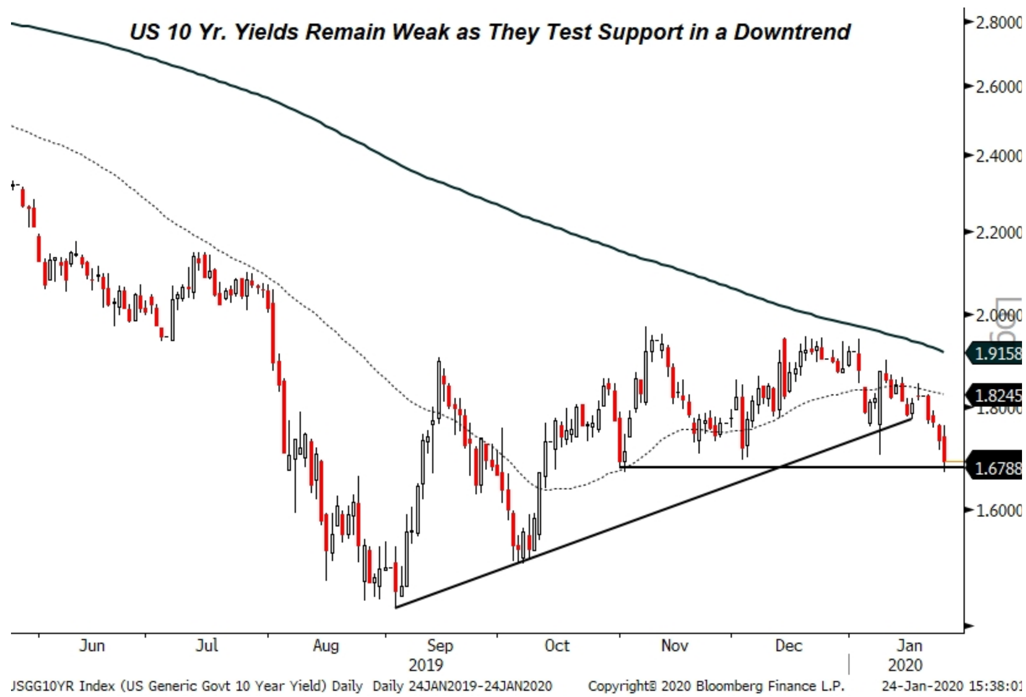
- BIRIUTNV - While the presence of extreme overbought conditions and a modicum of short term exhaustion along with the broader market suggest and inflection lower might be nearing, both trend and pattern remain strong and the ongoing decline in yields an issue for the sector. RSI is like the technicians 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

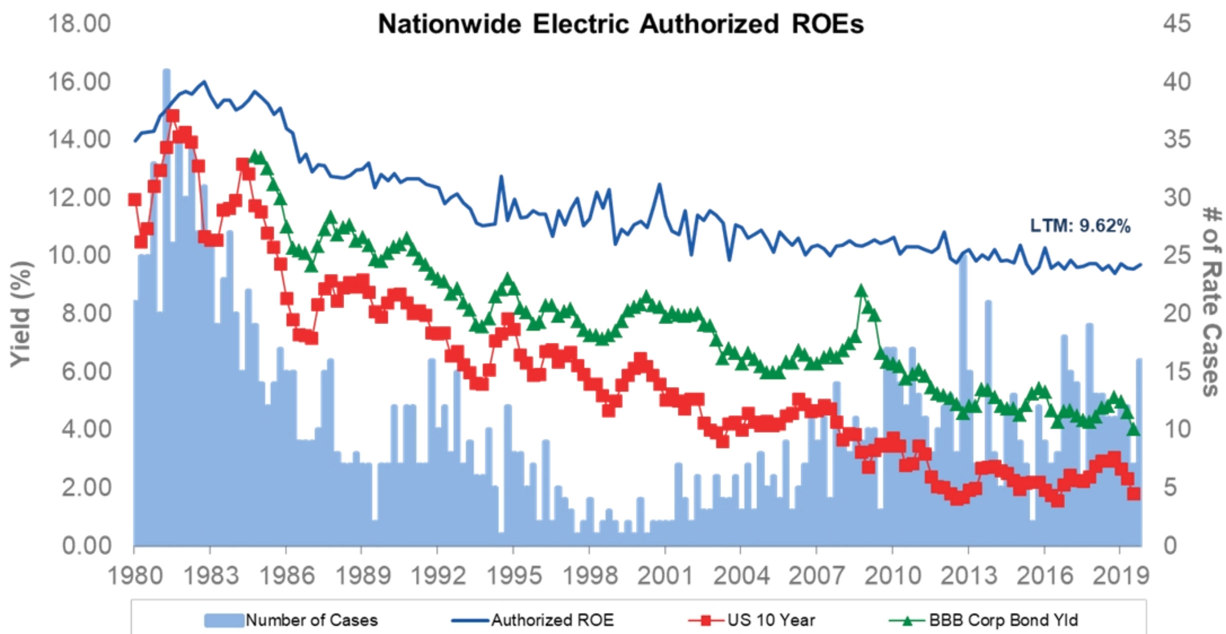
According to our Chief Economist Ed Hyman, with global short rates declining significantly over the past year, a synchronized global expansion now appears to be unfolding. Over the past six months, there have been 71 EM central bank easings, including most recently by Turkey, South Africa, and Malaysia. 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. <u>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,</u> 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).**

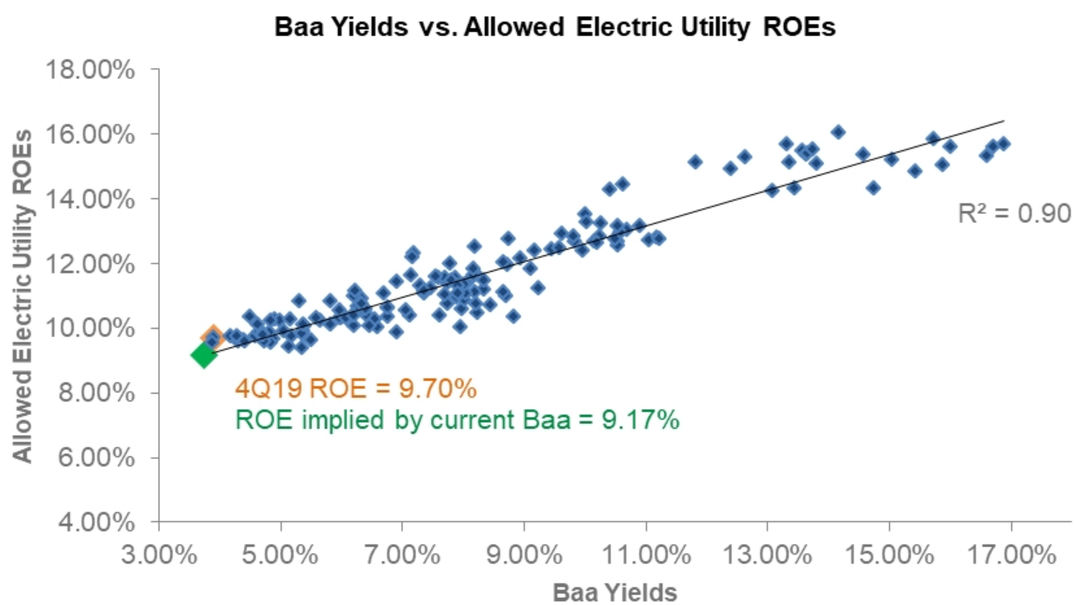


Updated as of 1/24/20 close

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

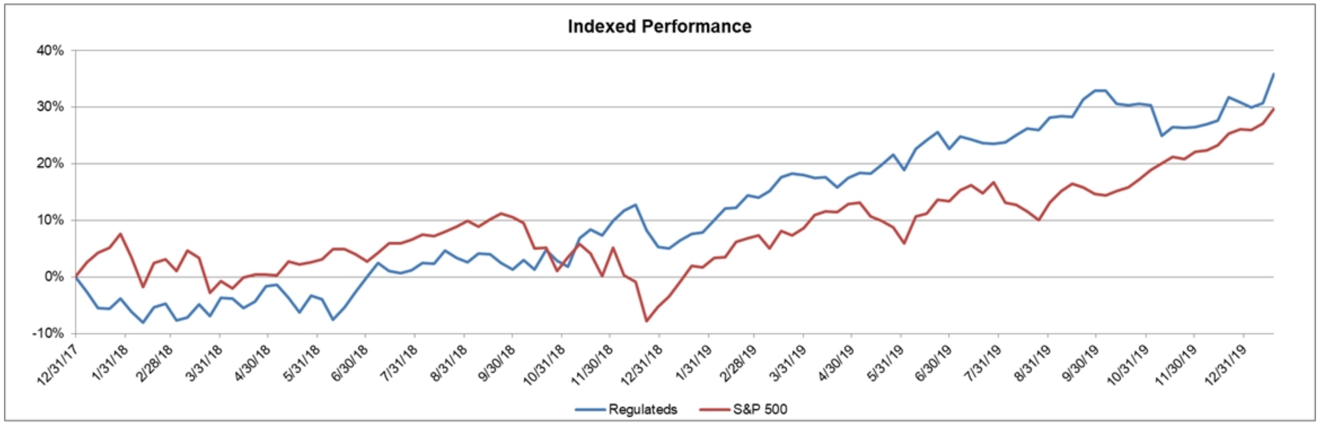
- **Below we show regulatory risk by estimating the EPS impact of a 25bp change in authorized/earned ROEs for all utility holding companies we cover, assuming a 25bp cut in authorized / earned ROEs for all their utility subsidiaries, whether they are in a rate review currently or not.**

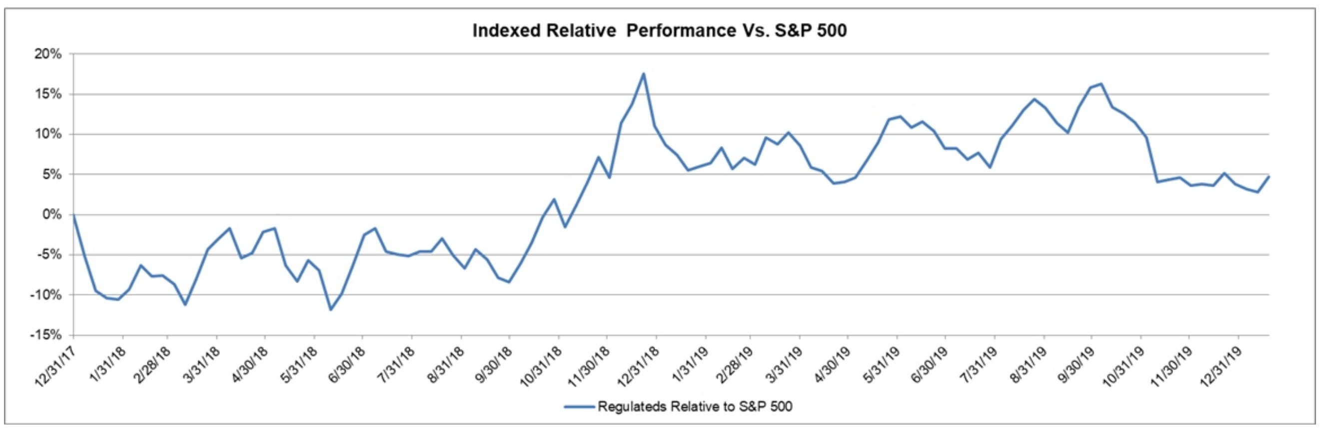
Total Theoretical Impact Of A 25bp Change In ROEs

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



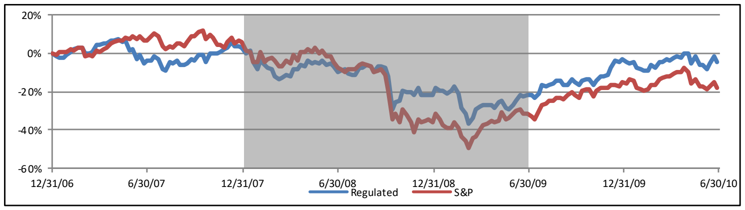


Updated as of 1/24/20 close, compounded return, 7 day intervals

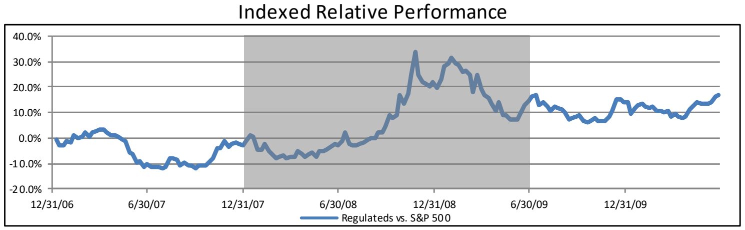
Source: FactSet, Evercore ISI Research

History Lesson: Utilities Outperformed Before The Last Recession, During The Credit Crisis, And Out The Back End

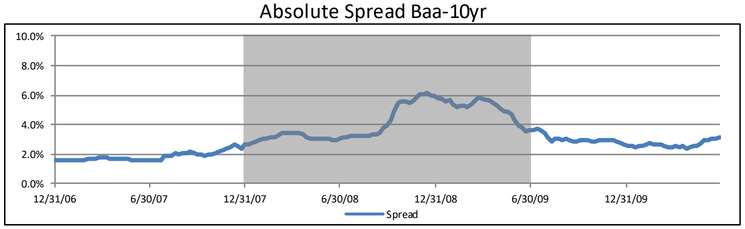
Indexed Performance



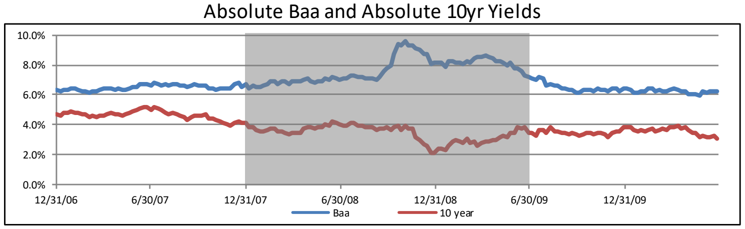
Indexed Relative Performance



Absolute Spread Baa-10yr



Absolute Baa and Absolute 10yr Yields

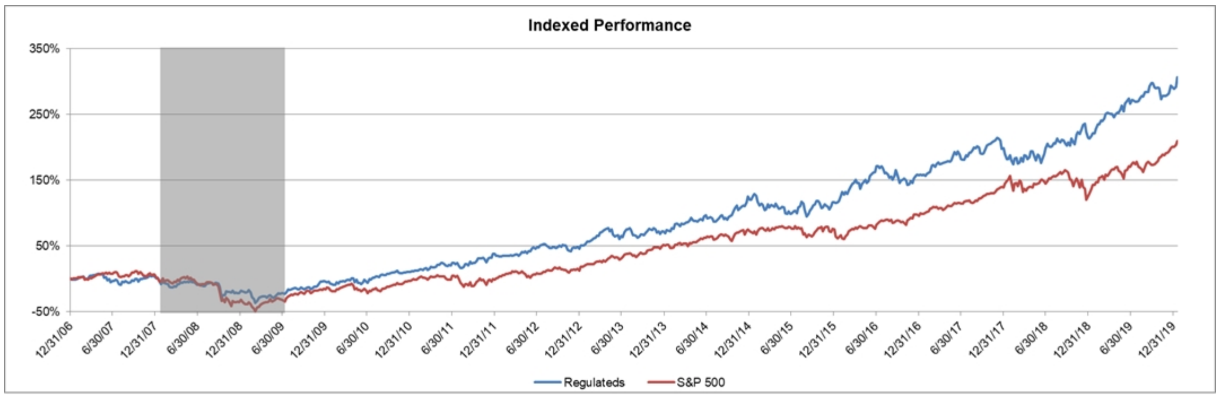


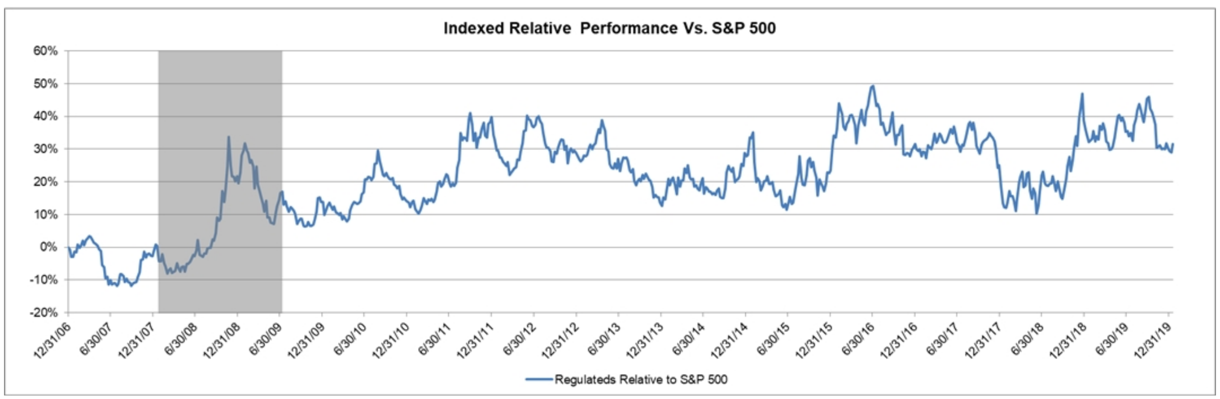
- On the charts to the left we show that regulated utilities outperformed the market in the latter half of '07 when they first peaked in valuation in our bond model (see page 15).
- From 6/30/07 through 12/31/07 utilities were up 6.3% vs. -1.4% for the SP500.
- Then performance tracked somewhat tight 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.



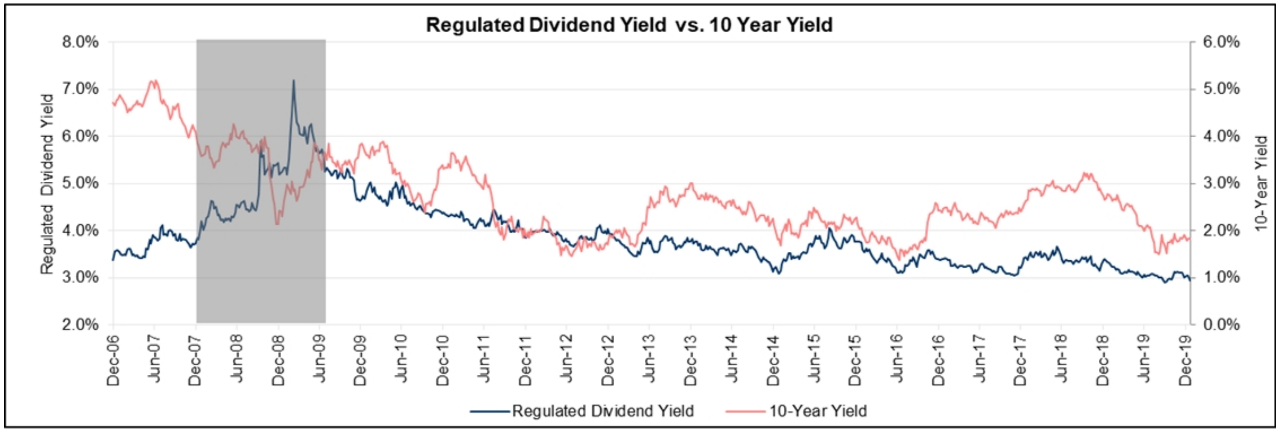


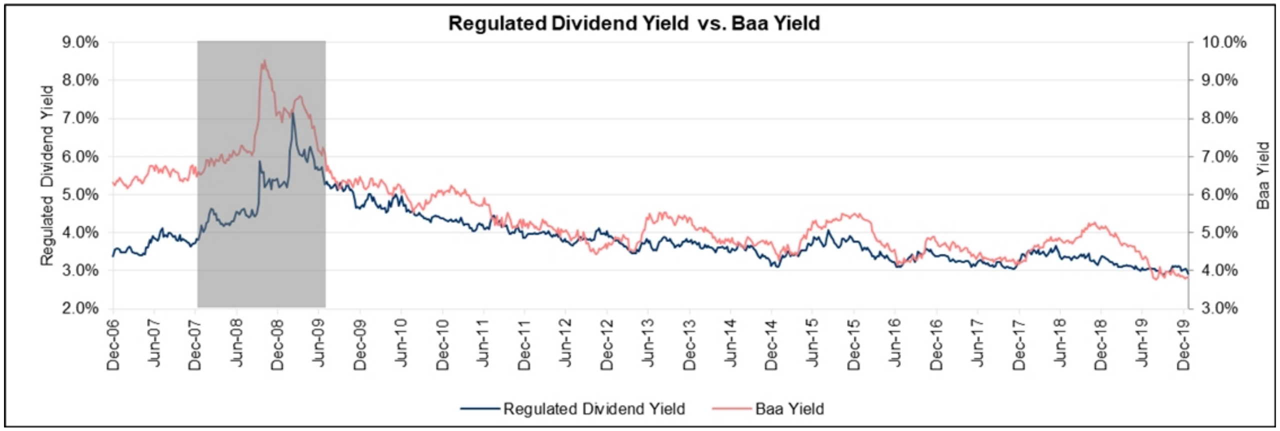
Updated as of 1/24/20 close

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

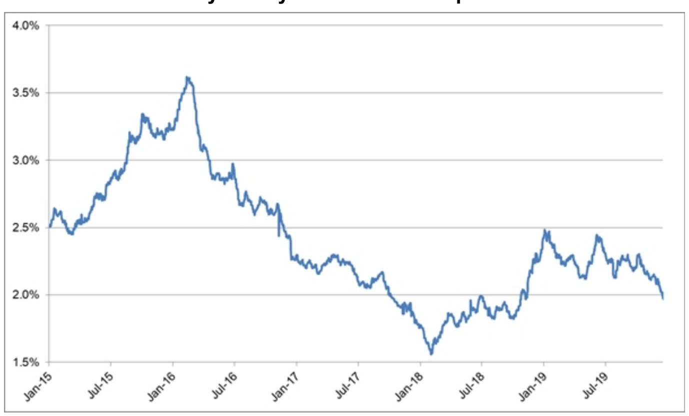
Source: FactSet, Evercore ISI Research

The Spread Between Corporates And Treasuries Has Narrowed

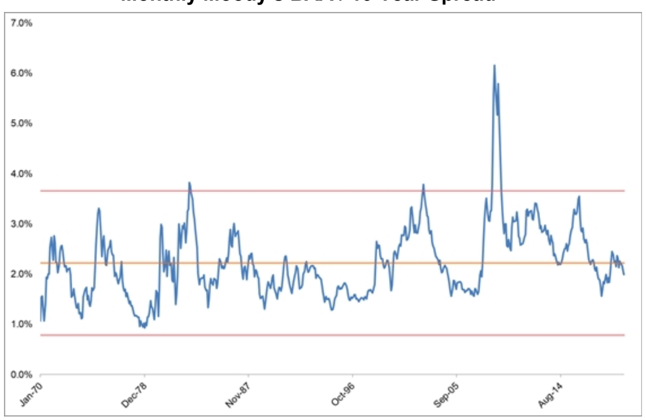
- The spread between corporates and Treasuries has averaged 222bp since 1970.
- At the beginning of 2015 the 10-year was ~2.2% and corporates were 4.7%, a spread of 250bp.
- The wide spread between US Treasuries and corporates was the key factor that made utilities look fully priced in our bond model 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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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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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 01/26/2020)

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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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.

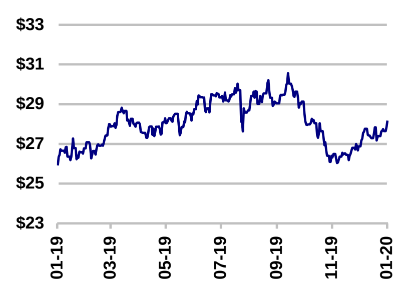
- **Risks – decarbonization, hiccup in MA or another safety event.** We see a debate over what the market wants to pay for gas businesses as decarbonization becomes a broader investor focus. Historically LDCs have traded at big premiums to electrics, but the gap has narrowed recently. This is the furthest 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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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.

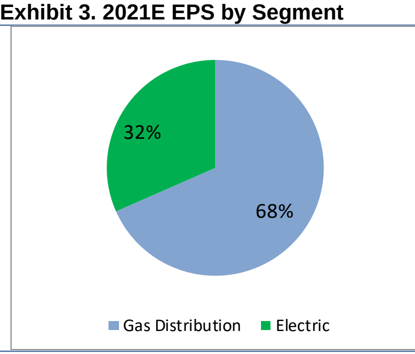
Investment Thesis

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

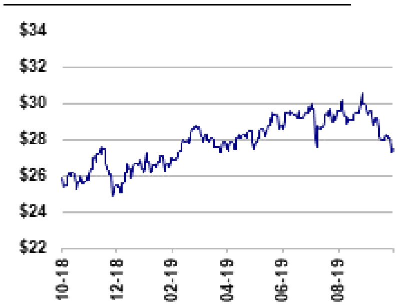
Our $31 price target is derived using a P/E multiple of 21x on our 2021E. This reflects a premium for NI's electric utility and an average for its gas LDCs Risks for NiSource are 1) further issues in MA 2) bad regulatory outcomes and 3) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer growth

Exhibit 3. 2021E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



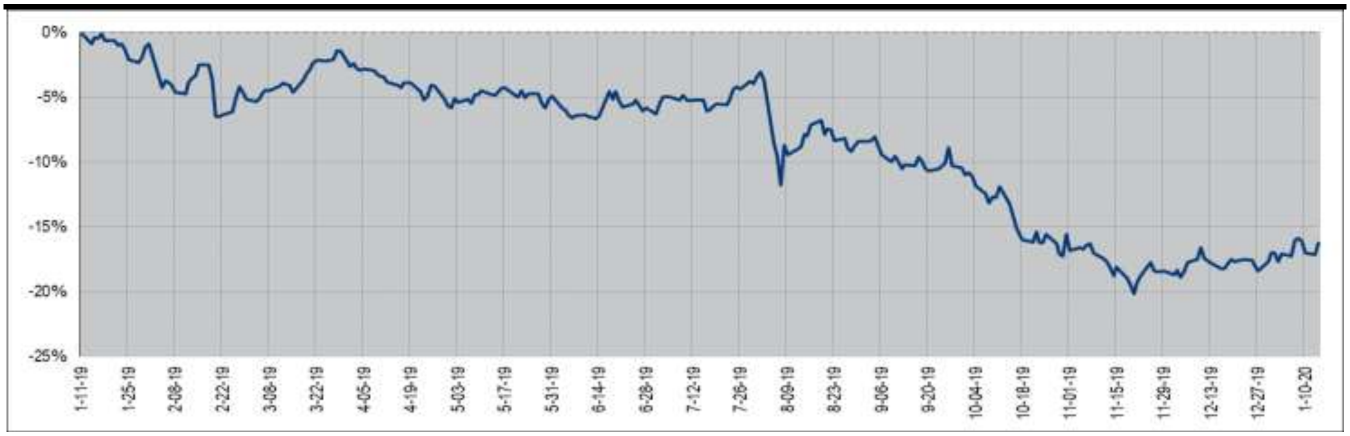
Source: FactSet

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		Current	Mkt Cap	P/E Multiple				Div	Div	Payout	Price/	Equity
Name	Ticker	Price	($M)	2019E	2020E	2021E	2022E	Yield	Growth (E)	Ratio	Book	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

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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, pipeline safety accidents

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
NI US Equity	None

Other Disclosures:

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Peer Perform:	42%	2% Investment Banking Clients
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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

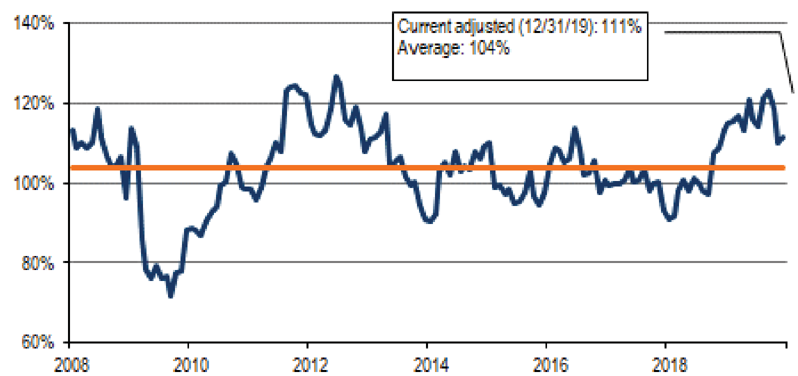
Source: FactSet, Wolfe Research

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

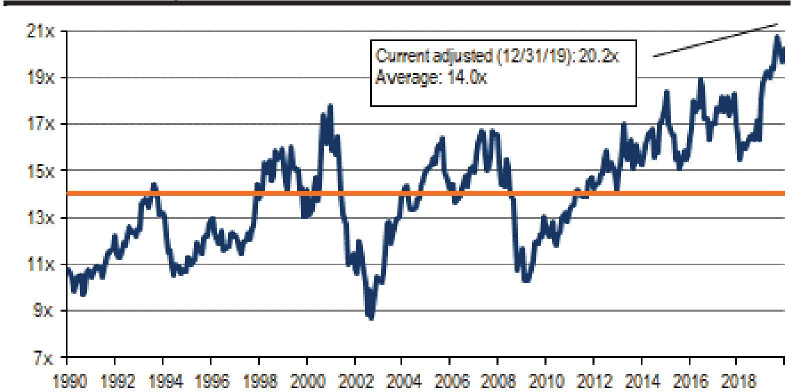


Source: FactSet, Wolfe Research

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

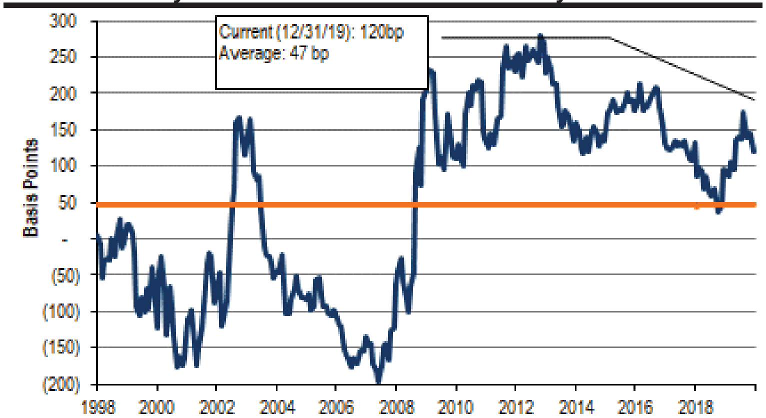


Source: FactSet, Wolfe Research

Yield valuations

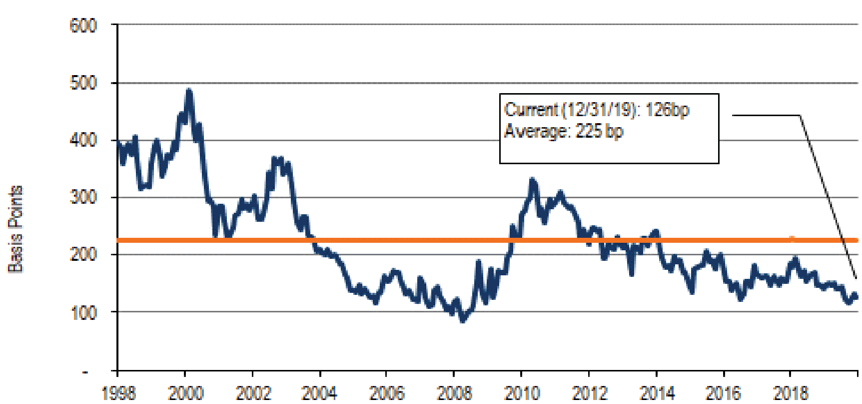
Finally, we show yield valuations in Ex. 9 and 10 below. Utilities still look cheap to Treasuries as an income play (what doesn't!). Compared to the S&P 500, utilities look expensive on a yield basis at only 126bps above the S&P yield vs a historic average of 225bp. Many high-quality utilities now have 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

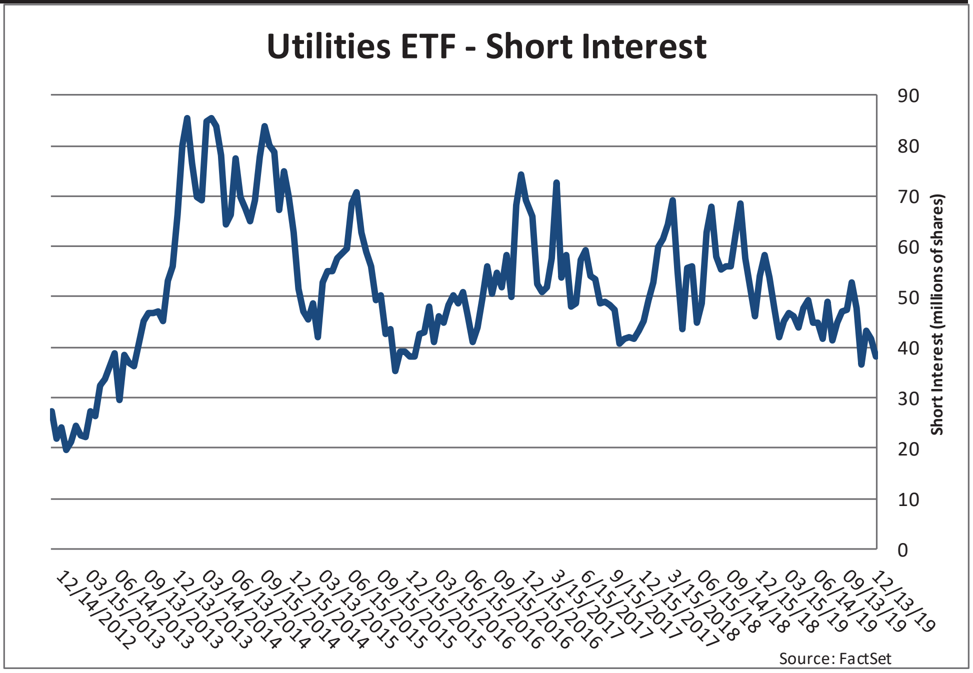


Source: FactSet, Wolfe Research

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.

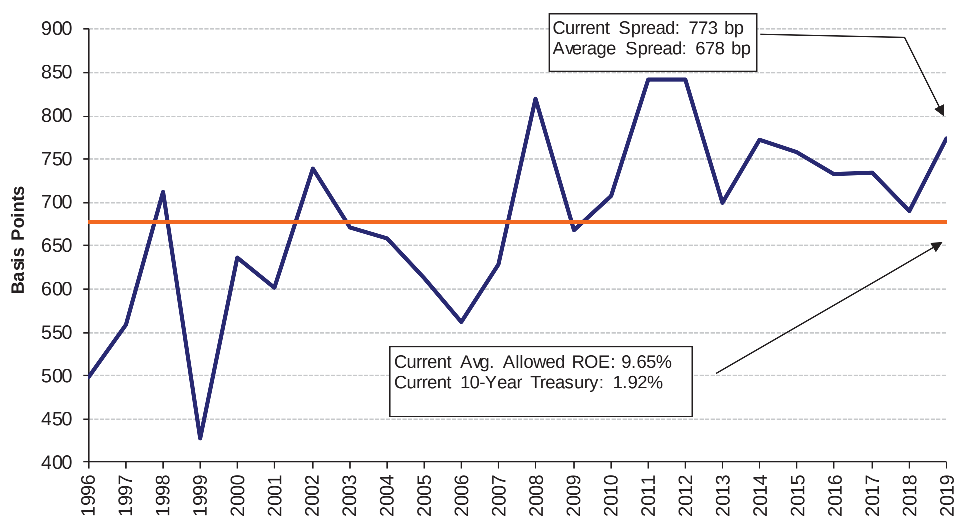
4) **EIX specific items** – EIX still is facing claims from 2017-18 fires. We believe EIX has time on its side to winnow down the gross claims. Given its position, we could see a settlement in past fire claims sometime this year, which would likely be viewed favorably. Regarding EIX's GRC, we expect 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

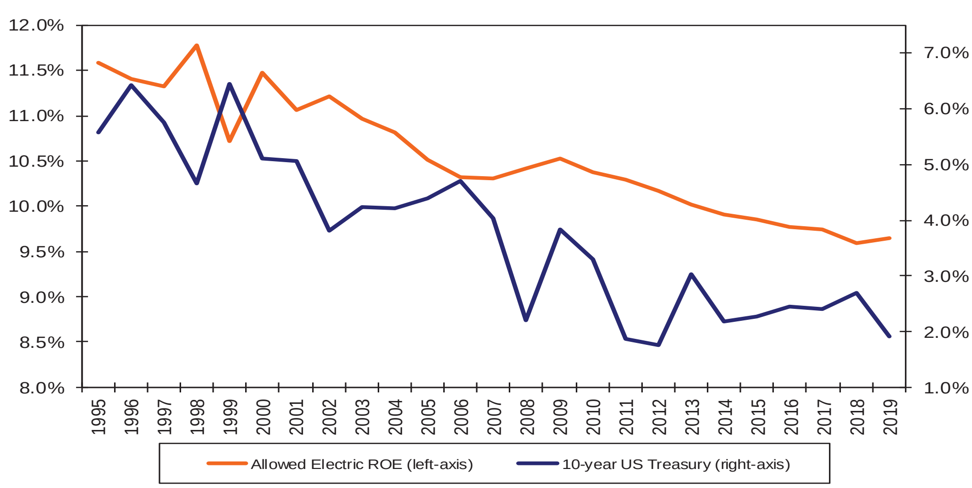
For the past several years, ROEs at the state level have been relatively sticky despite Treasury yields that have fluctuated. Typically, the spread between these two data points has trended directionally in tandem, though currently it sits near recent highs. This comes as allowed ROEs have averaged ~9.6% 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

January 7, 2020

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%		
				Current ROE	9.88%
Average Lower	6.57%	Average Lower - Mid Quartile	8.18%	Pass or Fail?	Fail
Average Upper	10.86%	Average Upper - Mid Quartile	9.25%	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	$ Δ in 2021 EPS 100bp Δ ROE	% Δ in 2021 EPS 100bp Δ 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	2020E	2021E	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	2020E	2021E	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	2020E	2021E	2022E	Free Cash Flow Yield 2019E	2020E	2021E	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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NiSource Inc

Upgrade to Buy: Mass bookend with an Indiana renewables kicker

Rating Change: BUY | PO: 31.00 USD | Price: 27.39 USD

07 January 2020

Equity

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.

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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. 12079620

Timestamp: 07 January 2020 06:51AM EST

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 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%	4.2%
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)

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	2.5x	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* 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. 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

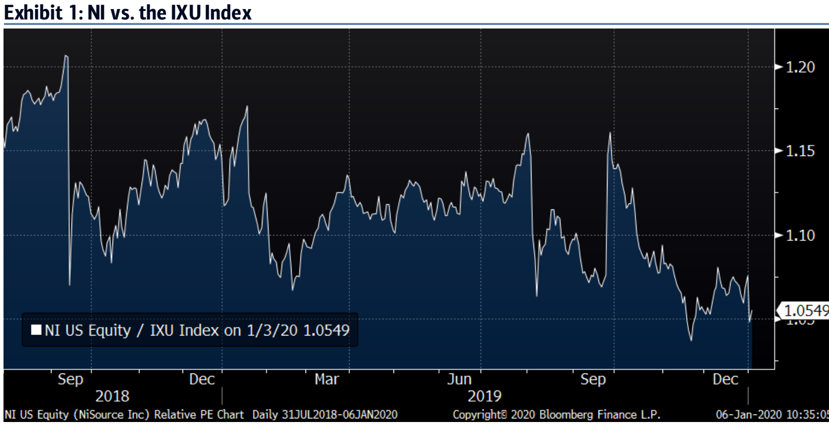
	2018	2019
Q1	0.77A	0.82E
Q2	0.08A	0.05E
Q3	0.10A	0E
Q4	0.38A	0.45E

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	
<u>Holdco Debt @ Parent, *not* allocated to Utilities</u>										
(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
	Clearw ay Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearw ay 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
	Ex elon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Nex tEra 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
	Sunnov a Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Viv int Solar	VSLR	VSLR US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Pow er & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Pow er & 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
	Nex tDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	Nex tEra 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 Serv ice 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
	Av angrid	AGR	AGR US	Julien Dumoulin-Smith
	Av ista	AVA	AVA US	Richard Ciciarelli, CFA
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Ev ergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Ev ersource Energy	ES	ES US	Julien Dumoulin-Smith
	Haw aiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	SunPow er Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Terraform Pow er	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

***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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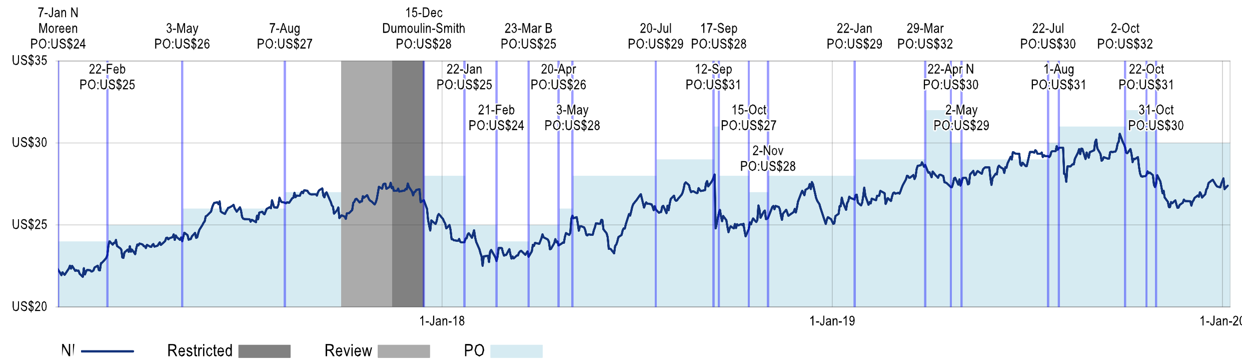
NiSource Inc (NI) Price Chart



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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%
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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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1/5/2020

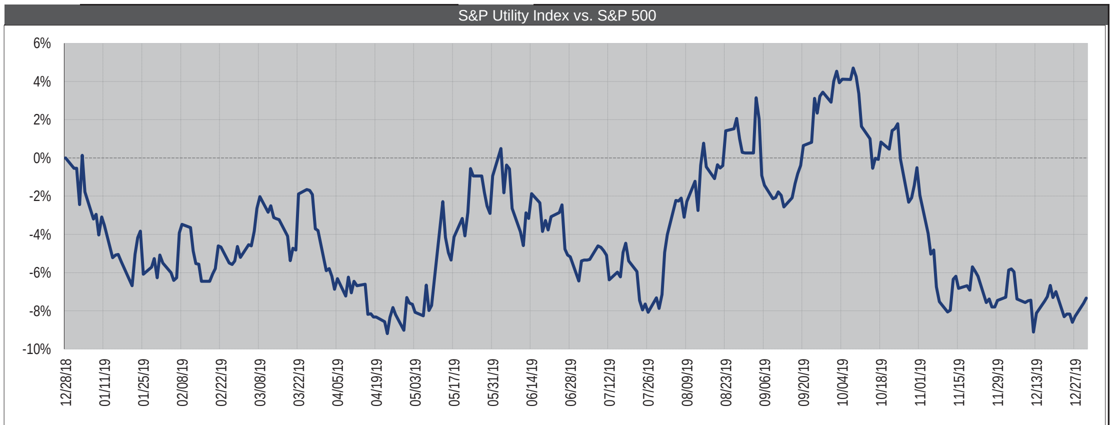
WOLFE RESEARCH

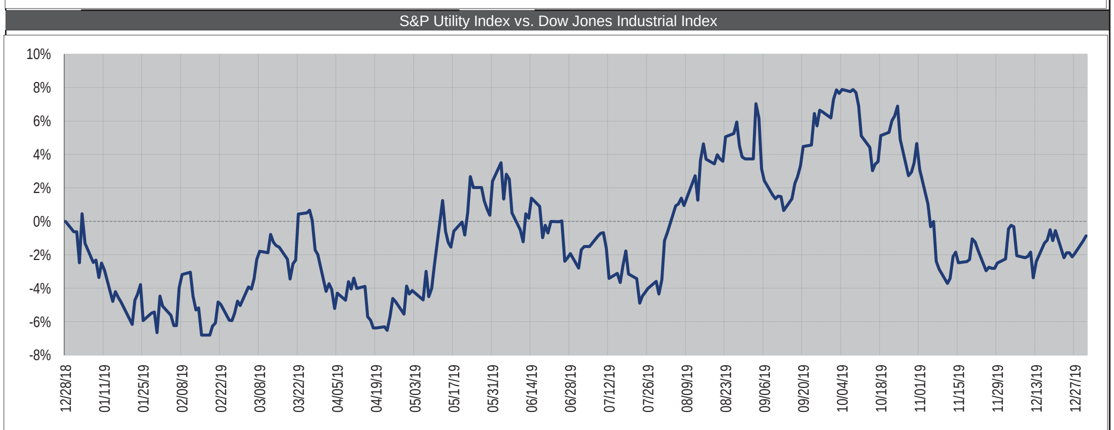
Table of Contents

WOLFE RESEARCH

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.

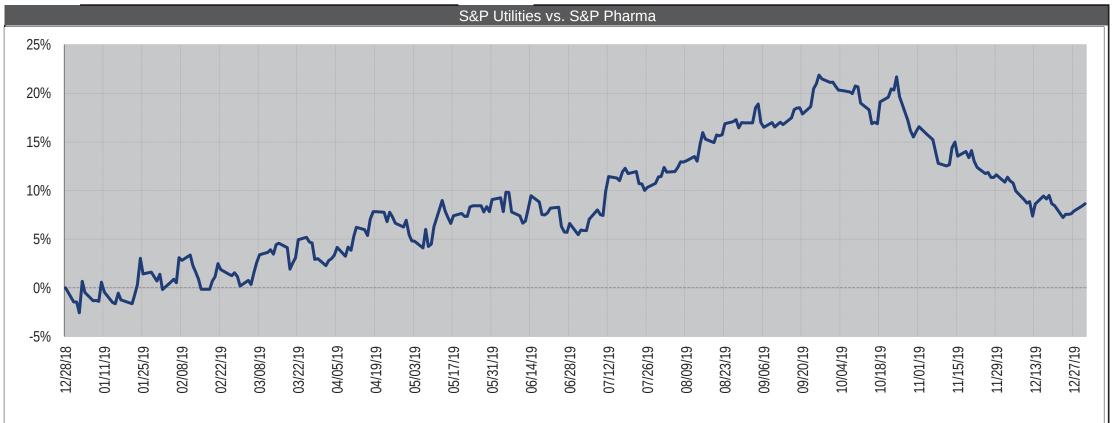


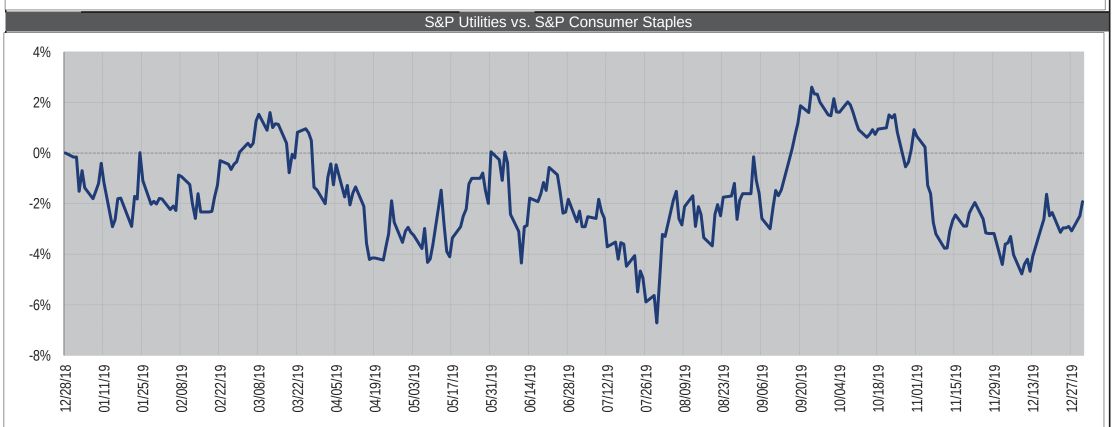


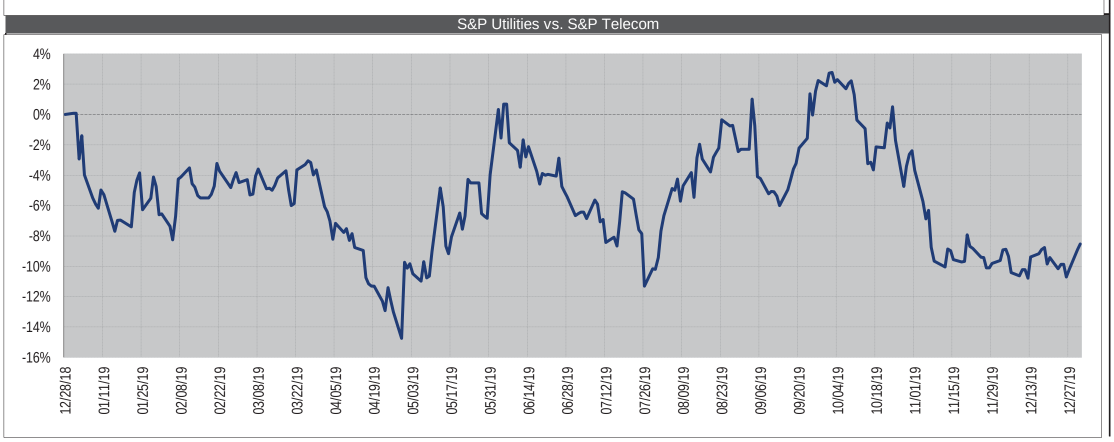
1/5/2020

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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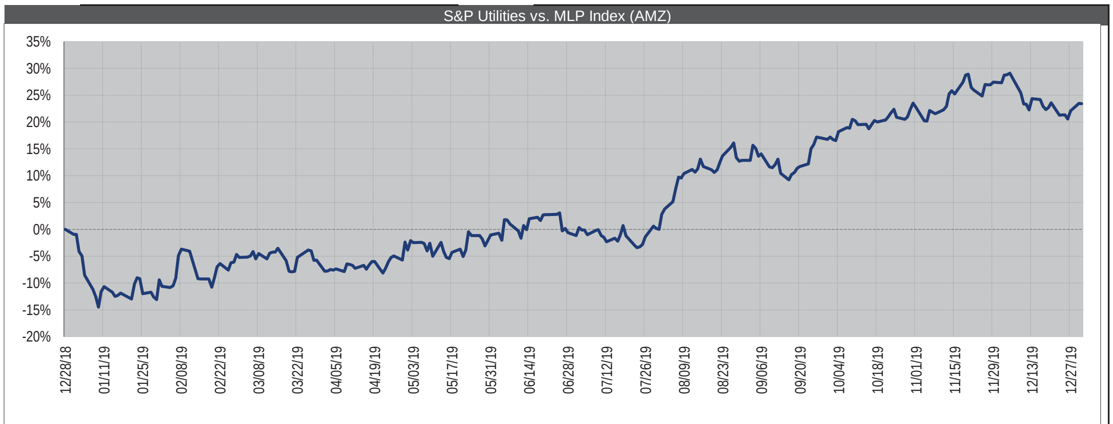
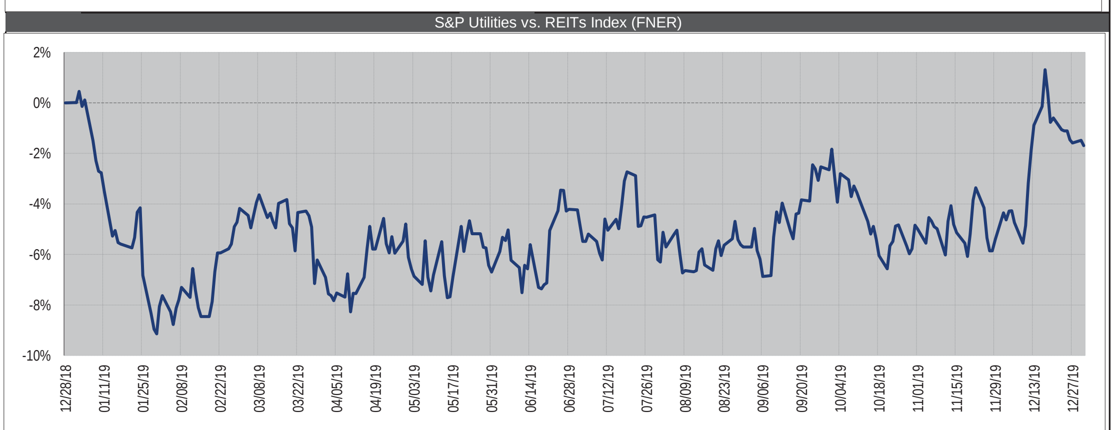
Utilities vs Other Sectors continued

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.





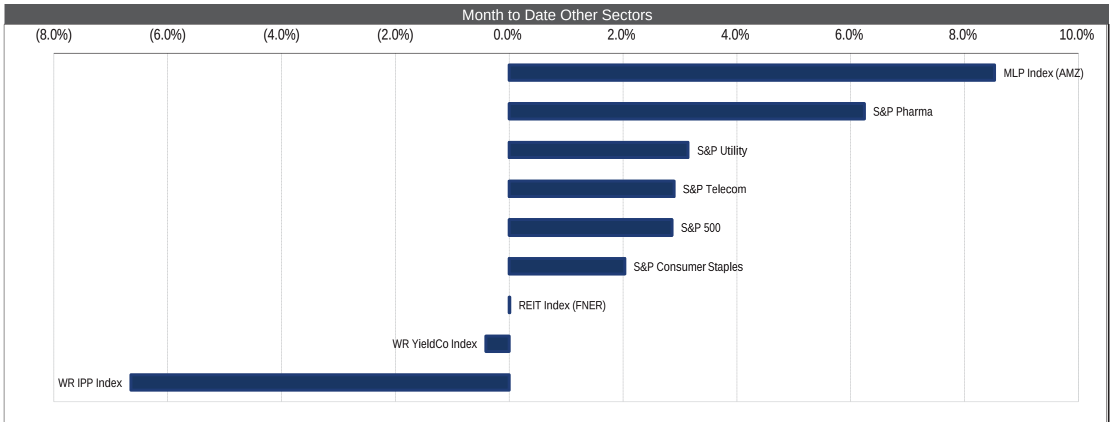
1/5/2020

WOLFE RESEARCH

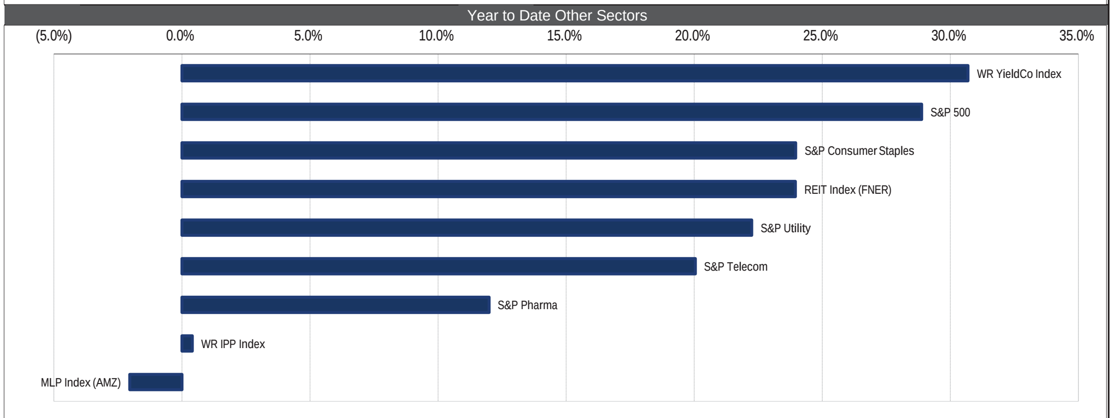
Month to Date and Year to Date performance of income sectors

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.

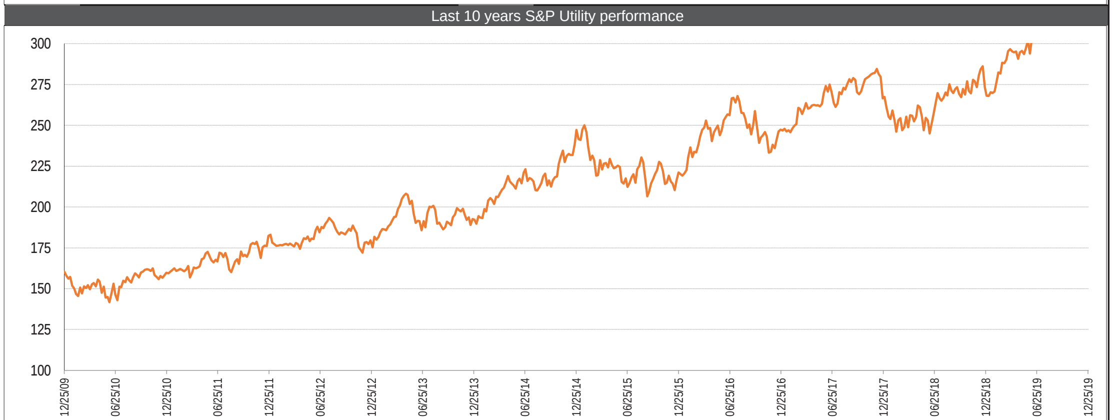
Month to Date Other Sectors



Year to Date Other Sectors



Last 10 years S&P Utility performance



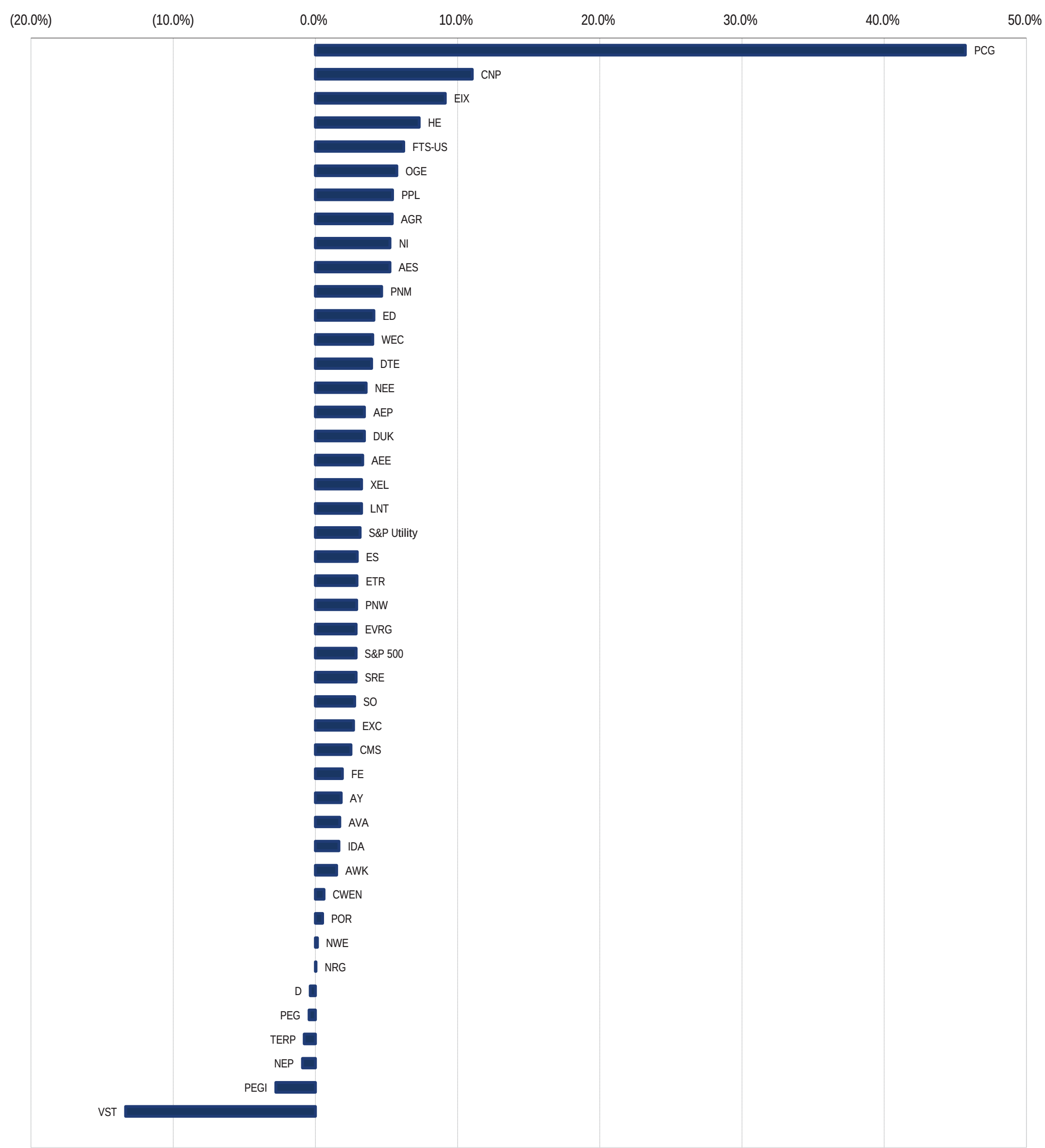
1/5/2020

WOLFE RESEARCH

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.

Month to Date Utilities

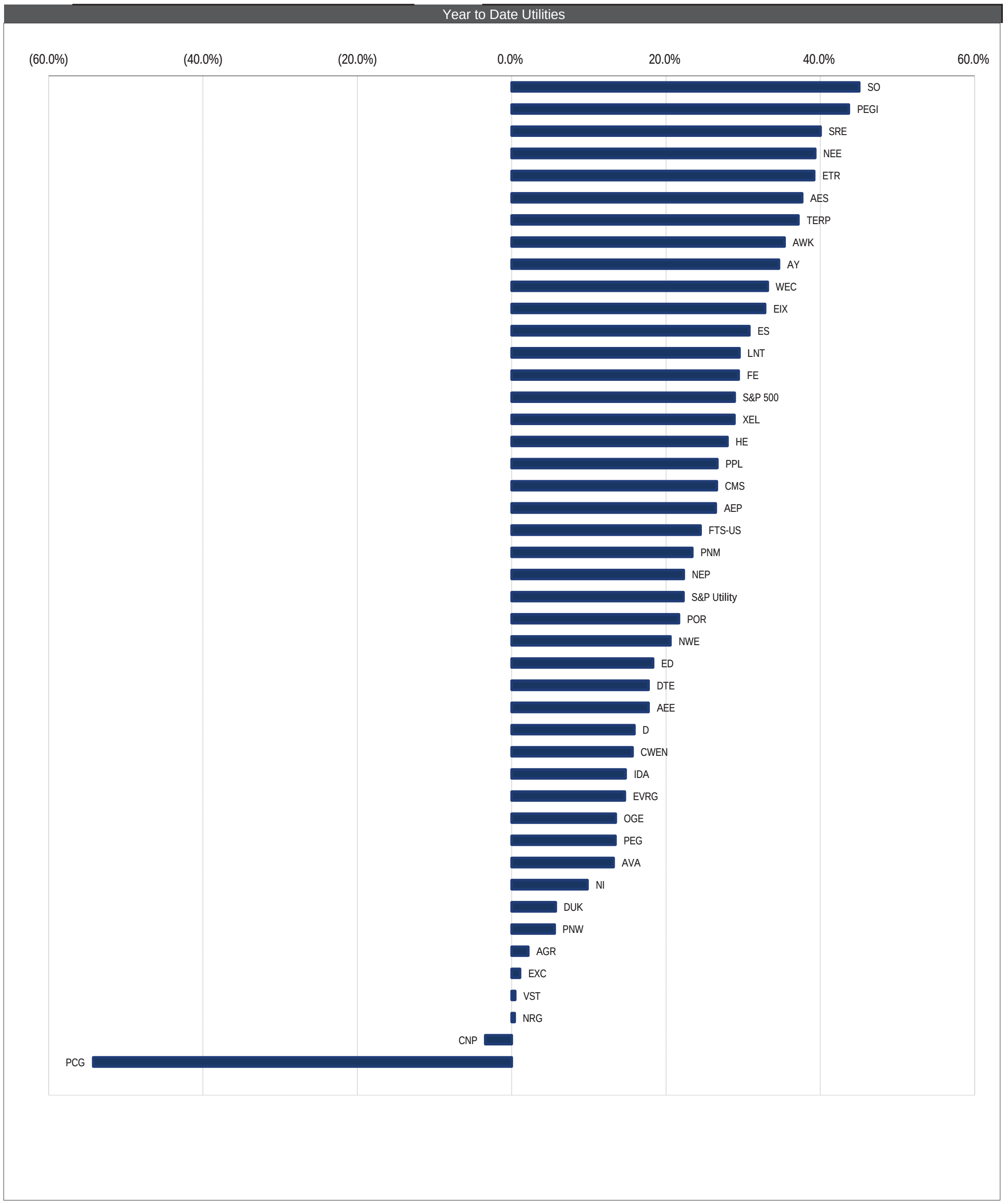


1/5/2020

WOLFE RESEARCH

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.



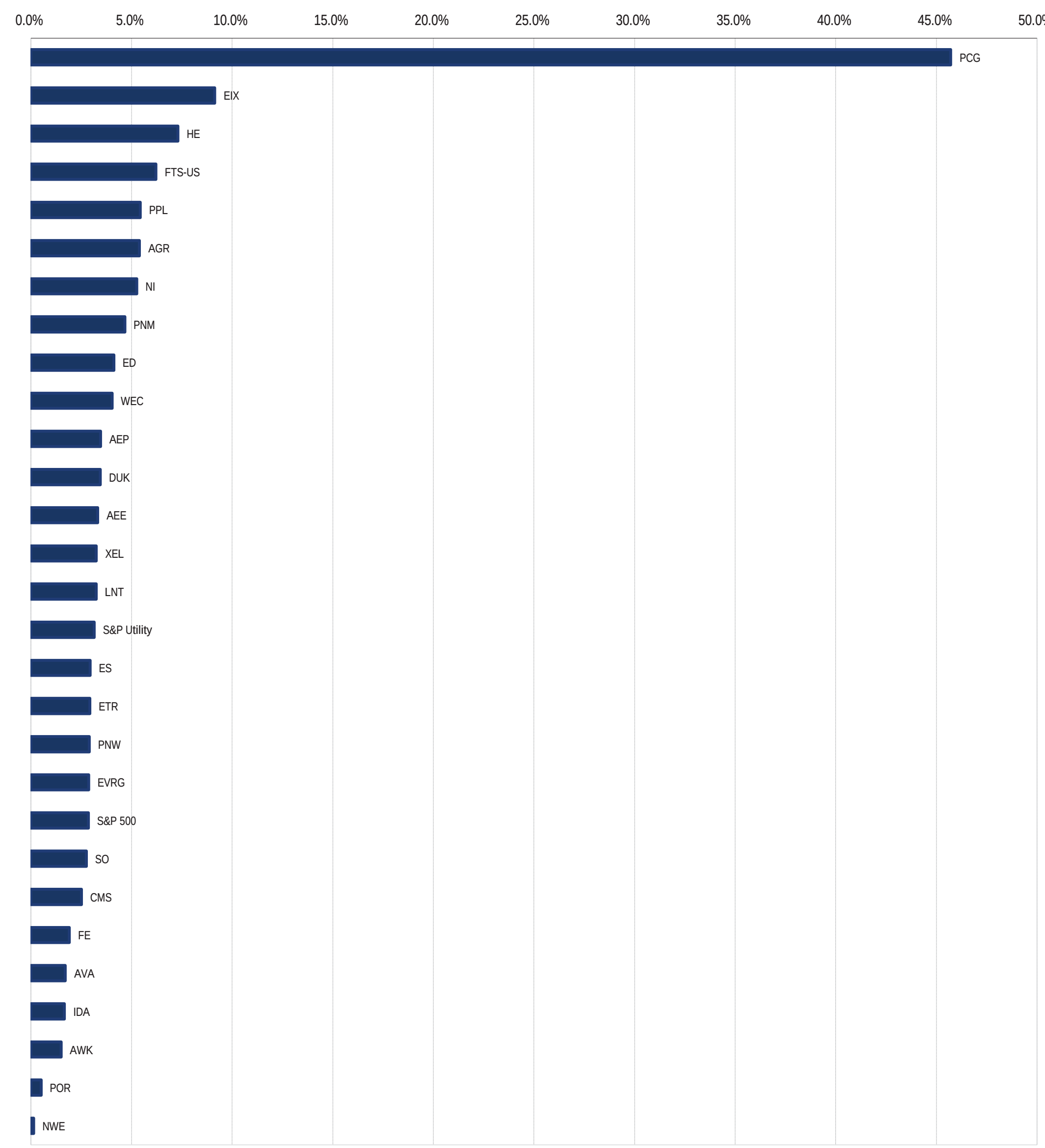
1/5/2020

WOLFE RESEARCH

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



1/5/2020

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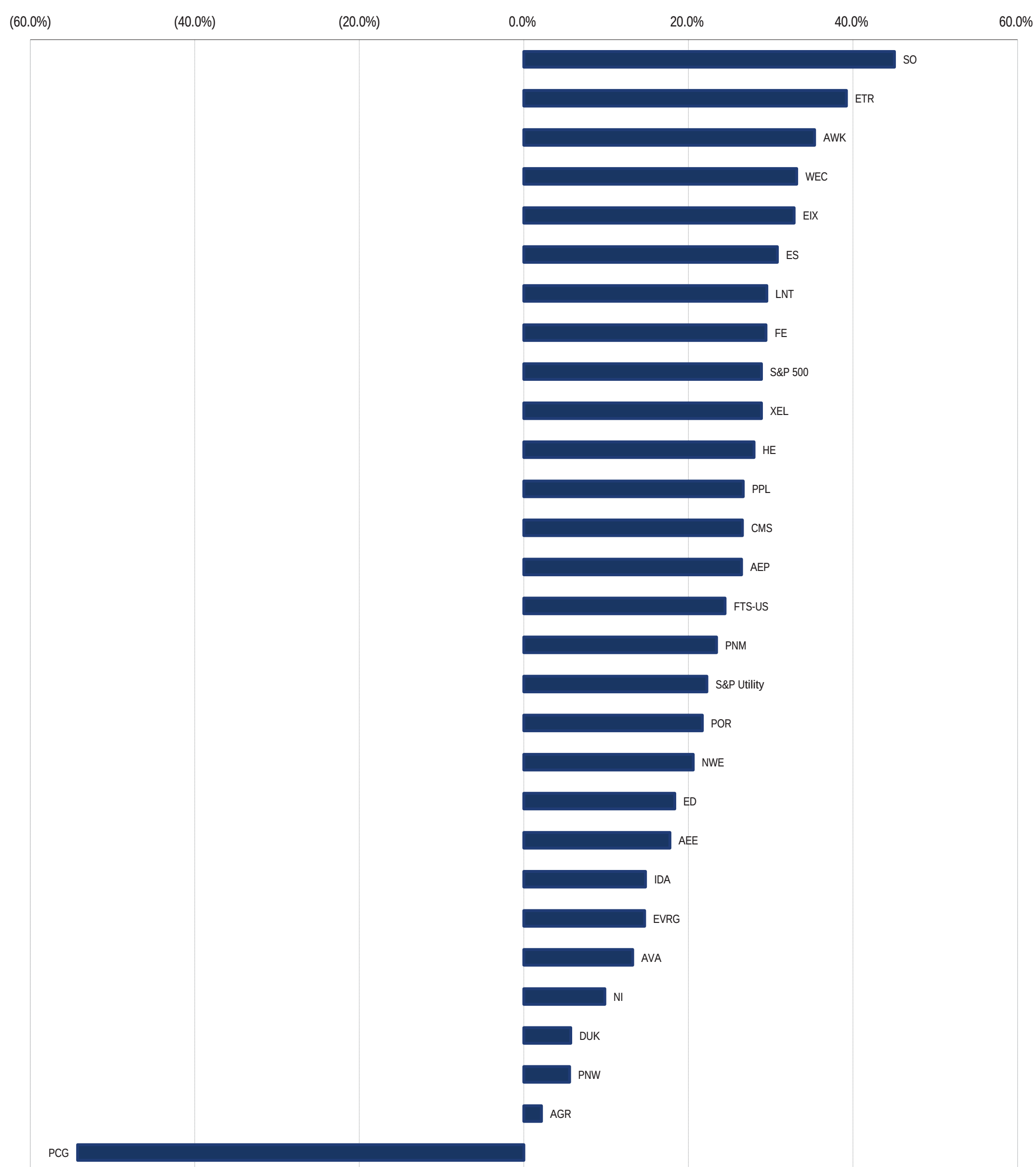
Year to Date performance of Regulated Utilities

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.

Year to Date Regulated Utilities

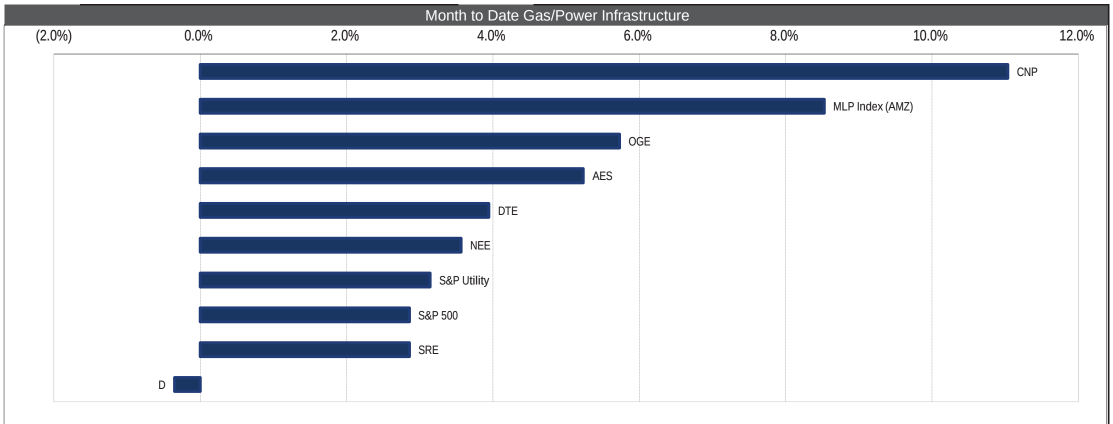


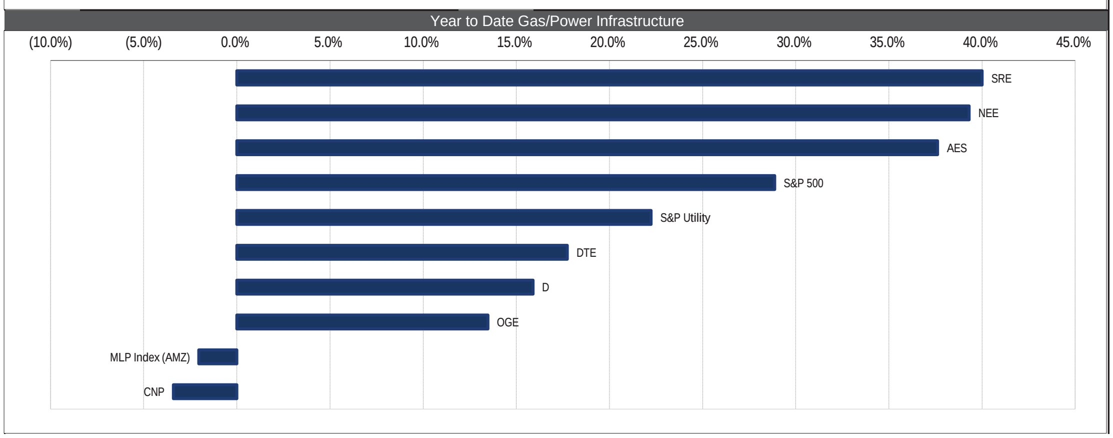
1/5/2020

WOLFE RESEARCH

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.





1/5/2020

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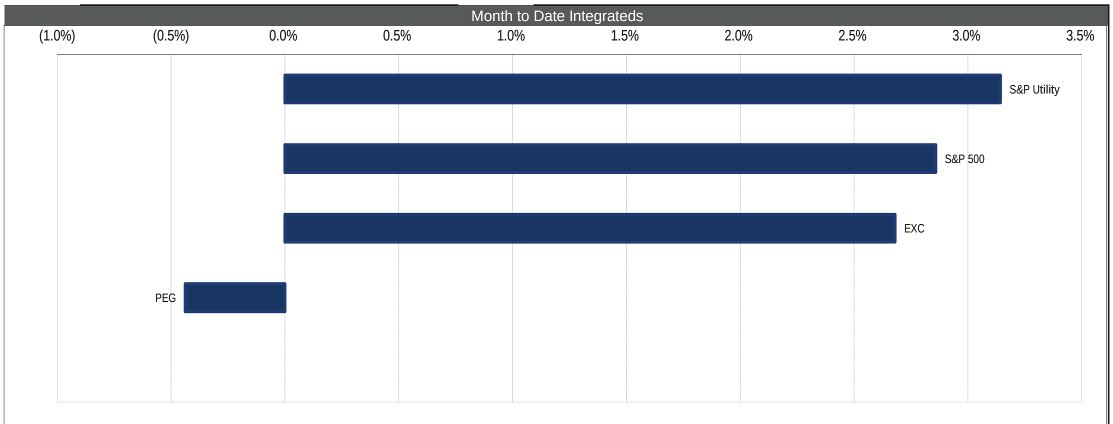
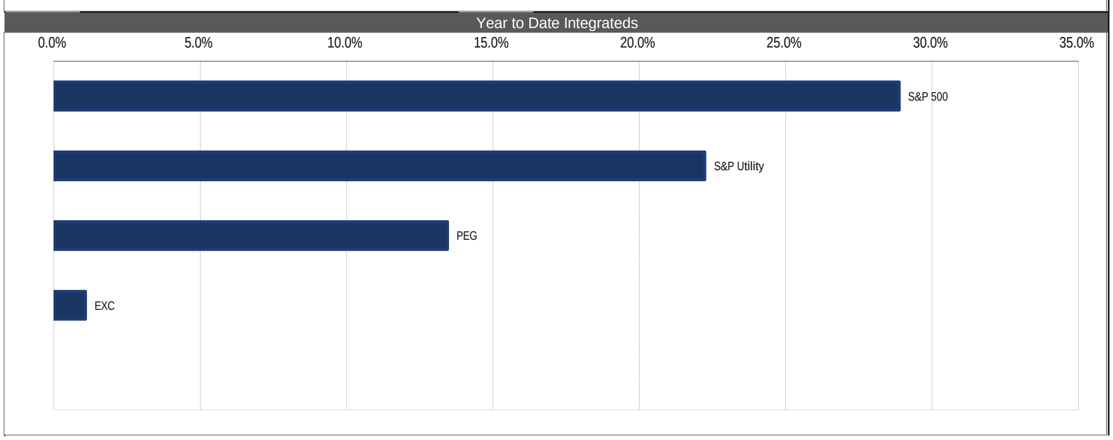
Month to Date and Year to Date performance of Integrateds

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.





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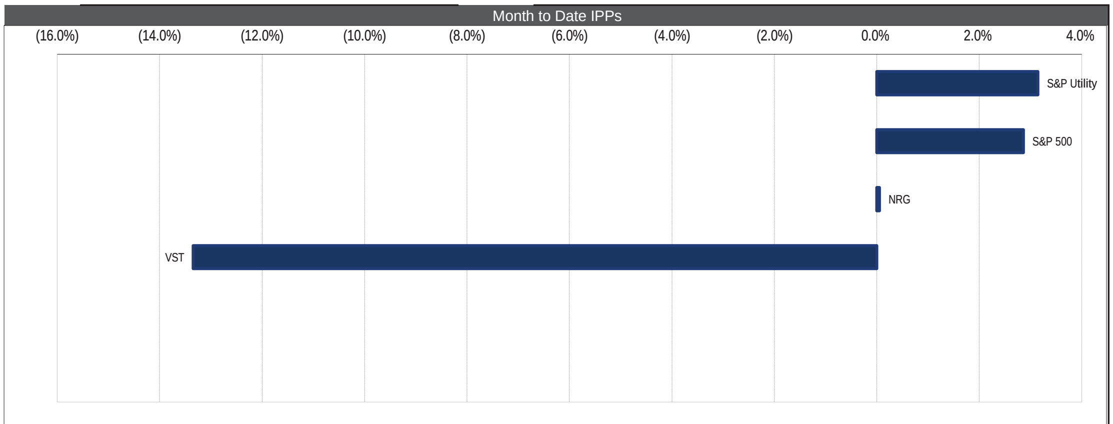
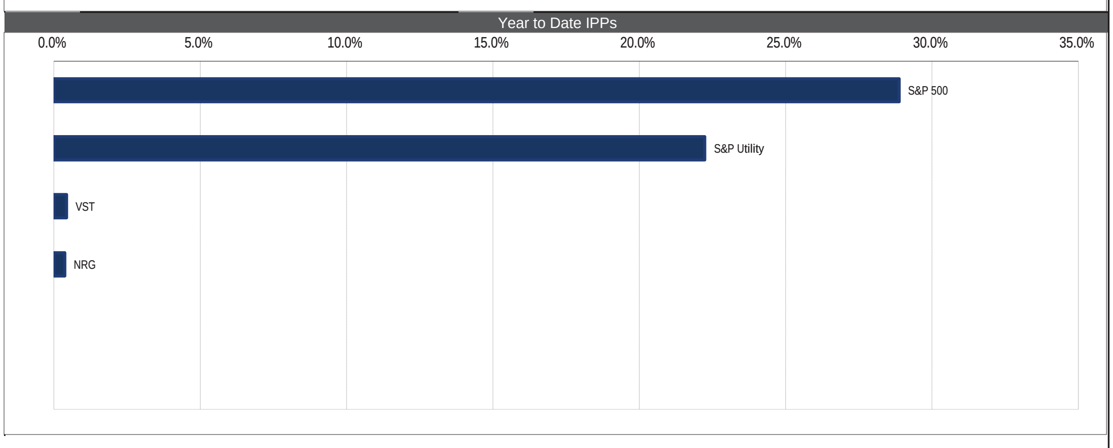
Month to Date and Year to Date performance of IPPs

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.





1/5/2020

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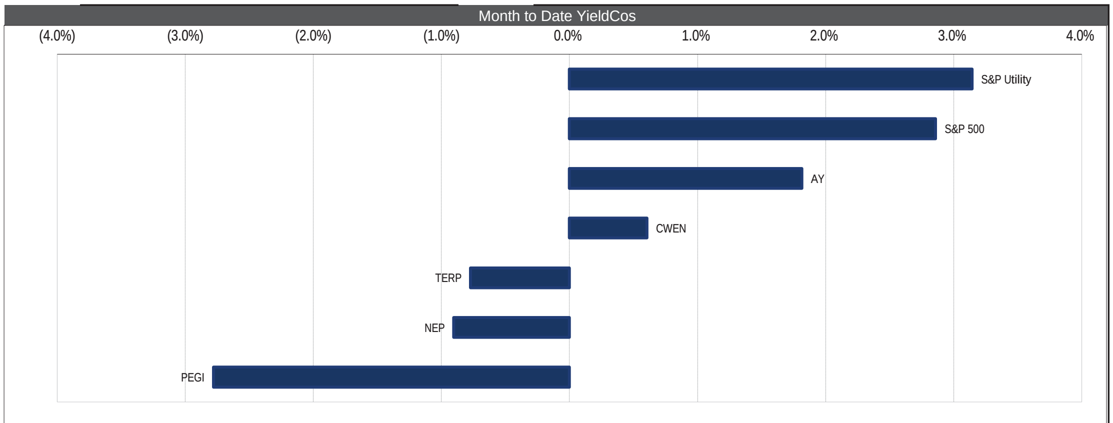
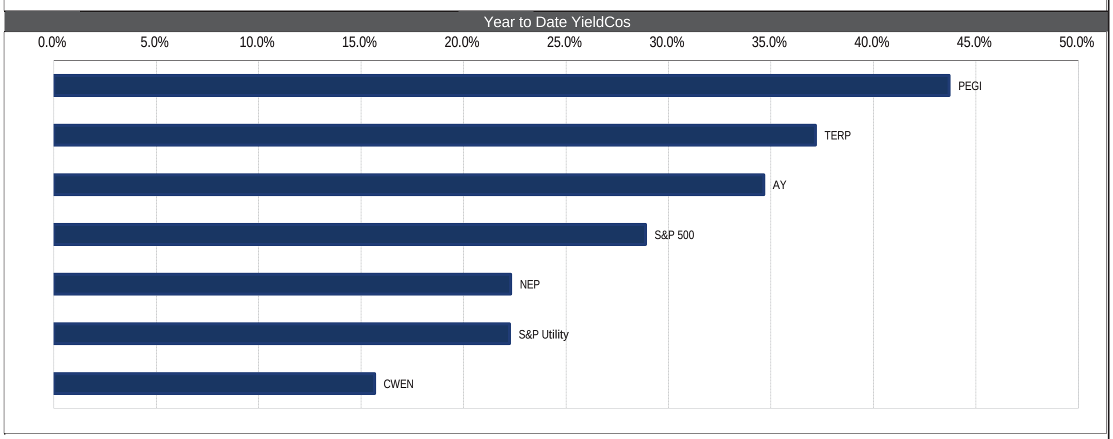
Month to Date and Year to Date performance of YieldCos

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.





1/5/2020

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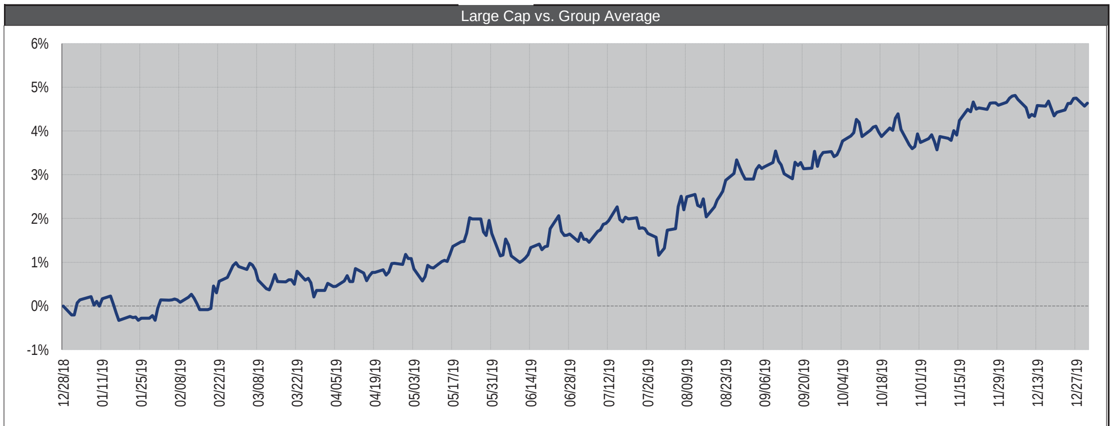
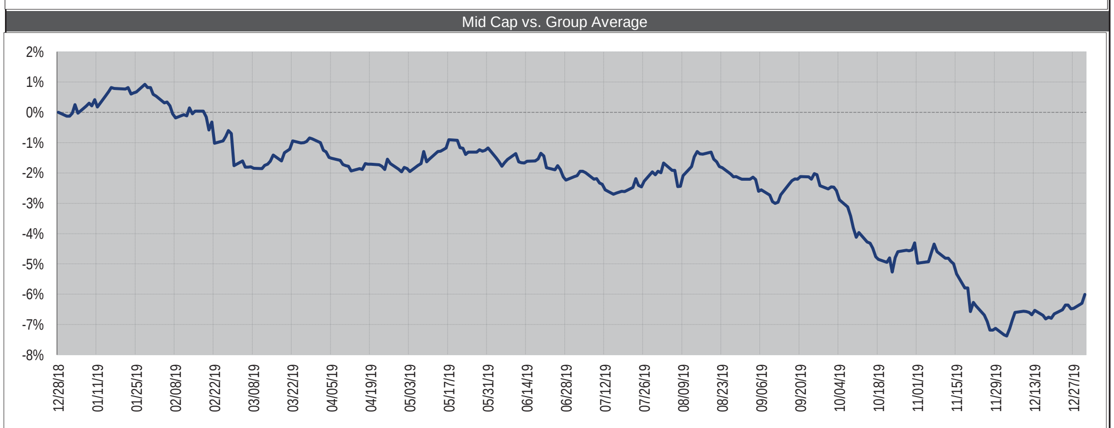
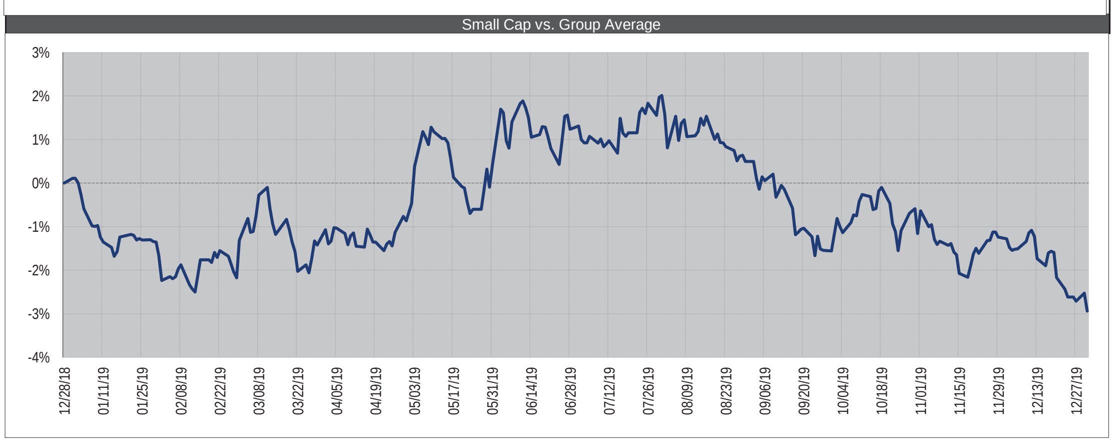
Utilities Performance by Market Cap

•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







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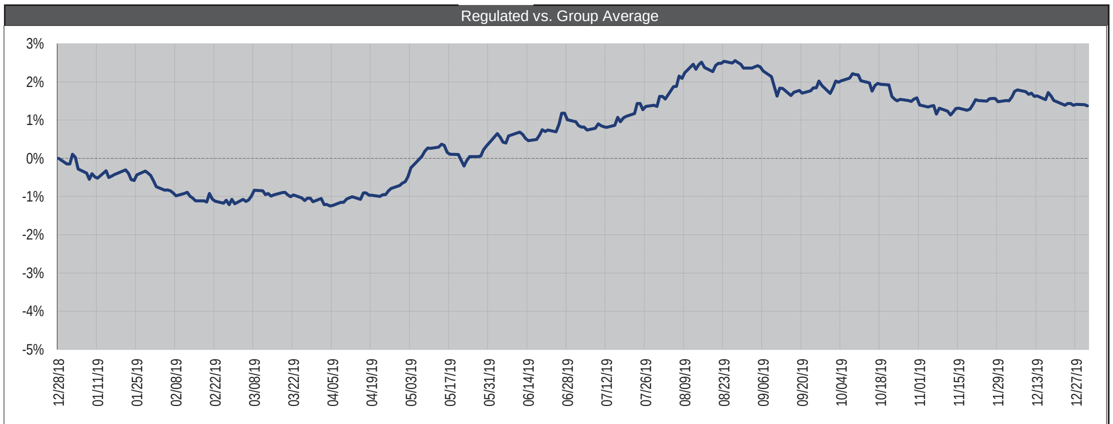
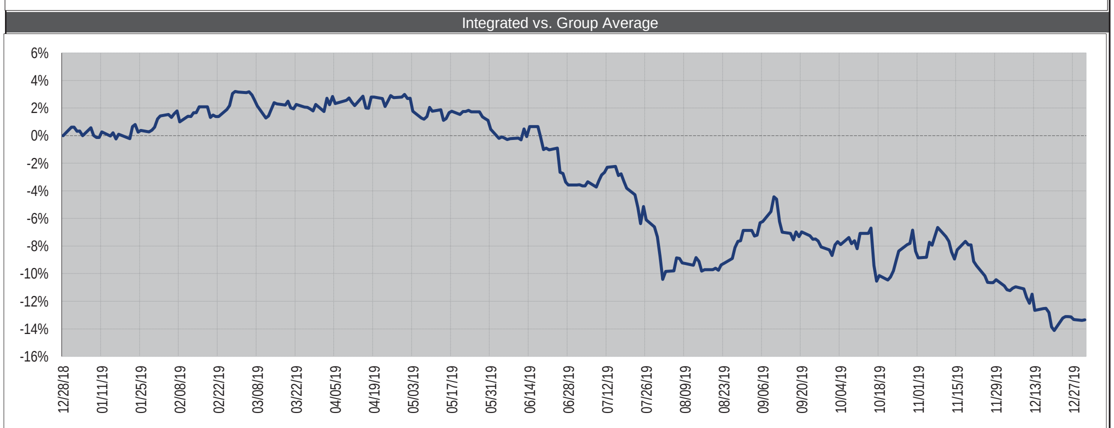
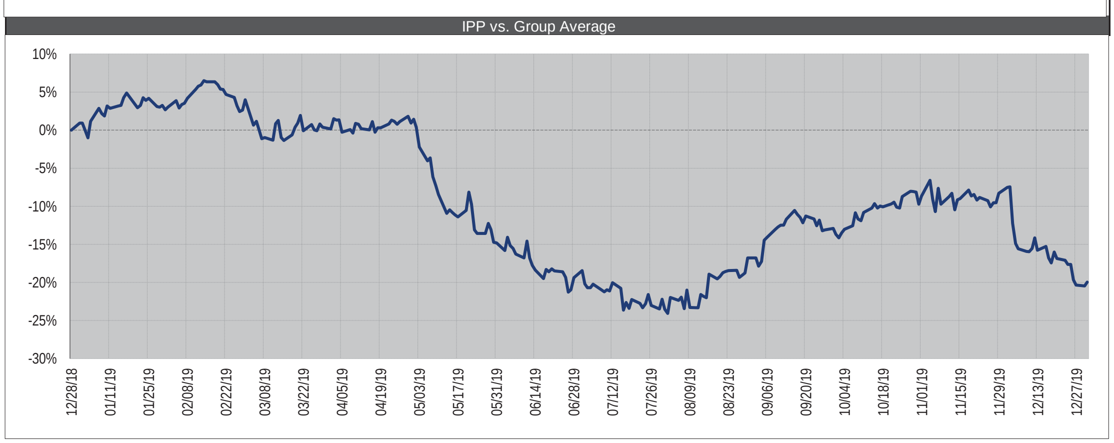
WOLFE RESEARCH

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







1/5/2020

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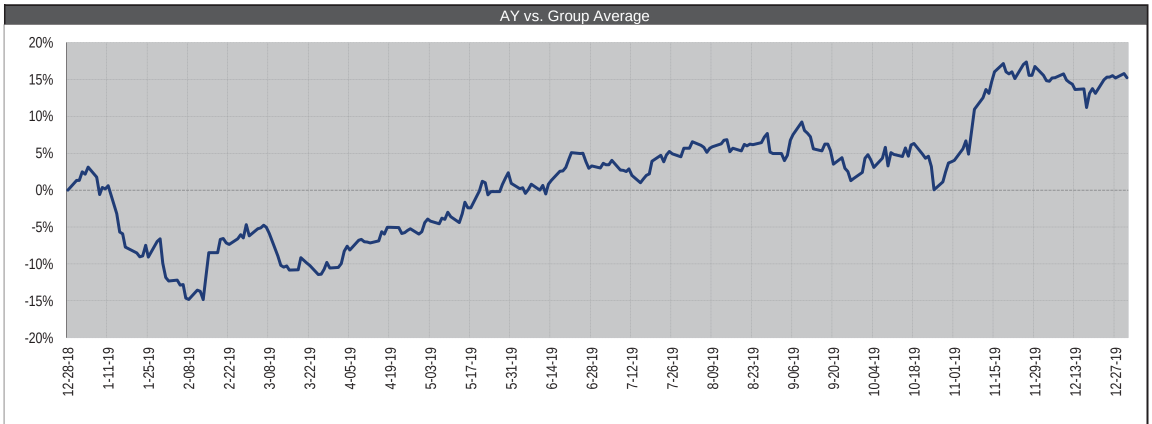
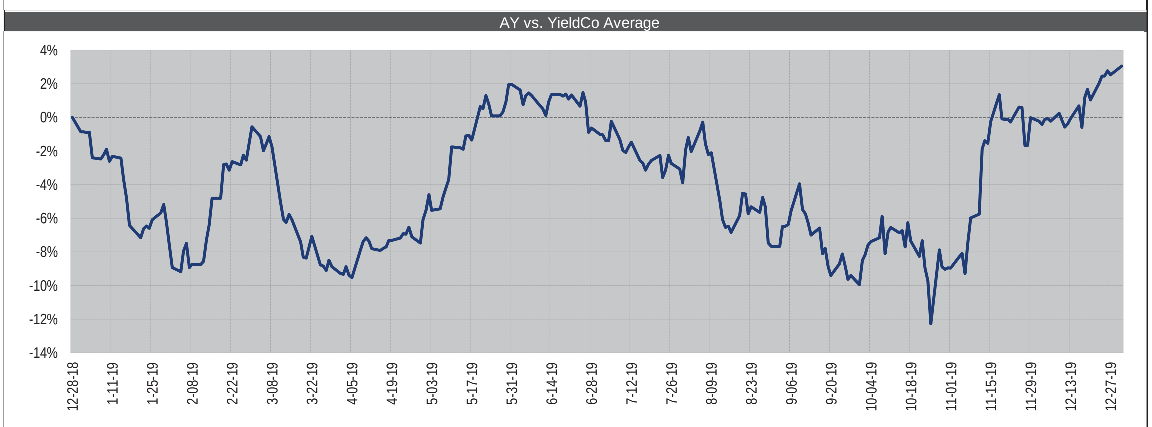
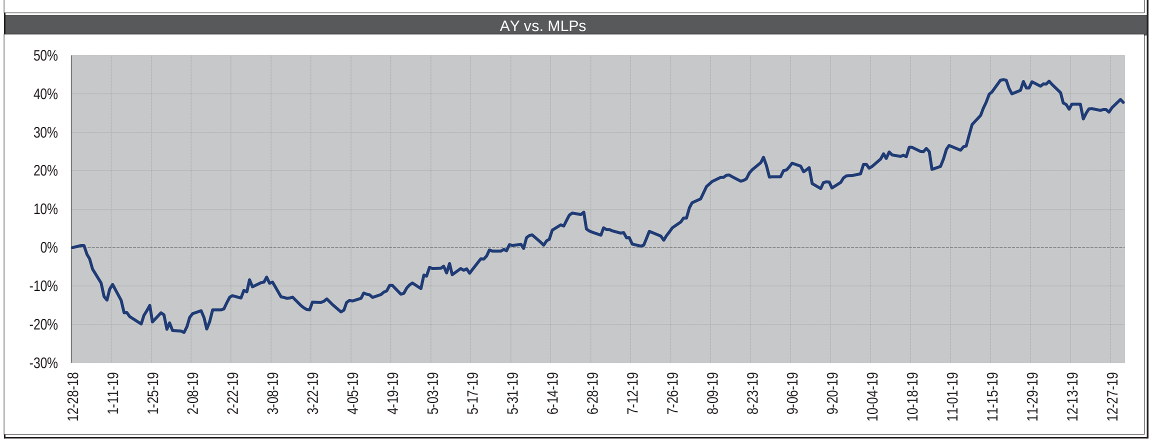
Atlantica Yield (AY) $26.39, NR

Atlantica Yield had a decent December and a good 2019 as the stock outperformed the market by about 5% for the year.







1/5/2020

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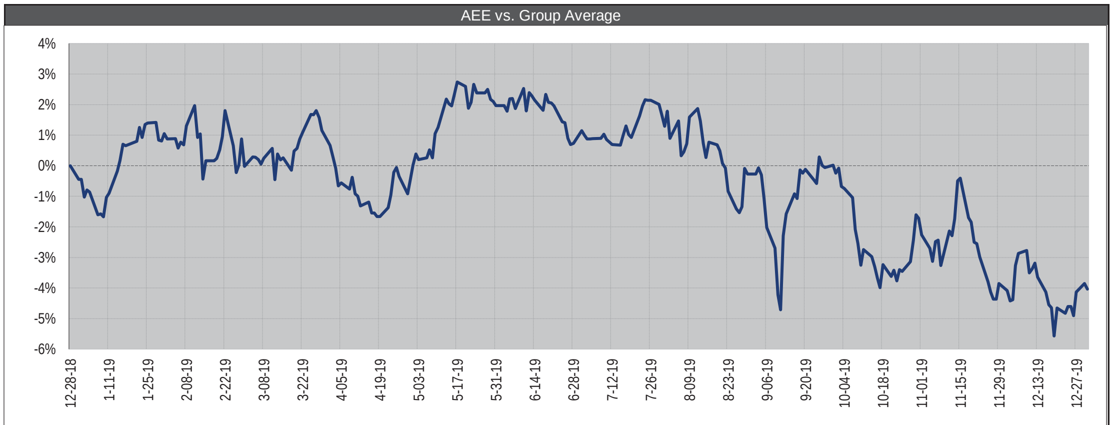
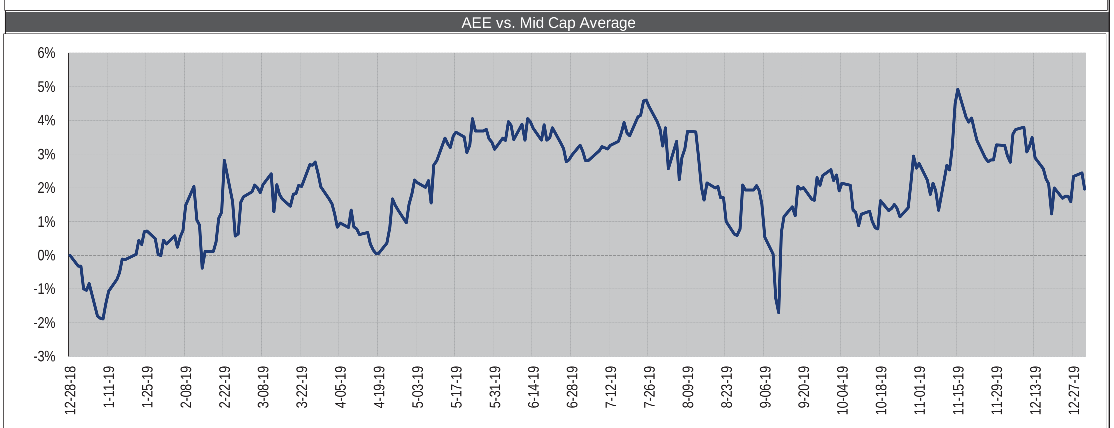
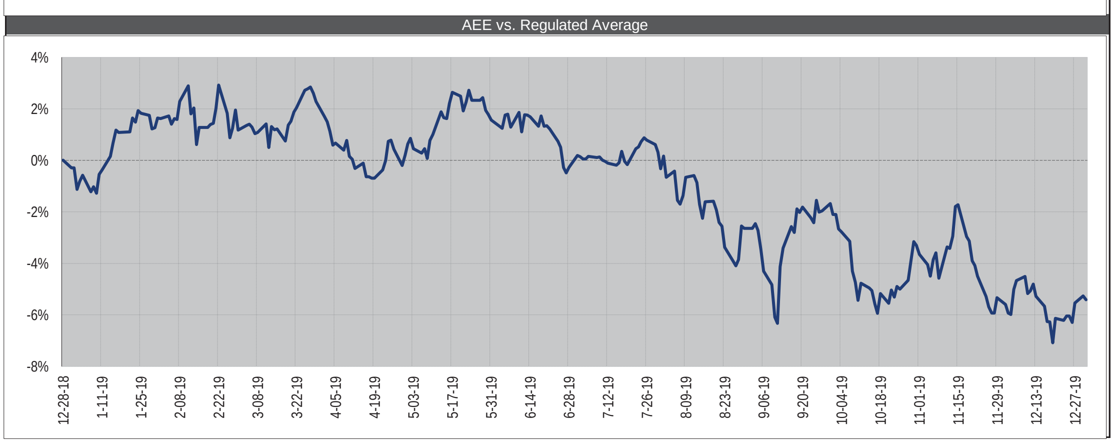
Ameren (AEE) $76.80, Outperform, $78 PT

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.





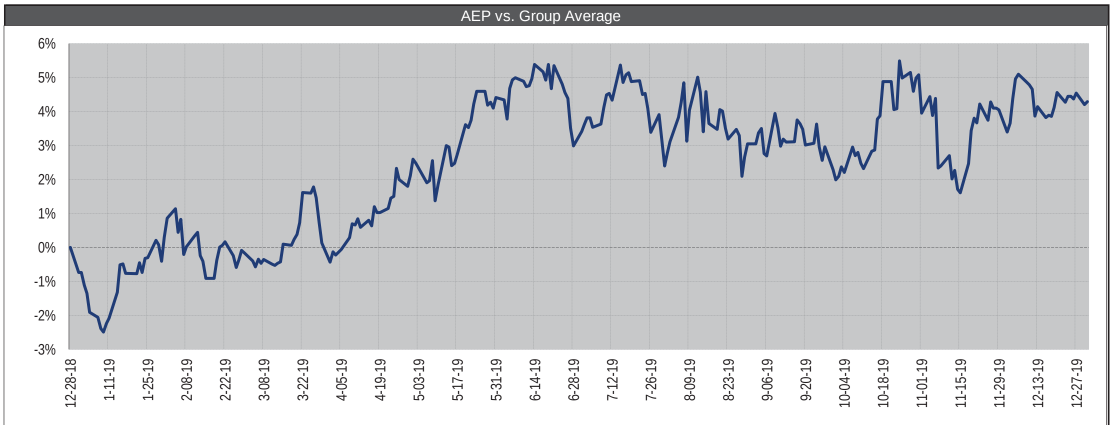


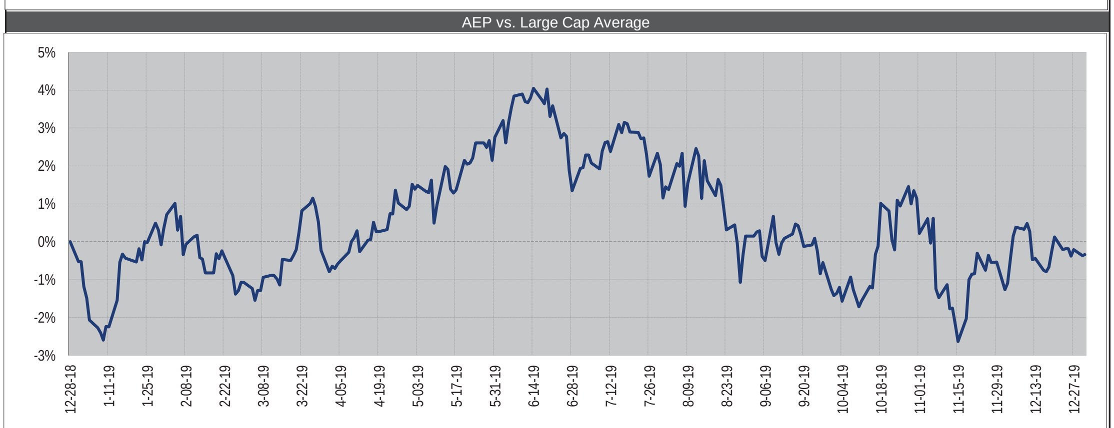
1/5/2020

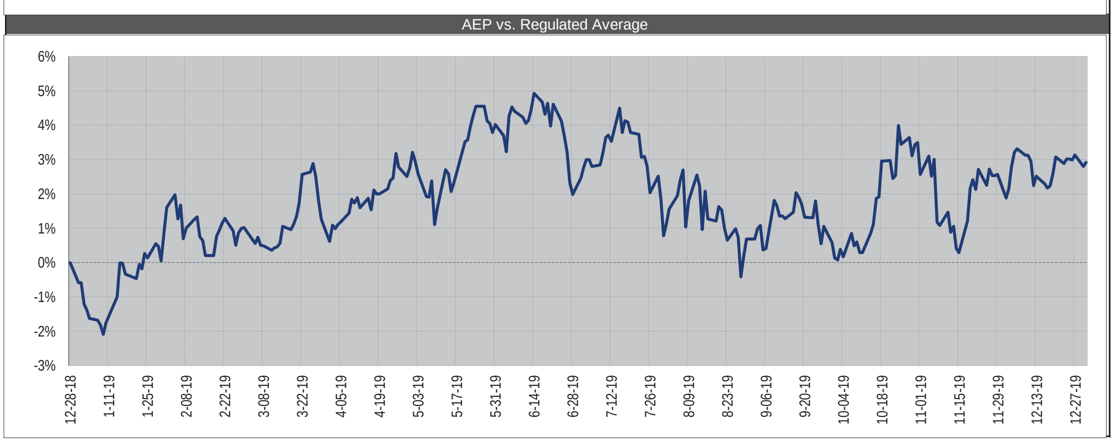
WOLFE RESEARCH

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.





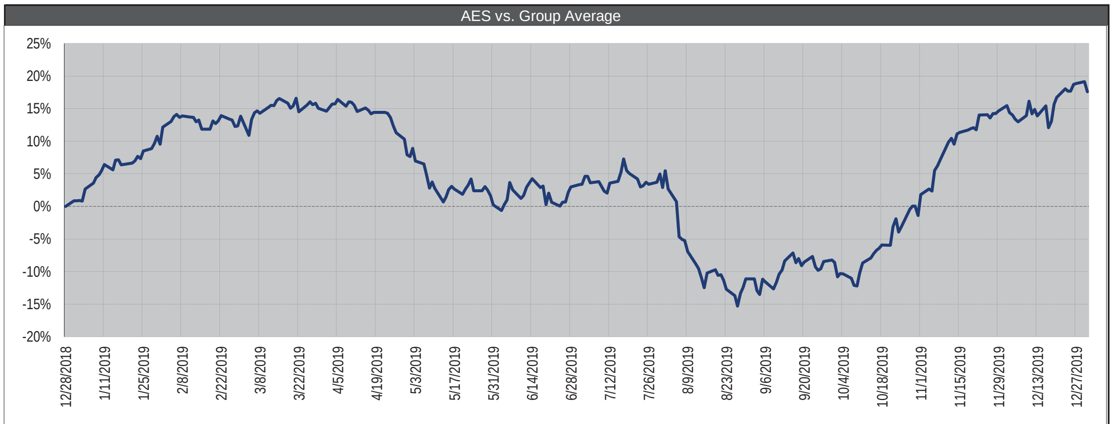


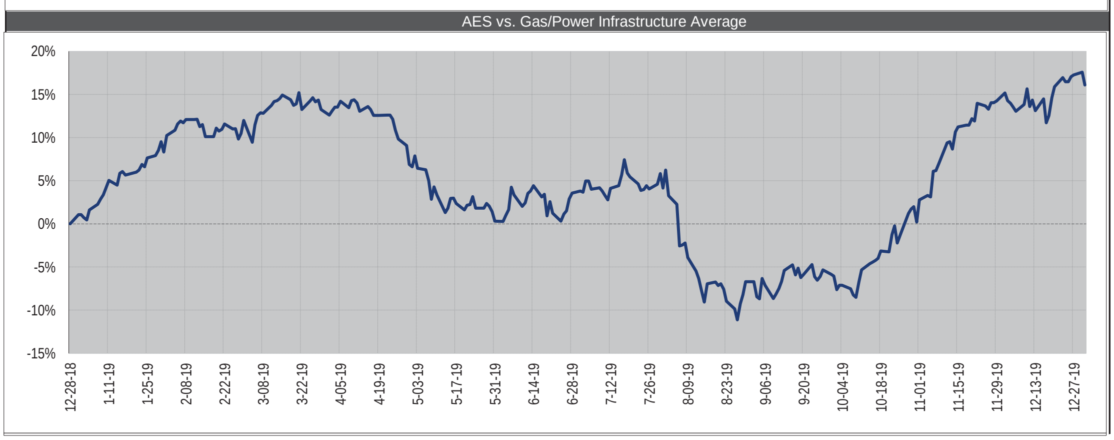
1/5/2020

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).



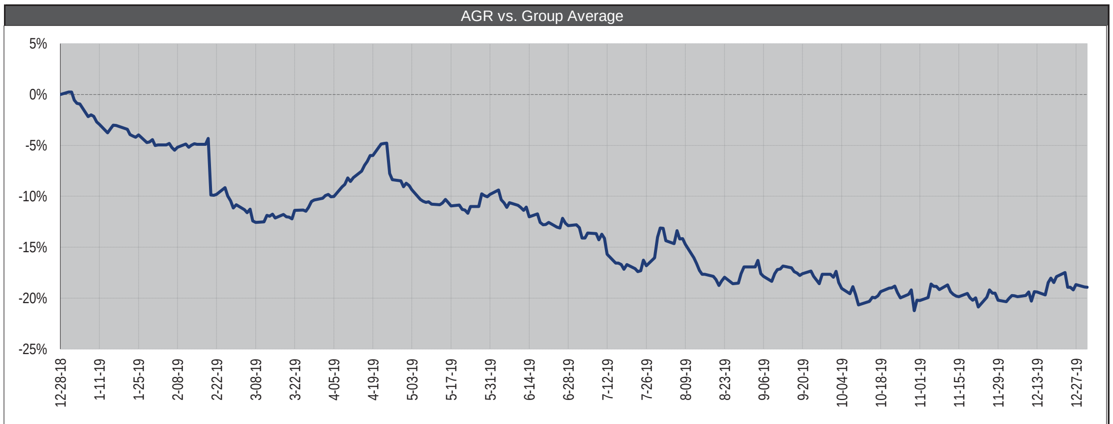


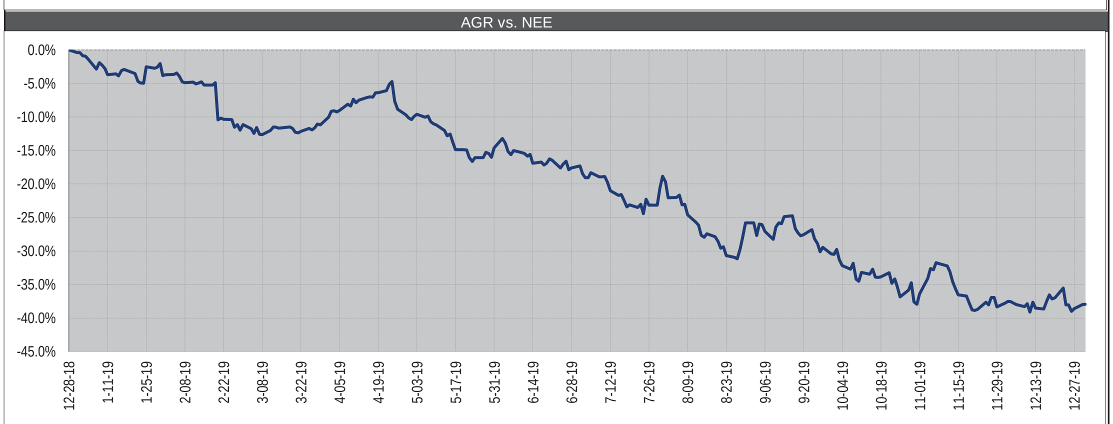
1/5/2020

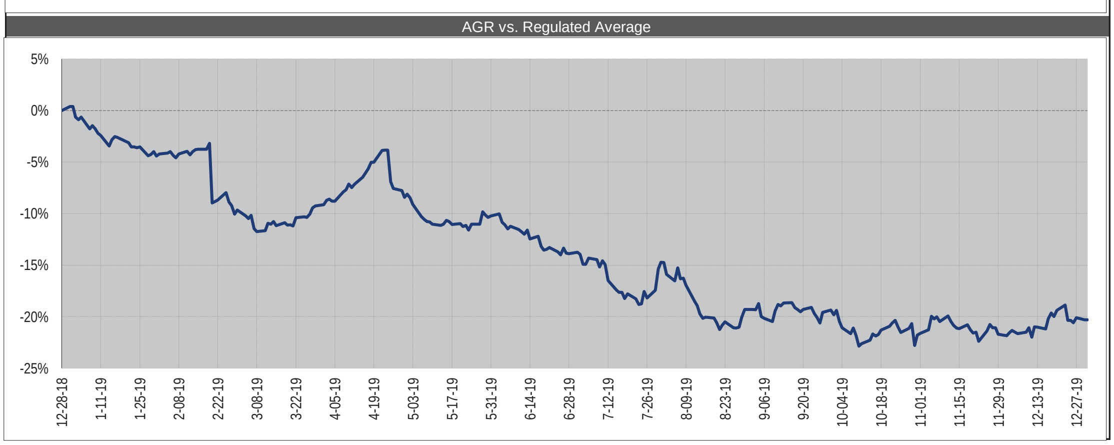
WOLFE RESEARCH

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.





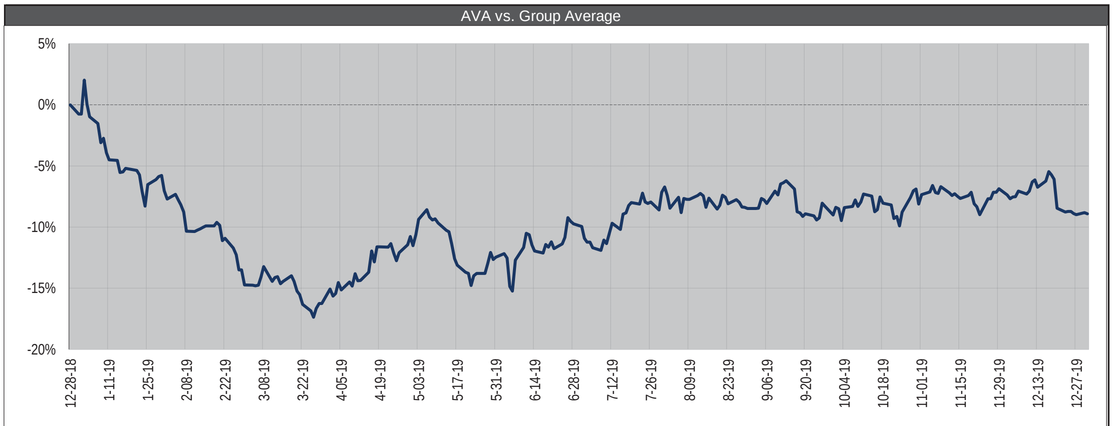


1/5/2020

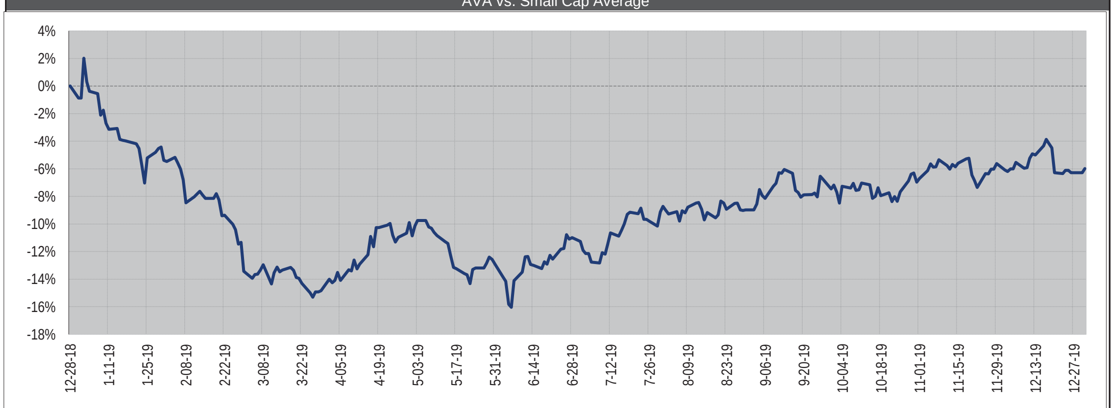
WOLFE RESEARCH

Avista Corporation (AVA) $48.09, NR

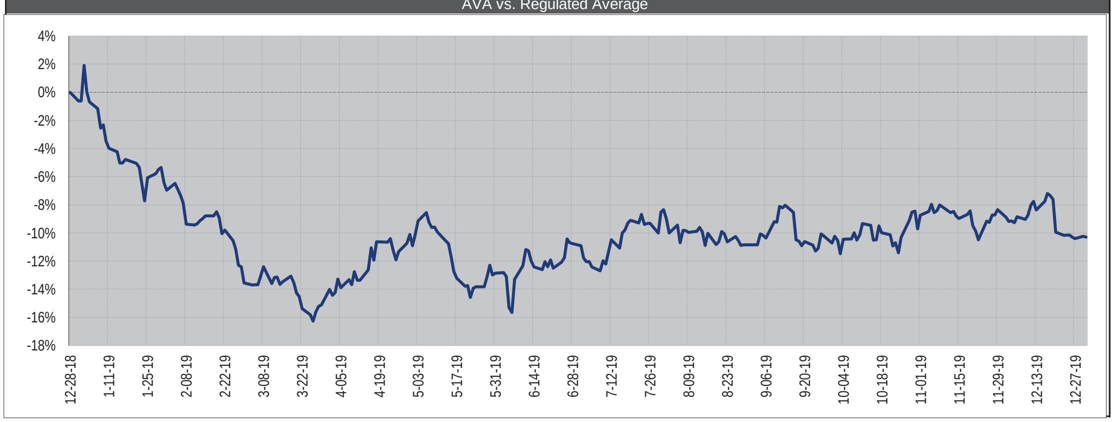
AVA vs. Group Average



AVA vs. Small Cap Average



AVA vs. Regulated Average

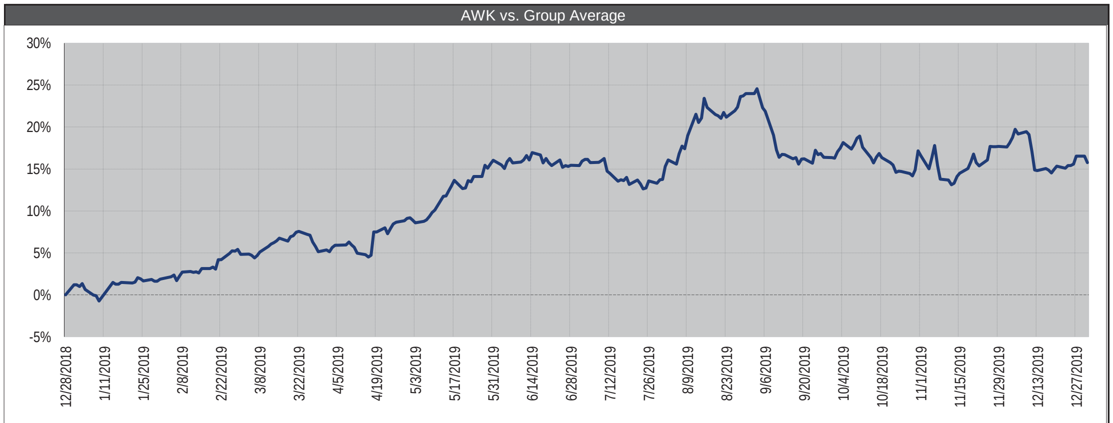


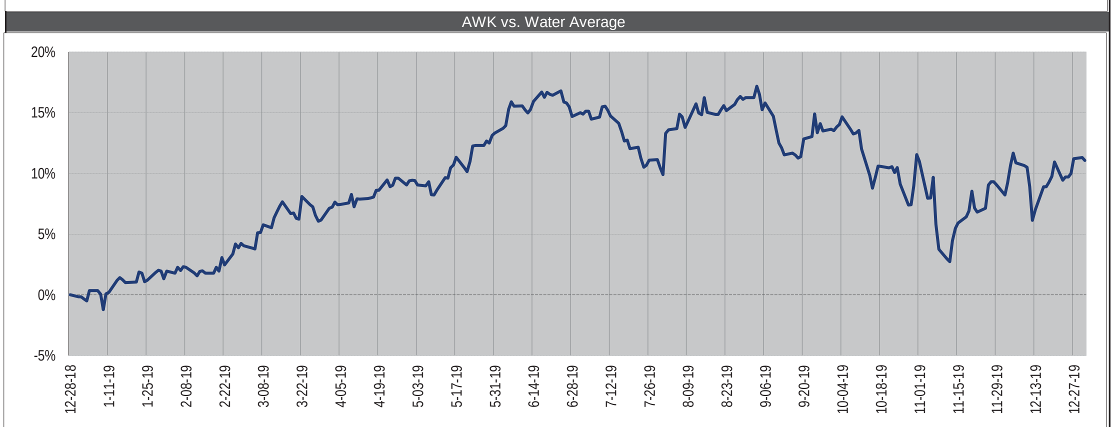
1/5/2020

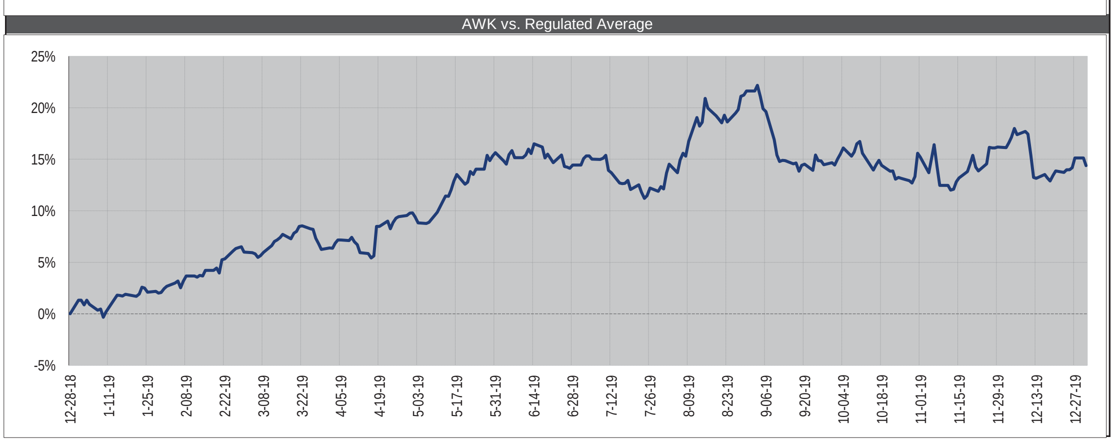
WOLFE RESEARCH

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.





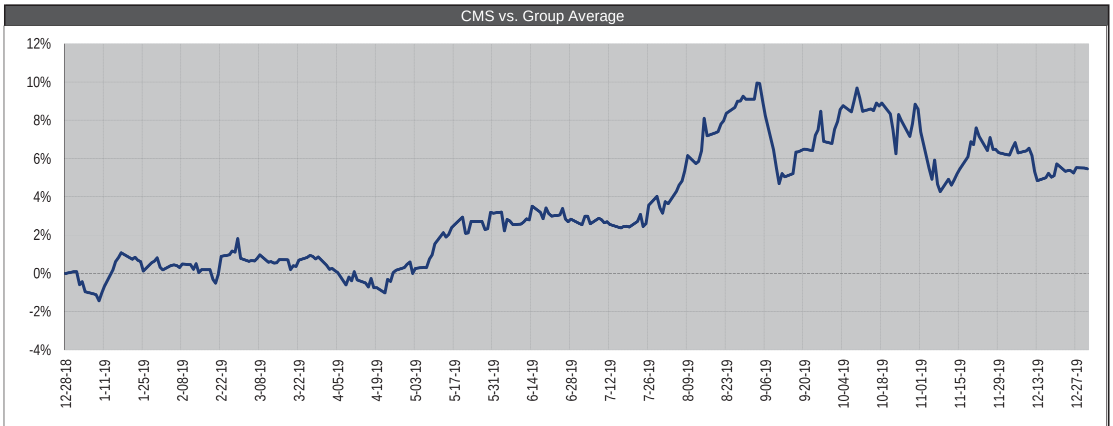


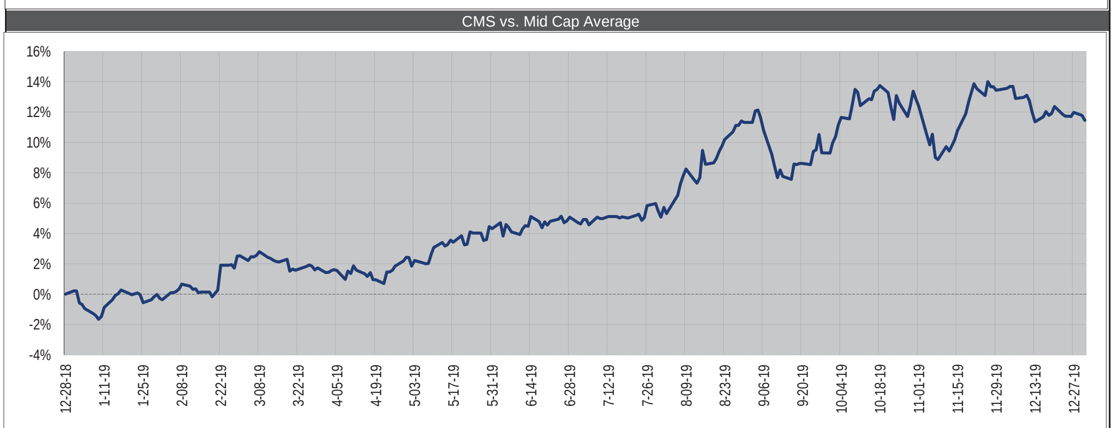
1/5/2020

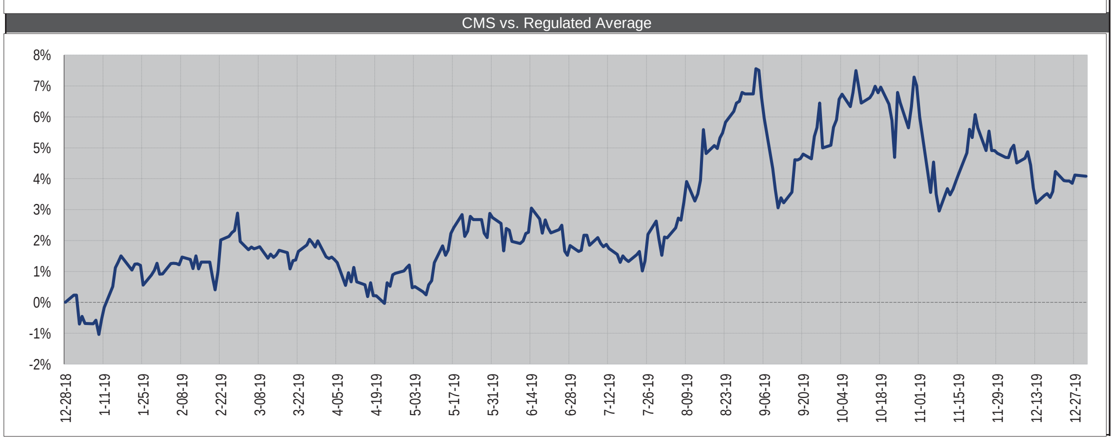
WOLFE RESEARCH

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.





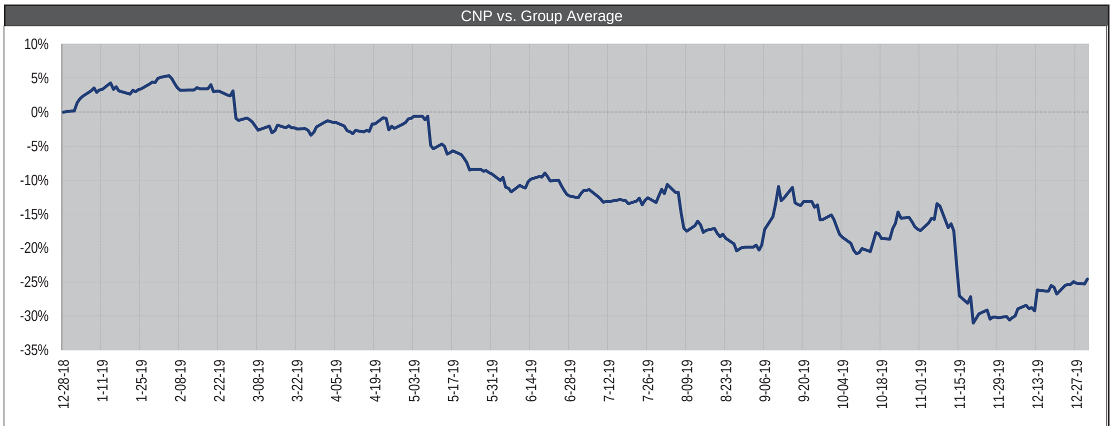


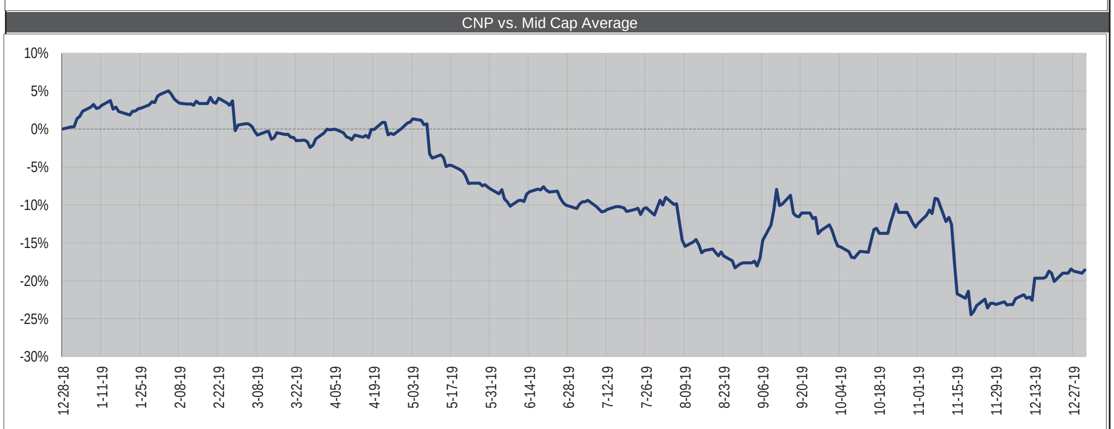
1/5/2020

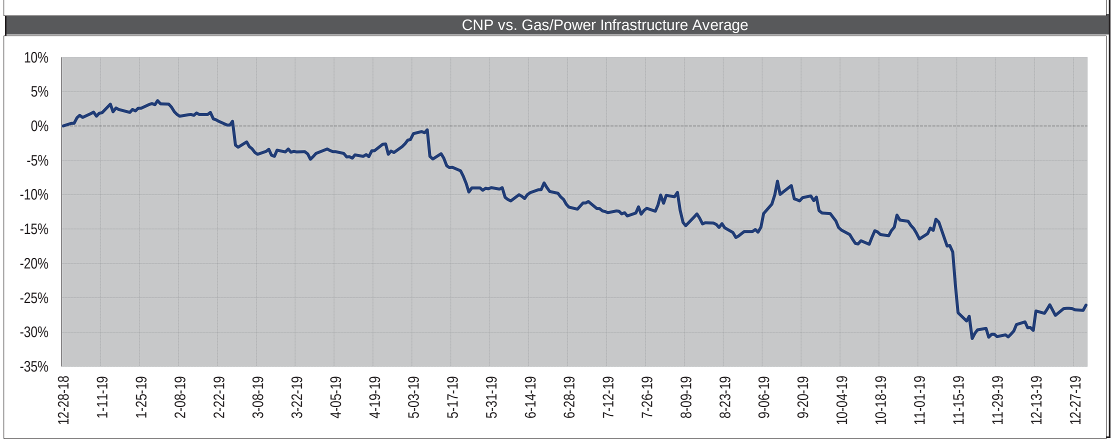
WOLFE RESEARCH

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.





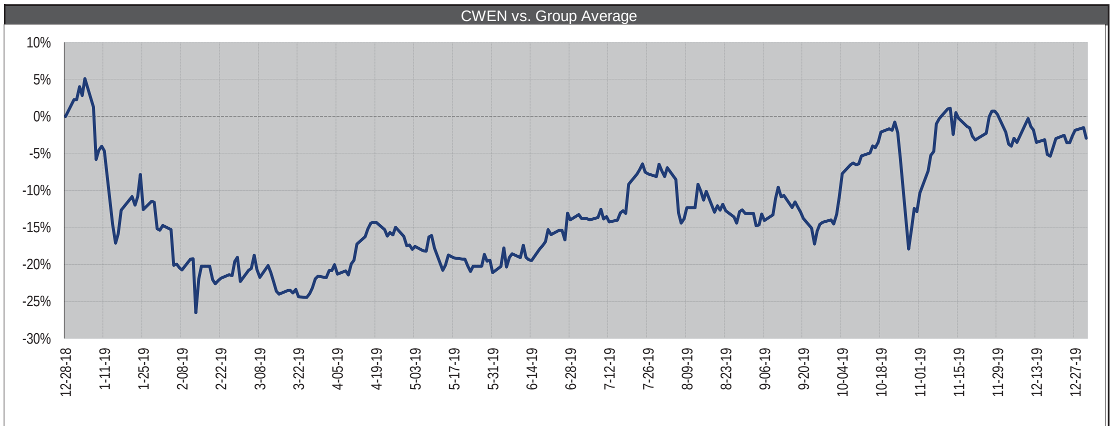


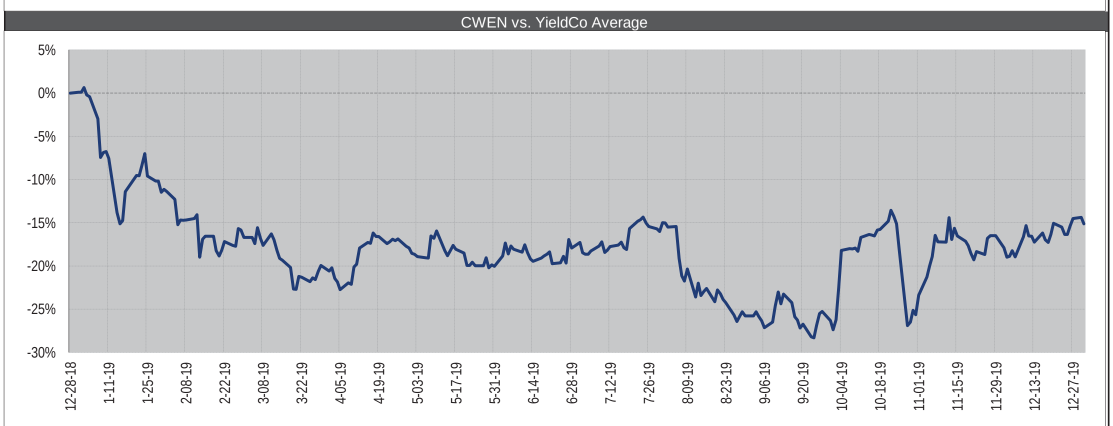
1/5/2020

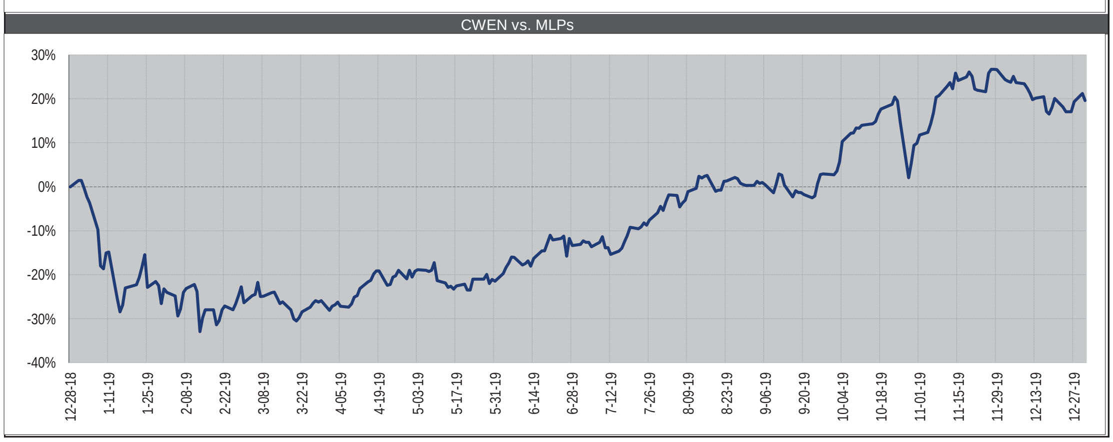
WOLFE RESEARCH

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.





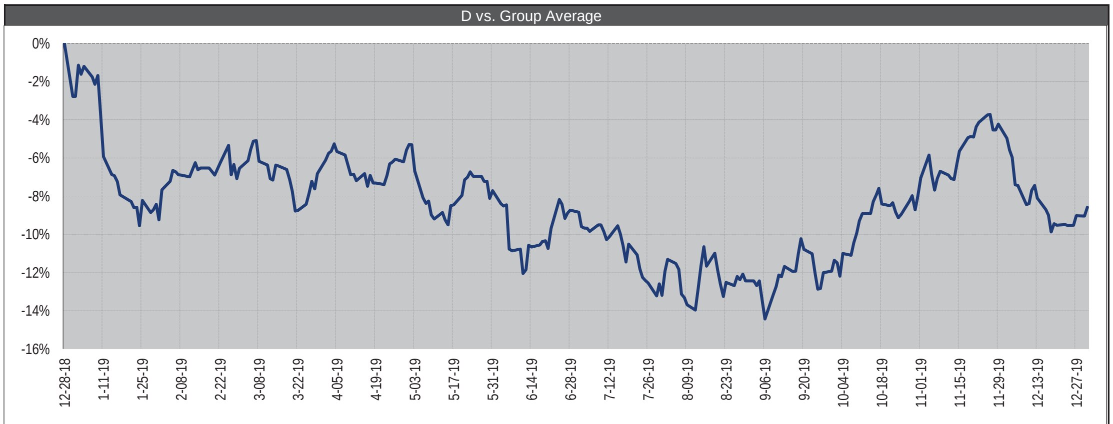


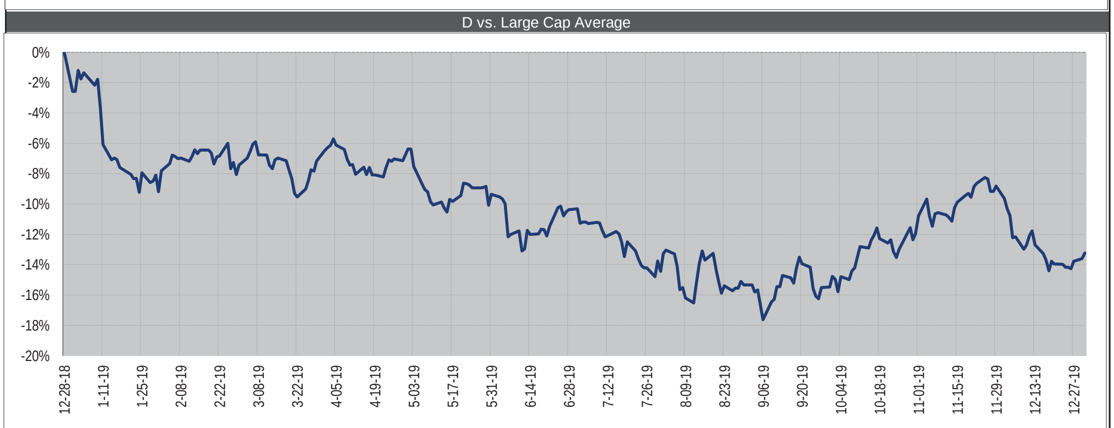
1/5/2020

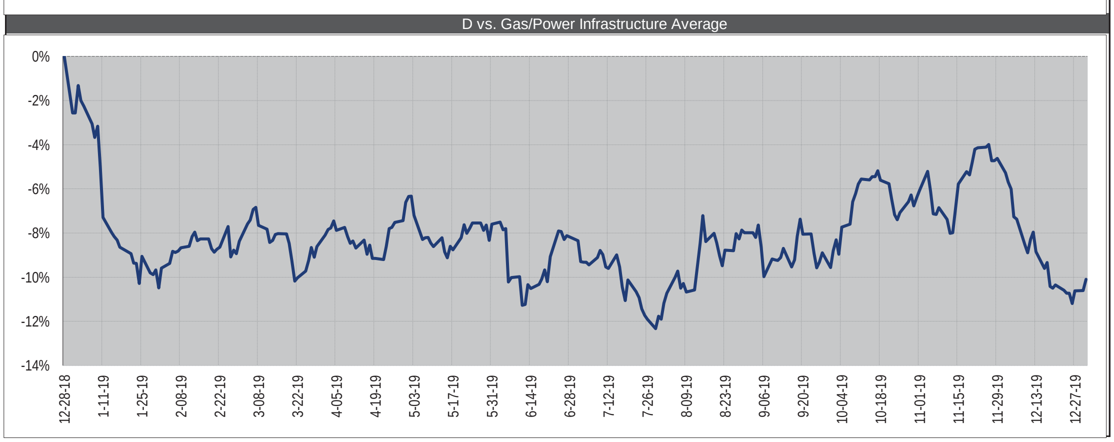
WOLFE RESEARCH

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.





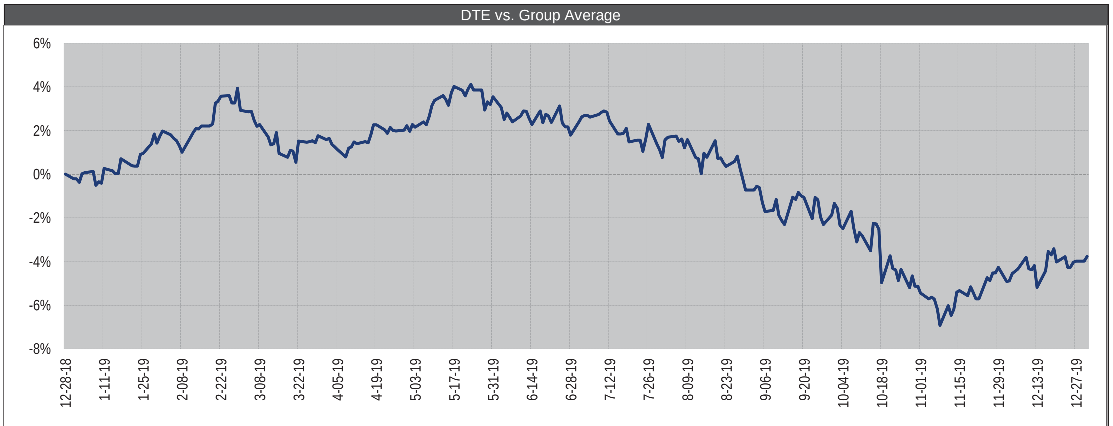


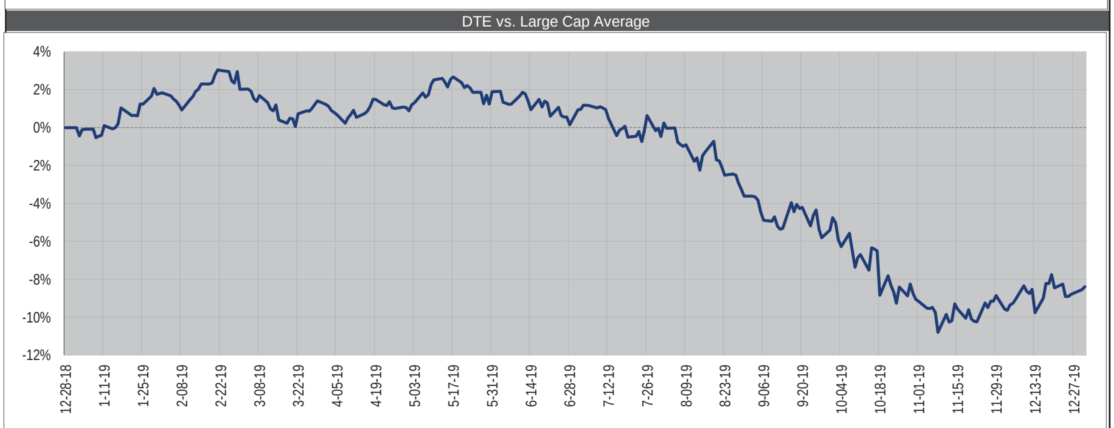
1/5/2020

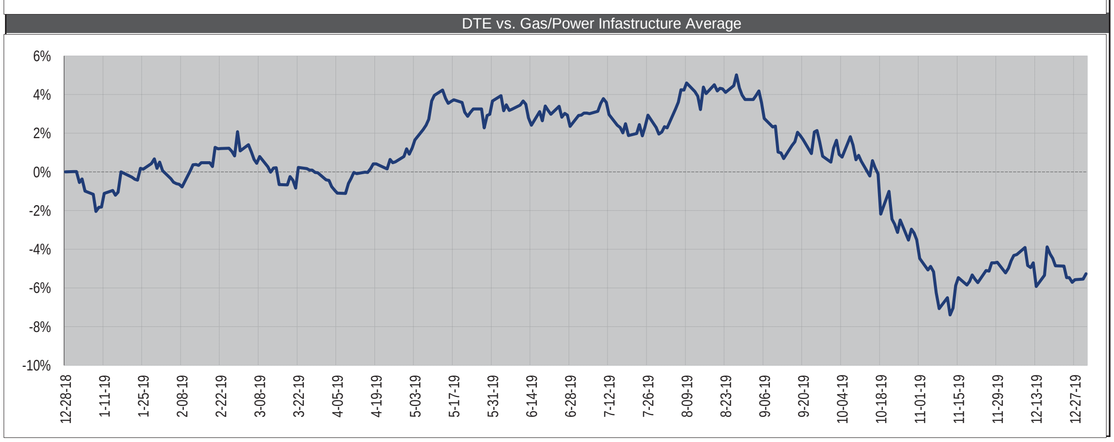
WOLFE RESEARCH

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.





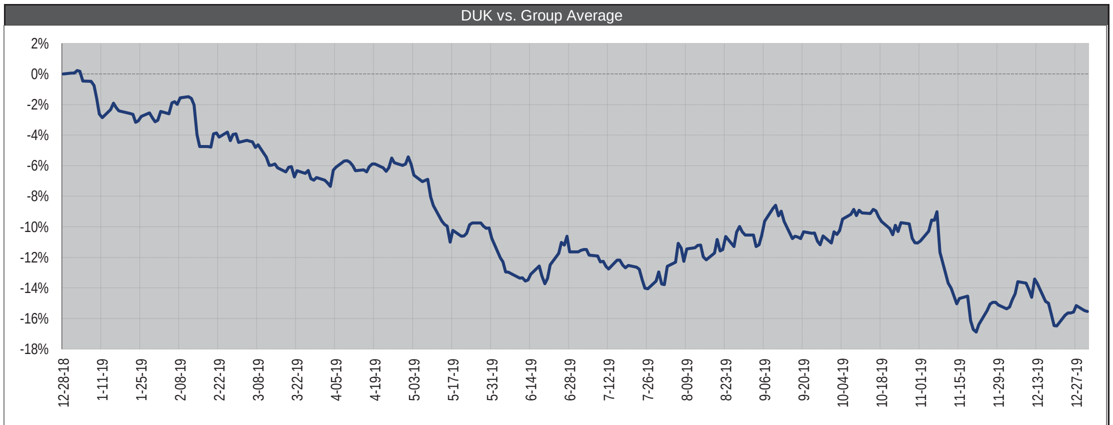


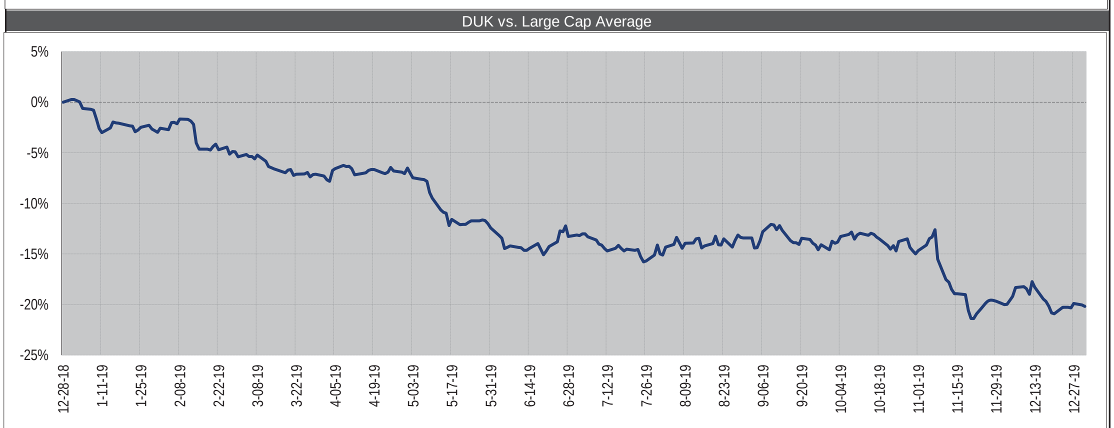
1/5/2020

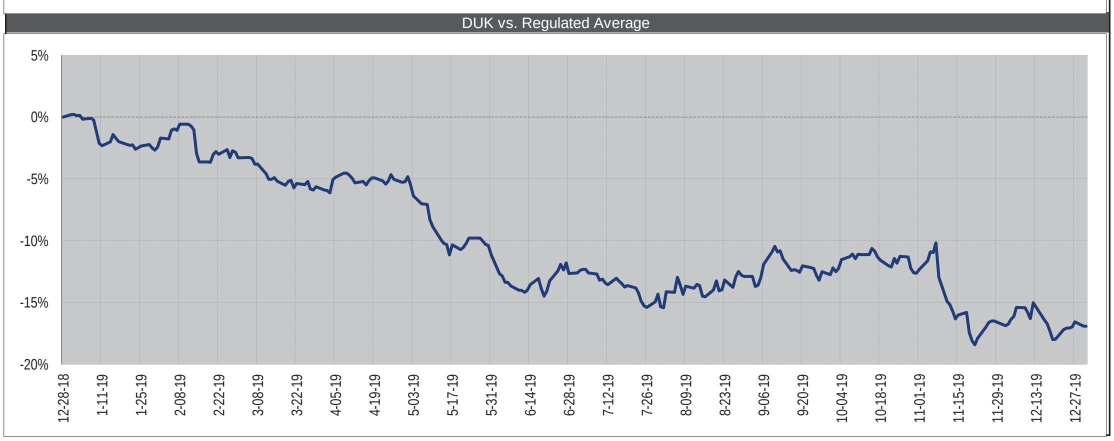
WOLFE RESEARCH

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.





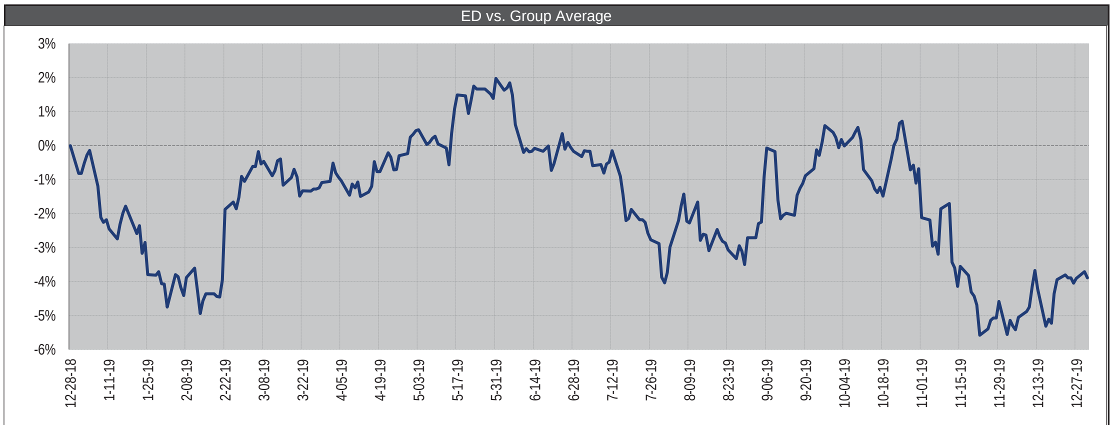


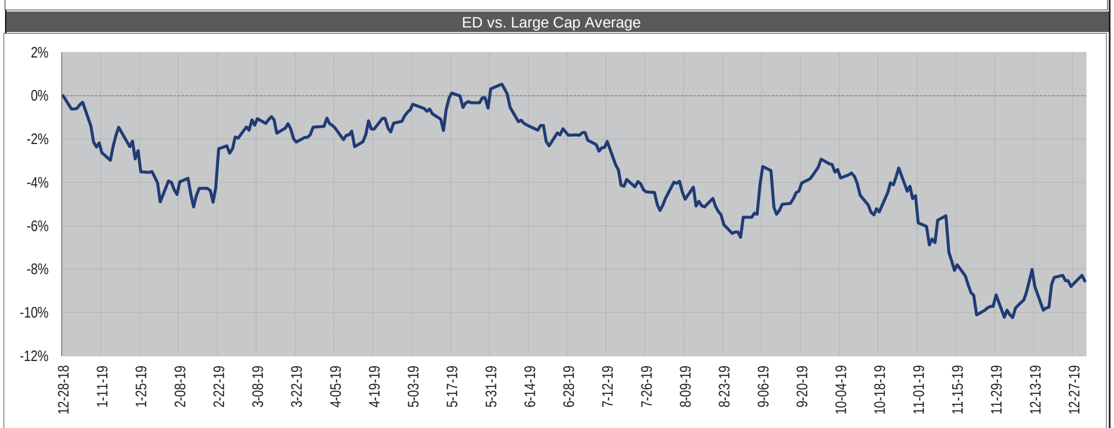
1/5/2020

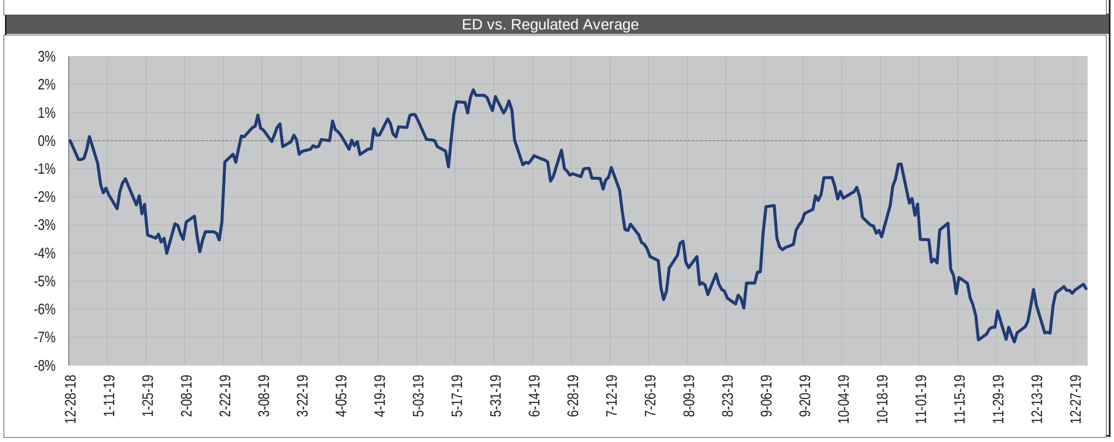
WOLFE RESEARCH

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.





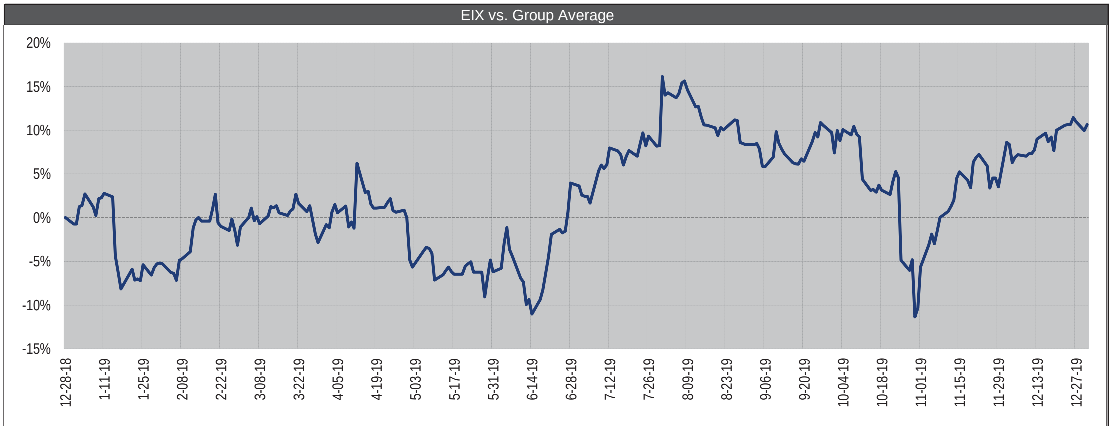


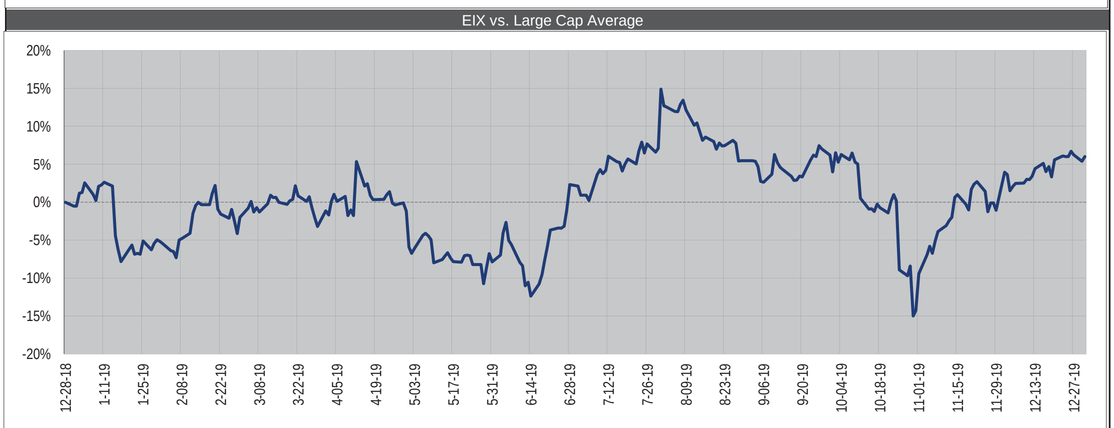
1/5/2020

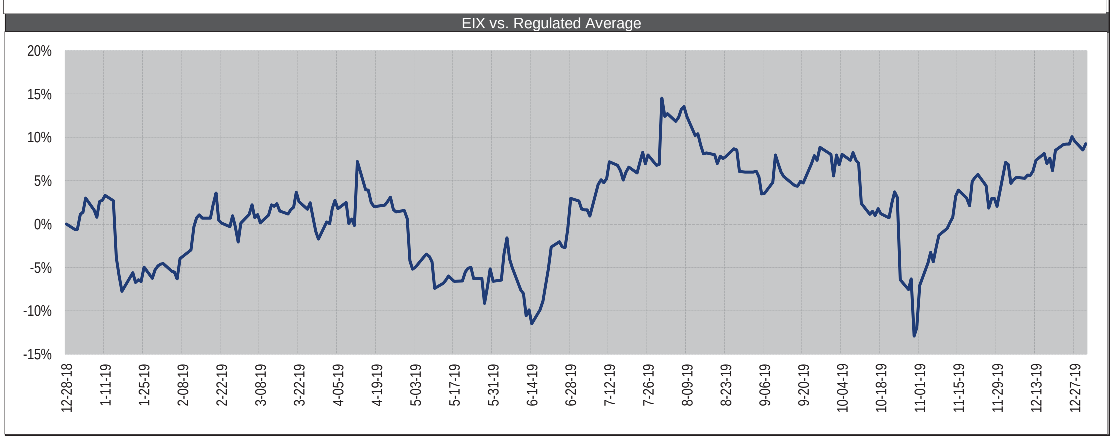
WOLFE RESEARCH

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.





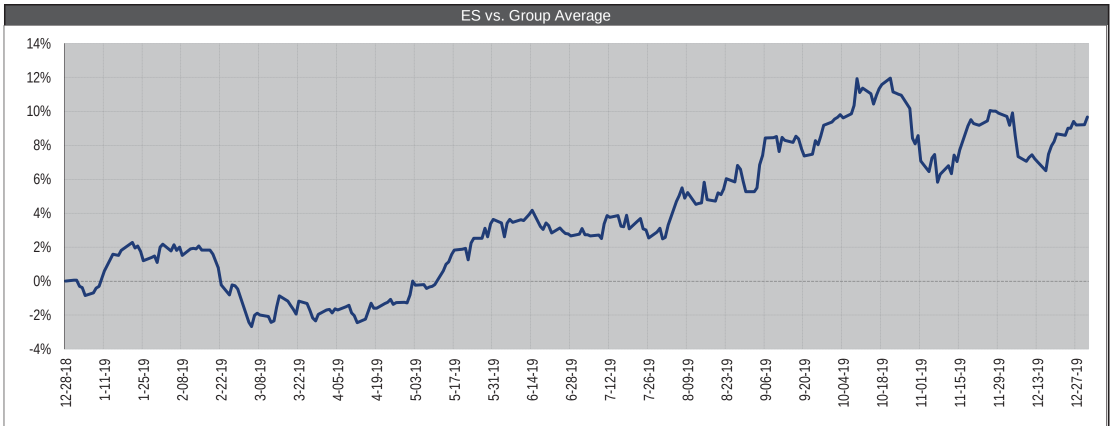


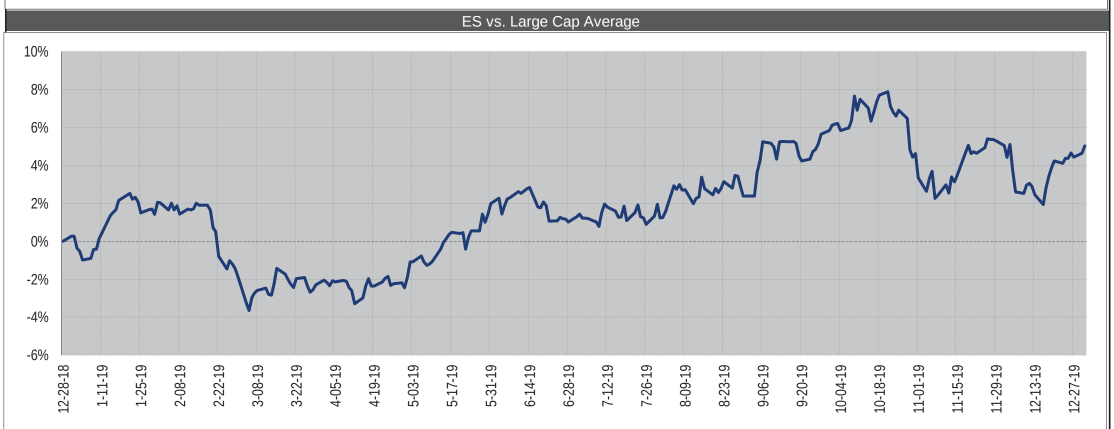
1/5/2020

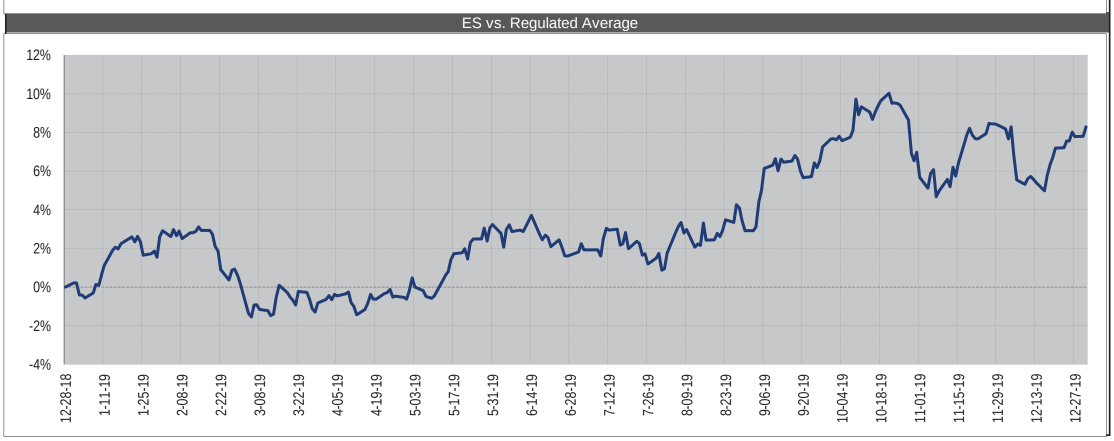
WOLFE RESEARCH

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.





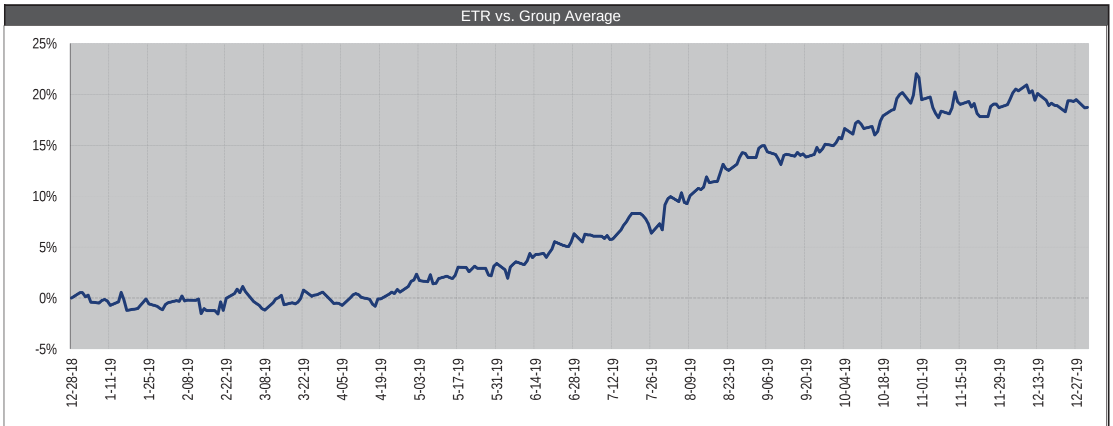


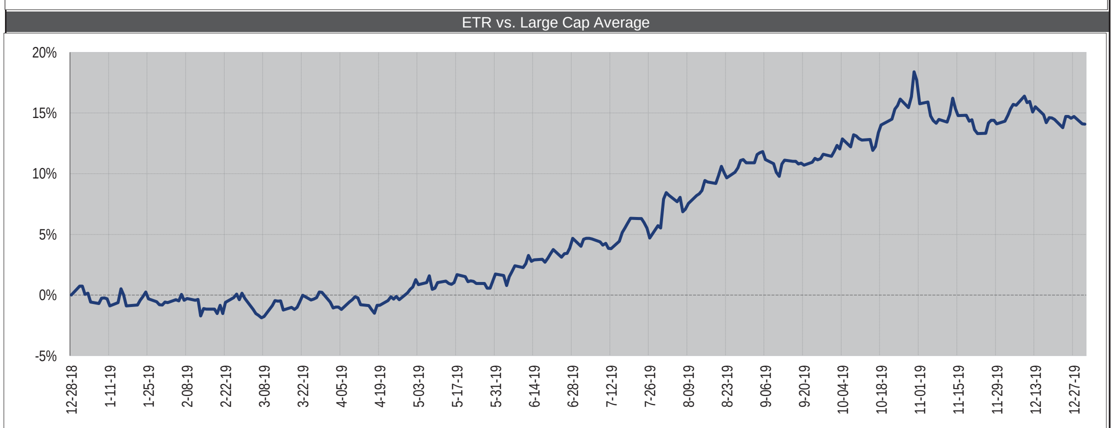
1/5/2020

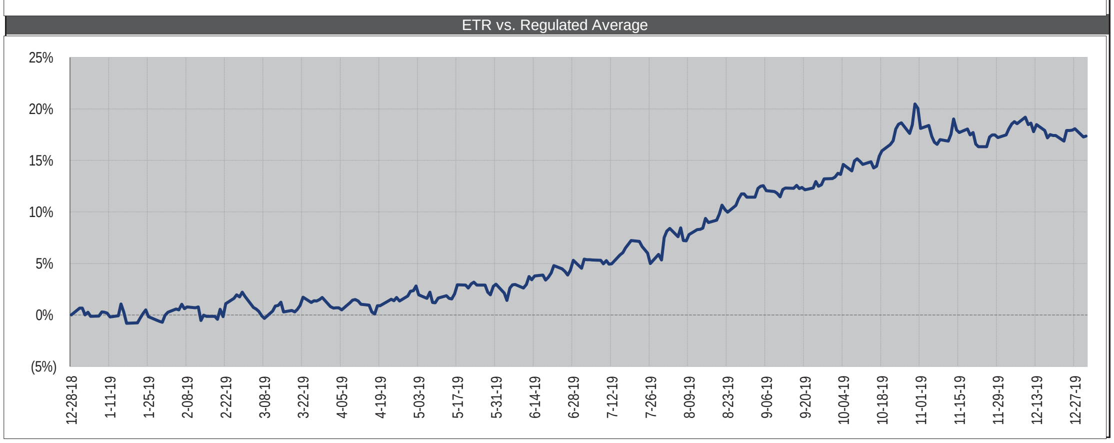
WOLFE RESEARCH

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.





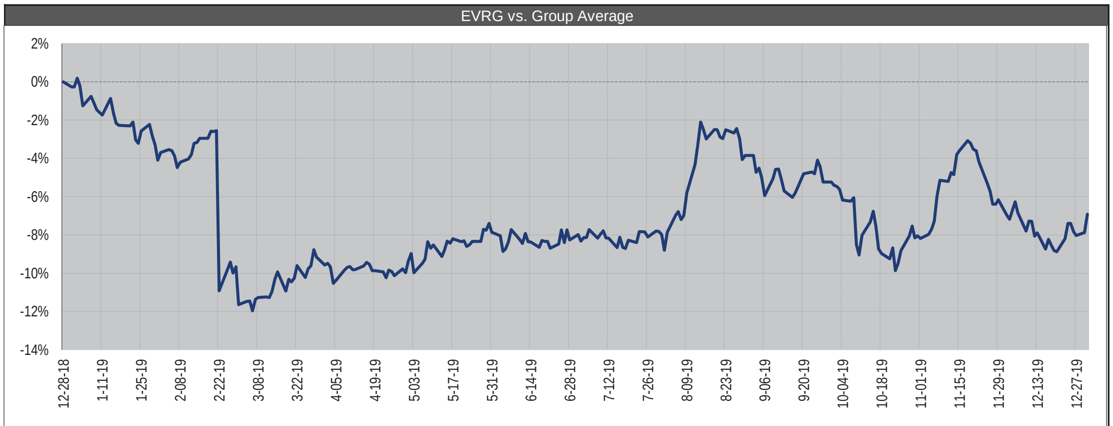


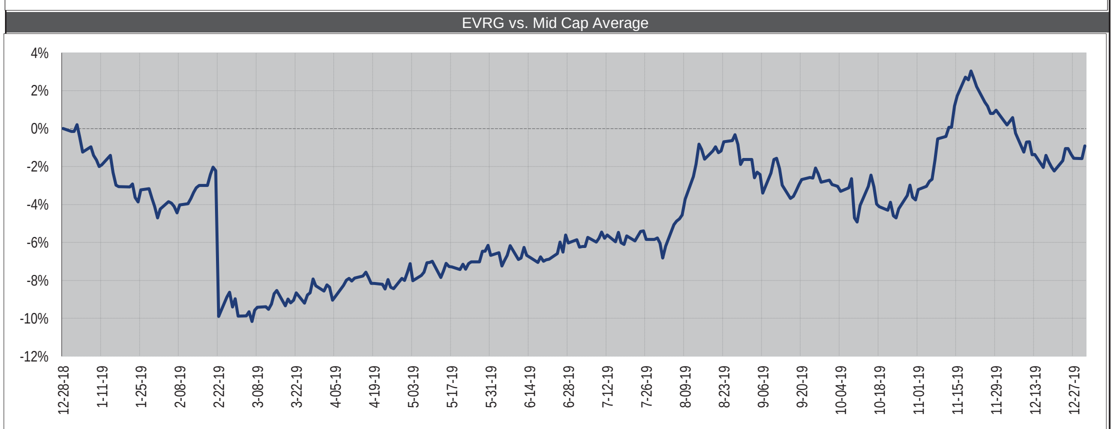
1/5/2020

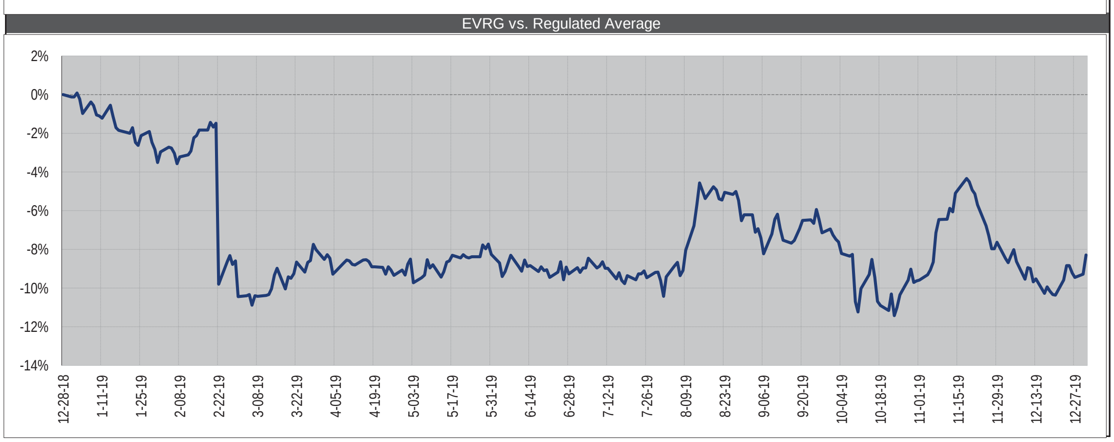
WOLFE RESEARCH

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.





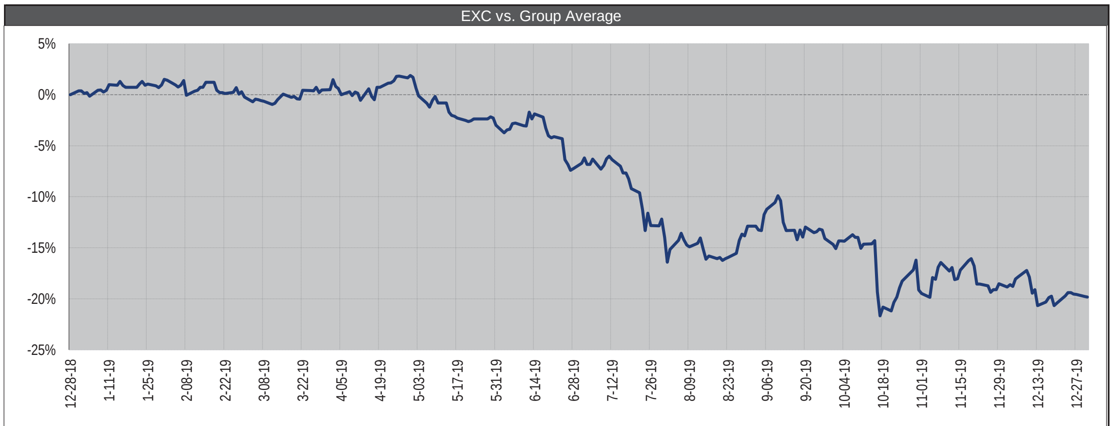


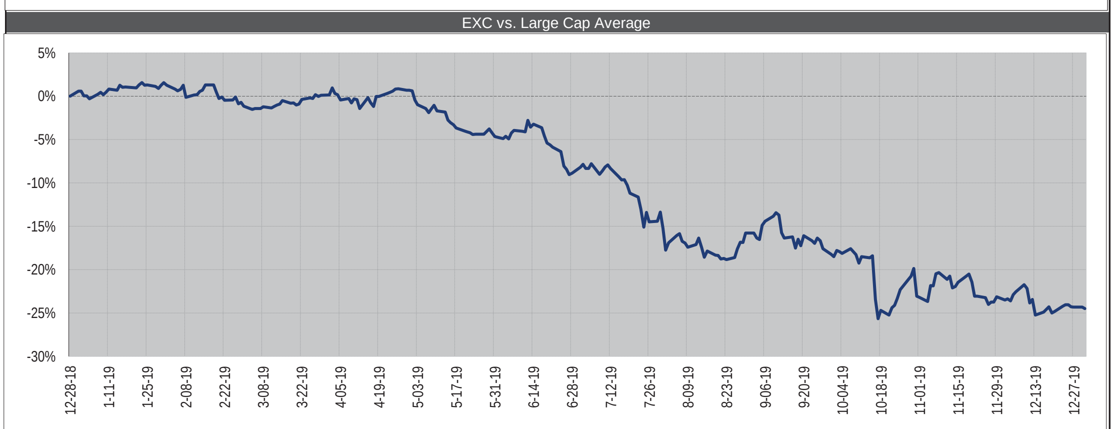
1/5/2020

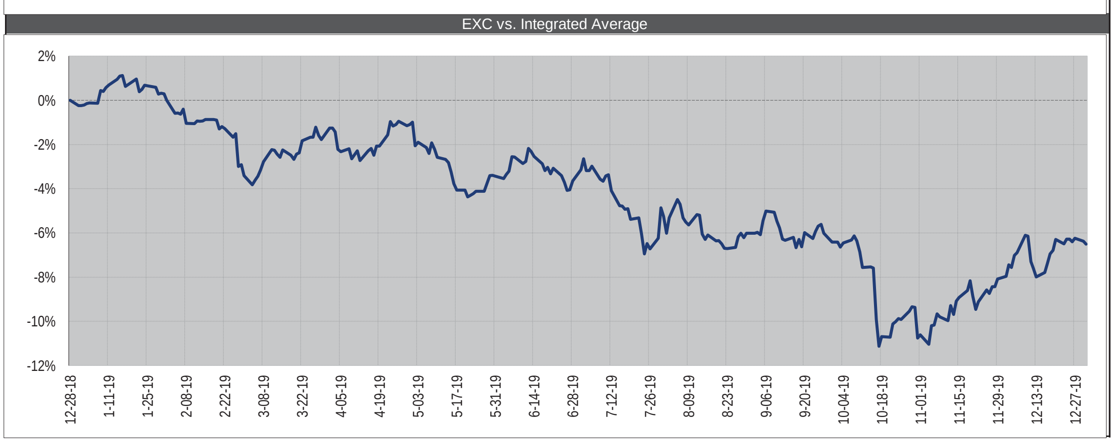
WOLFE RESEARCH

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.





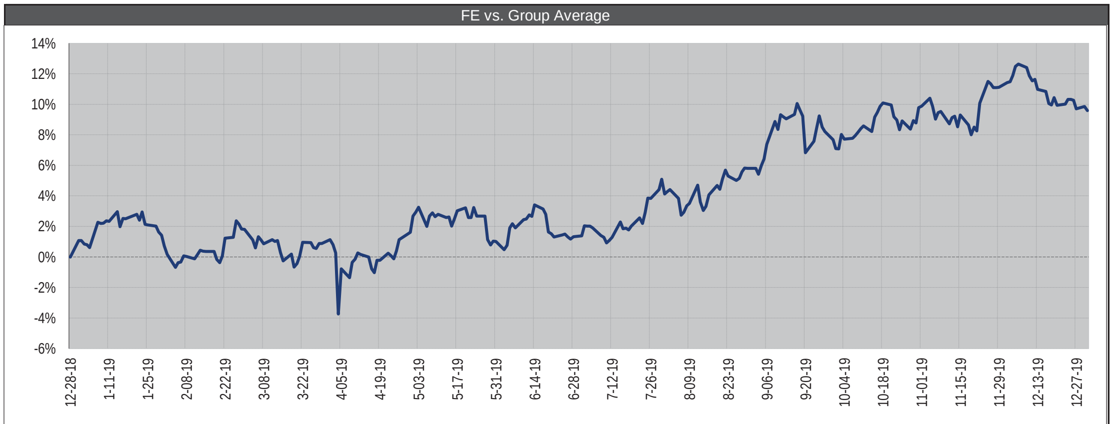


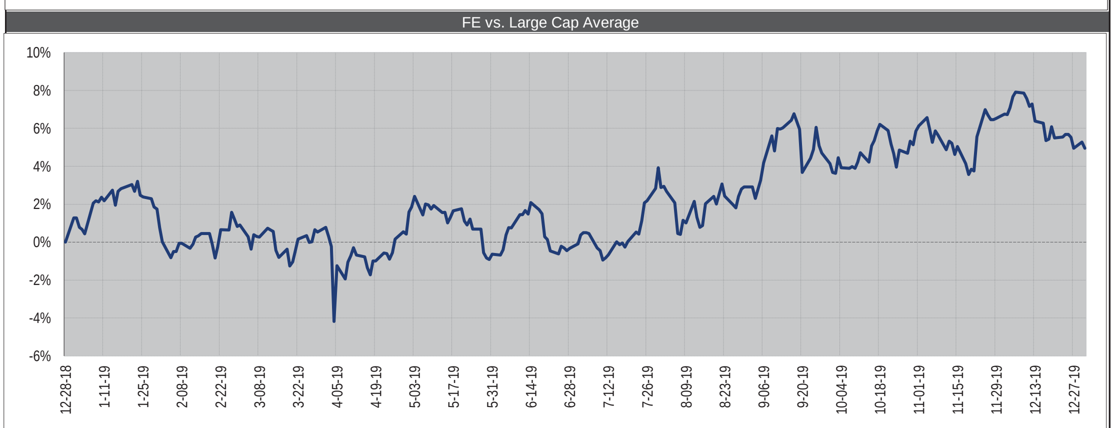
1/5/2020

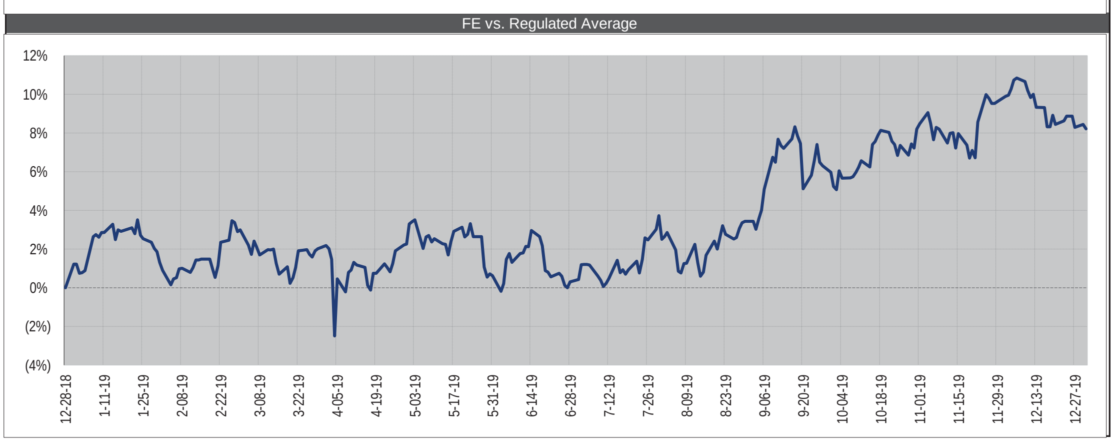
WOLFE RESEARCH

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.





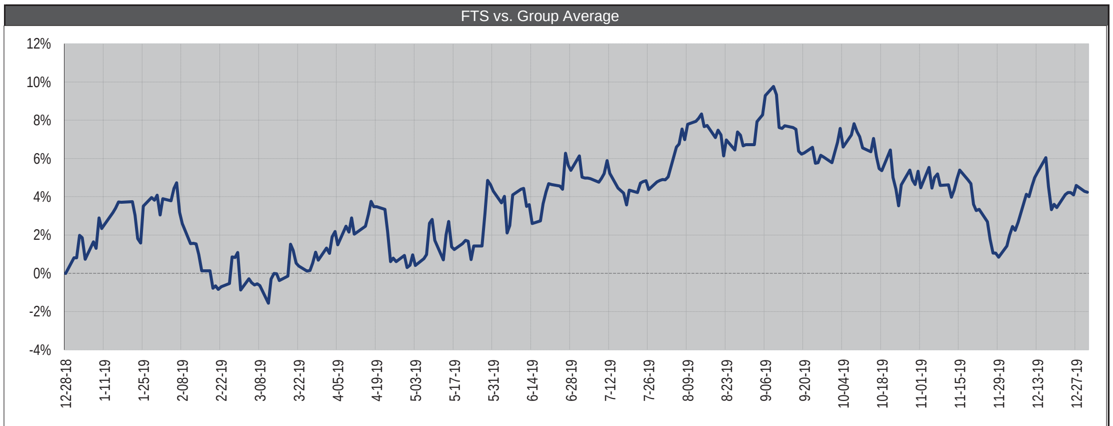


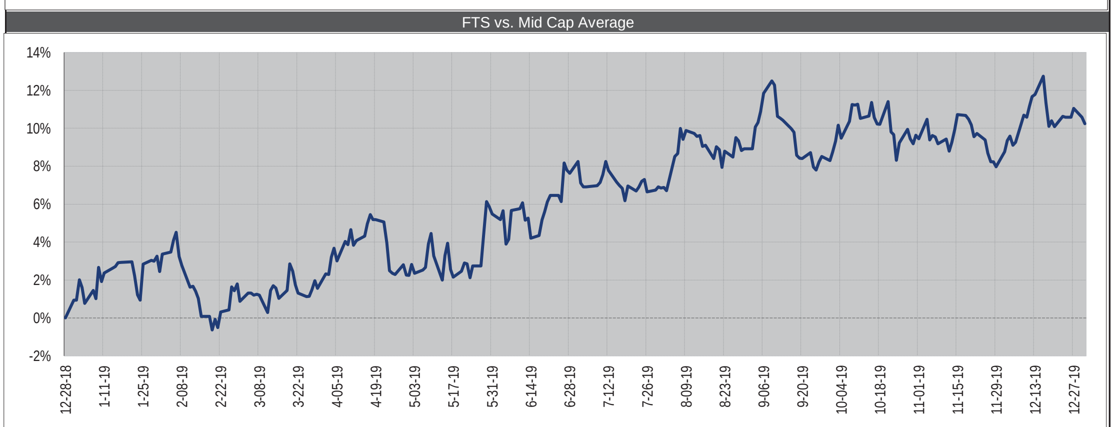
1/5/2020

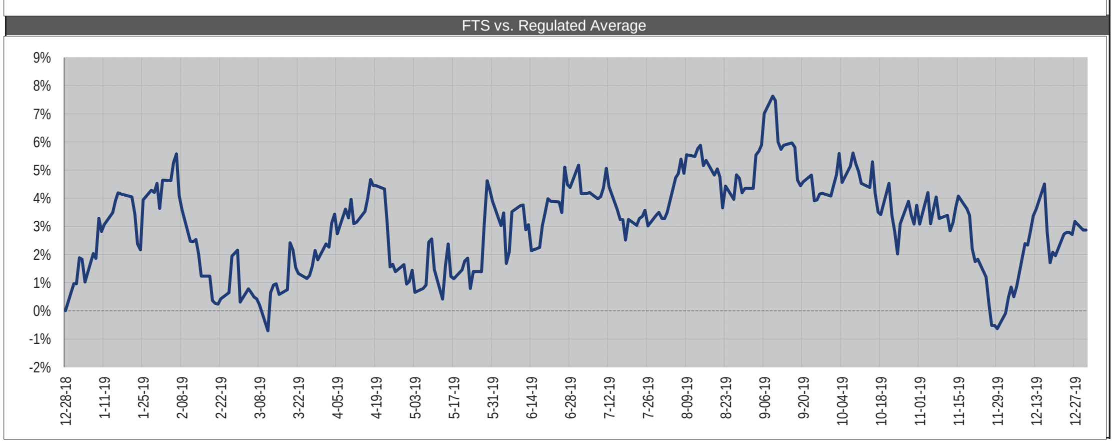
WOLFE RESEARCH

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.



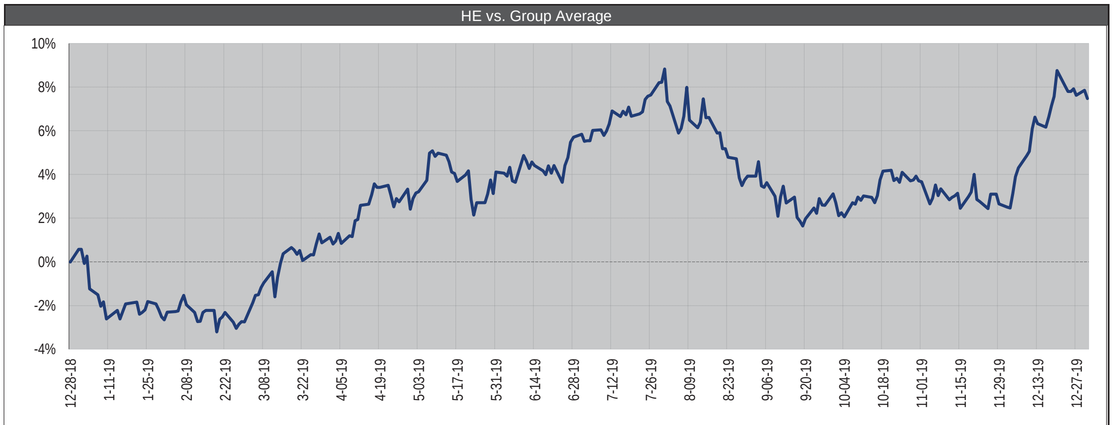


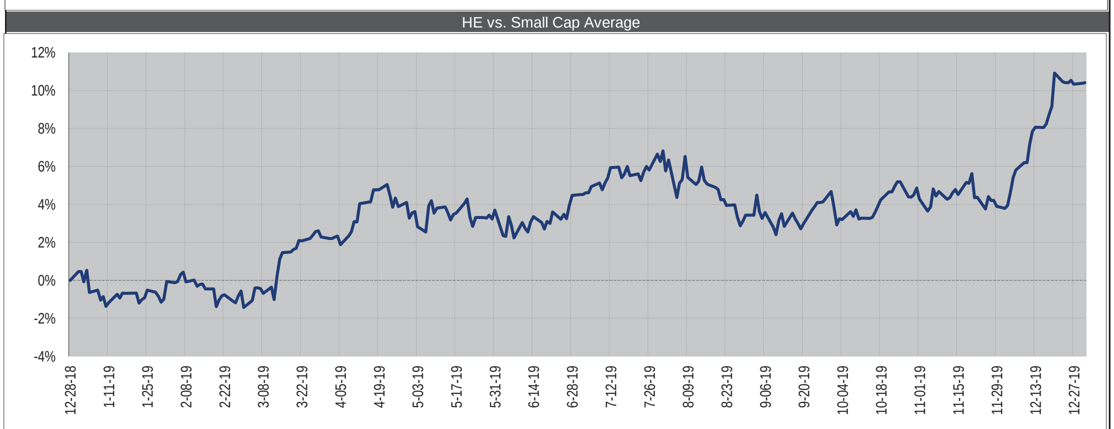


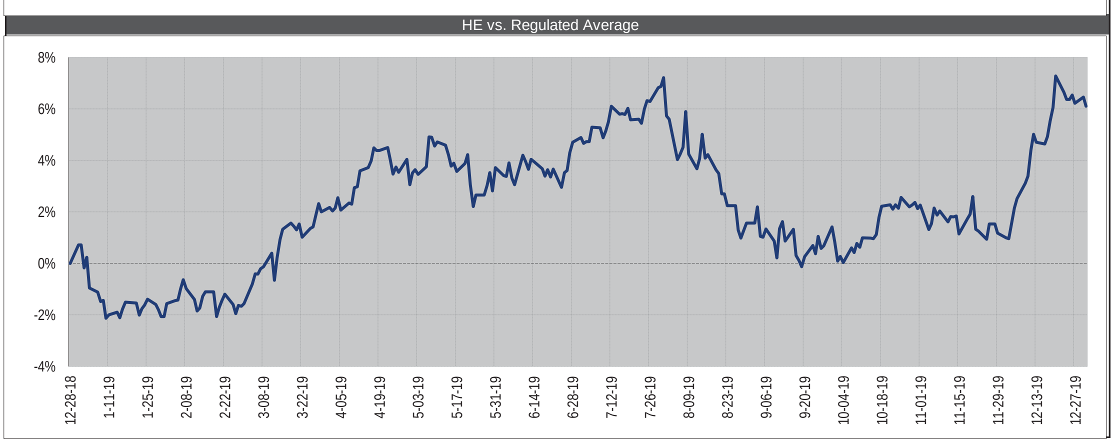
1/5/2020

WOLFE RESEARCH

Hawaiian Electric (HE) $46.86, NR





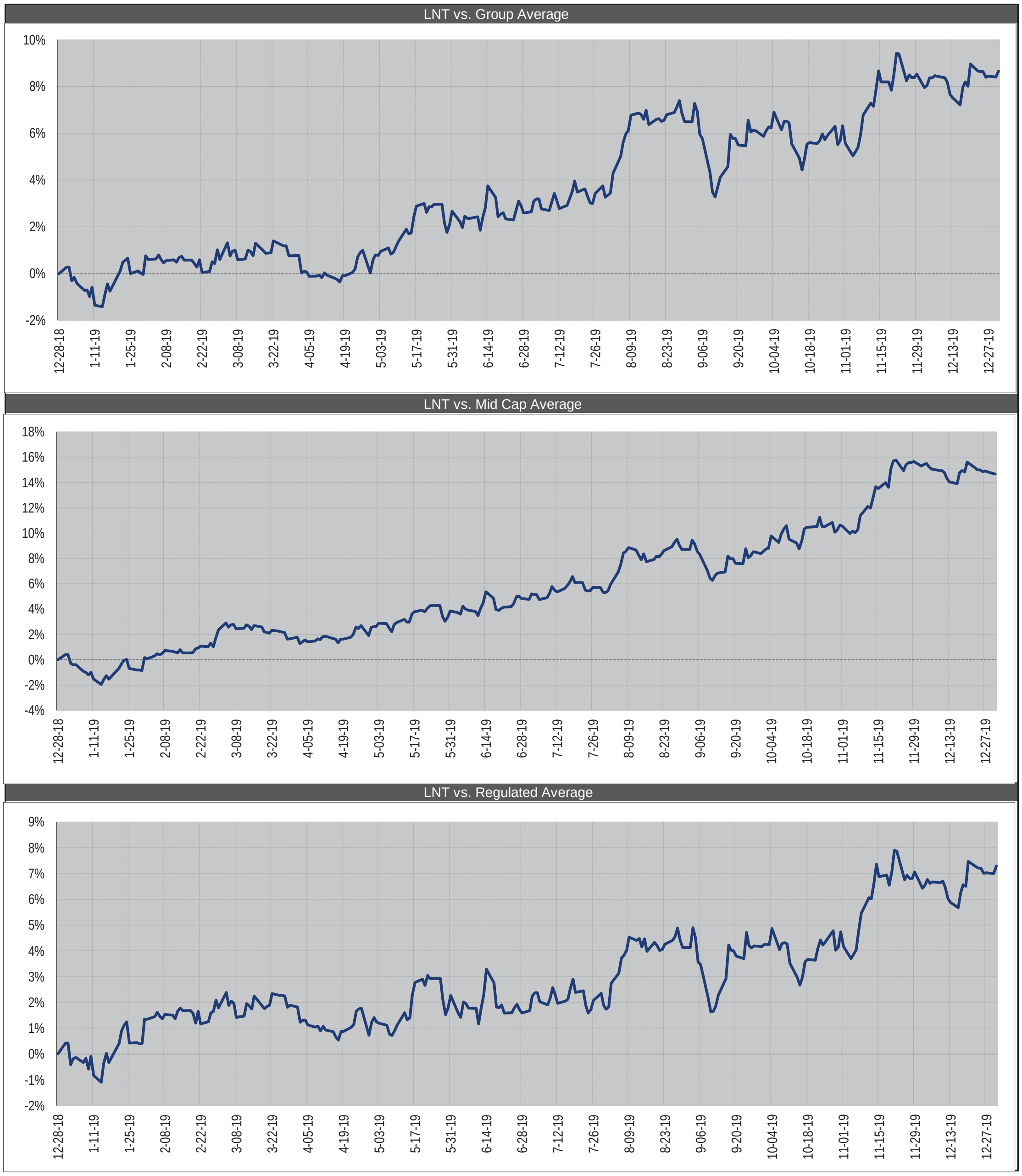


1/5/2020

WOLFE RESEARCH

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.

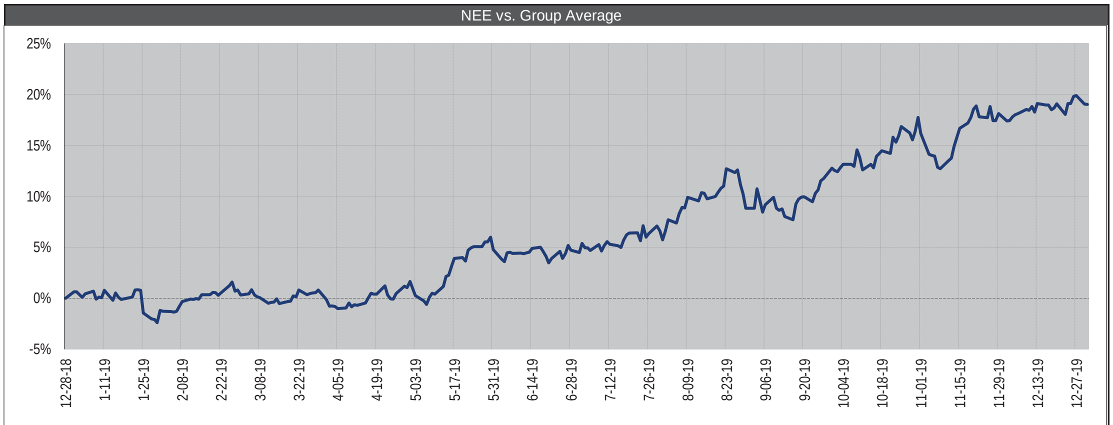


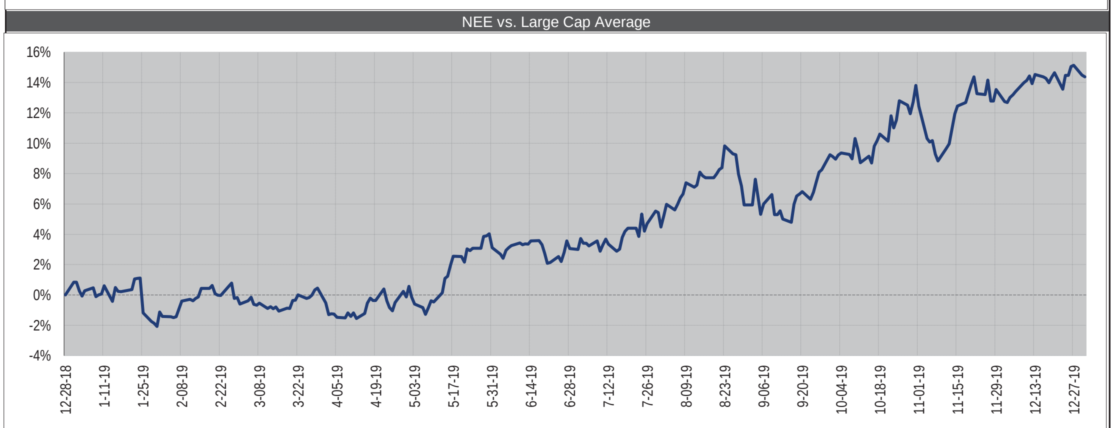
1/5/2020

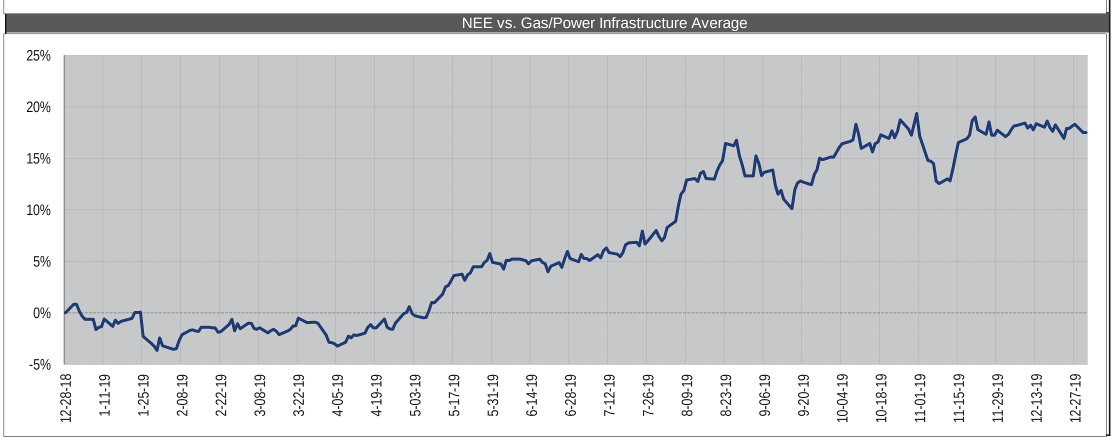
WOLFE RESEARCH

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.





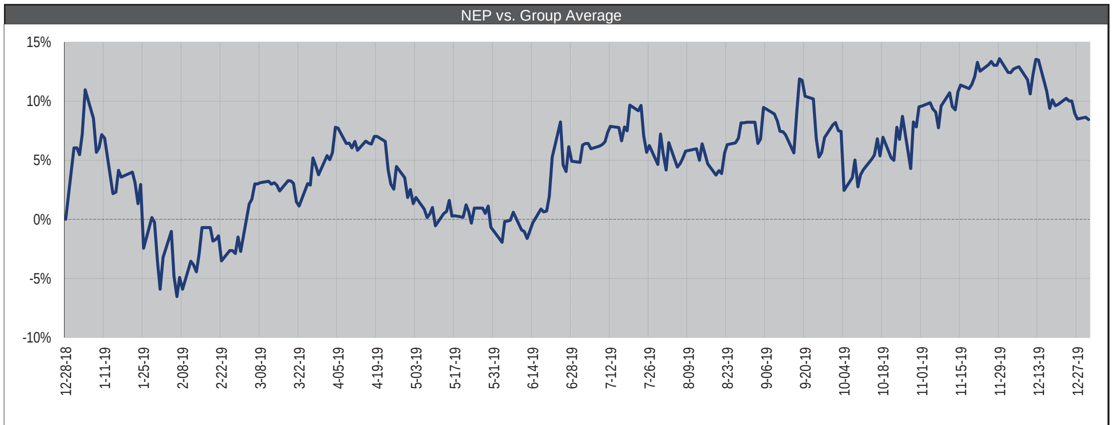


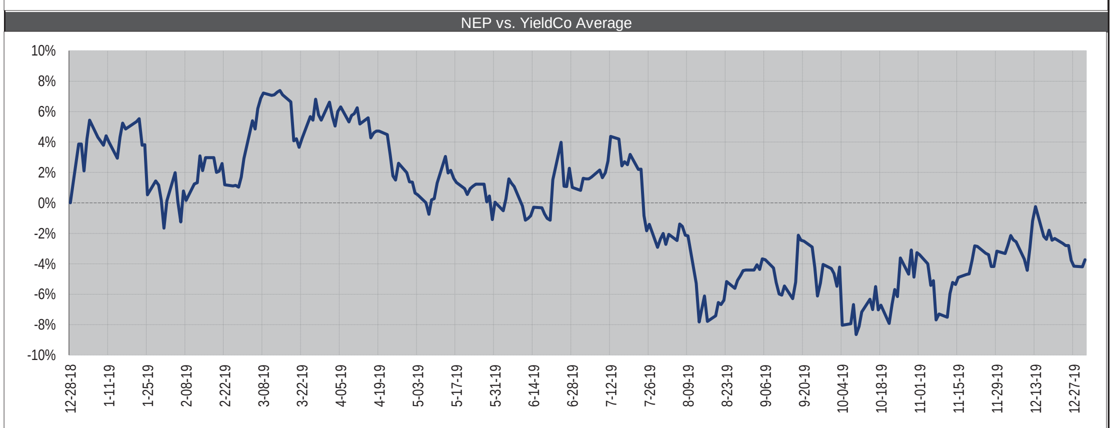
1/5/2020

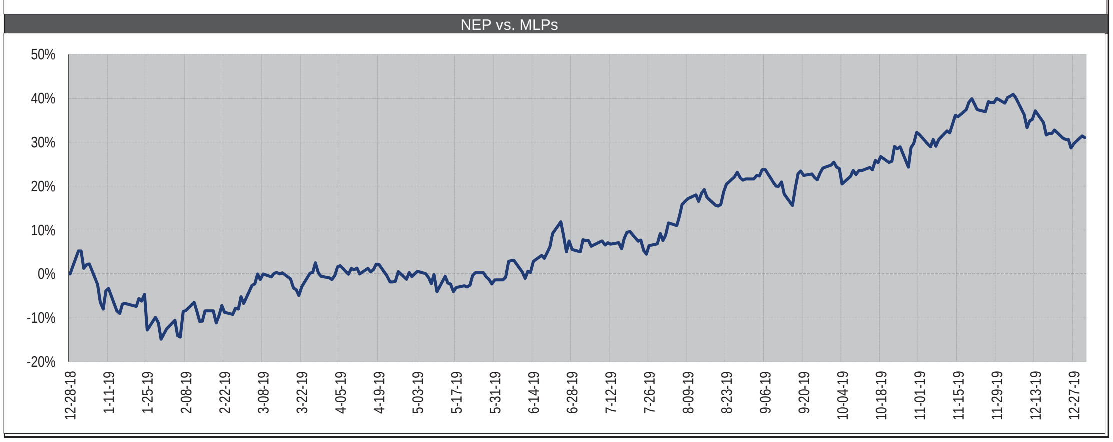
WOLFE RESEARCH

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.





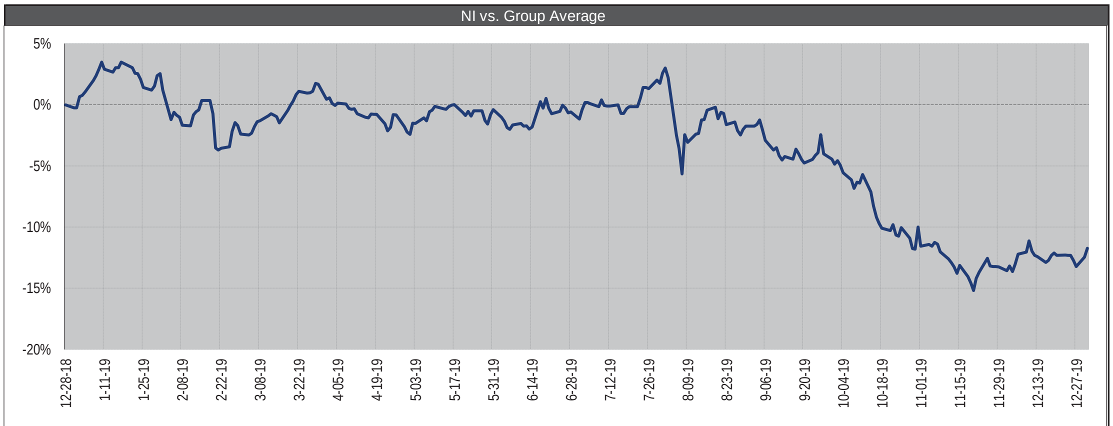


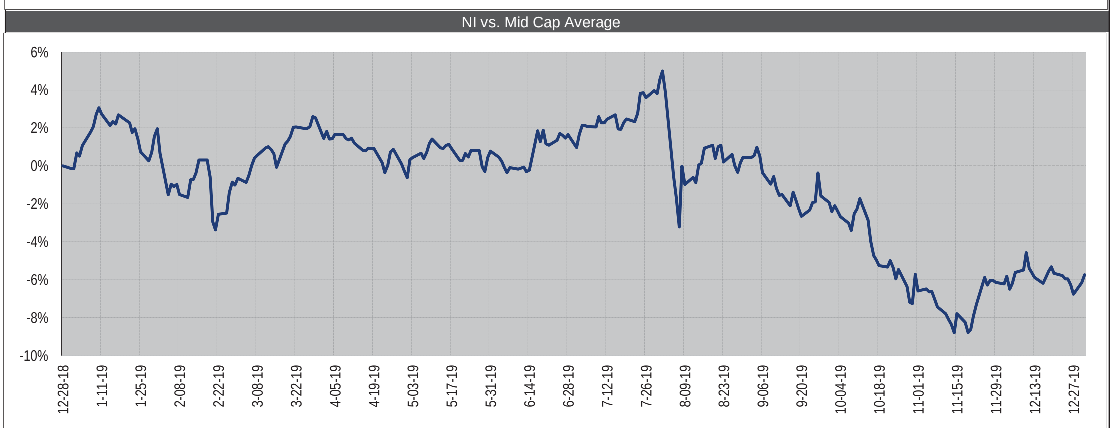
1/5/2020

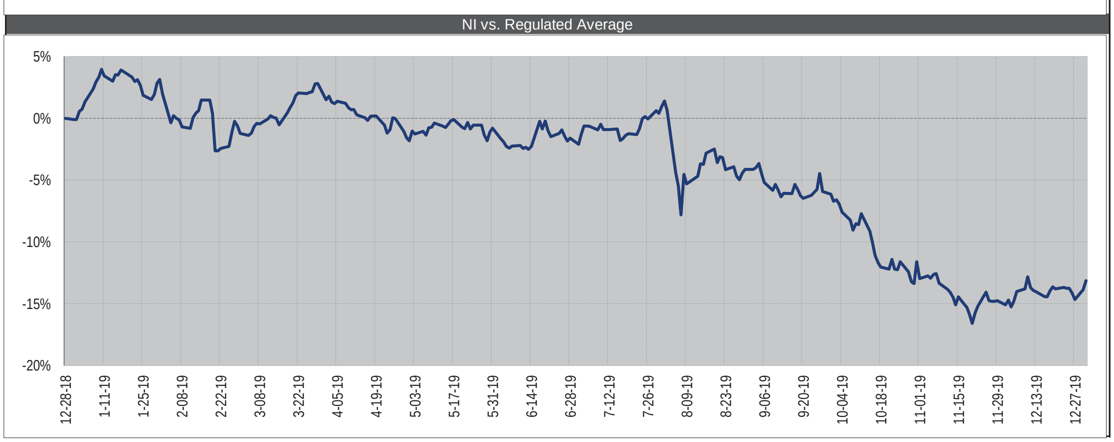
WOLFE RESEARCH

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.





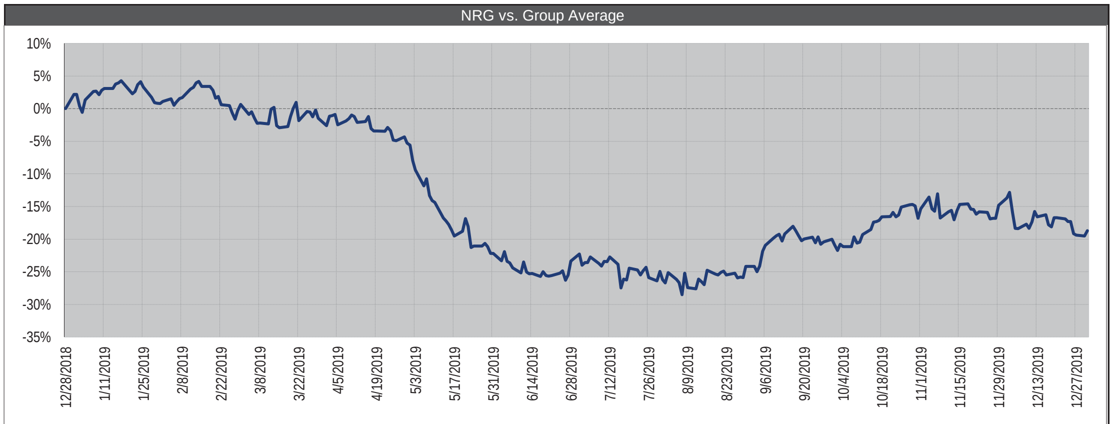


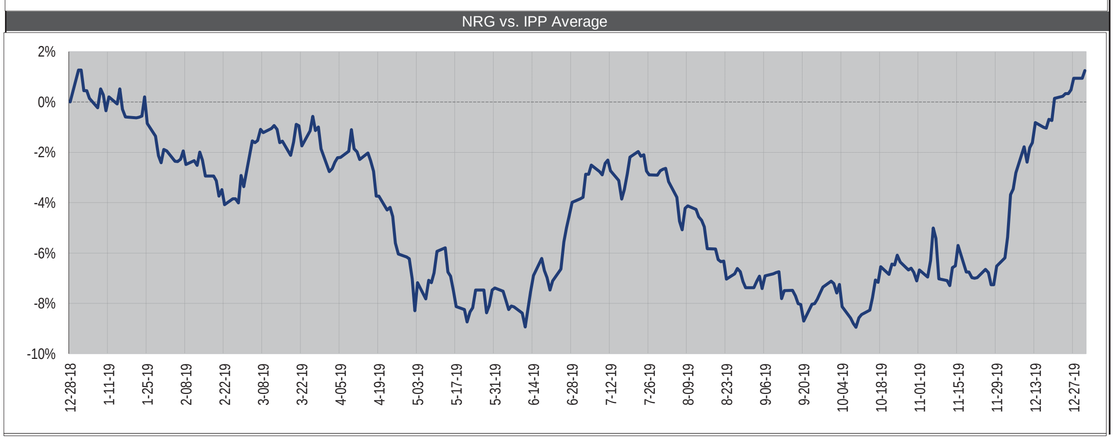
1/5/2020

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.

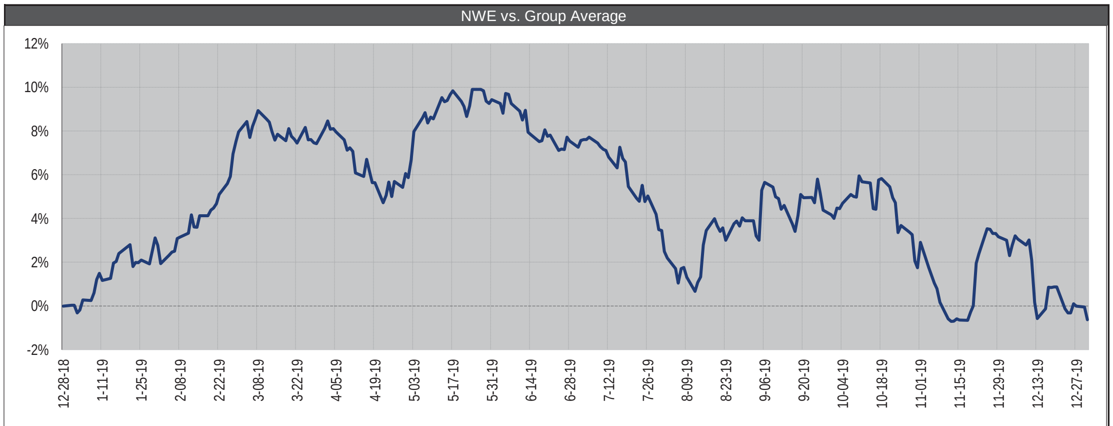


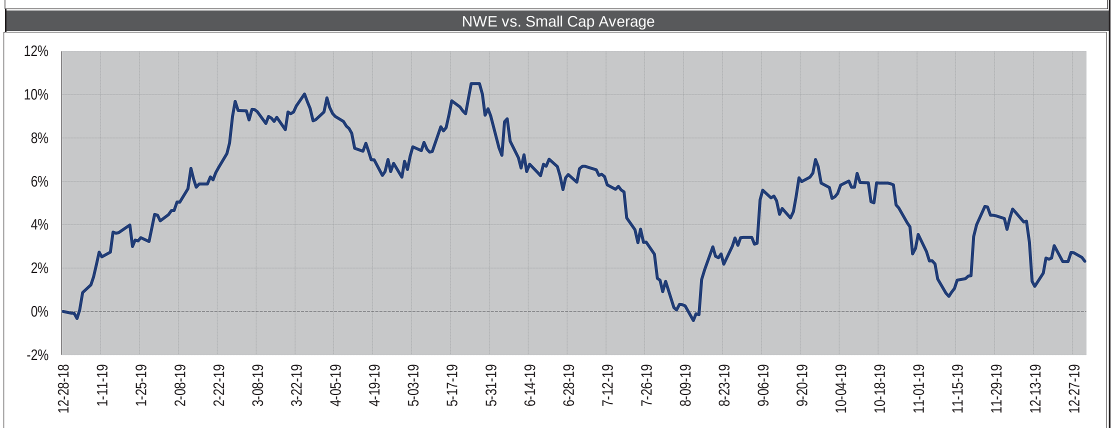


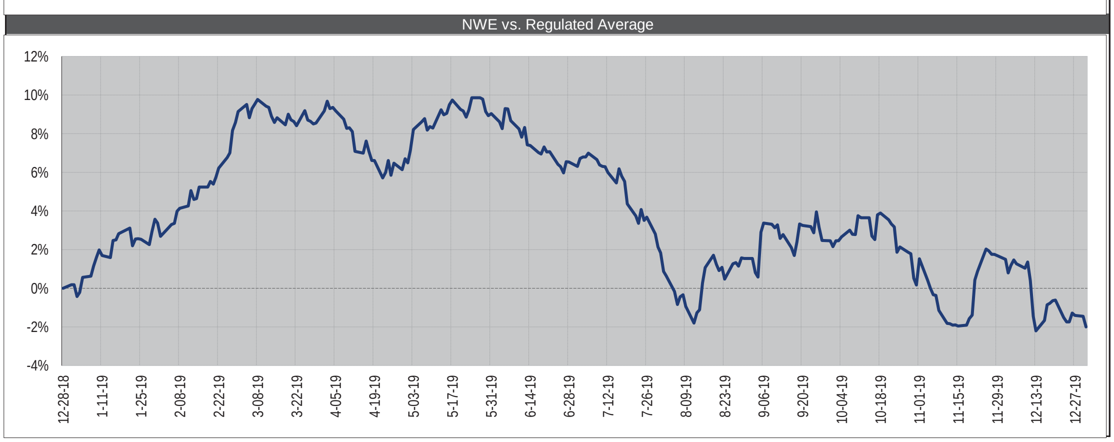
1/5/2020

WOLFE RESEARCH

NorthWestern Corp (NWE) $71.67, NR





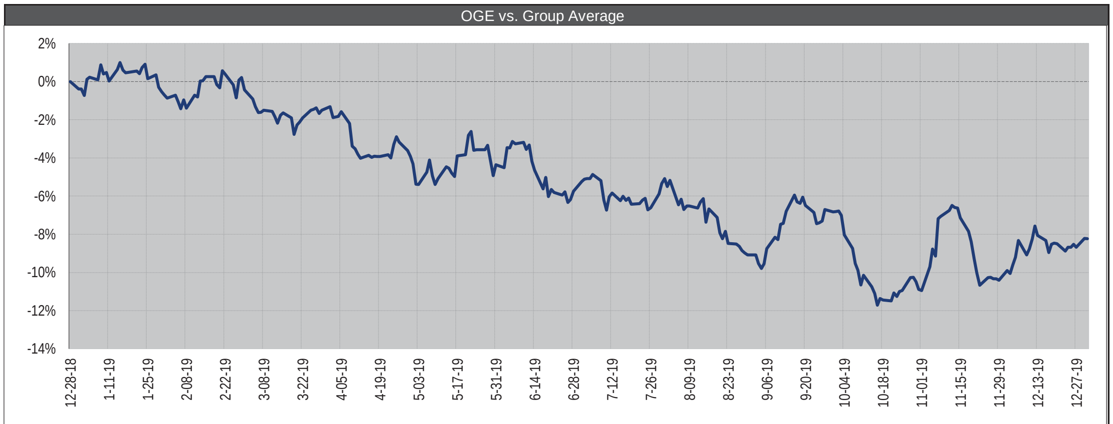


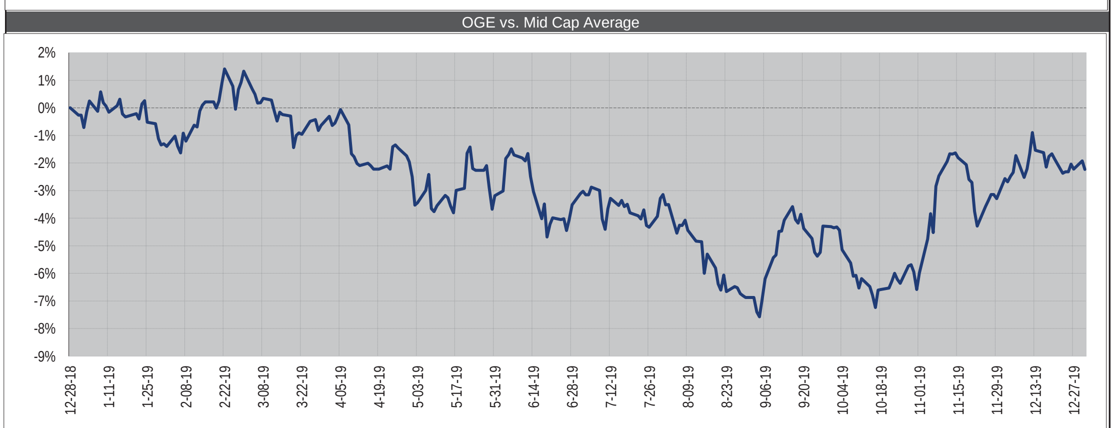
1/5/2020

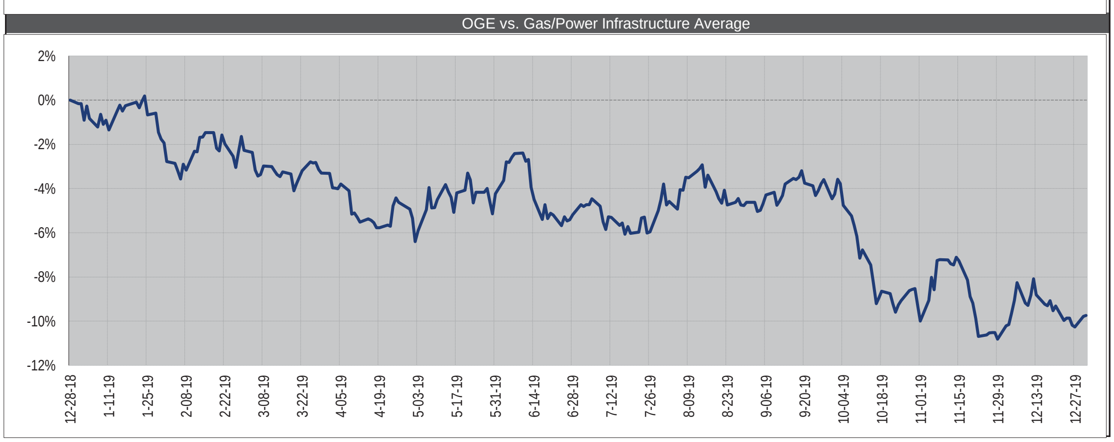
WOLFE RESEARCH

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%.





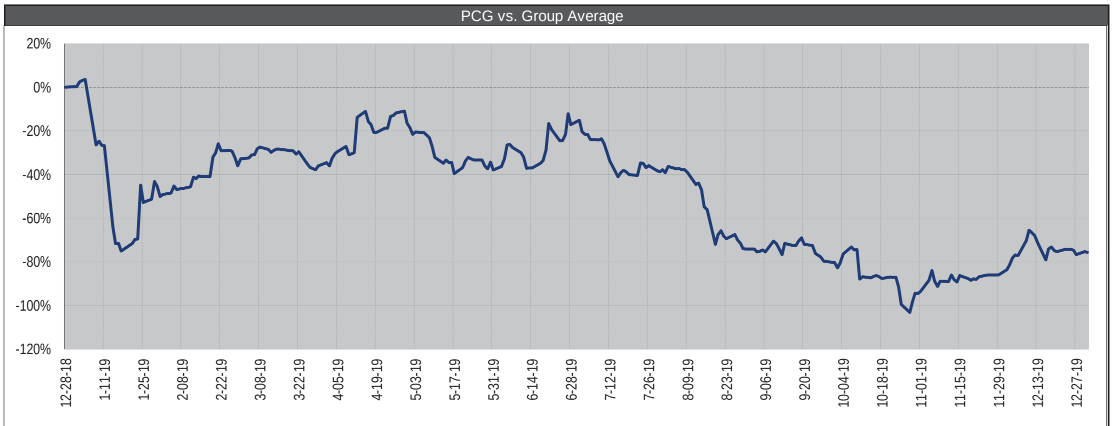


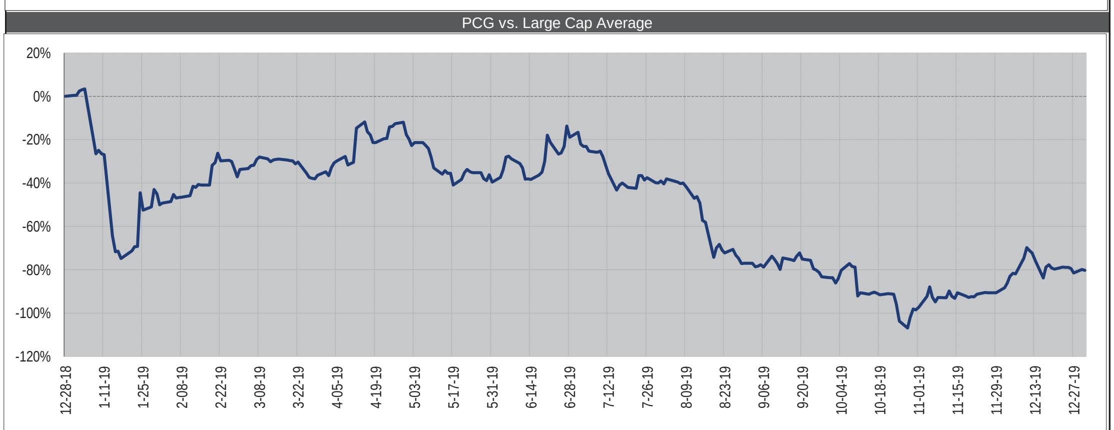
1/5/2020

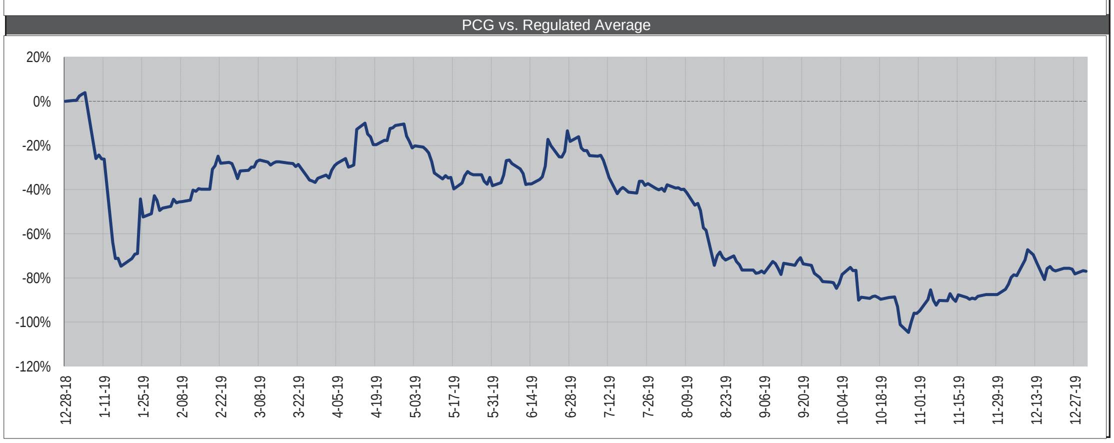
WOLFE RESEARCH

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.





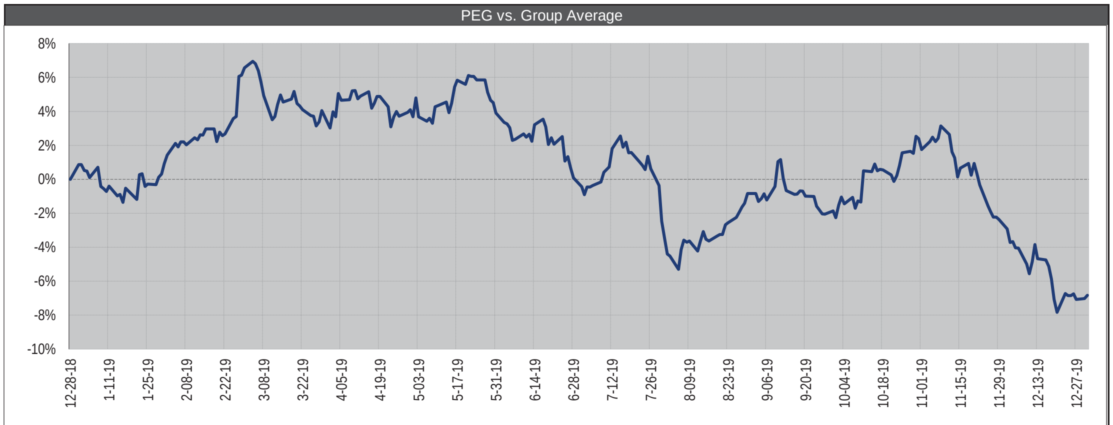


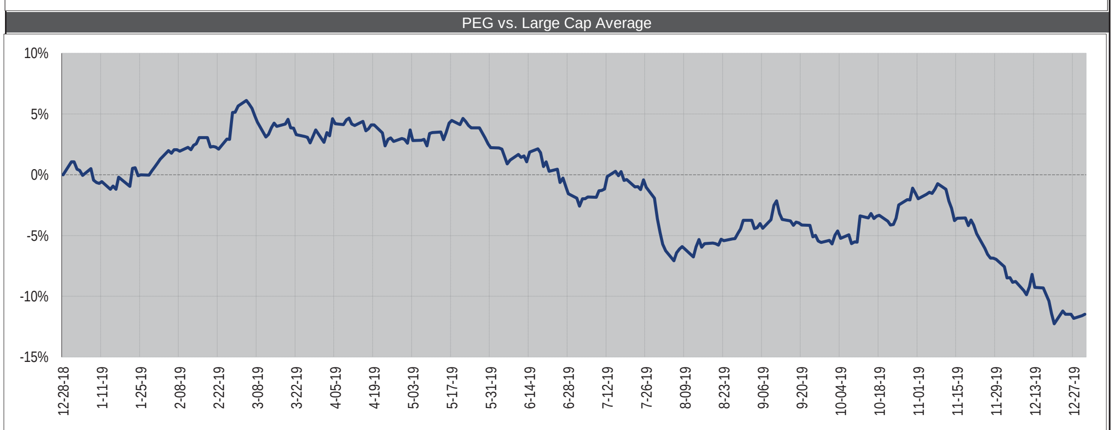
1/5/2020

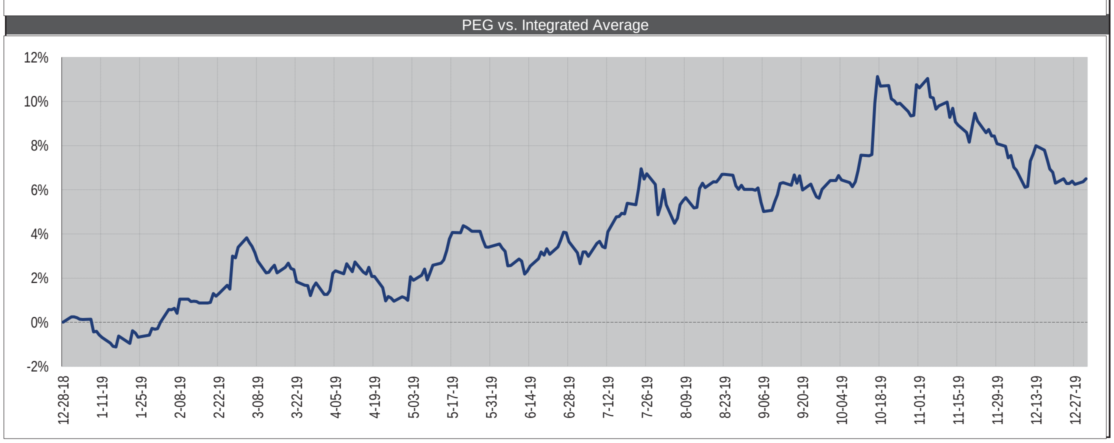
WOLFE RESEARCH

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.





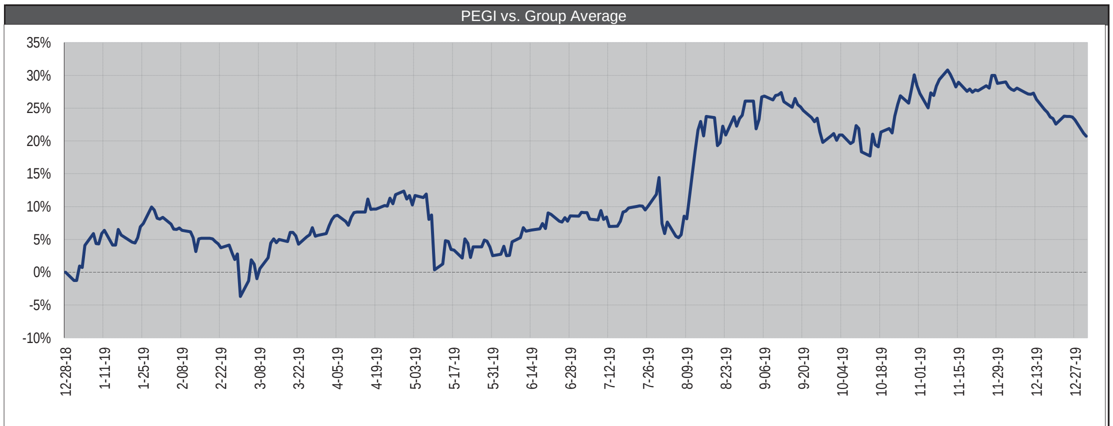


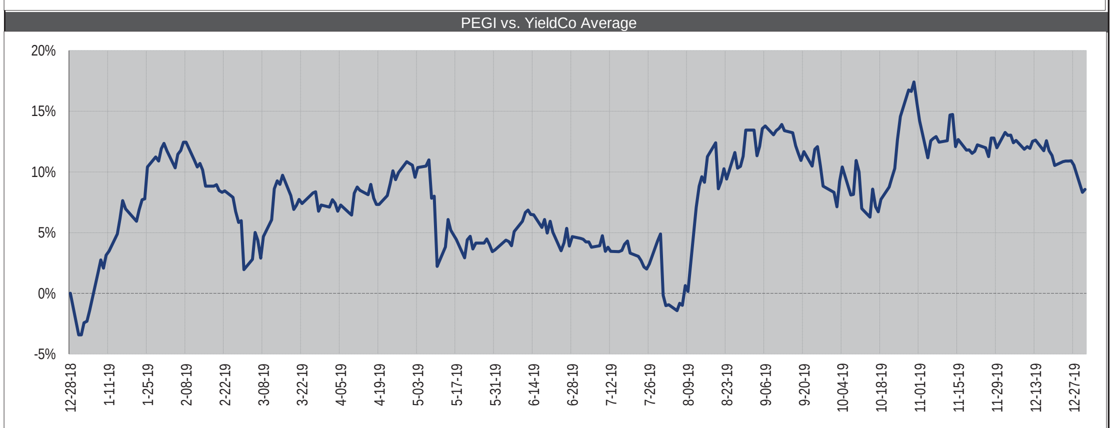
1/5/2020

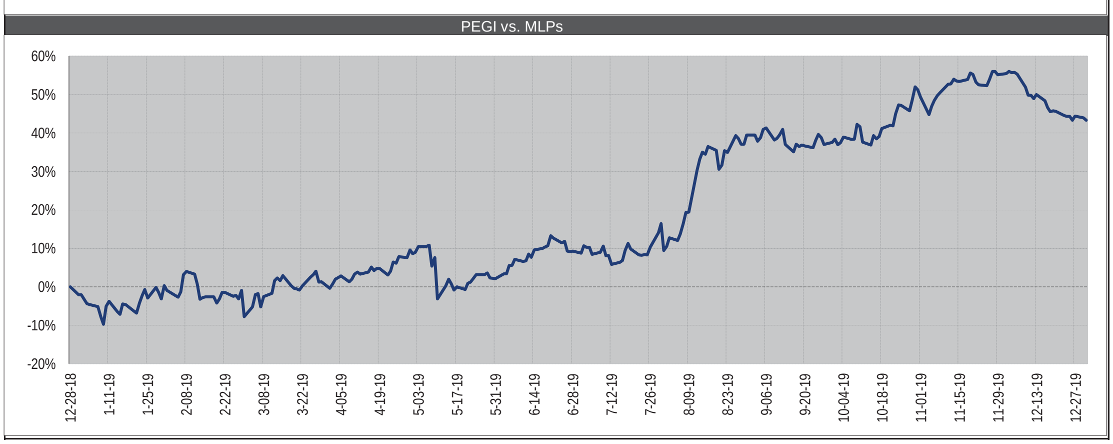
WOLFE RESEARCH

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.



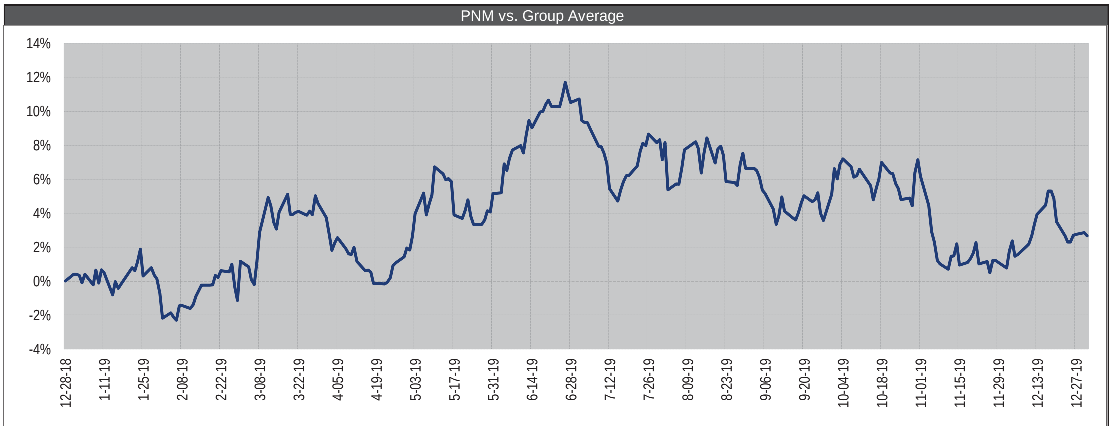


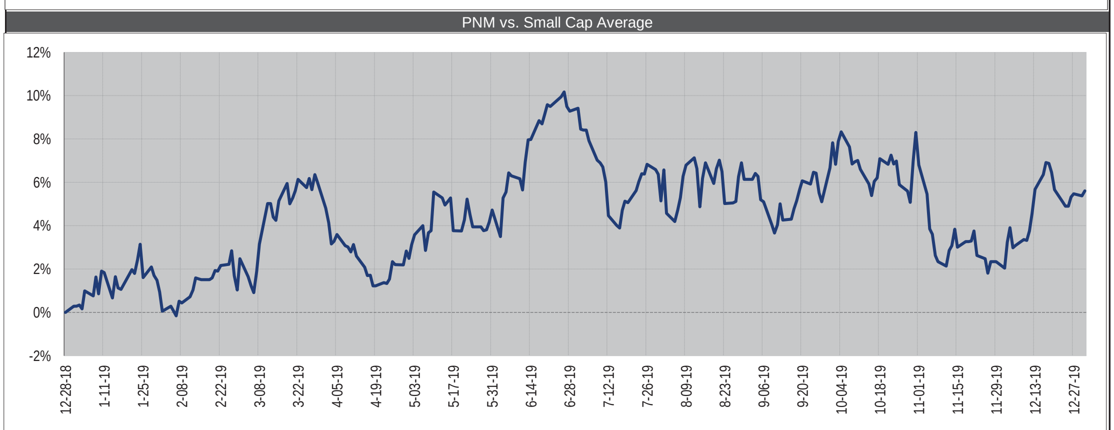


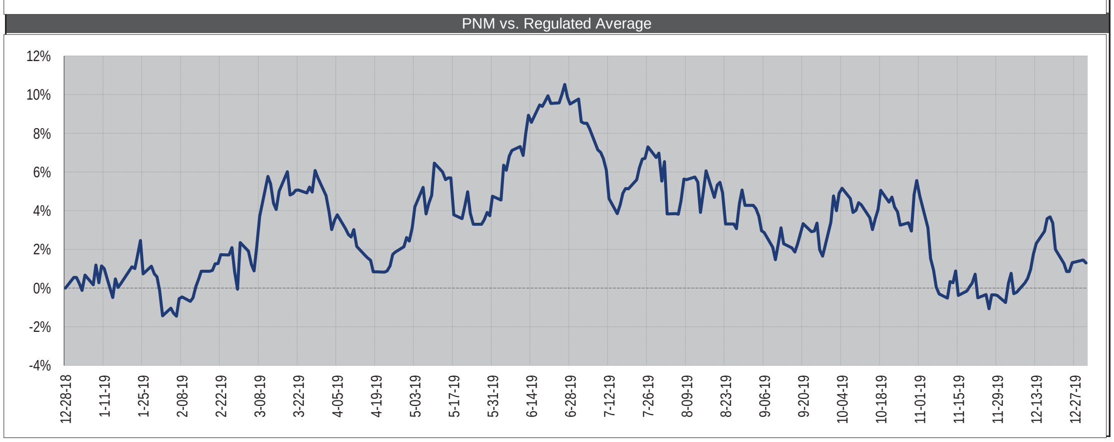
1/5/2020

WOLFE RESEARCH

PNM Resources (PNM) $50.71, NR





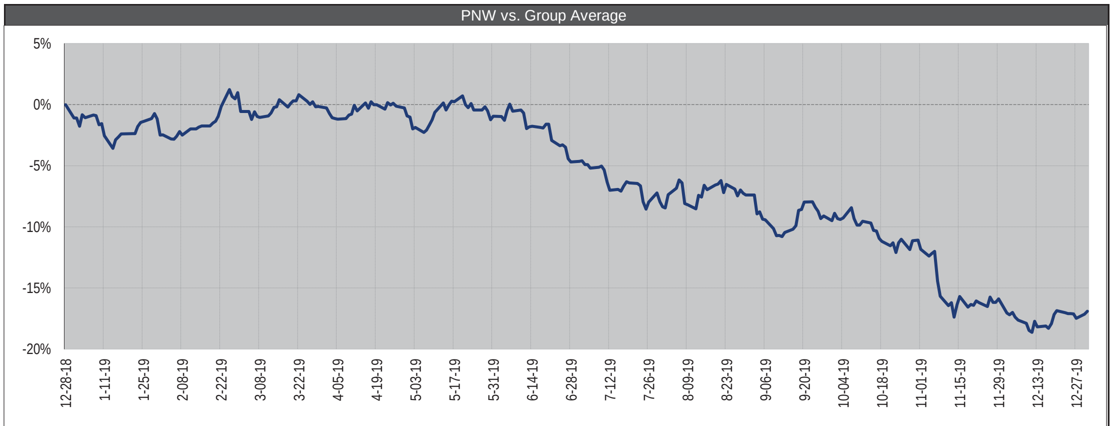


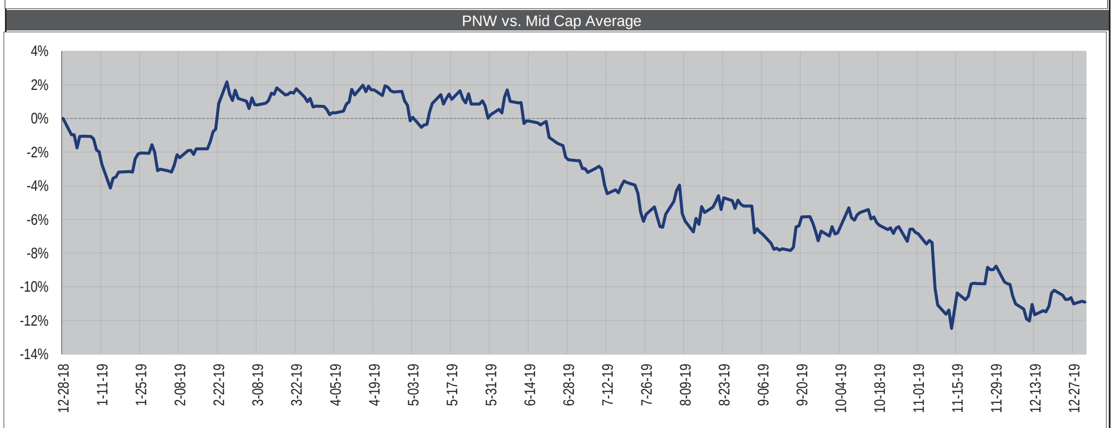
1/5/2020

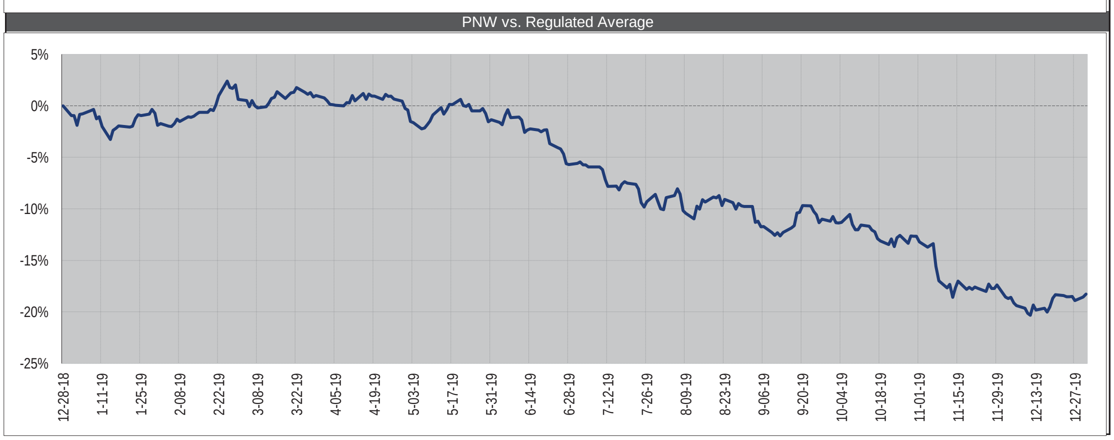
WOLFE RESEARCH

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.







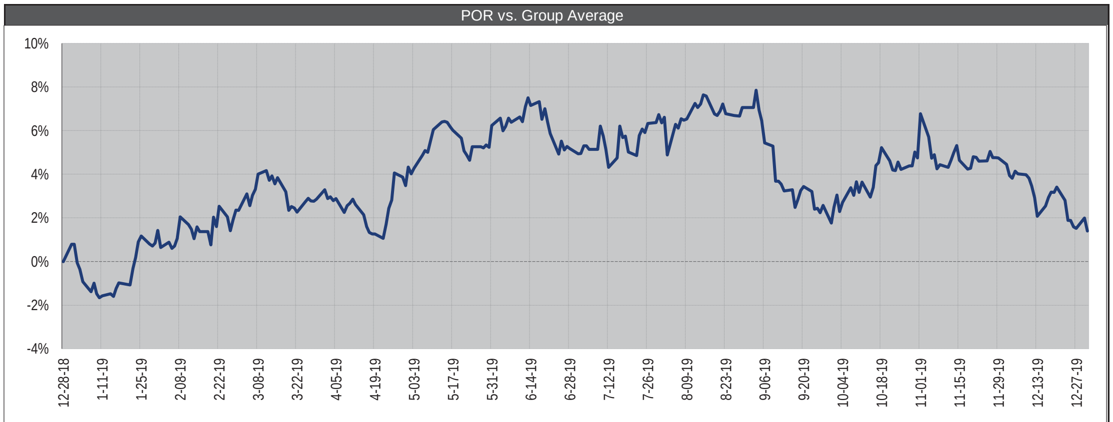
1/5/2020

WOLFE RESEARCH

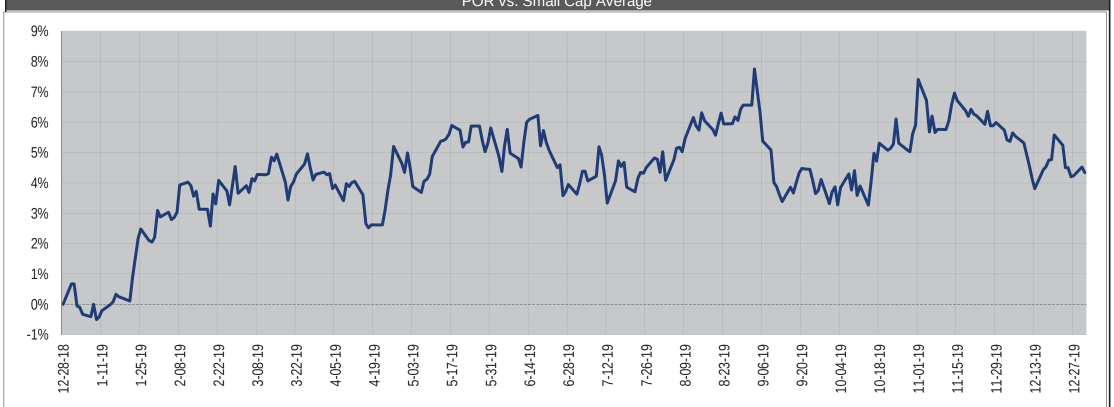
Portland General (POR) $55.79, Underperform, $55 PT

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.

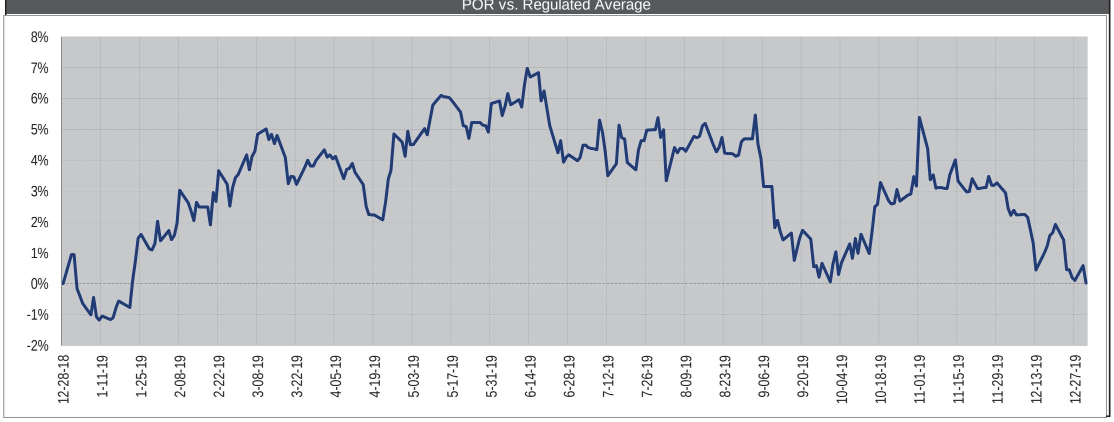
POR vs. Group Average



POR vs. Small Cap Average



POR vs. Regulated Average

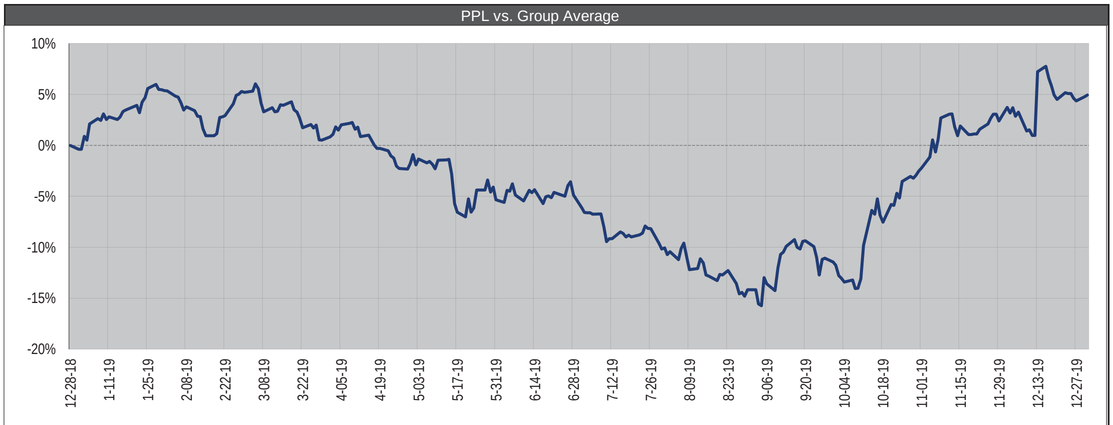


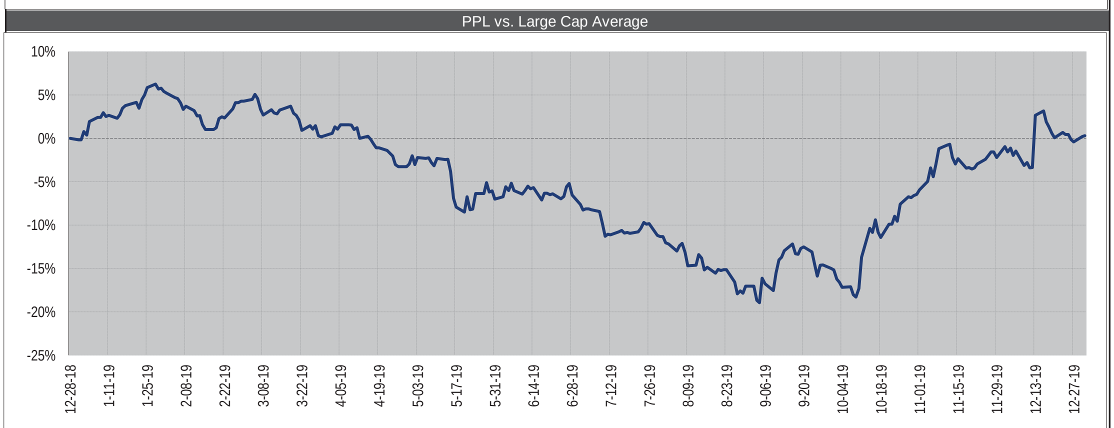
1/5/2020

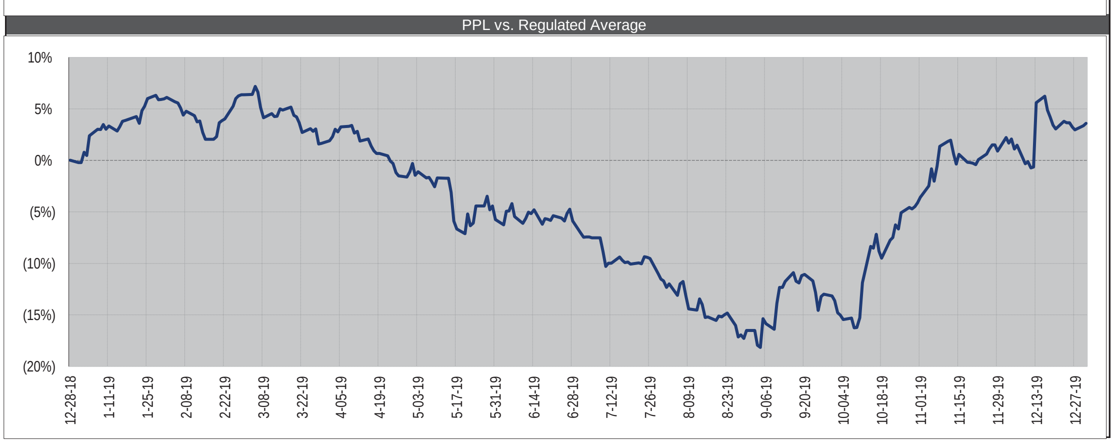
WOLFE RESEARCH

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.





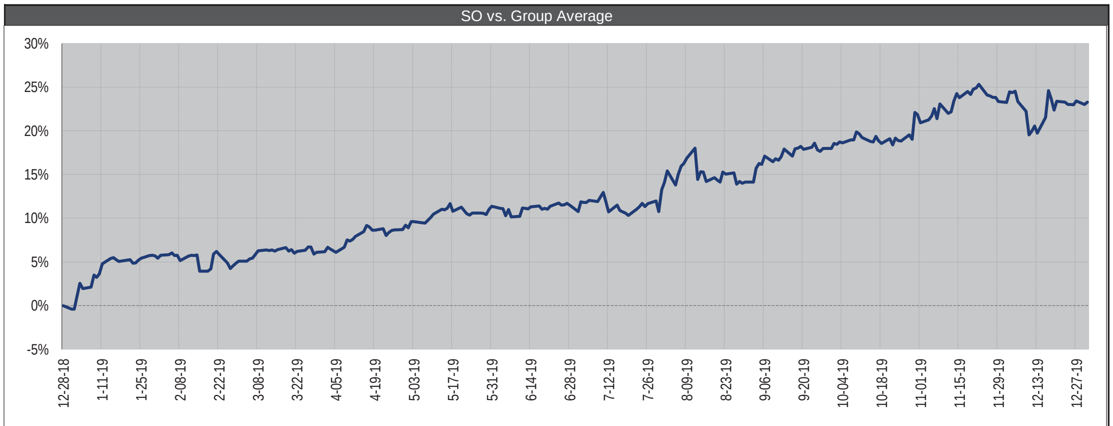


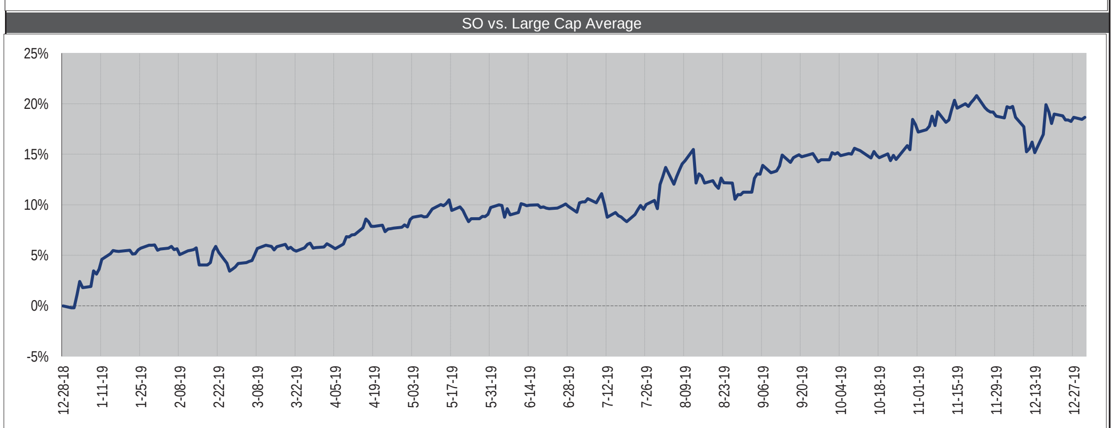
1/5/2020

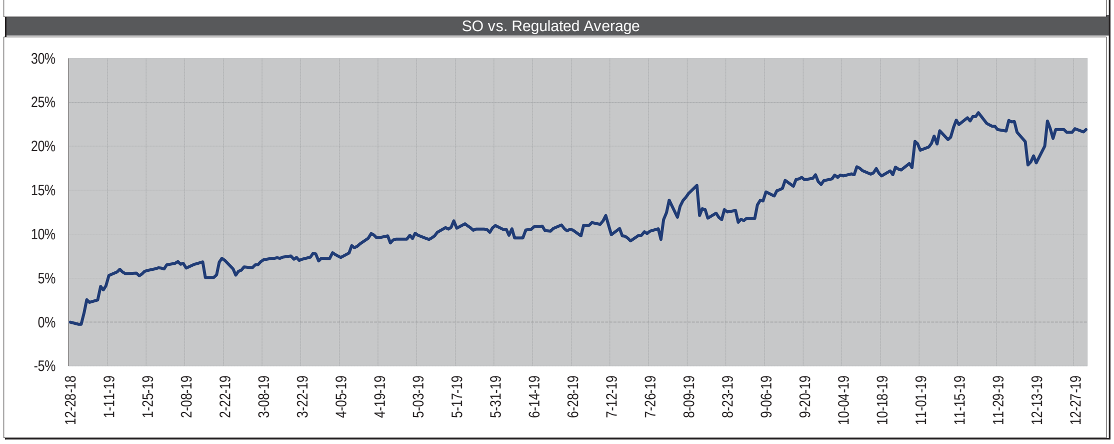
WOLFE RESEARCH

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.







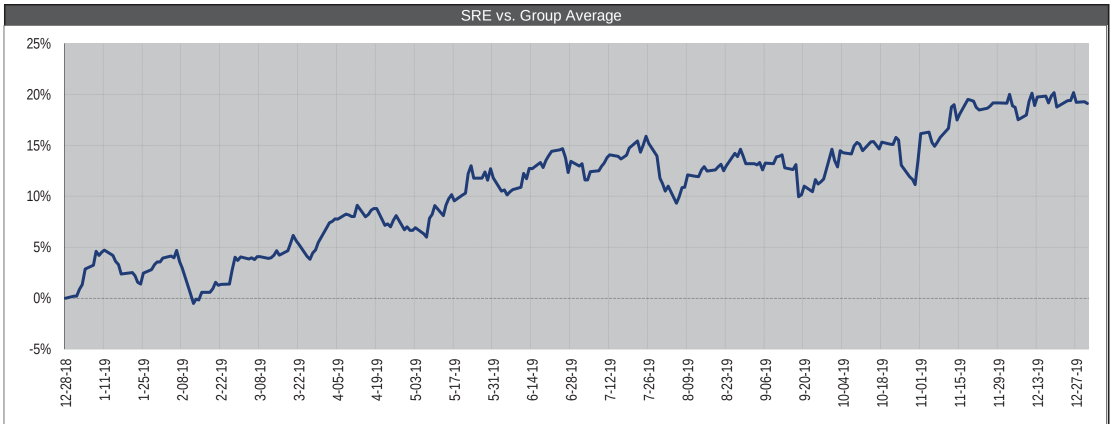
1/5/2020

WOLFE RESEARCH

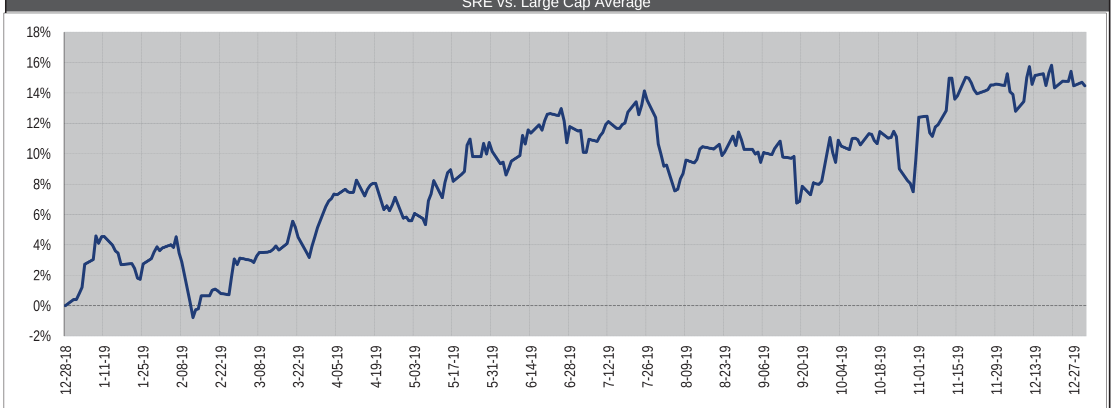
Sempra Energy (SRE) $151.48, Outperform, $164 PT

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.

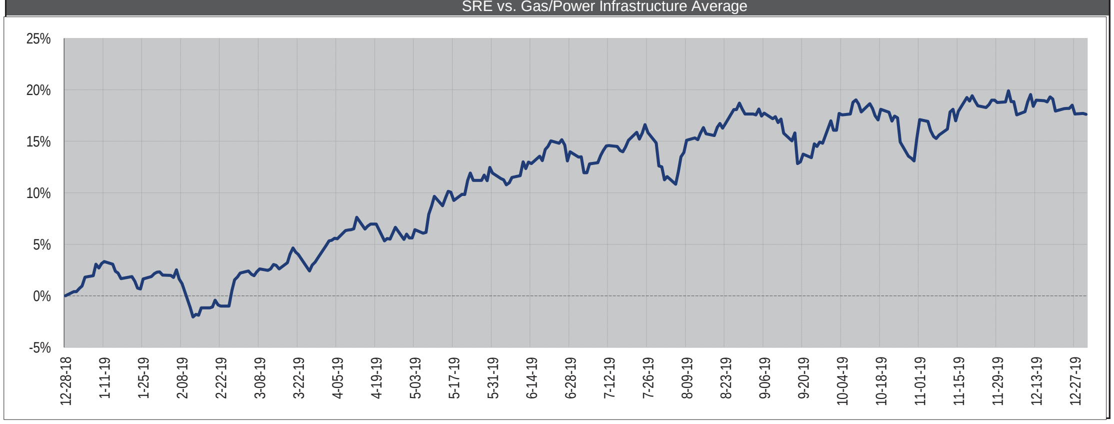
SRE vs. Group Average



SRE vs. Large Cap Average



SRE vs. Gas/Power Infrastructure Average

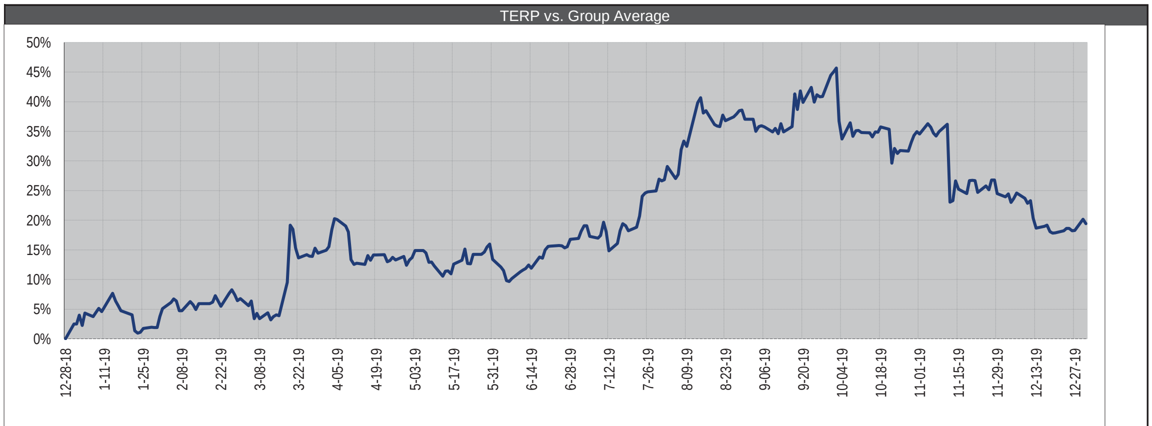


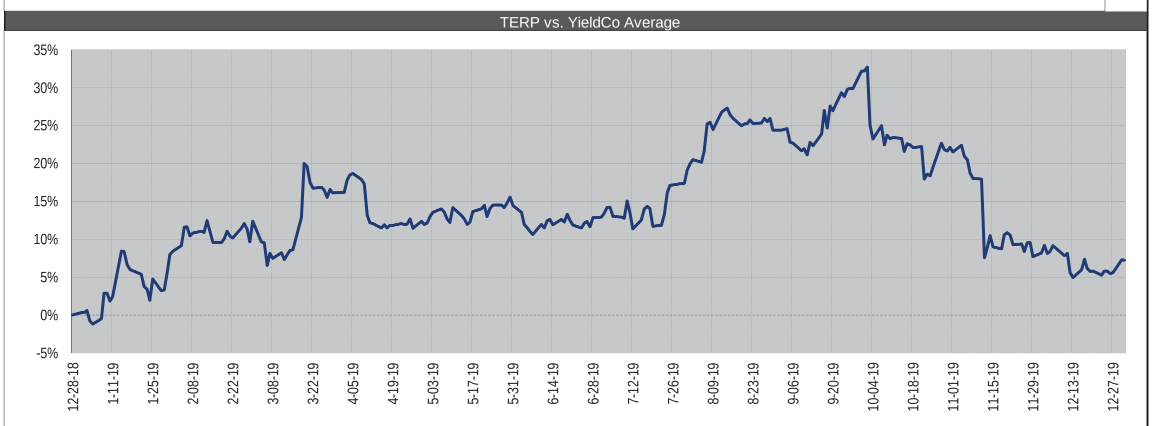
1/5/2020

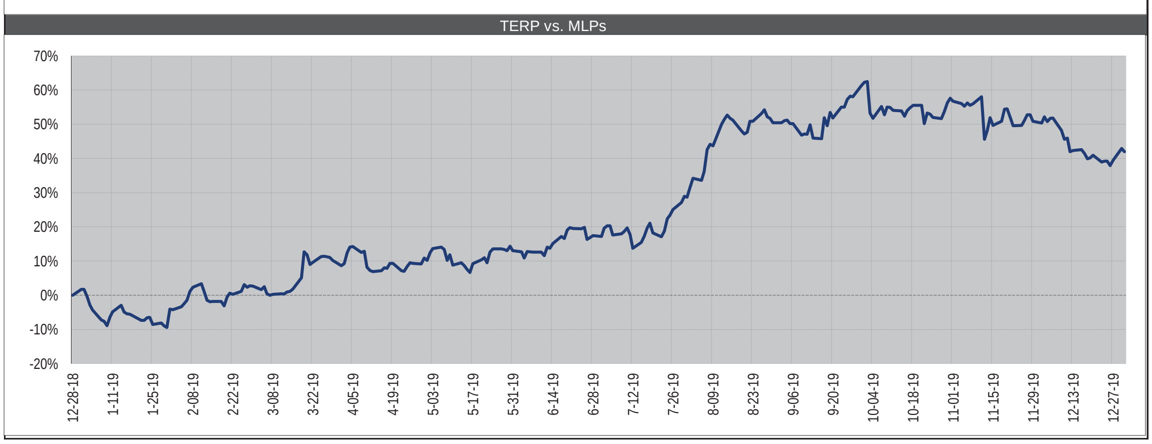
WOLFE RESEARCH

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.





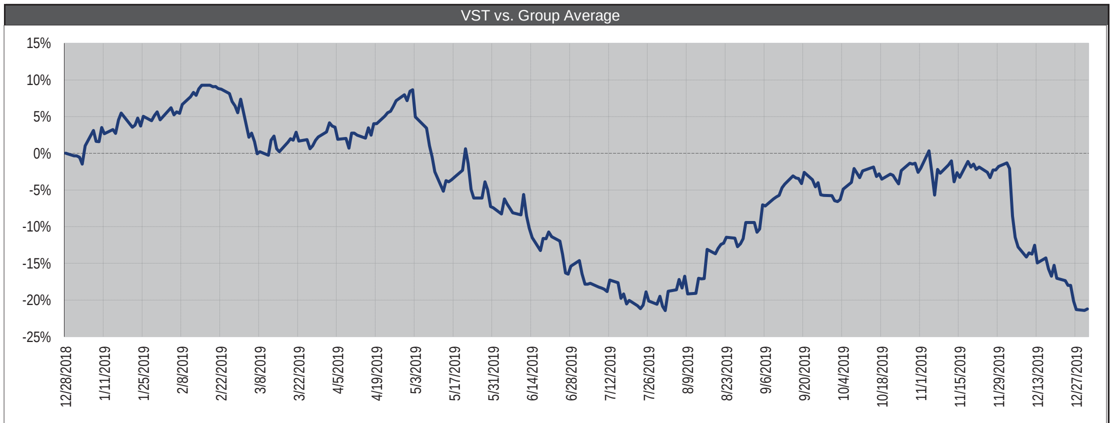


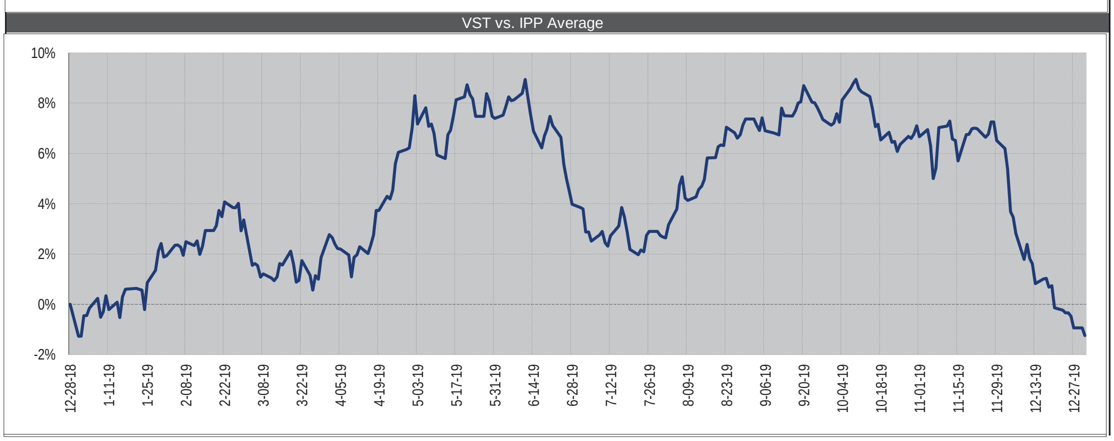
1/5/2020

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.



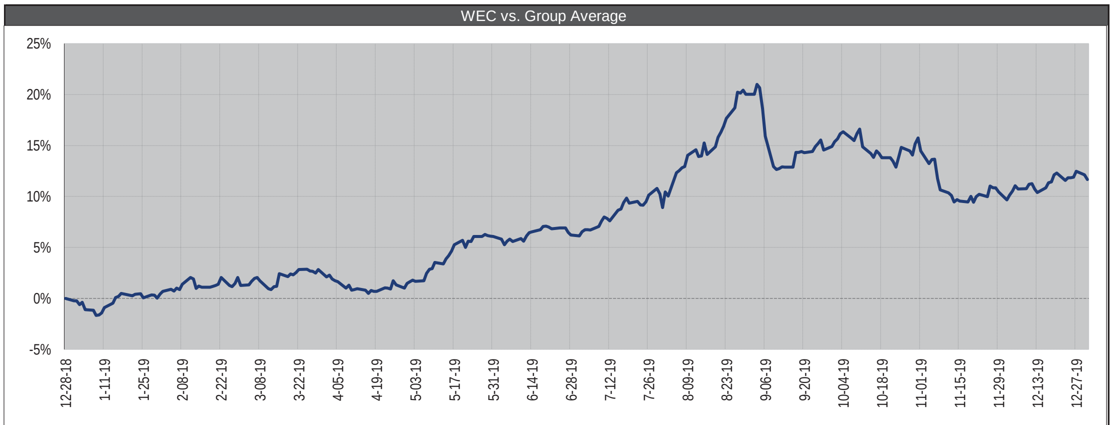


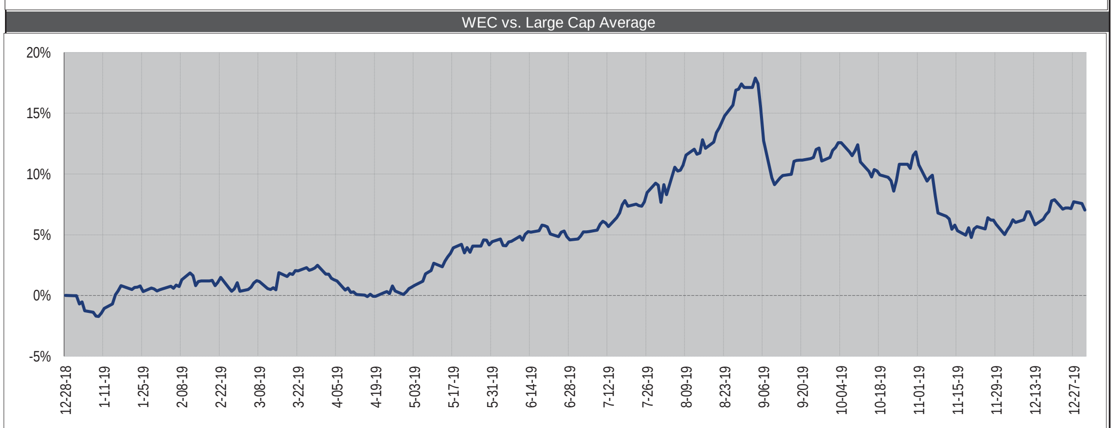
1/5/2020

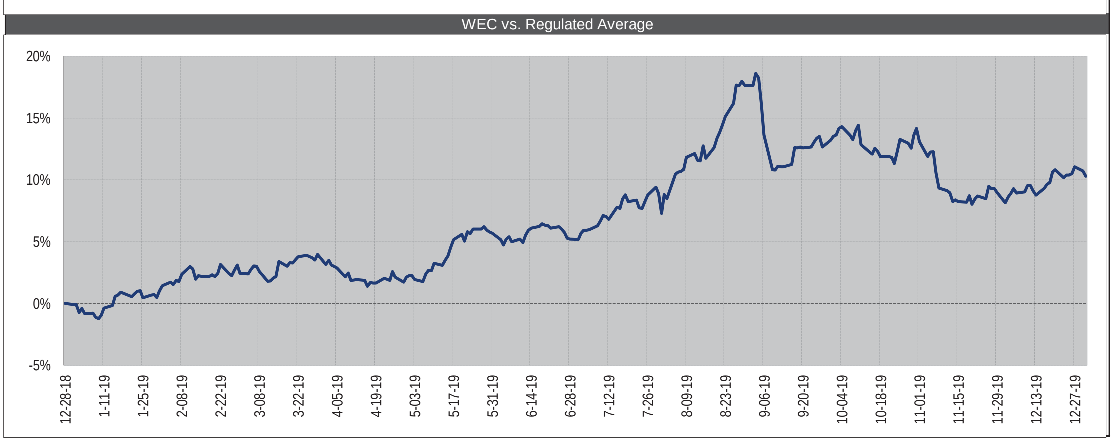
WOLFE RESEARCH

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.



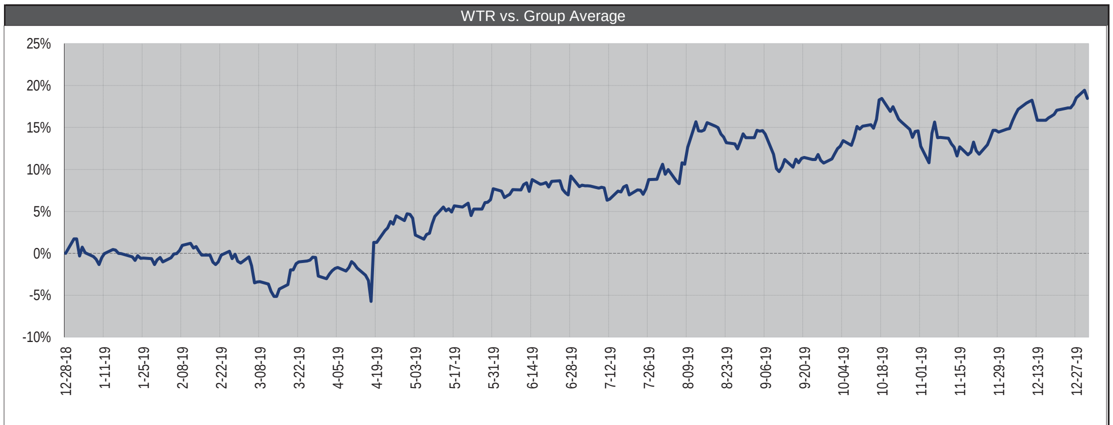


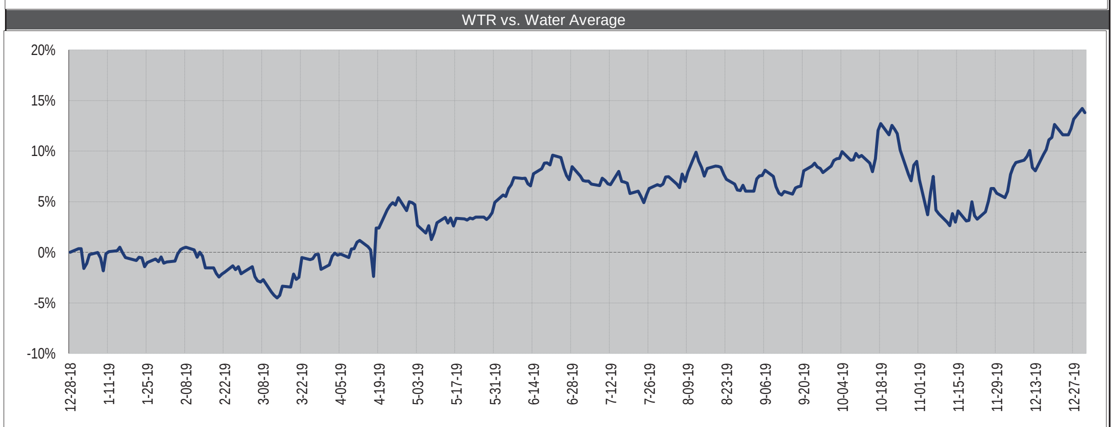


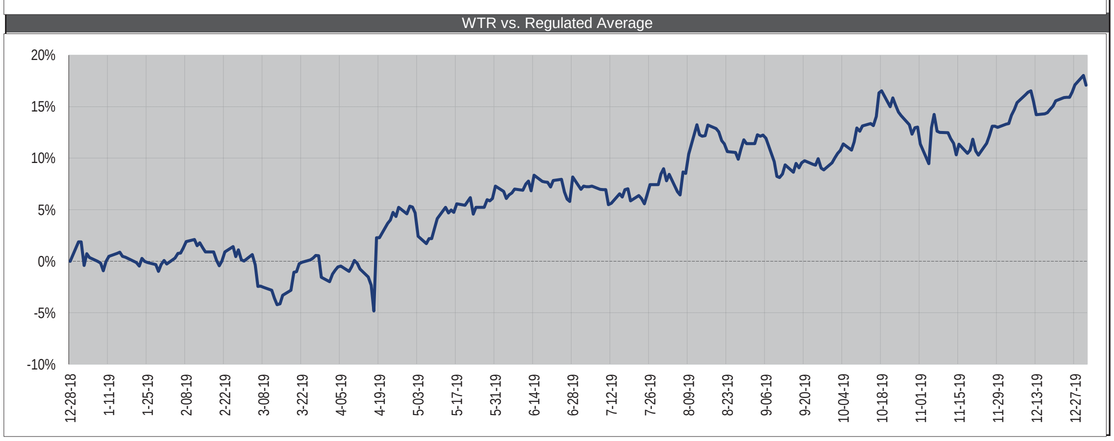
1/5/2020

WOLFE RESEARCH

Aqua America (WTR) $46.94, NR





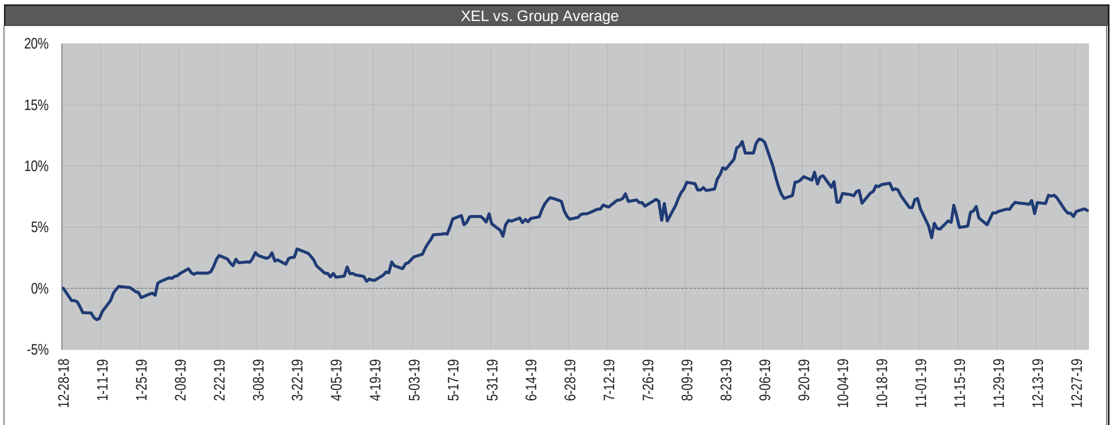


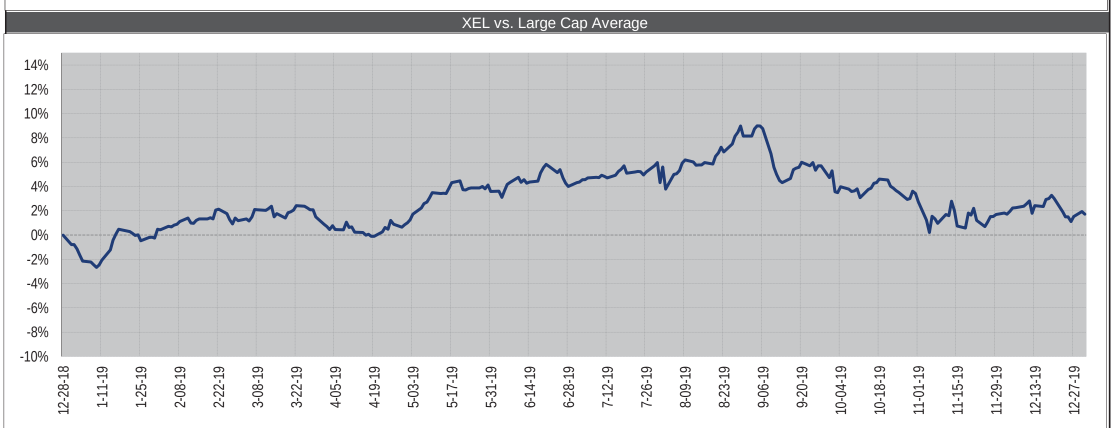
1/5/2020

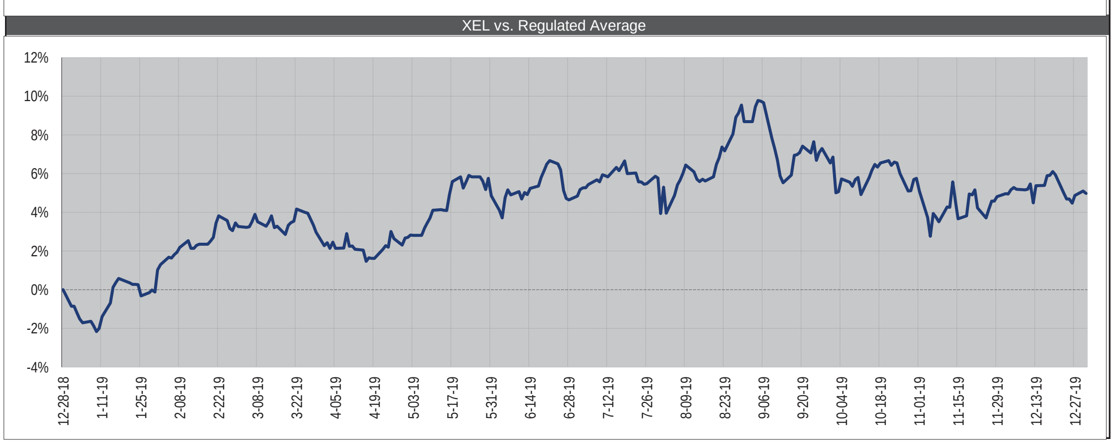
WOLFE RESEARCH

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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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.
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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
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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 –

6 May 2020

CREDIT SUISSE

Companies Mentioned *(Price as of 04-May-2020)*
NiSource Inc. (NI.N, $24.4, OUTPERFORM, TP $27.0)

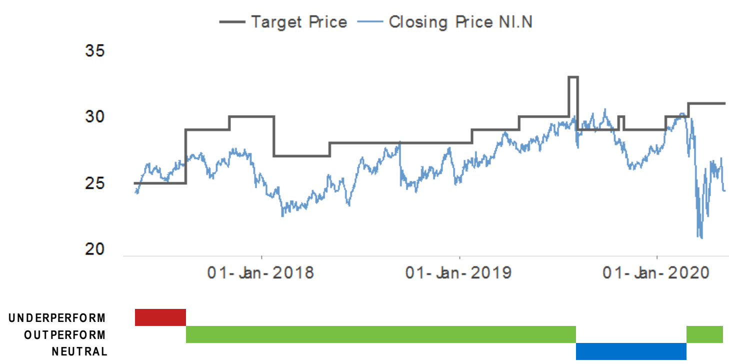
Disclosure Appendix

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.*

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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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Jefferies

EQUITY RESEARCH
NiSource Inc. (NI)

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.

Jefferies

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.

As is the case with all Jefferies employees, the analyst(s) responsible for the coverage of the financial instruments discussed in this report receives compensation based in part on the overall performance of the firm, including investment banking income. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Aside from certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgement.

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.

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.

NC - Not covered. Jefferies does not cover this company.

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

- **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.

Utilities and Power

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J.P. Morgan Securities LLC

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.

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- **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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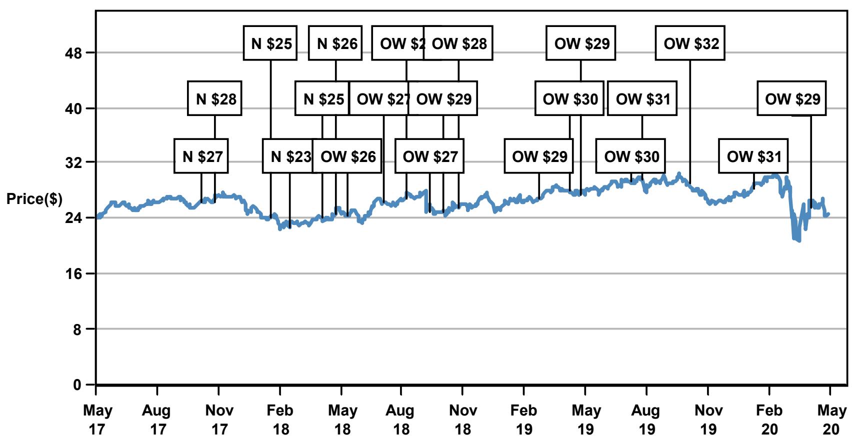
NiSource Inc. (NI, NI US) Price Chart



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.
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	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.
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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 Expenditues	$ (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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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

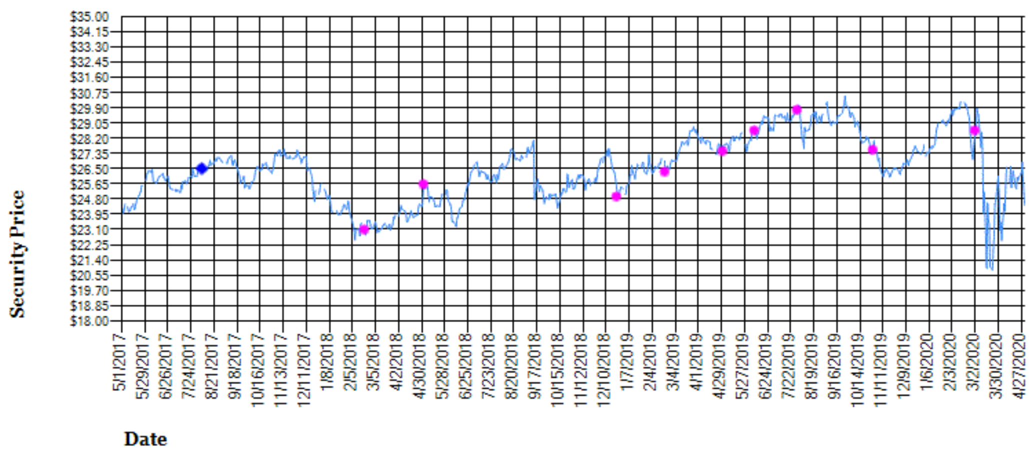
We rate shares Overweight. We are attracted to NI's robust long-term infrastructure growth opportunities and supportive regulatory treatment.

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%

BMO Capital Markets

IN Fact

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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.

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			in $
(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 Massachusettes 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

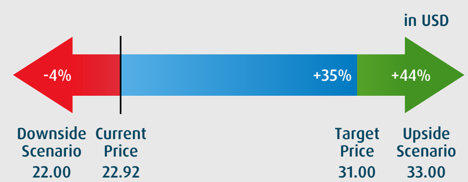
Our $31 target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2022E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook. For NI, we have removed EPS for its MA gas business from our P/E valuation 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%***

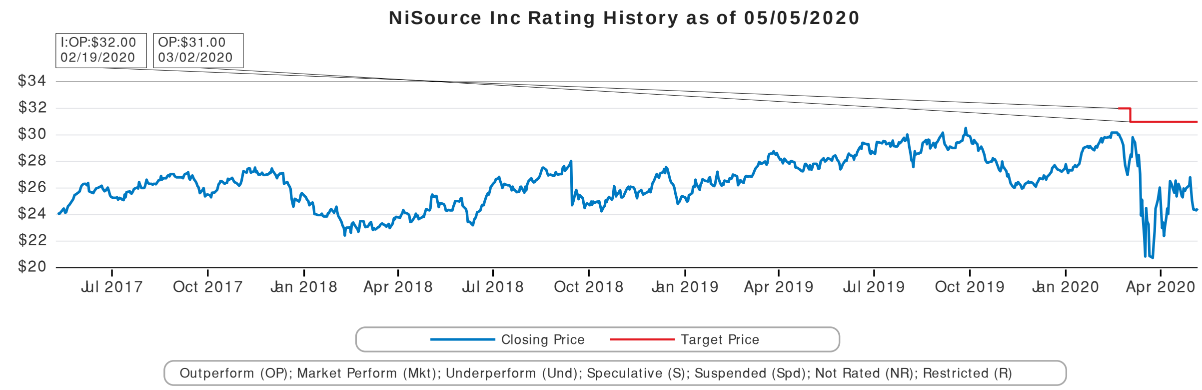
Source: BMO Capital Markets, Company Filings

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



Source: FactSet, 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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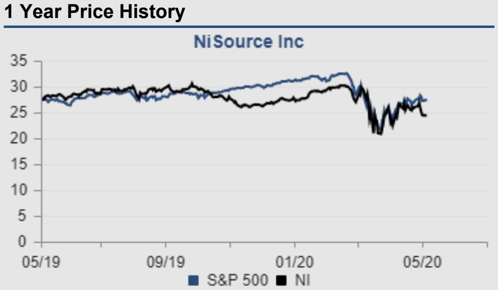
Company Statistics

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 – 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.

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

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)

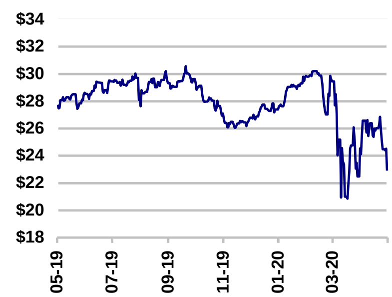
A Cinco de Mayo hangover

- **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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WOLFE RESEARCH

NiSource

May 6, 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	3.7%	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.

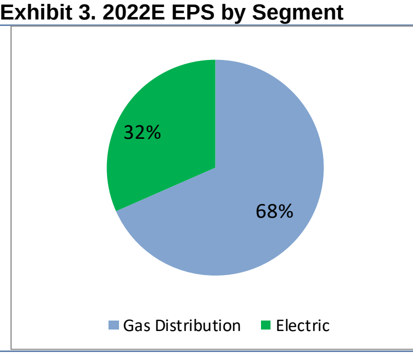
Investment Thesis

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

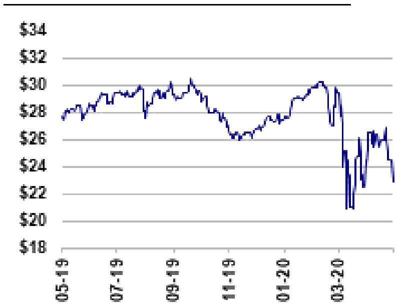
Our $26 price target is derived using a P/E multiple of 17.5x on our 2022E. This reflects a full-turn premium for NI's electric utility and an average for its gas LDCs. Risks for NiSource are 1) bad regulatory outcomes and 2) pipeline safety incidents. Upsides are 1) additional growth projects and 2) 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		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	$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

BofA GLOBAL RESEARCH

BofA SECURITIES

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.

07 May 2020

Equity

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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 SM NiSource Inc

*iQ*method 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)

*iQ*method 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 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. <u>As such, we perceive investors were surprised by a lack of an update on this front</u>. 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. <u>Given the ongoing uncertainties mgmt. did not reaffirm the 2021 floor, targeting Q3 for a long-term update including its capex plan beyond 2022.</u>

- **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)

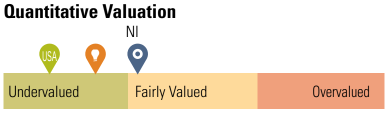
Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	22.92 USD	26.00 USD	0.88	3.58	3.66	8.77	Utilities - Regulated Gas	Standard
06 May 2020 21:49, UTC	06 May 2020	07 May 2020 13:19, UTC		06 May 2020	06 May 2020	06 May 2020		

Morningstar Pillars

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.

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

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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		

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

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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.

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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

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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, 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.

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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, 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.

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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

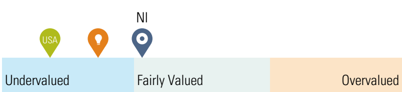
There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of 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

		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

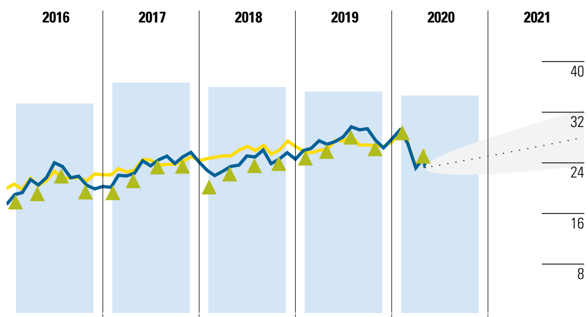
Financial Health

	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



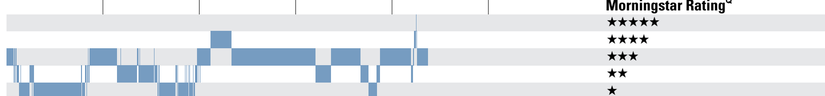
- Quantitative Fair Value Estimate
- Total Return
- Sales/Share
- Forecast Range
- Forcasted Price
- Dividend
- Split

Momentum:	Negative
Standard Deviation:	16.01
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	-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



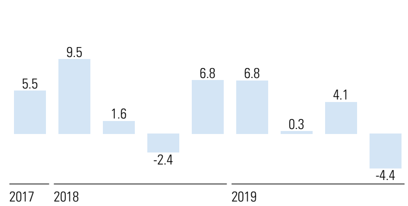
2015	2016	2017	2018	2019	TTM	**Financials** (Fiscal Year in Mil)
4,652	4,492	4,875	5,114	5,209	5,209	Revenue
-28.1	-3.4	8.5	4.9	1.8	0.0	% Change
802	857	916	126	1,305	1,305	Operating Income
-32.3	6.9	6.9	-86.3	936.7	0.0	% Change
287	332	129	-51	383	383	Net Income
1,457	803	742	540	1,583	1,583	Operating 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)

2015	2016	2017	2018	2019	TTM	**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.

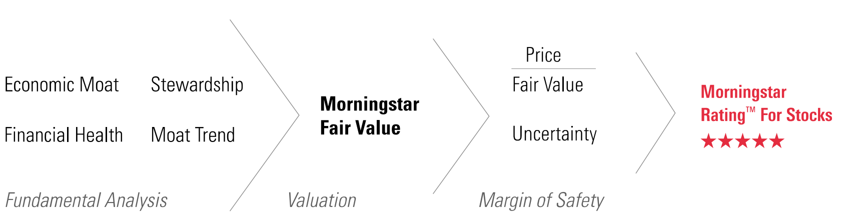
Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to 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.

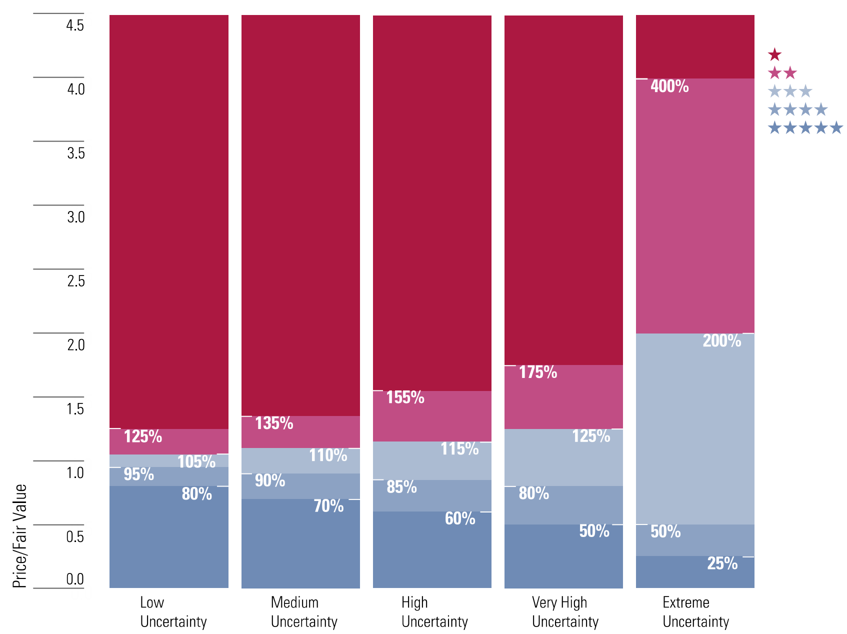
Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ► 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
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

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.

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.

The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions.

A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit http://global.morningstar.com/equitydisclosures.

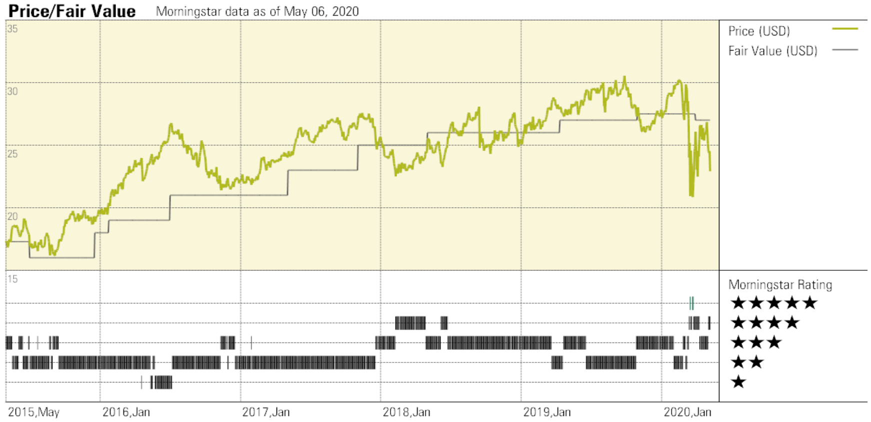
NiSource Inc NI (XNYS)

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		

General Disclosure

The analysis within this report is prepared by the person(s) noted in their capacity as an analyst for Morningstar's equity research group. The equity research group consists of various Morningstar, Inc. subsidiaries ("Equity Research Group)". In the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission.

Price/Fair Value Morningstar data as of May 06, 2020



The opinions expressed within the report are given in good faith, are as of the date of the report and are subject to change without notice. Neither the analyst nor Equity Research Group commit themselves in advance to whether and in which intervals updates to the report are expected to be made. The written analysis and Morningstar Star Rating for stocks are statements of opinions; they are not statements of fact.

The Equity Research Group believes its analysts make a reasonable effort to carefully research information contained in the analysis. The information on which the analysis is based has been obtained from sources believed to be reliable such as, for example, the company's financial statements filed with a regulator, company website, Bloomberg and any other the relevant press sources. Only the information obtained from such sources is made available to the issuer who is the subject of the analysis, which is necessary to properly reconcile with the facts. Should this sharing of information result in considerable changes, a statement of that fact will be noted within the report. While the Equity Research Group has obtained data, statistics and information from sources it believes to be reliable, neither the Equity Research Group nor Morningstar, Inc. performs an audit or seeks independent verification of any of the data, statistics, and information it receives.

General Quantitative Disclosure

The Quantitative Equity Report ("Report") is derived from data, statistics and information within Morningstar, Inc.'s database as of the date of the Report and is subject to change without notice. The Report is for informational purposes only, intended for financial professionals and/or sophisticated investors ("Users") and should not be the sole piece of information used by such Users or their clients in making an investment decision. The quantitative equity ratings noted the Report are provided in good faith, are as of the date of the Report and are subject to change. While Morningstar has obtained data, statistics and information from sources it believes to be reliable, Morningstar does not perform an audit or seeks independent verification of any of the data, statistics, and information it receives.

The quantitative equity ratings are not a market call, and do not replace the User or User's clients from conducting their own due-diligence on the security. The quantitative equity rating is not a suitability assessment; such assessments take into account may factors including a person's investment objective, personal and financial situation, and risk tolerance all of which are factors the quantitative equity rating statistical model does not and did not consider.

Prices noted with the Report are the closing prices on the last stock-market trading day before the publication date stated, unless another point in time is explicitly stated.

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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 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

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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		

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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

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.

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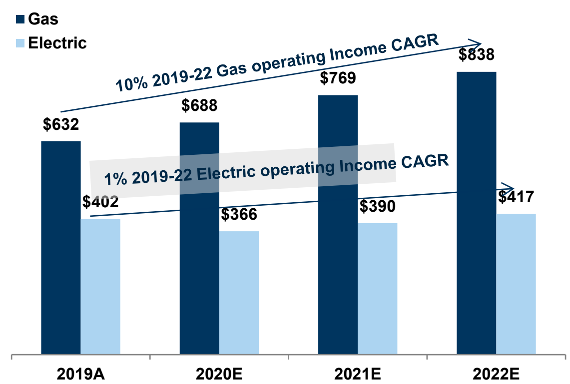
NI in charts

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%)

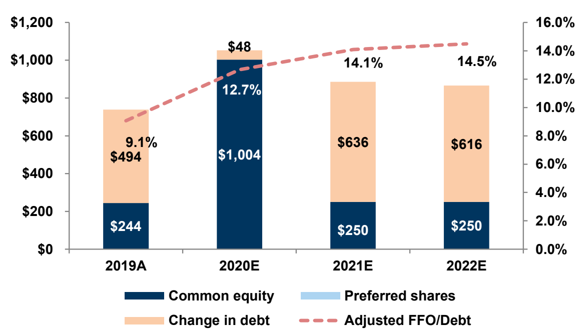
Source: FactSet, Goldman Sachs Global Investment Research

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

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.

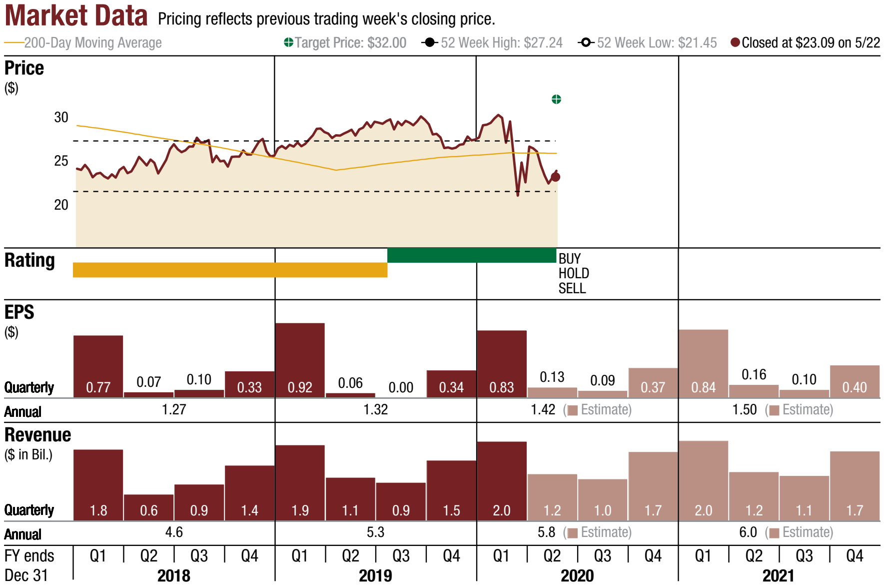
Our long-term rating is also BUY.

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.

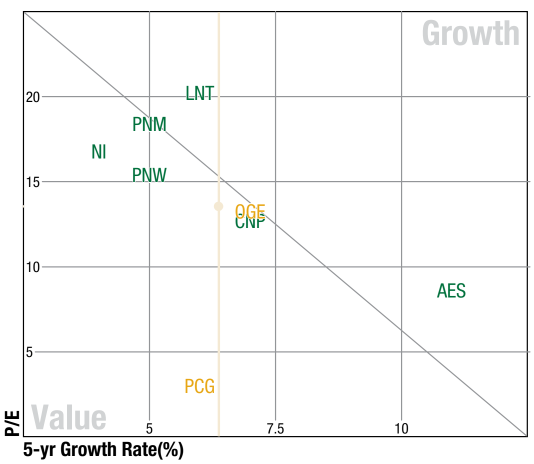
VALUATION

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.

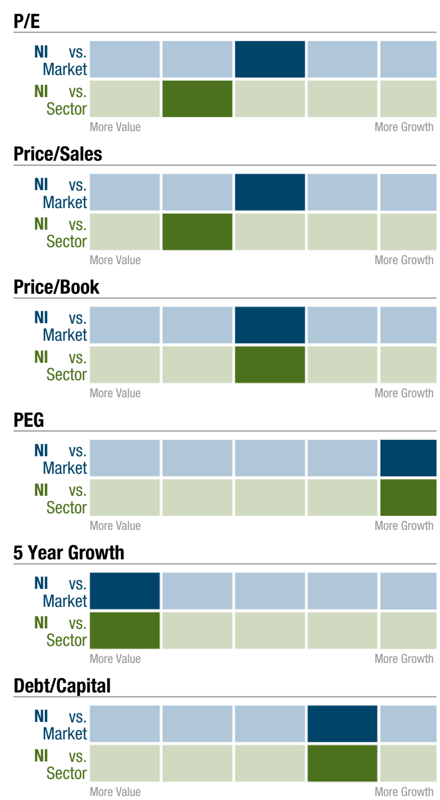
Peer & Industry Analysis

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**	



Please see important information about this report on page 5

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.

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BofA SECURITIES

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).

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

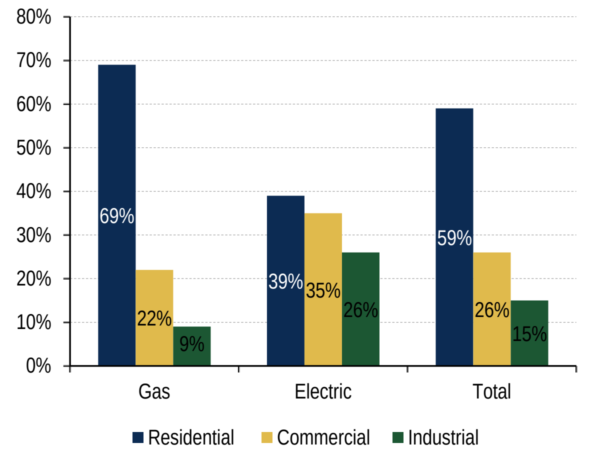
$	2020E	2021E
COVID-19 Impact on EPS Base Case	($0.15)-($0.20)	($0.00)-($0.10)
Mitigation Efforts - Initiated in April	$0.10-$0.15	$0.05-$0.10
Estimated Net NOEPS Impact	($0.00)-($0.10)	($0.00)-($0.10)

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.

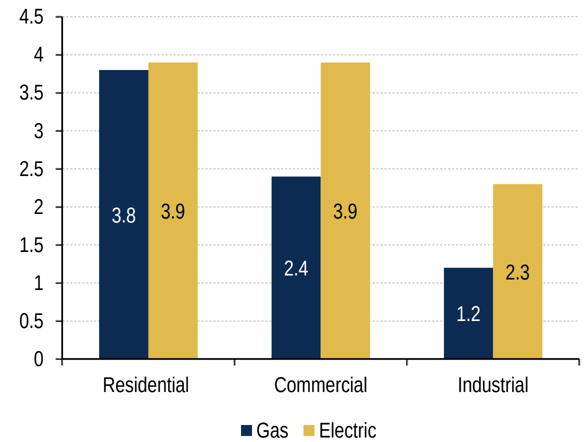
Meanwhile, NI outlined the detail on retail margins by customer class, in-addition to providing pre-tax operating earnings sensitivity to 1% change in annual sales volume both by customer class and by segment, besides noting out the COVID 19 impact on weather normalized April 2020 sales volumes as compared 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

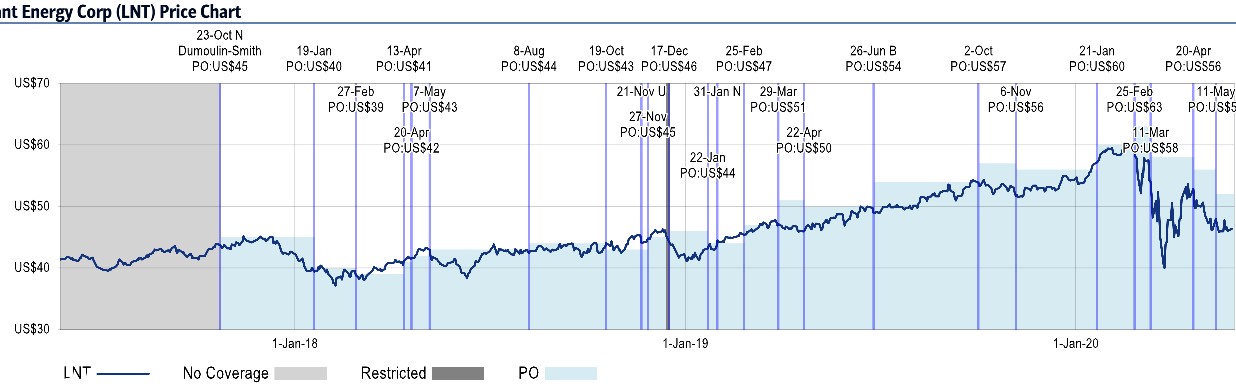
North American Utilities, Alternative Energy & LNG Coverage Cluster

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

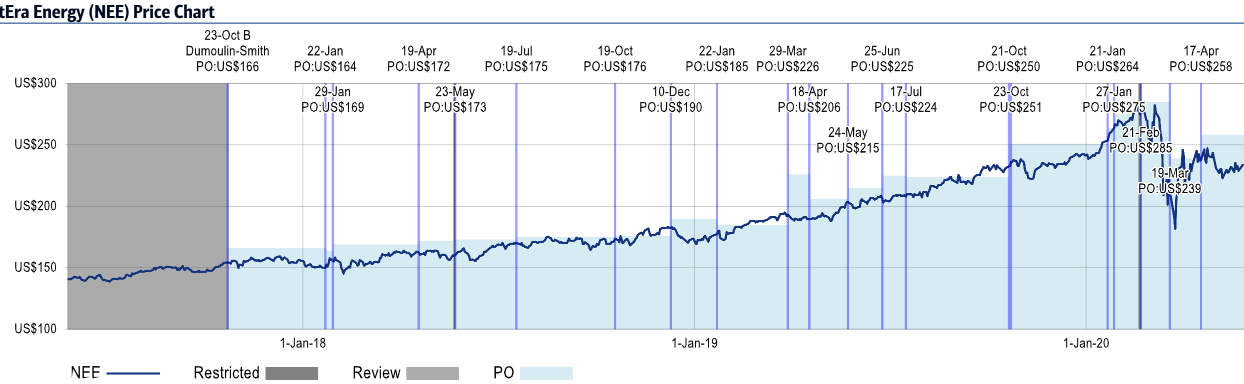
Alliant Energy Corp (LNT) Price Chart



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.

NextEra Energy (NEE) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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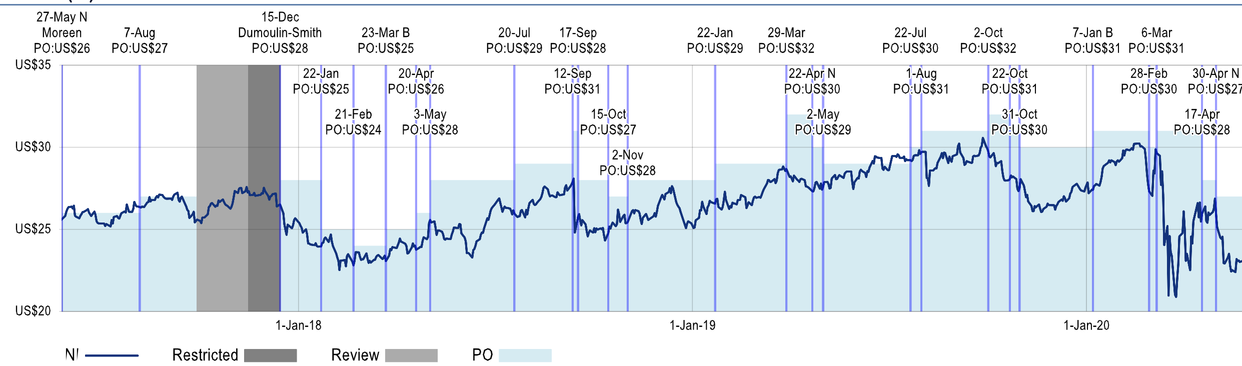
NiSource Inc (NI) Price Chart



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%

* 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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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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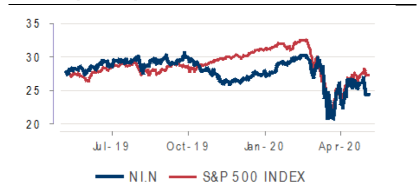
Financial and valuation metrics

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

CREDIT SUISSE

NiSource Inc. (NI)

Analyst: **Michael Weinstein**

Price (04 May 2020): **US$24.4** Target Price: **(from 31.00) 27.00** Rating: **Outperform**

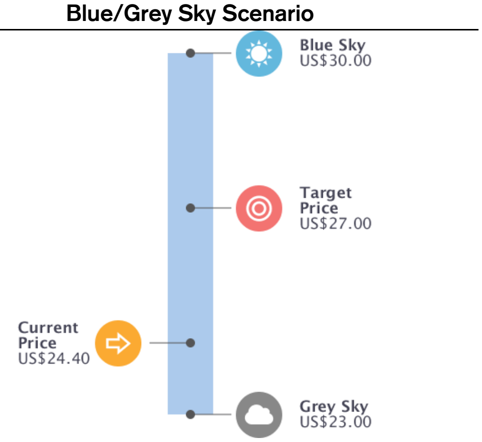
Income Statement	12/19A	12/20E	12/21E	12/22E
Revenue (US$ m)	**5,184.1**	**5,993.7**	**6,193.6**	**6,464.1**
EBITDA (US$ m)	**1,764**	**1,770**	**1,850**	**1,968**
Depr. & amort.	(717)	(747)	(775)	(801)
EBIT (US$)	**1,047**	**1,023**	**1,075**	**1,167**
Net interest exp	(377)	(418)	(415)	(444)
PBT (US$)	**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



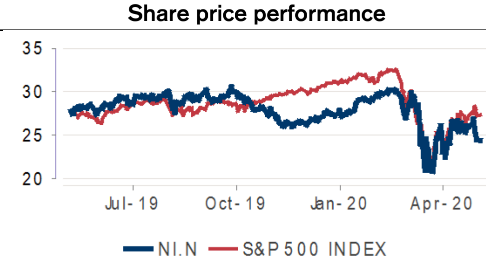
Our Blue Sky Scenario (US$) **(from 34.00) 30.00**

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

		BASE CASE			
	2021 EPS	**Prem / Disc**	**Effective P/E**	**Equity**	**Equity / Sh**
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

5 May 2020

CREDIT SUISSE

Companies Mentioned *(Price as of 05-May-2020)*
Eversource Energy (ES.N, $80.8)
NiSource Inc. (NI.N, $24.4, OUTPERFORM, TP $27.0)

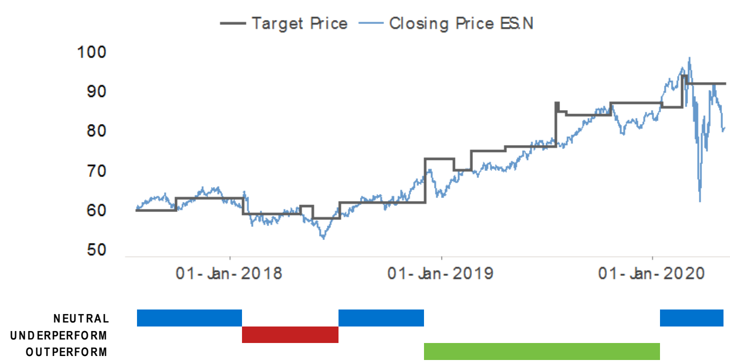
Disclosure Appendix

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)

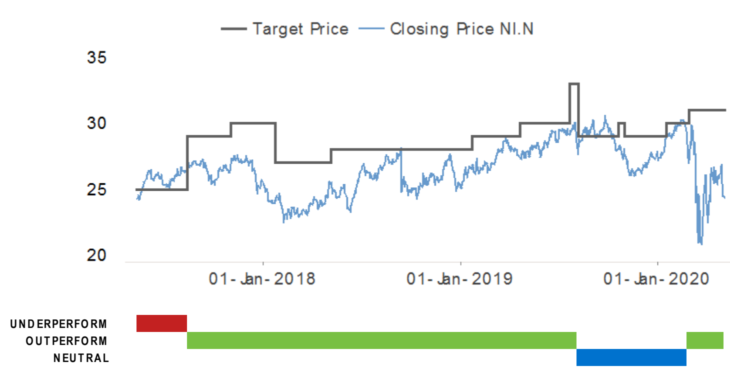
ES.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
05-May-17	59.55	59.00	N
24-Jul-17	60.74	60.00	
29-Sep-17	60.44	63.00	
23-Jan-18	61.12	59.00	U
03-May-18	58.87	61.00	
23-May-18	56.54	58.00	
09-Jul-18	58.46	62.00	N
04-Dec-18	68.95	73.00	O
23-Jan-19	68.30	70.00	
22-Feb-19	70.30	75.00	
21-Apr-19	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	Closing Price	Target Price	
Date	(US$)	(US$)	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.

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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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The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

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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See the Companies Mentioned section for full company names
Credit Suisse currently has, or had within the past 12 months, the following as investment banking client(s): NI.N
Credit Suisse provided investment banking services to the subject company (NI.N) within the past 12 months.
Within the last 12 months, Credit Suisse has received compensation for non-investment banking services or products from the following issuer(s): NI.N
Credit Suisse has managed or co-managed a public offering of securities for the subject company (NI.N) within the past 12 months.
Within the past 12 months, Credit Suisse has received compensation for investment banking services from the following issuer(s): NI.N
Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (NI.N, ES.N) within the next 3 months.
Credit Suisse currently has, or had within the past 12 months, the following issuer(s) as client(s), and the services provided were non-investment-banking, non securities-related: NI.N
Credit Suisse or a member of the Credit Suisse Group is a market maker or liquidity provider in the securities of the following subject issuer(s): ES.N, NI.N
A member of the Credit Suisse Group is party to an agreement with, or may have provided services set out in sections A and B of Annex I of Directive 2014/65/EU of the European Parliament and Council ("MiFID Services") to, the subject issuer (NI.N) within the past 12 months.

For date and time of production, dissemination and history of recommendation for the subject company(ies) featured in this report, disseminated within the past 12 months, please refer to the link: https://rave.credit-suisse.com/disclosures/view/report?i=507695&v=7ojytwgmu89smbo1z0uqxja8 .

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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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BofA GLOBAL RESEARCH

BofA SECURITIES

30 April 2020

Equity

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.

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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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%

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

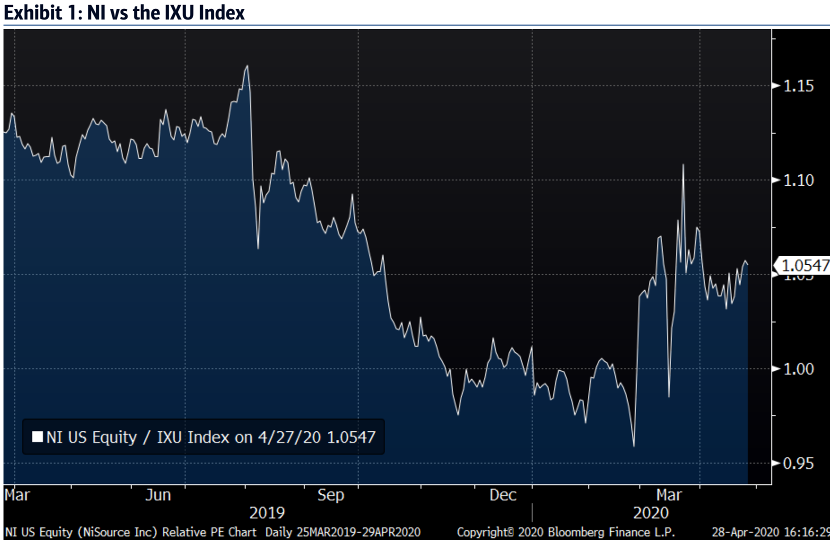
We show NI vs the IXU index below, recognizing that since the end of last year, the company has re-rated ~5%. We stress renewed risks that while split between its gas and electric utility exposure its latest disclosures on rate sensitivity highlight an unusually high gross sensitivity across both businesses 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

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.

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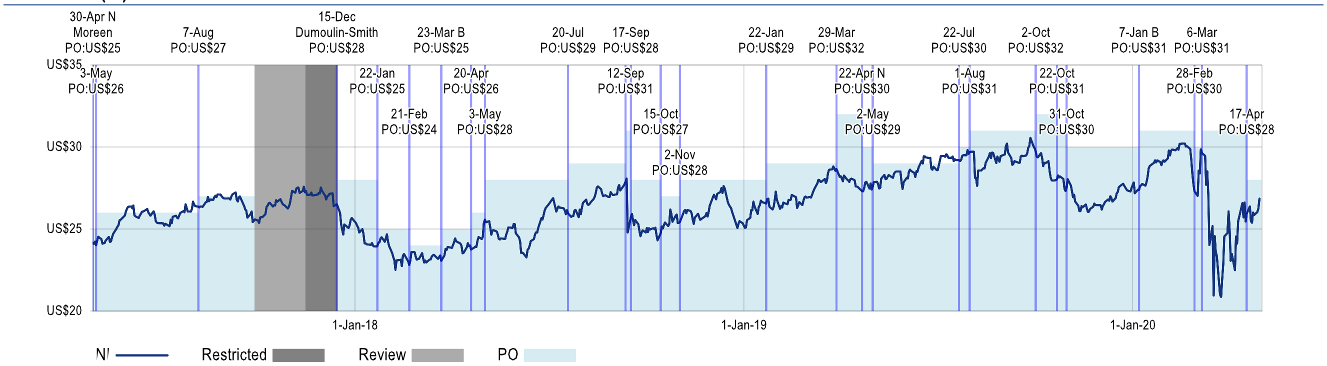
Important Disclosures

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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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	EPS Estimates 2020	EPS Estimates 2021	P/E 2019	P/E 2020	P/E 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*			

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Exhibit 1 - Gas Utility 1Q20 Earnings Details

Company Name	Ticker	Earnings Release Date/Time	Adjusted EPS 1Q20 JEFe	1Q20E Consensus	1Q19A	Projected 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

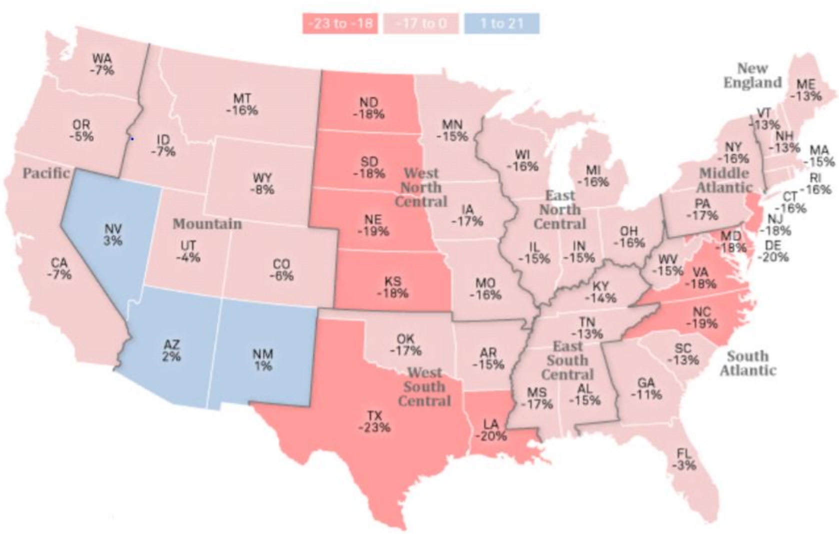
Source: Factset & Jefferies; Note: Jefferies Beat/Miss/In-Line definitions the same as Exhibit 1, *denotes earnings release dates are JEFe or FactSet estimate; NFG & UGI financials represent F2Q20 data

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

Please see important disclosure information on pages 25 - 32 of this report.

Jefferies

EQUITY RESEARCH
USA | Midstream & Refining

NiSource, Inc. (NI)

A Look Back to 4Q19 Results

JEFe 4Q19 EPS: 41¢

Street est. 4Q19 EPS: 42¢

Actual 4Q19 EPS: 45¢

- 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.

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

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Jefferies

EQUITY RESEARCH
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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

Please see important disclosure information on pages 25 - 32 of this report.

Jefferies

EQUITY RESEARCH
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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.

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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

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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**

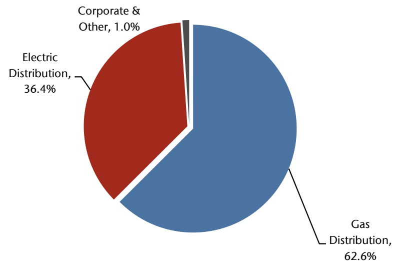
Assumptions	
EPS CAGR 2019-2024	4.1%
Dividend CAGR 2019-2024	5.4%
Terminal Growth Rate	2.25%
Stable Period Payout Ratio	63.9%
Stable Period ROE	8.9%
Implied 2021 EV/EBITDA	10.8x
Implied 2021 P/E	18.6x

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

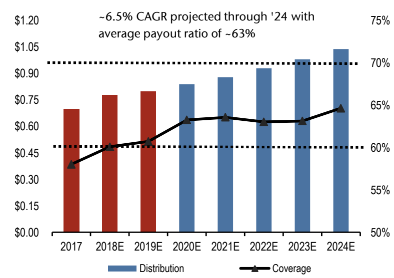
Total Return Expectations	
NI Current Price	$25.72
Appreciation to PT	8.9%
Yield over 12-months	3.3%
Total Return Potential	**12.2%**

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

Jefferies

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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

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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

Jefferies

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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

Jefferies

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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

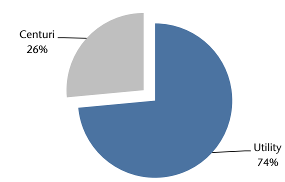
Exhibit 13 - SWX Valuation Analysis

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

Jefferies

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Exhibit 14 - SWX Consolidated Income Statement

Consolidated Statement of Income ($MM)	2015	2016	2017	2018	1Q	2Q	3Q	4Q	2019
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
Cost of Gas	$563.8	$397.1	$355.0	$419.4	$192.6	$65.2	$35.1	$92.3	$385.2
Net Utility Operating Margin	$890.8	$924.3	$947.3	$938.3	$328.1	$193.5	$174.9	$287.3	$983.8
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
Construction Expenses	$898.8	$1,024.4	$1,149.0	$1,380.8	$300.5	$402.2	$451.6	$419.0	$1,573.2
Net Construction Operating Margin	$110.2	$114.7	$97.5	$141.5	$12.4	$52.1	$63.7	$49.6	$177.8
Operation and maintenance	$393.2	$401.7	$412.2	$406.4	$106.2	$105.3	$109.7	$103.0	$424.2
Depreciation and amortization	$270.1	$289.1	$251.0	$249.2	$77.5	$70.3	$75.4	$80.0	$303.2
Taxes other than income	$49.4	$52.4	$57.9	$59.9	$16.2	$15.1	$15.3	$15.7	$62.3
Total Operating Expenses	$712.7	$743.2	$721.1	$715.5	$200.0	$190.8	$200.3	$198.6	$789.7
Other Income (Expense)	$2.4	$2.1	$2.8	($14.5)	($0.8)	($2.3)	$0.5	($5.0)	($7.6)
Income before Interest and Taxes	$290.7	$297.8	$326.5	$349.8	$139.7	$52.6	$38.8	$133.2	$364.2
Interest Expense	$71.9	$73.7	$78.1	$96.7	$26.4	$26.8	$27.4	$28.6	$109.2
Income before Taxes	$218.8	$224.1	$248.4	$253.2	$113.3	$25.7	$11.3	$104.7	$255.0
Income Taxes	$79.9	$78.5	$85.1	$64.1	$25.5	$6.4	$3.1	$21.0	$56.0
Net Income	**$138.9**	**$145.7**	**$163.3**	**$189.1**	**$87.7**	**$19.4**	**$8.2**	**$83.7**	**$199.0**
Minority Interests	$1.1	$1.0	($0.1)	($0.8)	$0.6	$0.8	$1.2	$0.2	$2.7
Net Income to Common	$137.8	$144.6	$163.4	$189.8	$87.2	$18.6	$7.0	$83.5	$196.3
Avg. Diluted Common Shares	47.2	47.8	48.0	49.5	53.4	54.0	54.7	55.1	54.3
Avg. Basic Common Shares	46.9	47.5	47.7	49.4	53.4	53.9	54.7	55.0	54.2
Recurring Earnings per share	**$2.92**	**$3.03**	**$3.41**	**$3.84**	**$1.63**	**$0.34**	**$0.13**	**$1.52**	**$3.61**
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
Reported Earnings per share (diluted)	$2.91	$3.18	$3.63	$3.68	$1.77	$0.41	$0.14	$1.62	$3.94
Dividends paid per share	**$1.58**	**$1.76**	**$1.94**	**$2.06**	$0.52	$0.55	$0.55	$0.55	**$2.16**
Dividend Growth Rate	**10.9%**	**11.1%**	**10.3%**	**6.2%**		4.8%			**4.9%**
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**
Tax Rate	**36.5%**	**35.0%**	**34.2%**	**25.3%**	22.5%	24.7%	27.7%	20.1%	**22.0%**
Change in Net Income	**2%**	**5%**	**12%**	**16%**	11%	-1%	8%	1%	**5%**
Change in Common Equity	**7.1%**	**4.3%**	**9.1%**	**24.2%**	25.1%	25.2%	24.6%		**11.3%**

Consolidated Statement of Income ($MM)	1QE	2QE	3QE	4QE	2020E	1QE	2QE	3QE	4QE	2021E	2022E	2023E	2024E
Gas Utility Revenues	$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	$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	$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	$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	$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	$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	$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	$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	$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	$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)	($2.8)	($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	$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	$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	$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	$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	**$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	$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	$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	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	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	**$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)					$0.0					$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	0.00	0.00
Reported Earnings per share (diluted)	$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	$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		4.6%			**4.6%**		3.5%			**3.8%**	**3.4%**	**3.3%**	**3.2%**
Payout Ratio (on recurring earnings)					**61.4%**					**56.7%**	**57.1%**	**54.1%**	**53.1%**
Payout Ratio (on SWX methodology)					**70.6%**					**64.6%**	**65.4%**	**61.5%**	**60.2%**
COLI actual and/or assumption	$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	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	-4%	-12%	66%	12%	**5%**	15%	56%	24%	6%	**15%**	**5%**	**11%**	**7%**
Change in Common Equity					**8.1%**					**8.3%**	**7.8%**	**7.8%**	**7.6%**

Source: SWX reports, Jefferies estimates

Jefferies

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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

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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

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
USA | Midstream & Refining

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

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EQUITY RESEARCH
USA | Midstream & Refining

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

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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

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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)

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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.

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.

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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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

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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.
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Risks which may impede the achievement of our Price Target

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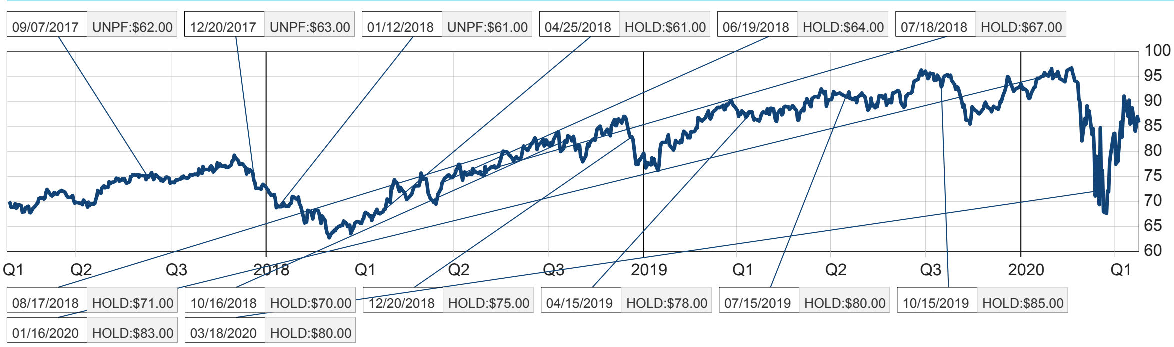
Other Companies Mentioned in This Report

- 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)

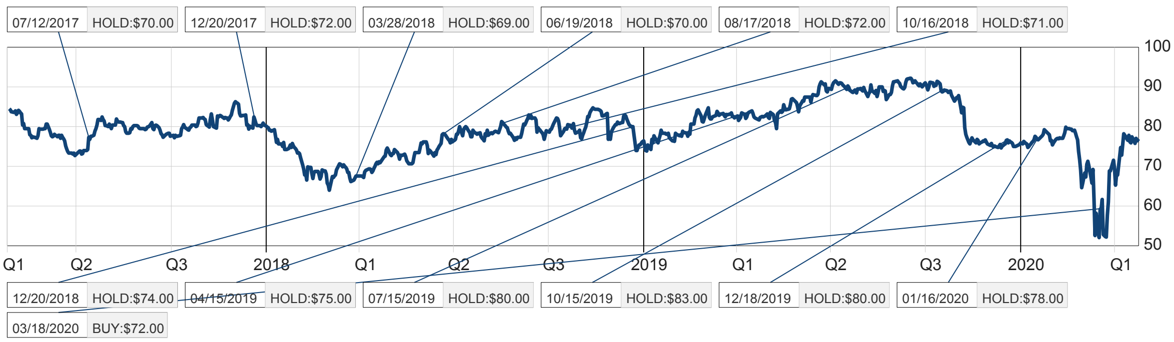
Rating and Price Target History for: National Fuel Gas Company (NFG) as of 04-23-2020

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



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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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Weight
Gas/Power Infrastructure – Market Overweight

April 23, 2020

NISOURCE

(NI US Equity – $25.85 – Outperform)

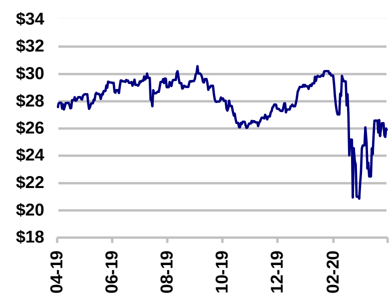
Core investment story intact; mgmt. Fireside Chat

- **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.

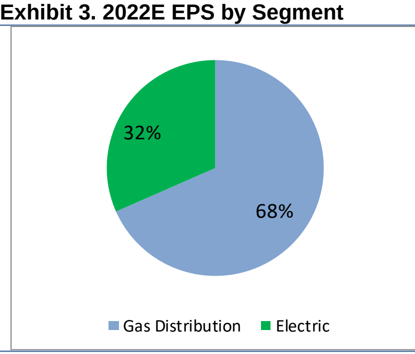
Investment Thesis

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

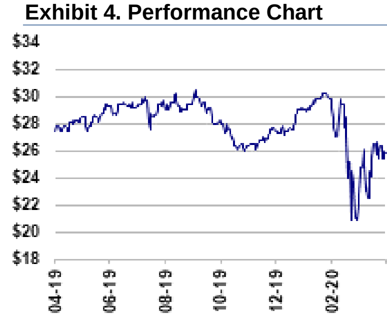
Our $29 price target is derived using a P/E multiple of 18.5x (full turn premium) for NI's electric business and 19x (average) for NI's gas businesses on 2022 estimated earnings. Risks for NiSource are 1) bad regulatory outcomes and 2) pipeline safety incidents. Upsides are 1) additional growth projects 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		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	$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%**

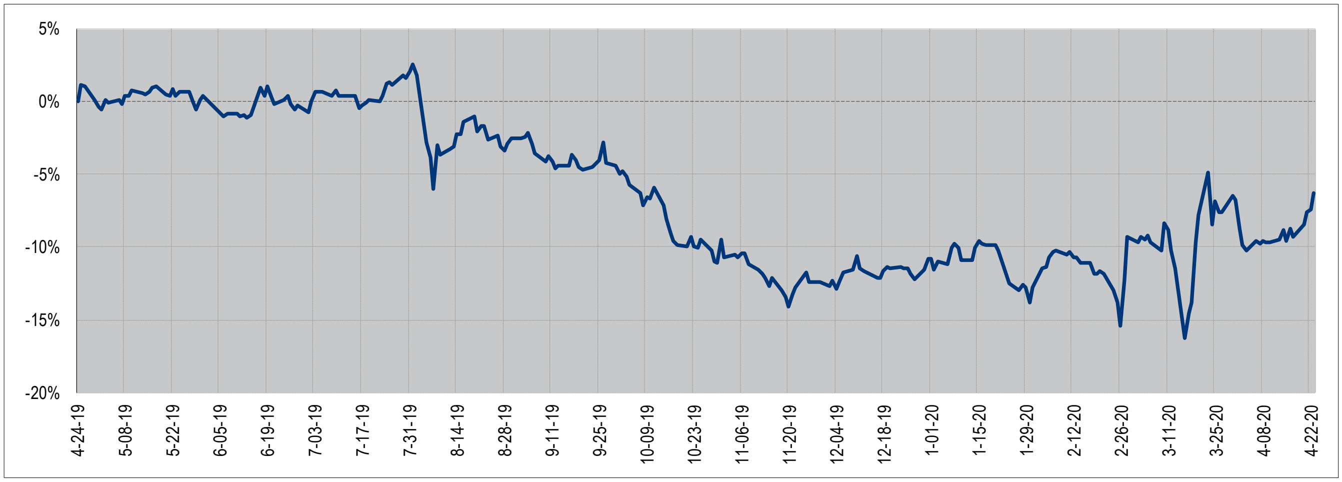
Source: Wolfe Research, FactSet

WOLFE RESEARCH

NiSource

April 23, 2020

Exhibit 6: NI vs the Regulated Average



Source: Wolfe Research, FactSet

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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

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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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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.

WOLFE RESEARCH

NiSource

April 23, 2020

Wolfe Research, LLC Sector Weighting System:

Market Overweight (MO):	Expect the industry to outperform the primary market index for the region (S&P 500 in the U.S.) by at least 10% over the next 12 months.
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.

Wolfe Research, LLC Distribution of Fundamental Stock Ratings (As of April 22, 2020):

Outperform:	45%	2% Investment Banking Clients
Peer Perform:	44%	1% Investment Banking Clients
Underperform:	11%	0% Investment Banking Clients

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Citi Research
Equities

23 Apr 2020 03:00:00 ET │ 9 pages

Pipelines & Gas Utilities
North America │ United States

NiSource Inc (NI)

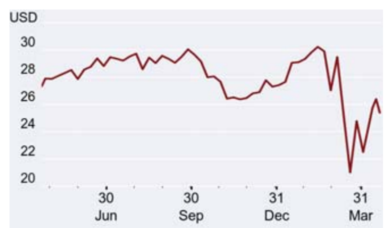
Updating Our Model

- 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.

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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 $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

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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	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

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	12 Month Rating			*Catalyst Watch*		
Data current as of 31 Mar 2020	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	54%	35%	11%	17%	75%	8%
% of companies in each rating category that are investment banking clients	65%	63%	58%	70%	63%	65%

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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

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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.

See page 5 for analyst certification and important disclosures.

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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)

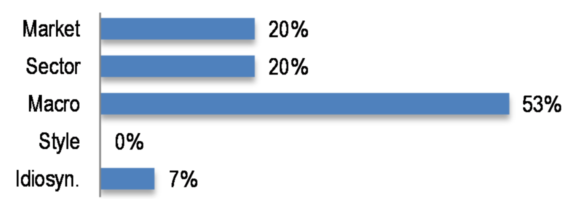
$ in millions	FY19A	FY20E	FY21E	FY22E
Financial Estimates				
Revenue	5,184	5,553	5,603	5,735
Adj. EBITDA	1,759	1,843	1,876	1,990
Adj. EBIT	1,042	1,130	1,174	1,259
Adj. net income	495	522	566	611
Adj. EPS	1.32	1.34	1.42	1.51
BBG EPS	1.30	1.35	1.42	1.51
Cashflow from operations	1,583	1,405	1,322	1,460
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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J.P.Morgan

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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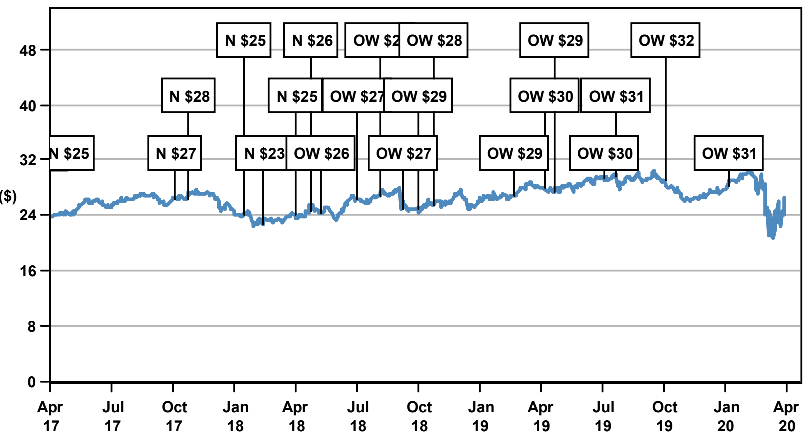
NiSource Inc. (NI, NI US) Price Chart



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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"Other Disclosures" last revised April 04, 2020.

ARGUS®

NYSE: NI

NISOURCE INC

Report created Apr 6, 2020 **Page 1 OF 4**

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.

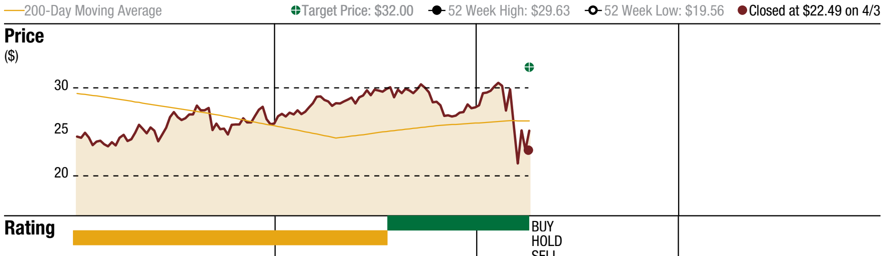
Our long-term rating is also BUY.

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.



EPS ($)

FY ends Dec 31	Q1	Q2	Q3	Q4	Annual
2018	0.77	0.07	0.10	0.33	1.27
2019	0.92	0.06	0.00	0.34	1.32
2020	0.83	0.13	0.09	0.37	1.42 (Estimate)
2021	0.84	0.16	0.10	0.40	1.50 (Estimate)

Revenue ($ in Bil.)

FY ends Dec 31	Q1	Q2	Q3	Q4	Annual
2018	1.8	0.6	0.9	1.4	4.6
2019	1.9	1.1	0.9	1.5	5.3
2020	2.0	1.2	1.0	1.7	5.8 (Estimate)
2021	2.0	1.2	1.1	1.7	6.0 (Estimate)

Argus Recommendations

Rating			
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

Please see important information about this report on page 4

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

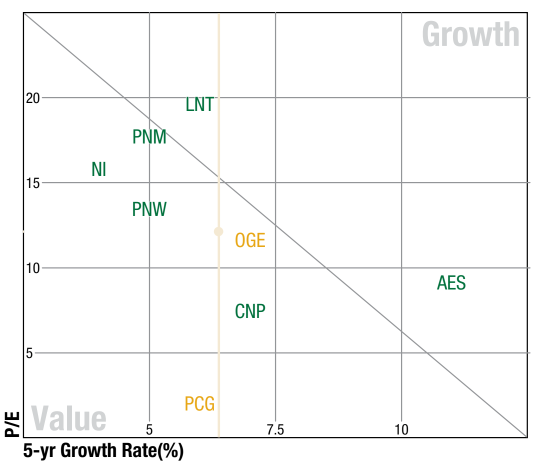
We think that NI shares are favorably valued at current prices near $23, toward the low end of their 52-week range of $20-$31. The shares trade at 15-times our 2021 EPS estimate, below the average P/E of 21.7 for comparable electric and gas utilities. They are also trading at a price/book multiple of 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.

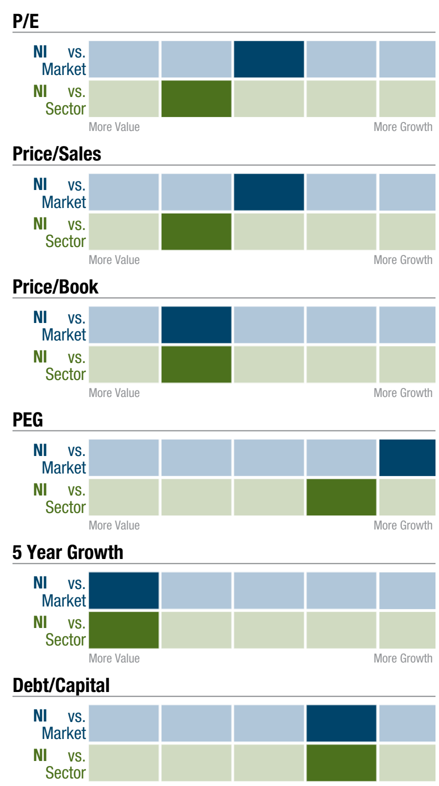
Peer & Industry Analysis

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**	



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

UBS

Global Research | 26 May 2020

First Read

NiSource Inc.

NI Provides Update on COVID-19 Impact

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.

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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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.

Required Disclosures

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UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	48%	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.

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$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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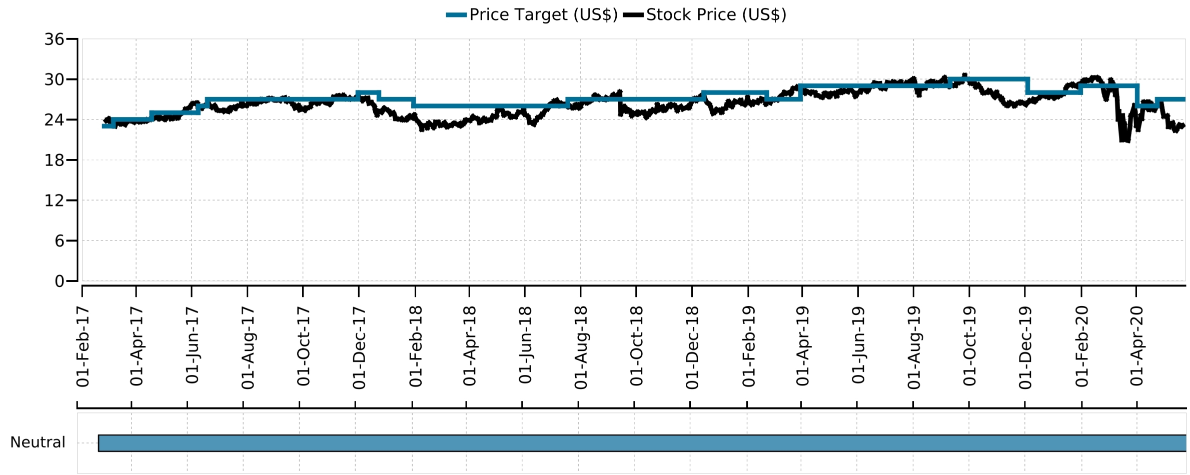
NiSource Inc. (US$)



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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GUGGENHEIM

FLASH NOTE

May 27, 2020

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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.

NI BUY

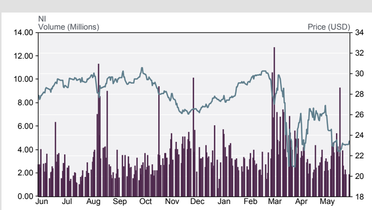
NiSource Inc.
Sector: Power, Utilities & Alternative Energy

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



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.

ANALYST CERTIFICATION

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Rating and Price Target History for: NiSource Inc. (NI) as of 05-26-2020

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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

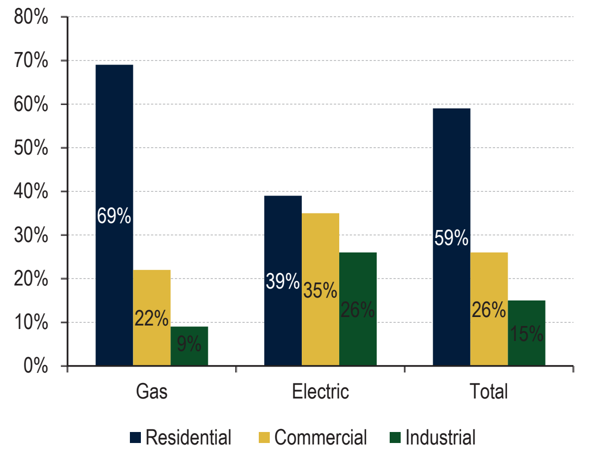
$	2020E	2021E
COVID-19 Impact on EPS Base Case	($0.15)-($0.20)	($0.00)-($0.10)
Mitigation Efforts - Initiated in April	$0.10-$0.15	$0.05-$0.10
Estimated Net NOEPS Impact	**($0.00)-($0.10)**	**($0.00)-($0.10)**

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.

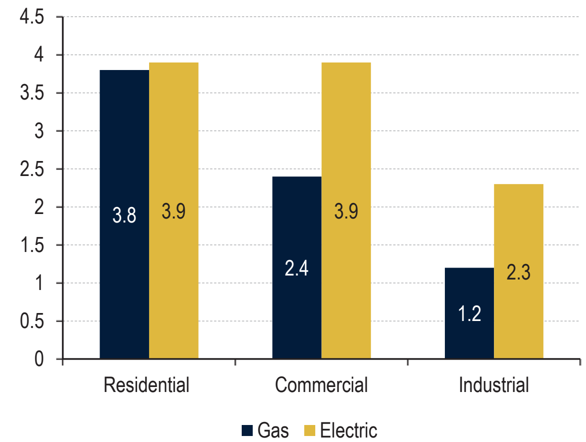
Meanwhile, NI outlined the detail on retail margins by customer class, in-addition to providing pre-tax operating earnings sensitivity to 1% change in annual sales volume both by customer class and by segment, besides noting out the COVID 19 impact on weather normalized April 2020 sales volumes as compared 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
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	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				
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	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

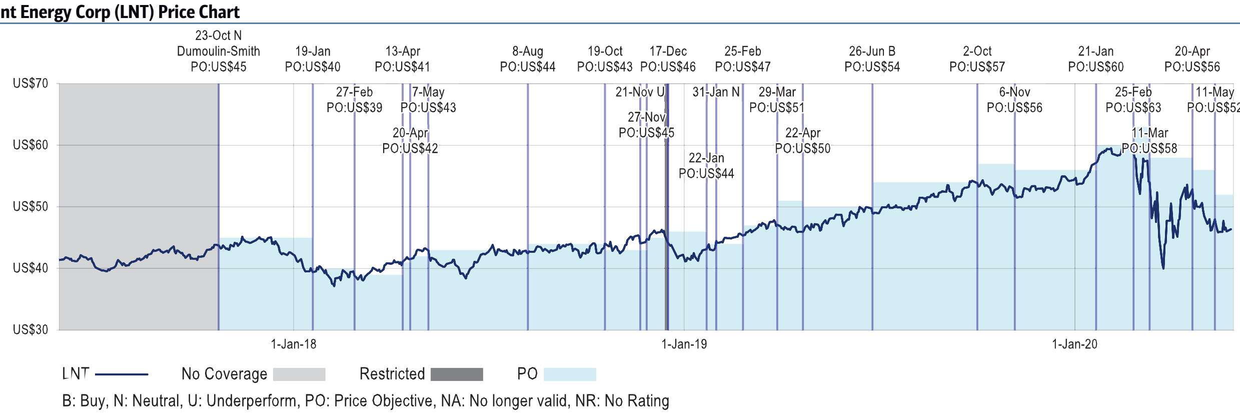
North American Utilities, Alternative Energy & LNG Coverage Cluster

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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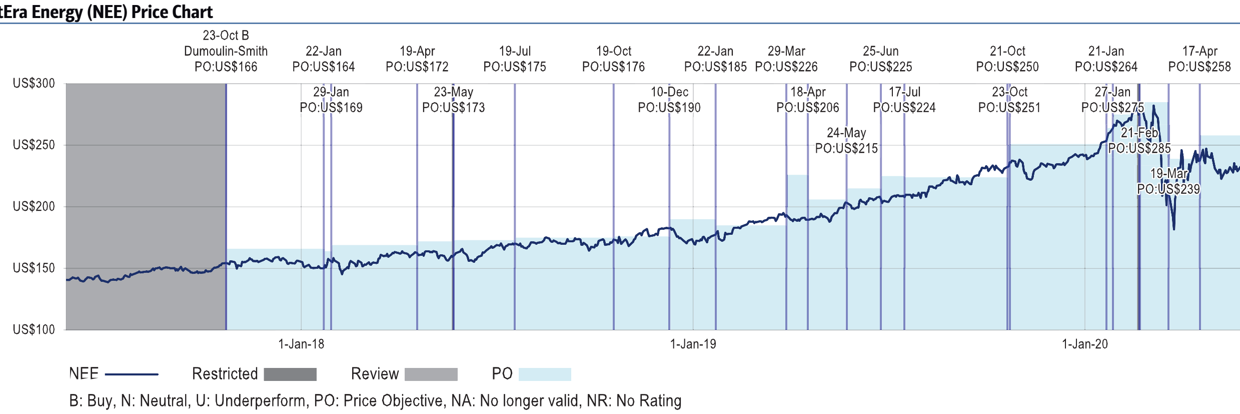
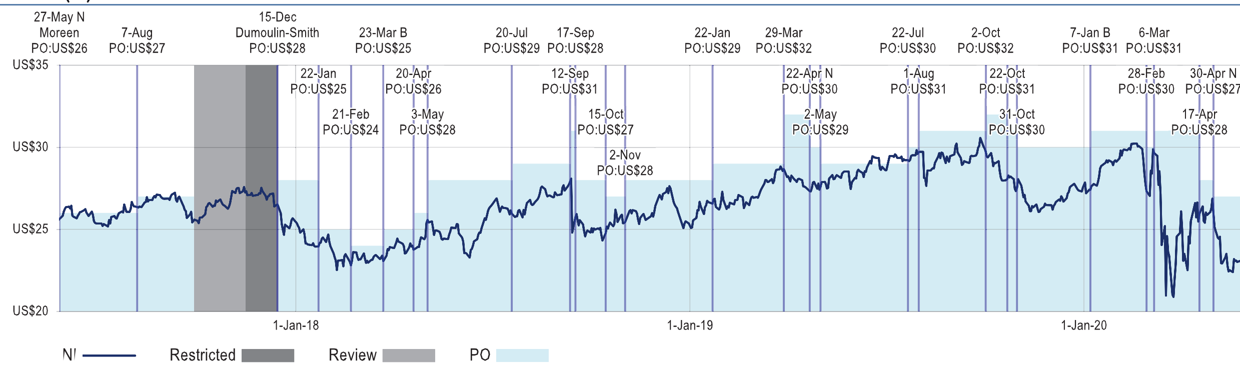
NextEra Energy (NEE) Price Chart



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.

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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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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BMO Capital Markets

IN Fact

Utilities, Power & Renewables

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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			in $
(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		$1.33	$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 Massachusetts 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

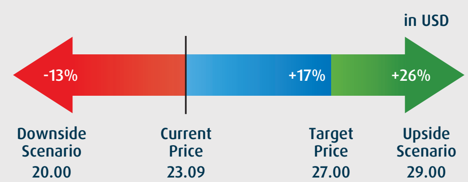
Our $27 target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2022E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook. For NI, we have removed EPS for its MA gas business from our P/E valuation 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

BMO Capital Markets

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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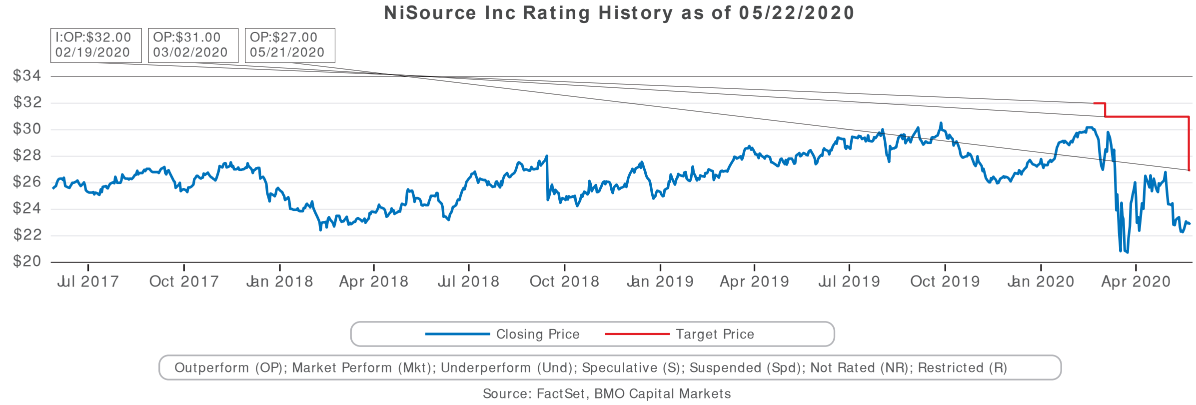
Sum-of-the-Parts Valuation

Exhibit 2: NiSource Inc. Sum-of-the-Parts Valuation

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



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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%

* 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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Prior BMO Capital Markets Rating System

(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

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).

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).

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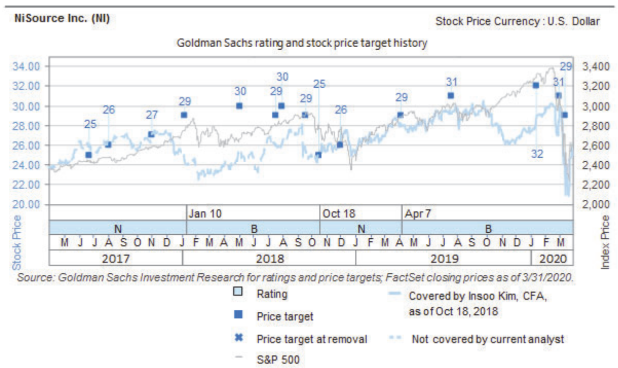

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UBS

Global Research | 28 May 2020

First Read

NiSource Inc.

Catching up with the C-Suite

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%).

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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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.
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Company Disclosures

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
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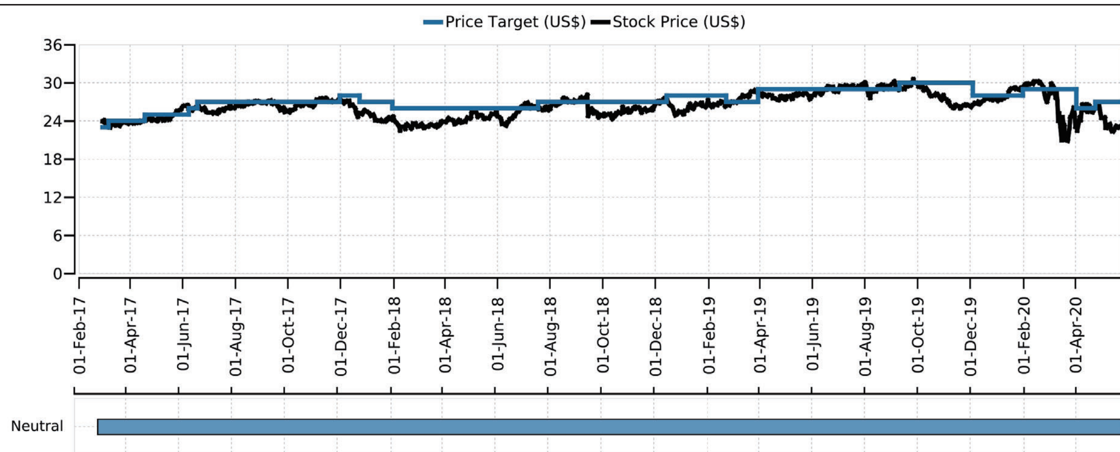
NiSource Inc. (US$)



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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UBS

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

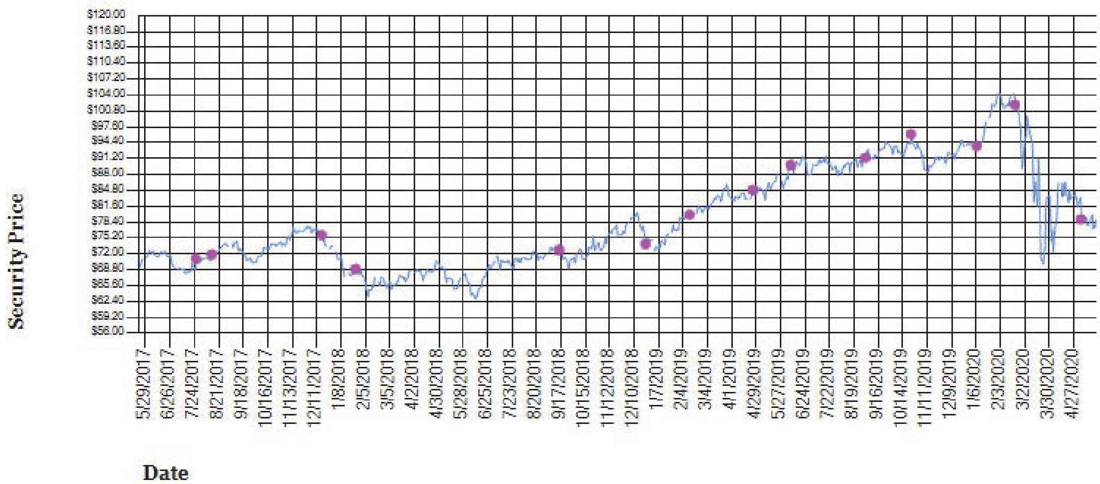
Rating Basis Information:
AEP Thesis: We are attracted to AEP’s strong EPS and dividend growth prospects, organic investment opportunities and regulatory diversity.

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.

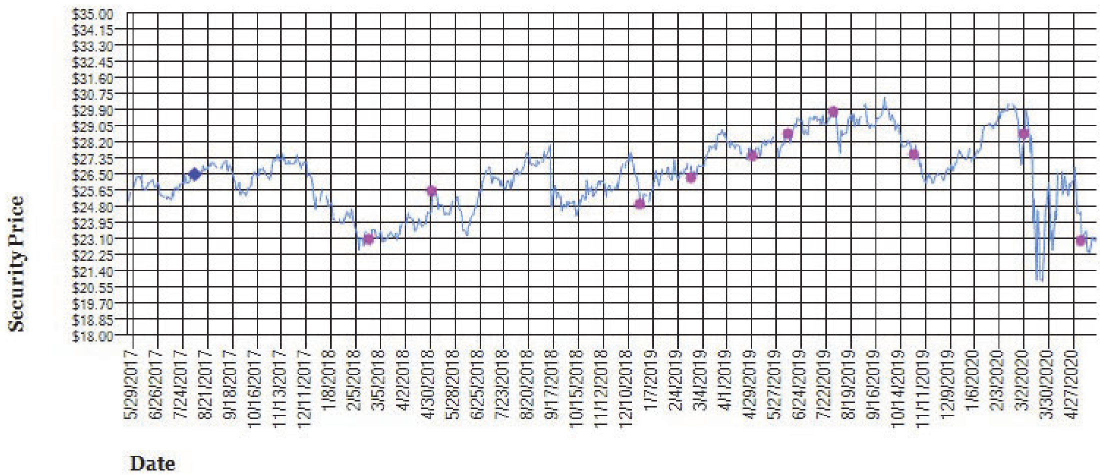
Source: Wells Fargo Securities, LLC estimates and Reuters data

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
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- 2 Equal Weight/Hold
- 3 Underweight/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

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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.

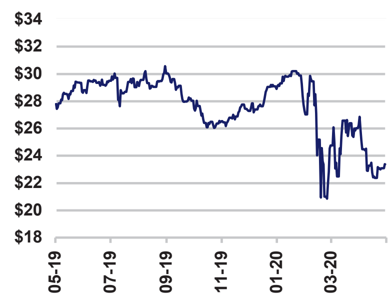
- **Generation strategy.** NI's generation strategy in Indiana will start to piece together this summer as CPCN filings are made at the IURC, with a full update targeted for Q3. All capex will be incremental and result in a step-up in EPS growth in the 2022/2023 timeframe. Financing is TBD but will include 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.

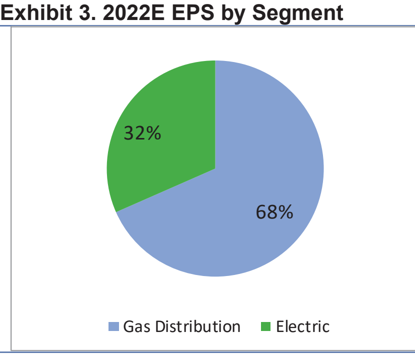
Investment Thesis

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

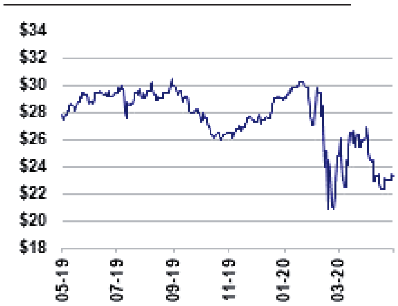
Our $26 price target is derived using a P/E multiple of 17.5x on our 2022E. This reflects a full-turn premium for NI's electric utility and an average for its gas LDCs. Risks for NiSource are 1) bad regulatory outcomes and 2) pipeline safety incidents. Upsides are 1) additional growth projects and 2) 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

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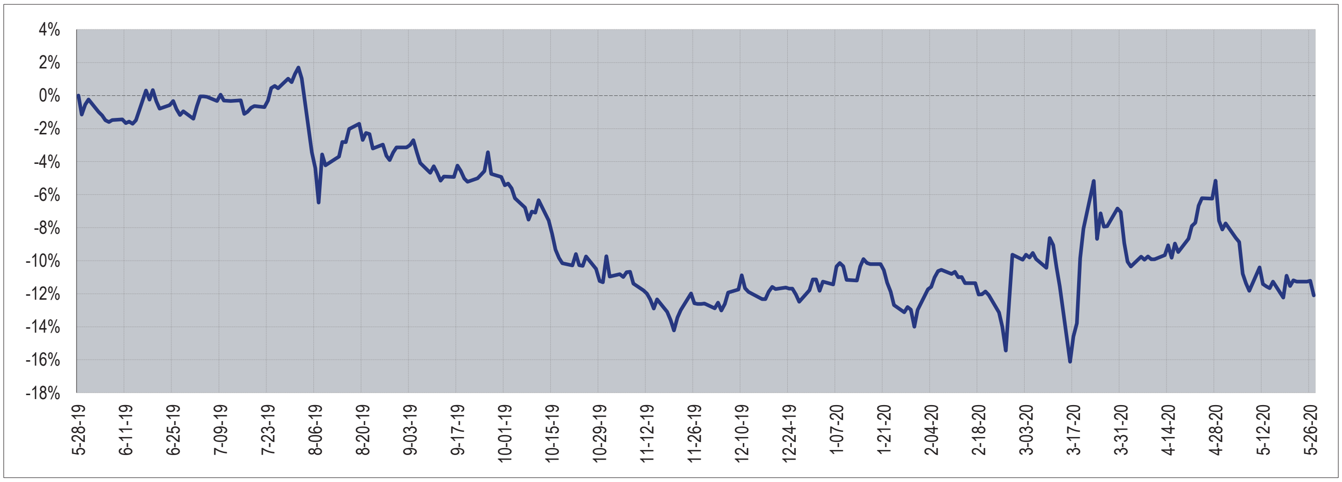
NiSource

May 27, 2020

Exhibit 6: NI vs the Regulated Average



Source: Wolfe Research, FactSet

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NiSource

May 27, 2020

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Company:	Fundamental Valuation Methodology:
NI US Equity	Forward P/E

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GUGGENHEIM

FLASH NOTE

May 27, 2020

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NI BUY

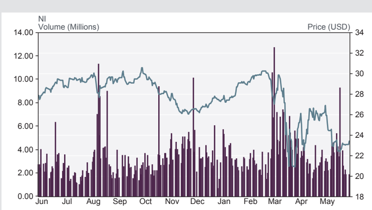
NiSource Inc.
Sector: Power, Utilities & Alternative Energy

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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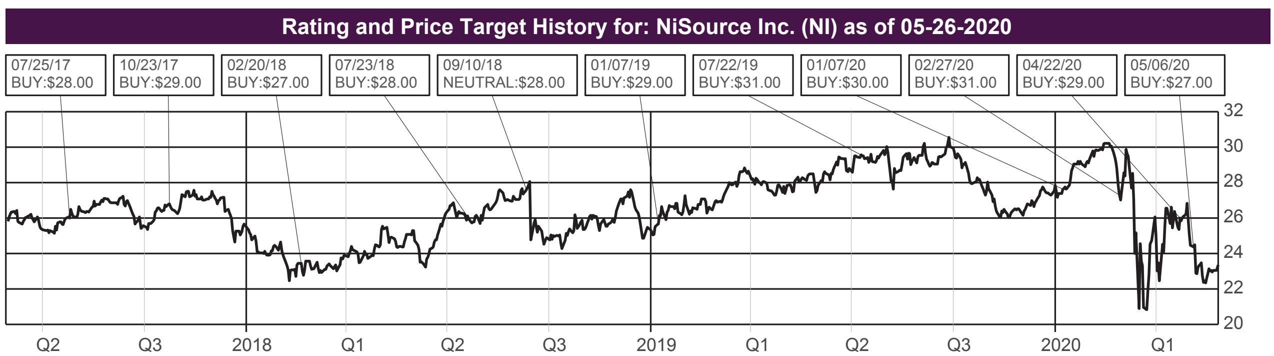

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Reducing estimates slightly: Lag & rate case timing

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.

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
Total Earnings Power (NI)	71					
D&A	59					
FFO	130					
		Ratio				
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

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.

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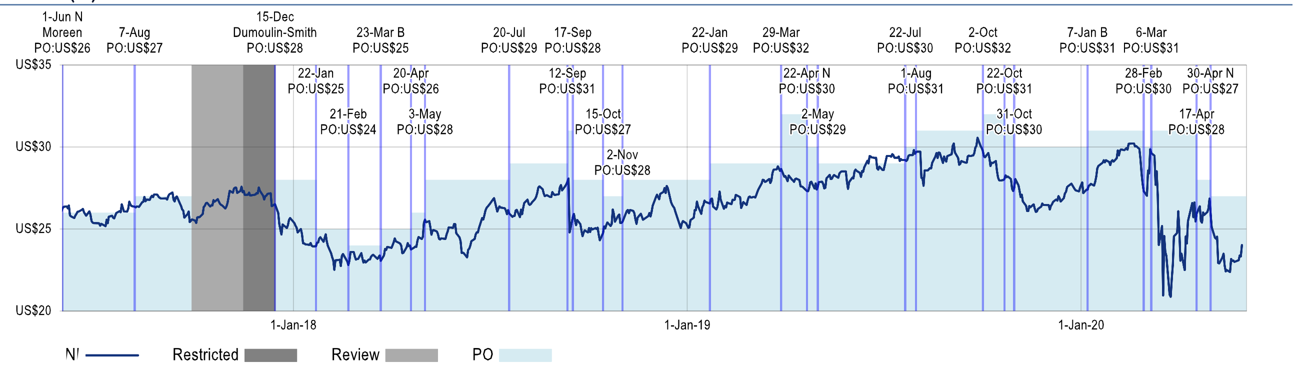
Disclosures

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.

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.

***INCOME RATINGS*, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend.** *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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.
BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: NiSource Inc.
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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.

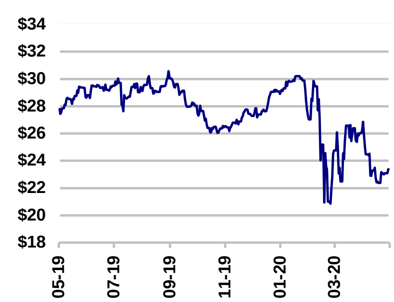
- **Generation strategy.** NI's generation strategy in Indiana will start to piece together this summer as CPCN filings are made at the IURC, with a full update targeted for Q3. All capex will be incremental and result in a step-up in EPS growth in the 2022/2023 timeframe. Financing is TBD but will include 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.

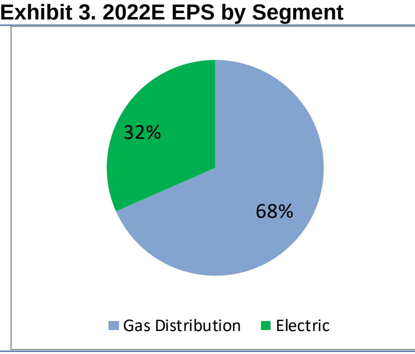
Investment Thesis

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

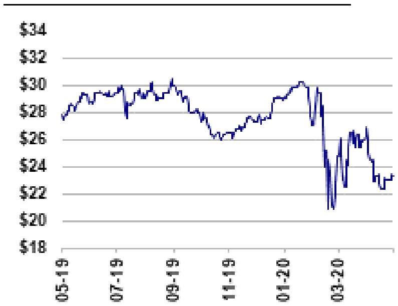
Our $26 price target is derived using a P/E multiple of 17.5x on our 2022E. This reflects a full-turn premium for NI's electric utility and an average for its gas LDCs. Risks for NiSource are 1) bad regulatory outcomes and 2) pipeline safety incidents. Upsides are 1) additional growth projects and 2) 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 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	$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%**

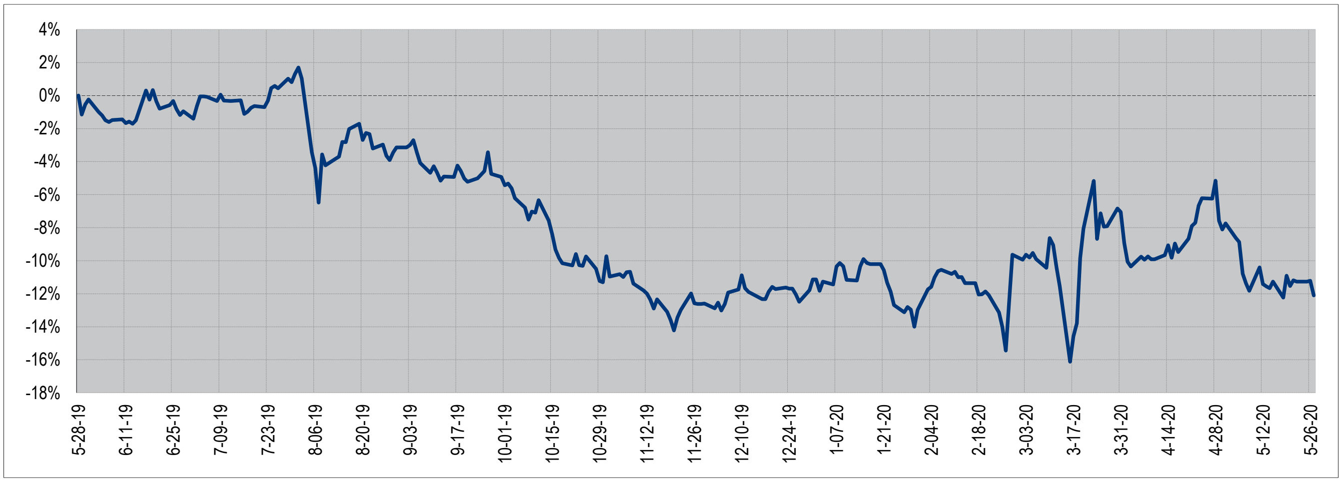
Source: Wolfe Research, FactSet

WOLFE RESEARCH

NiSource

May 27, 2020

Exhibit 6: NI vs the Regulated Average



Source: Wolfe Research, FactSet

WOLFE RESEARCH

NiSource

May 27, 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

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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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Outperform:	45%	3% Investment Banking Clients
Peer Perform:	45%	1% Investment Banking Clients
Underperform:	10%	0% Investment Banking Clients

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May 28, 2020 | Equity Research

Flash Comment

Utilities

Utility & Infrastructure Daily

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Sarah Akers, CFA, Senior Analyst (314) 875-2040
Jonathan Reeder, Senior Analyst (314) 875-2052
Scott Tipton, Associate Analyst (314) 875-2048
David Welkener, CFA, Associate Analyst (314) 875-2054

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

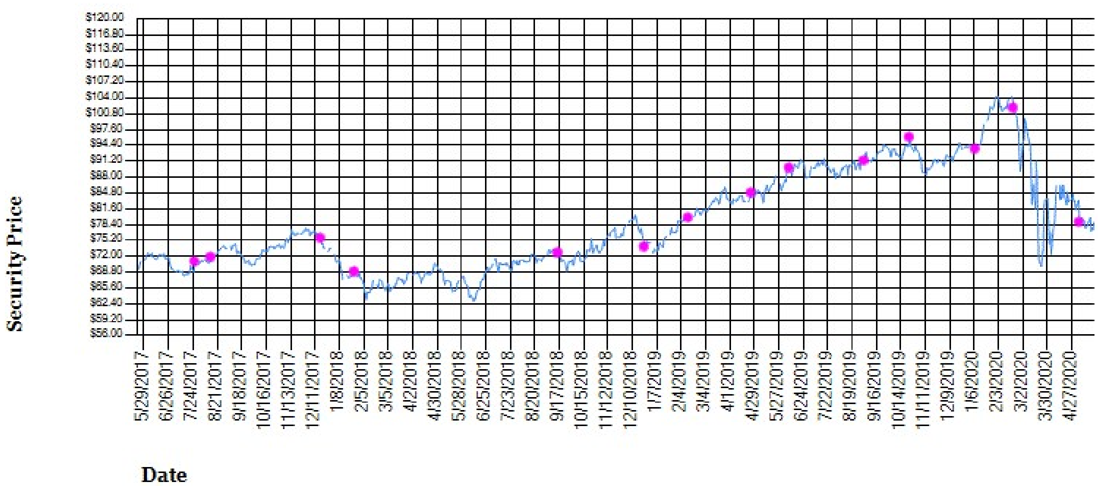
Rating Basis Information:
AEP Thesis: We are attracted to AEP’s strong EPS and dividend growth prospects, organic investment opportunities and regulatory diversity.

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

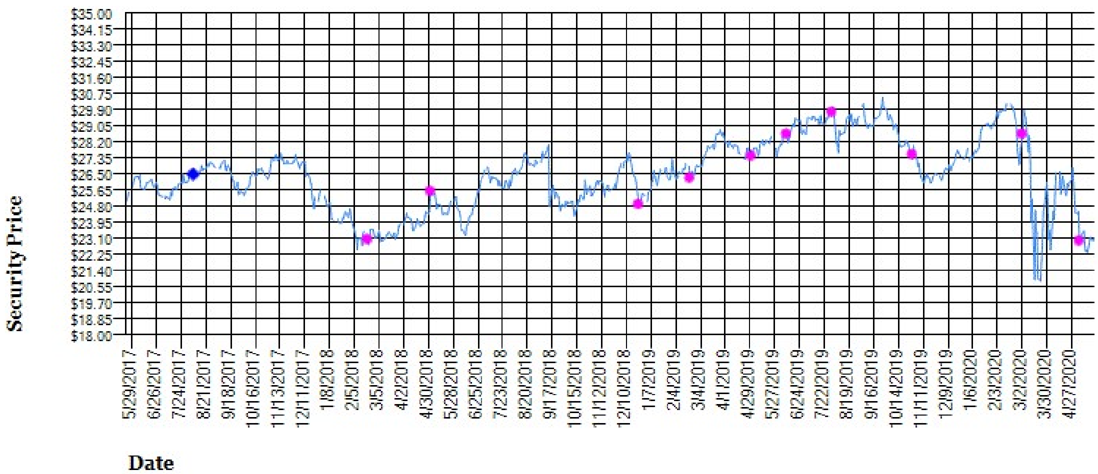
Symbol Key

- ▼ 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
- 2 Equal Weight/Hold
- 3 Underweight/Sell
- SR Suspended
- NR Not Rated
- 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
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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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UBS

Global Research | 28 May 2020

First Read

NiSource Inc.

Catching up with the C-Suite

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%).

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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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.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities LLC: Aga Zmigrodzka, CFA, Brian Reynolds, Shneur Z. Gershuni, CFA.

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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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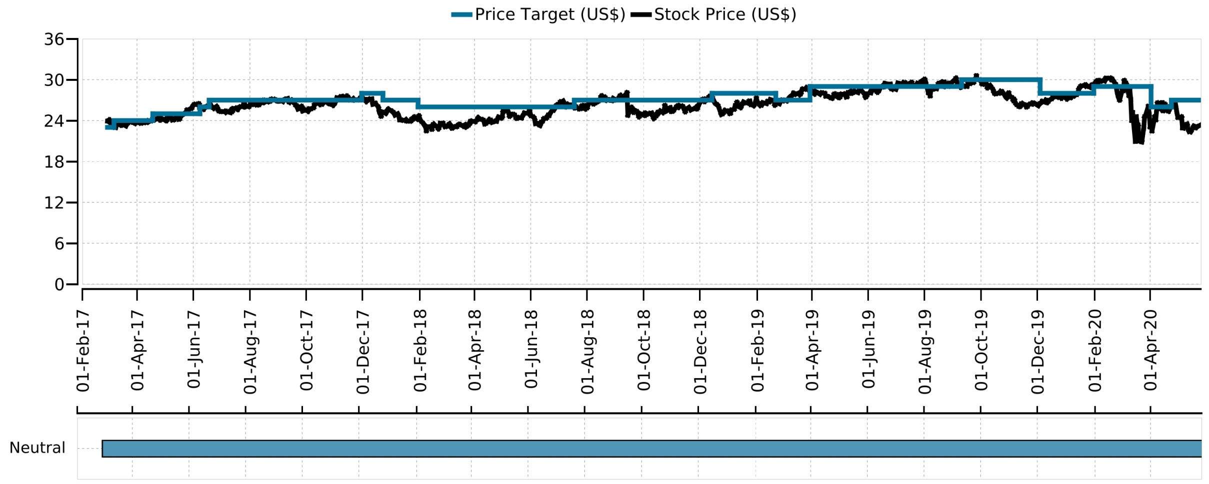
NiSource Inc. (US$)



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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UBS

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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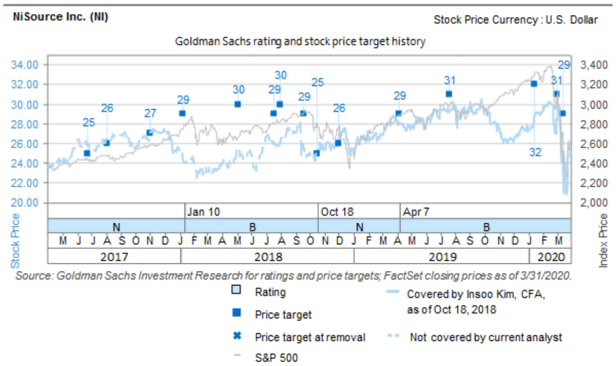

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May 26, 2020 | 22:57 ET | 22:57 ET~

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

Utilities, Power & Renewables

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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.

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.

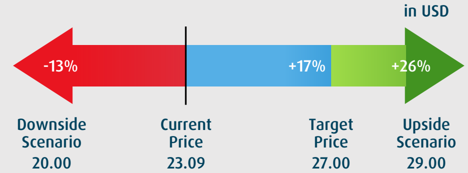
Upside Scenario 29.00

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.

in USD



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).

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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

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

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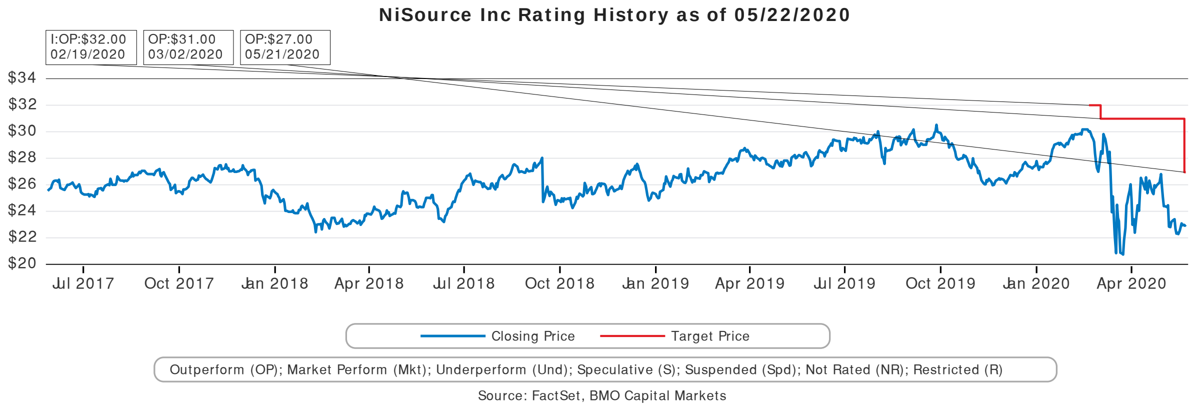

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Company Specific Disclosures

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 (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%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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~ As of April 1, 2019.

Ratings Key (as of October 2016)

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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;
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(S) = Speculative investment;
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NR = No Rated - No rating at this time; and
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Prior BMO Capital Markets Rating System

(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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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).

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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	Rating Distribution			Investment Banking Relationships		
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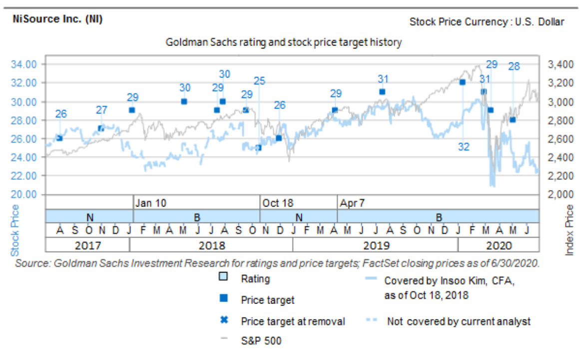

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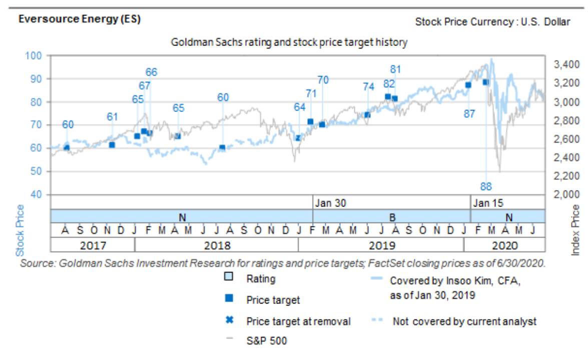

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NiSource, Inc.

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

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).

05 August 2020

Equity

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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.

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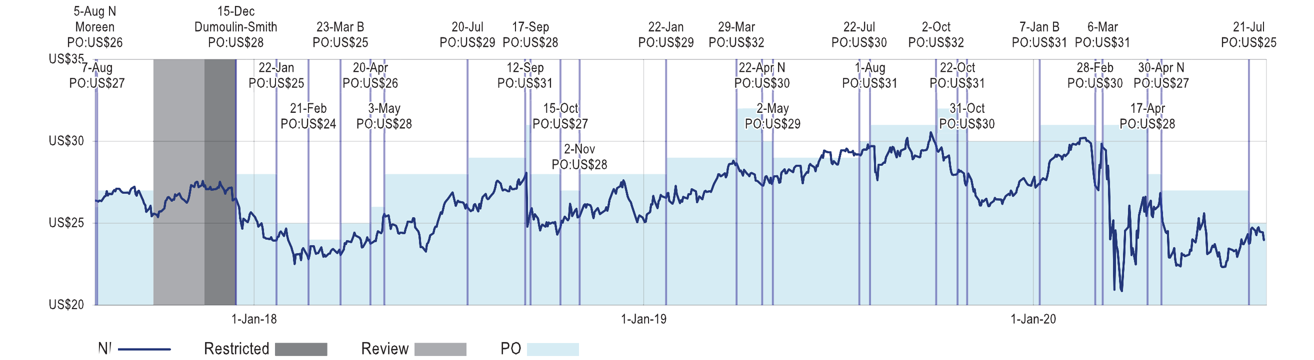

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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*
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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5 August 2020
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NiSource Inc.

2Q20 Beat, 2021 Guidance Initiated

Natural Gas | Research Bulletin

NI

Target price (12M, US$)
26.00
Outperform

- **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
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5 August 2020

CREDIT SUISSE

Companies Mentioned *(Price as of 02-Aug-2020)*
NiSource Inc. (NI.N, $24.45, OUTPERFORM, TP $26.0)

Disclosure Appendix

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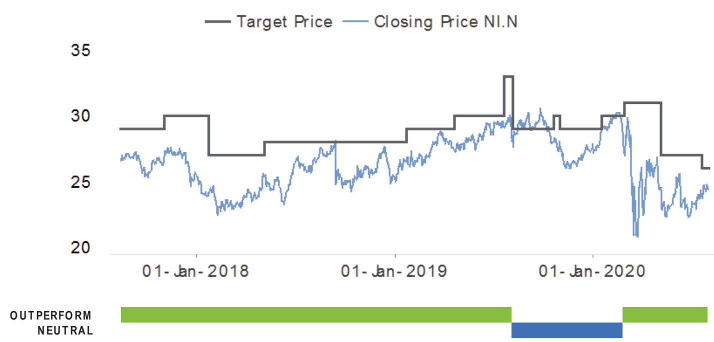
3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
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	



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Neutral/Hold*	37%	(27% banking clients)
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:

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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

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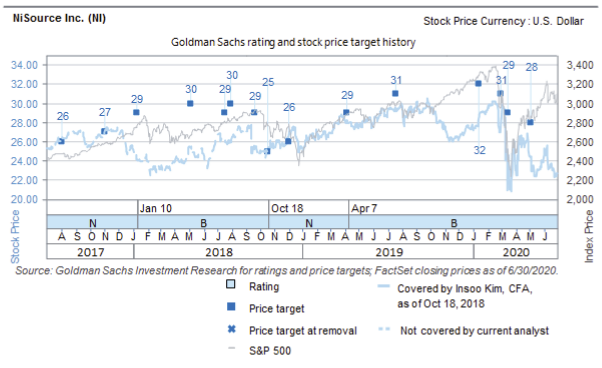

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EQUITY RESEARCH
NiSource Inc. (NI)

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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Jefferies

EQUITY RESEARCH
NiSource Inc. (NI)

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.

Jefferies

EQUITY RESEARCH
NiSource Inc. (NI)

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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Investment Recommendation Record

(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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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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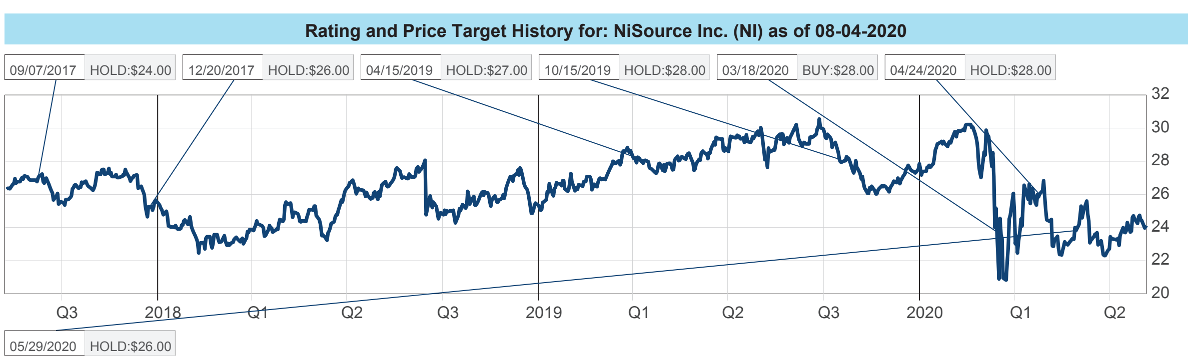

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Legend:

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%
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EQUITY RESEARCH
NiSource Inc. (NI)

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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.

Richard W Sunderland
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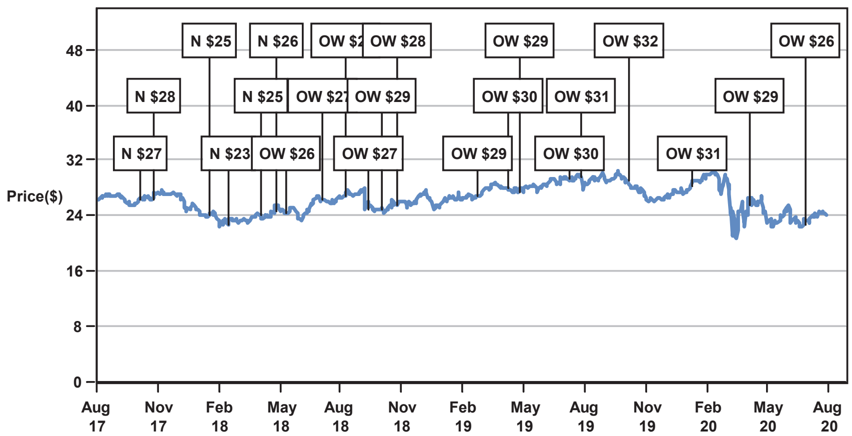
NiSource Inc. (NI, NI US) Price Chart



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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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

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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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UBS Securities LLC: Aga Zmigrodzka, CFA; Shneur Z. Gershuni, CFA; Brian Reynolds.

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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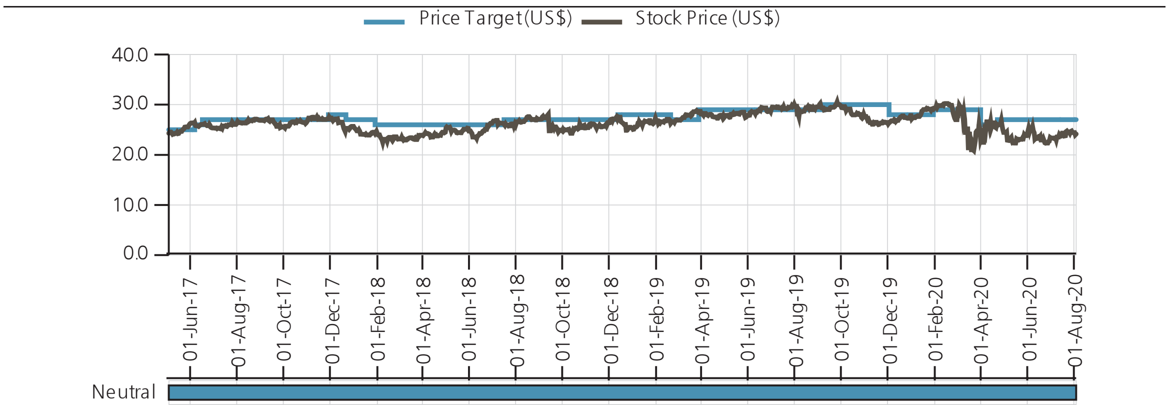
NiSource Inc. (US$)



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			in $
(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.

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

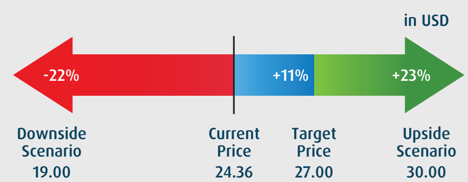
Our $27 target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2022E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook. For NI, we have removed EPS for its MA gas business from our P/E valuation and instead include only the asset value (1x equity rate base) in our SOTP framework.

Upside Scenario 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.

BMO Capital Markets

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

BMO Capital Markets

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

							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	$0.79	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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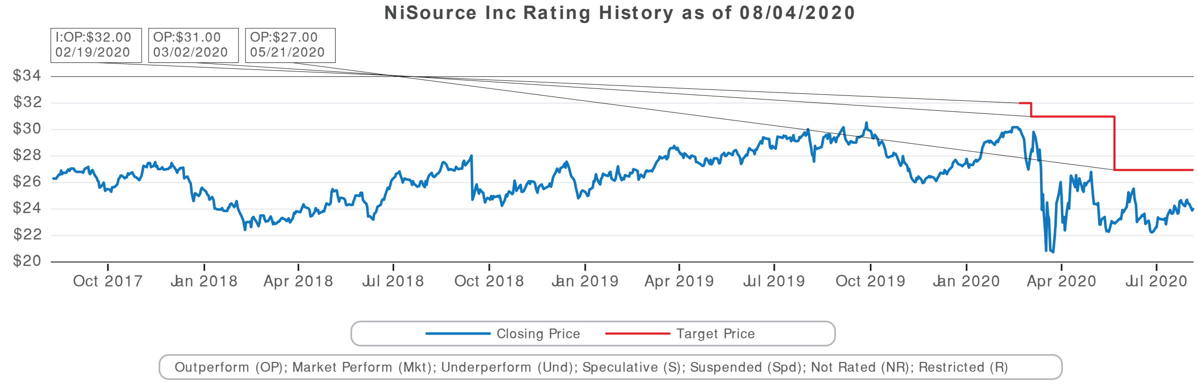

Source: FactSet, BMO Capital Markets

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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 (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%

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http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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GUGGENHEIM

August 5, 2020

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NI – 2Q Earnings Beat; Investor Day Preview Brings with It Incremental Capex, Upside to Previous Growth Rate

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

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

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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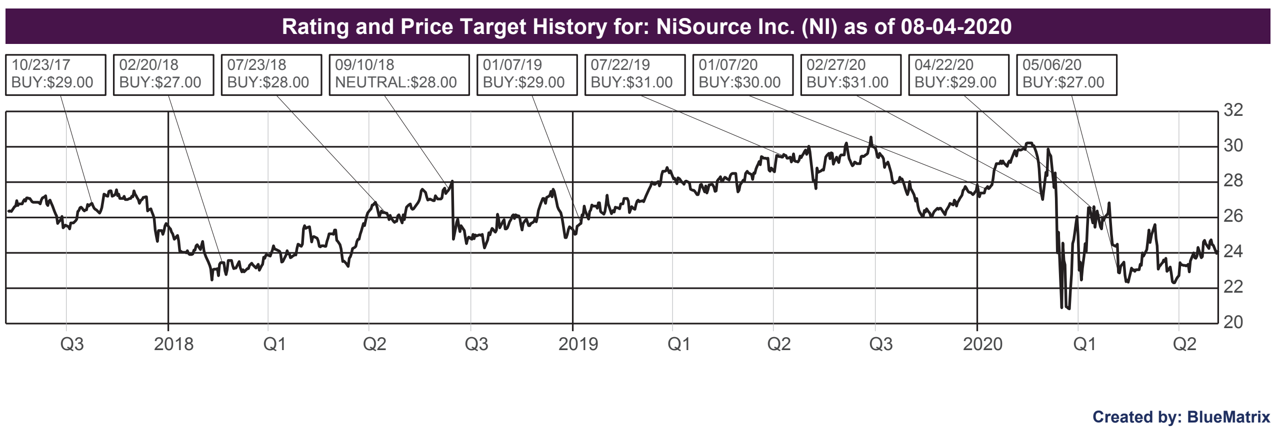

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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Overweight
Gas/Power Infrastructure – Market Overweight

August 5, 2020

NISOURCE

(NI US Equity – $24.36 – Outperform)

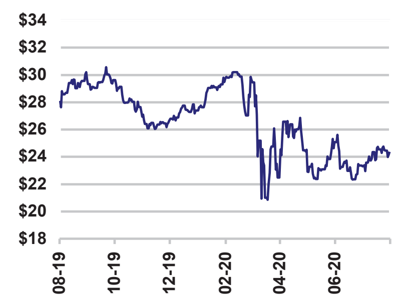
Does ESG have room for an LDC?

- **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.

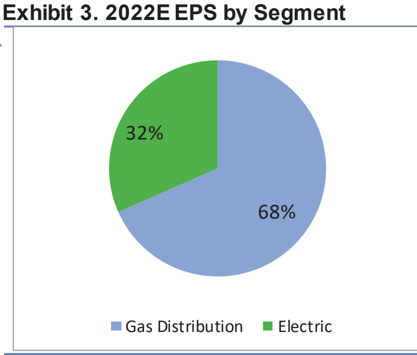
Investment Thesis

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

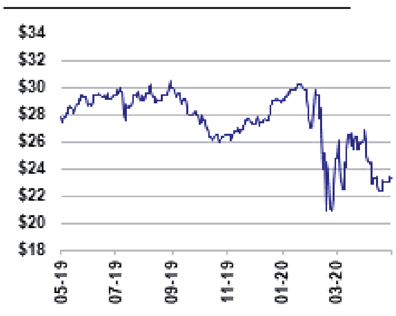
Our $27 price target is derived using a P/E multiple of 18x on NI's electric earnings and 18.5x on its gas LDC earnings – both averages. Risks for NiSource are 1) bad regulatory outcomes; 2) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer and sales growth

Exhibit 3. 2022E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: FactSet

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.

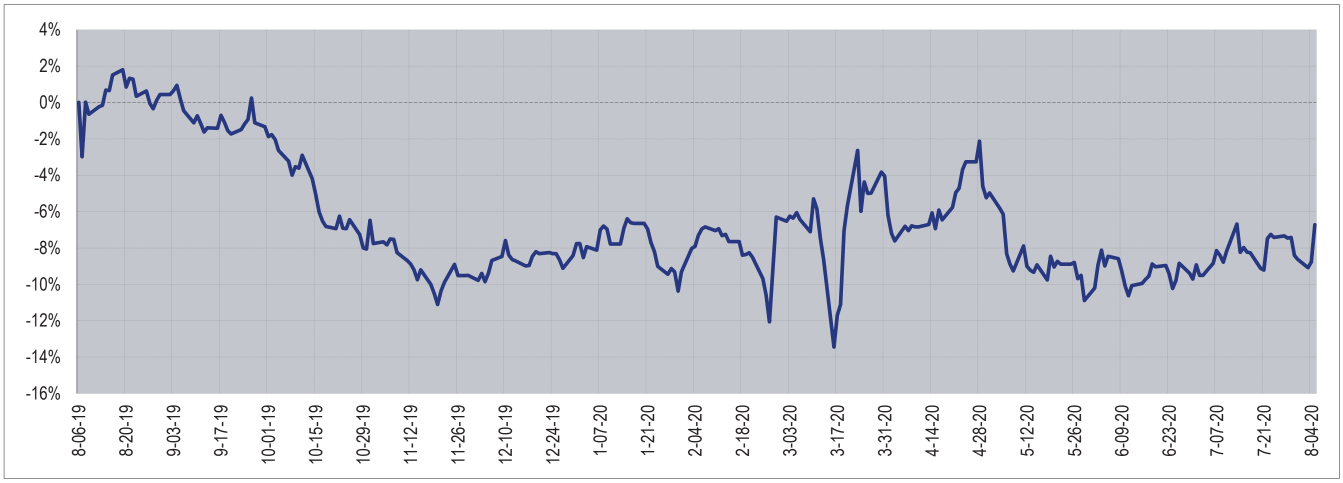
Exhibit 5: Regulated Comparables

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

August 5, 2020

Exhibit 6: NI vs the Regulated Average



Source: Wolfe Research, FactSet

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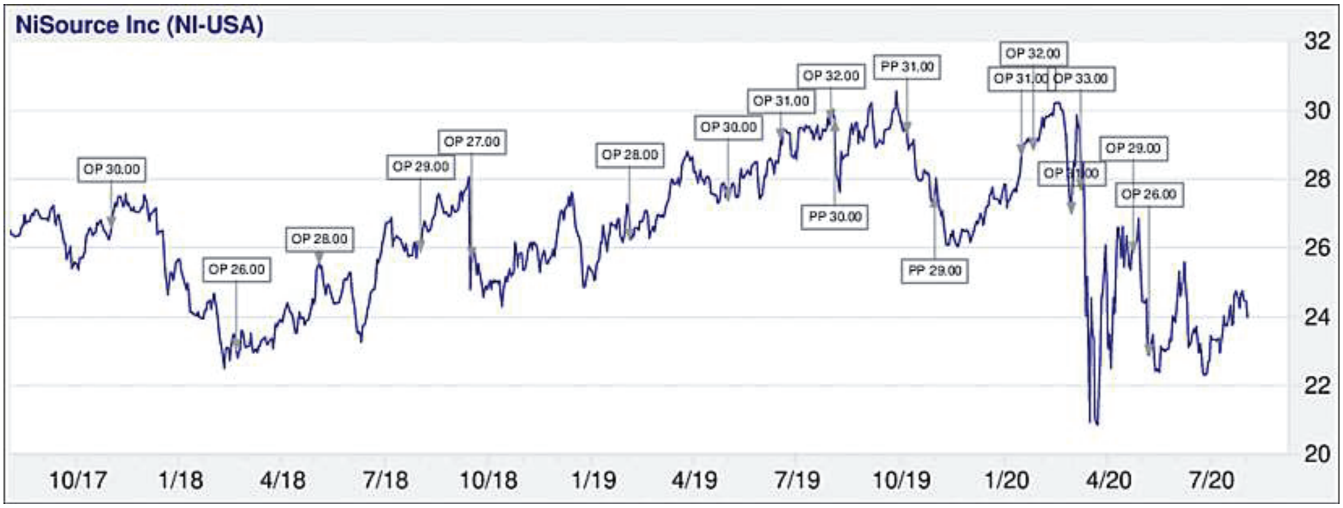
Price Chart(s) with Ratings and Target Price History



Note: OP = Outperform; PP = Peer Perform; UP = Underperform

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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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NI US Equity	None

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NiSource Inc

Renewable light at the end of the tunnel

Reiterate Rating: NEUTRAL | PO: 26.00 USD | Price: 24.36 USD

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

06 August 2020

Equity

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*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

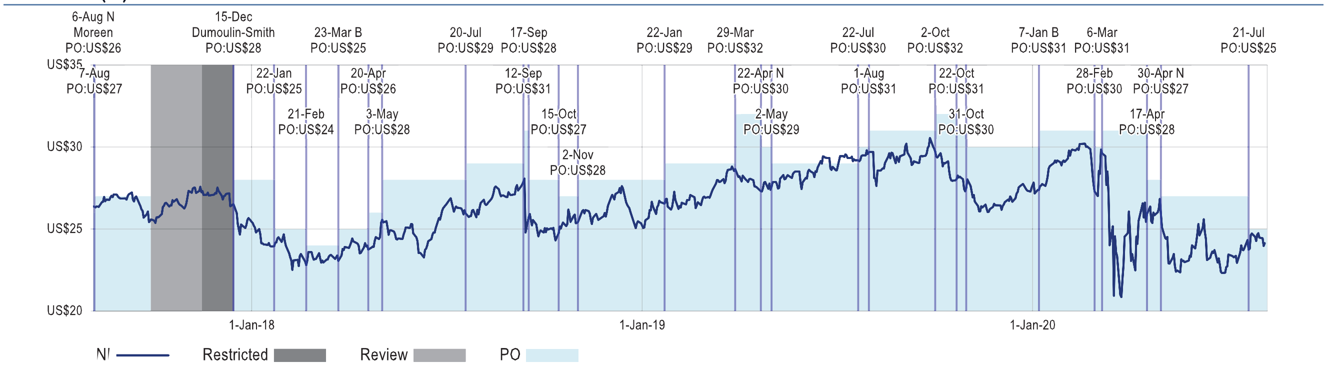
iQmethod SM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines 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 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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Pipelines & Gas Utilities
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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.

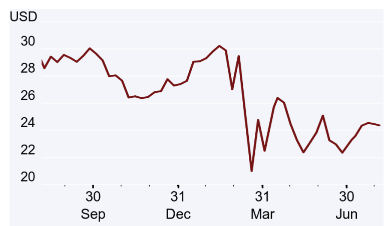
EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2019A	0.82A	0.06A	0.00A	0.45A	1.32A	1.32A	0.87A
2020E	**0.76A**	**0.13A**	**0.06E**	**0.36E**	**1.32E**	**1.29E**	**1.32E**
Previous	0.76A	0.11E	0.06E	0.36E	1.27E	na	na
2021E	**na**	**na**	**na**	**na**	**1.39E**	**1.36E**	**1.37E**
Previous	na	na	na	na	1.37E	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

■ 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)



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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

Analyst Certification

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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	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

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.

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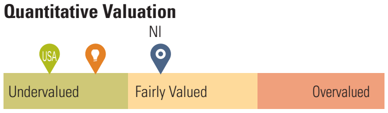
NiSource Inc NI (XNYS)

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		

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

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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.

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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

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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

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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.

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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

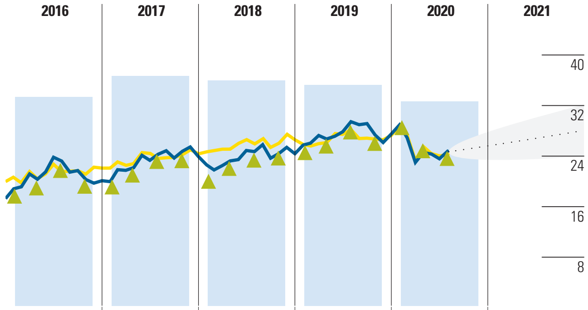
Financial Health

	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



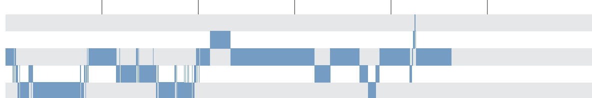
- Quantitative Fair Value Estimate
- Total Return
- Sales/Share
- Forecast Range
- Forcasted Price
- Dividend
- Split

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	
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]



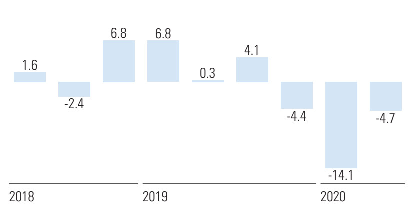
2015	2016	2017	2018	2019	TTM	Financials (Fiscal Year in Mil)
4,652	4,492	4,875	5,114	5,209	4,897	Revenue
-28.1	-3.4	8.5	4.9	1.8	-6.0	% Change
802	857	916	126	1,305	1,071	Operating Income
-32.3	6.9	6.9	-86.3	936.7	-17.9	% Change
287	332	129	-51	383	-62	Net Income
1,457	803	742	540	1,583	1,365	Operating 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.

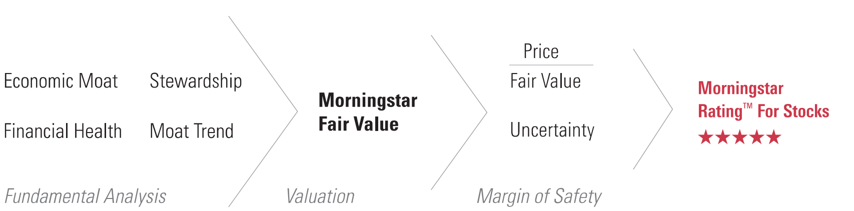
Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to 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.

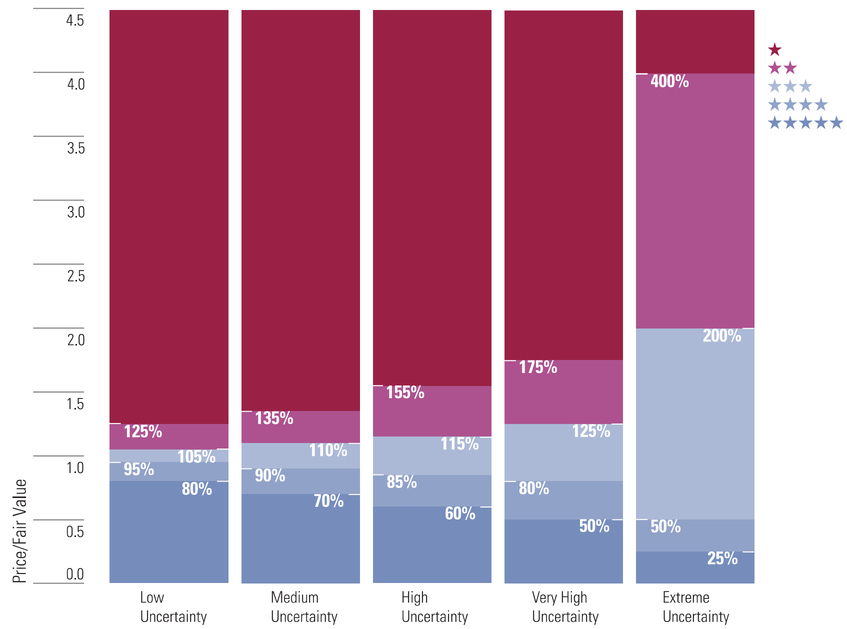
Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ► 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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- 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.

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.

The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions.

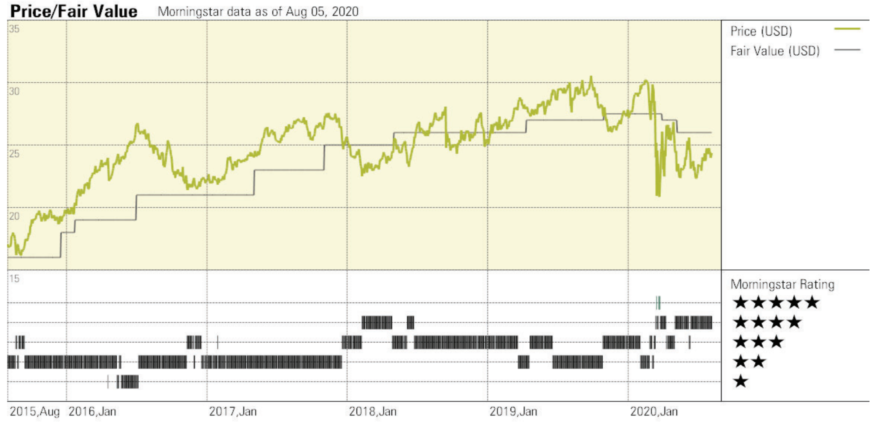
A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit http://global.morningstar.com/equitydisclosures.

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		

Price/Fair Value Morningstar data as of Aug 05, 2020



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The quantitative equity ratings are not a market call, and do not replace the User or User's clients from conducting their own due-diligence on the security. The quantitative equity rating is not a suitability assessment; such assessments take into account may factors including a person's investment objective, personal and financial situation, and risk tolerance all of which are factors the quantitative equity rating statistical model does not and did not consider.

Prices noted with the Report are the closing prices on the last stock-market trading day before the publication date stated, unless another point in time is explicitly stated.

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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		

investment decision and when deemed necessary, to seek the advice of a legal, tax, and/or accounting professional.

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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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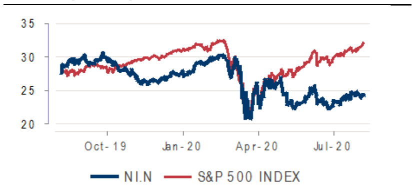
Financial and valuation metrics

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

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

CREDIT SUISSE

NiSource Inc. (NI)

Analyst: **Michael Weinstein**

Price (06 Aug 2020): **US$24.34** Target Price: **26.00** Rating: **Outperform**

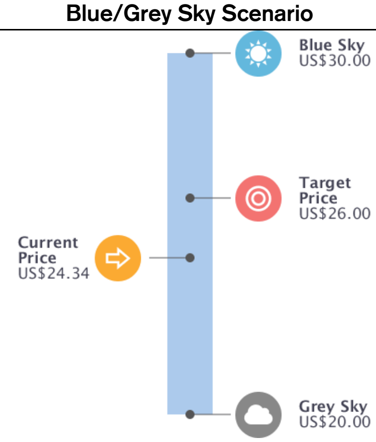
Income Statement	12/19A	12/20E	12/21E	12/22E
Revenue (US$ m)	**5,184.1**	**6,112.6**	**6,219.7**	**6,513.9**
EBITDA (US$ m)	**1,764**	**1,806**	**1,837**	**1,966**
Depr. & amort.	(717)	(779)	(812)	(843)
EBIT (US$)	**1,047**	**1,027**	**1,025**	**1,123**
Net interest exp	(377)	(418)	(415)	(444)
PBT (US$)	**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



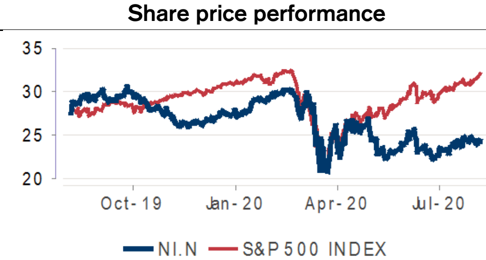
Our Blue Sky Scenario (US$) (from 28.00) 30.00

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



On 06-Aug-2020 the S&P 500 INDEX closed at 3349.16
Daily Aug08, 2019 - Aug06, 2020, 08/08/19 = US$28.8

- **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)

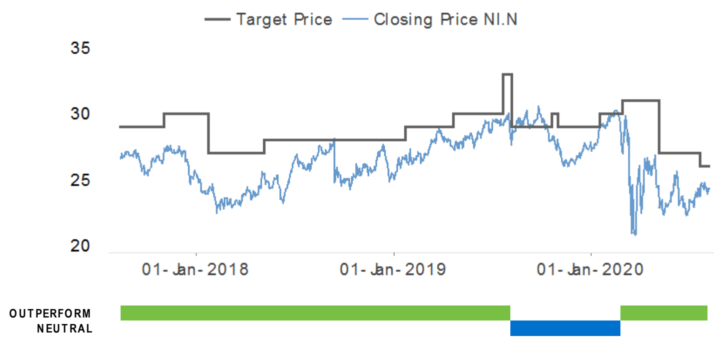
Disclosure Appendix

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.*

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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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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.

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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*	37%	(27% banking clients)
Underperform/Sell*	12%	(21% banking clients)
Restricted	2%	

**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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The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

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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See the Companies Mentioned section for full company names

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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

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.

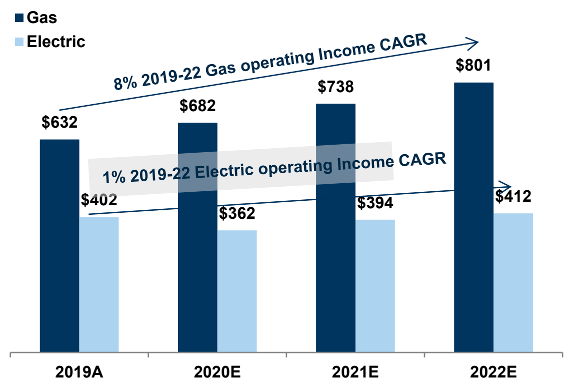
NI in Exhibits

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%)

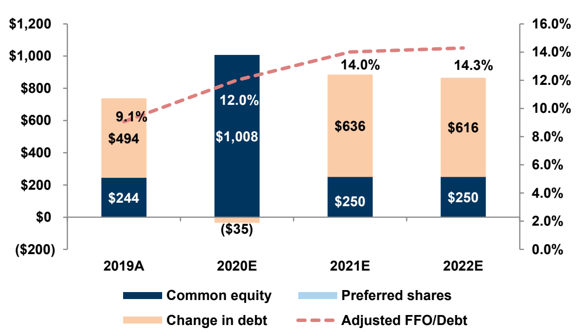
Source: FactSet, Goldman Sachs Global Investment Research

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

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).

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).

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Goldman Sachs expects to receive or intends to seek compensation for investment banking services in the next 3 months: NiSource Inc. ($24.75)

Goldman Sachs had an investment banking services client relationship during the past 12 months with: NiSource Inc. ($24.75)

Goldman Sachs had a non-securities services client relationship during the past 12 months with: NiSource Inc. ($24.75)

Goldman Sachs makes a market in the securities or derivatives thereof: NiSource Inc. ($24.75)

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	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	47%	36%	17%	65%	58%	54%

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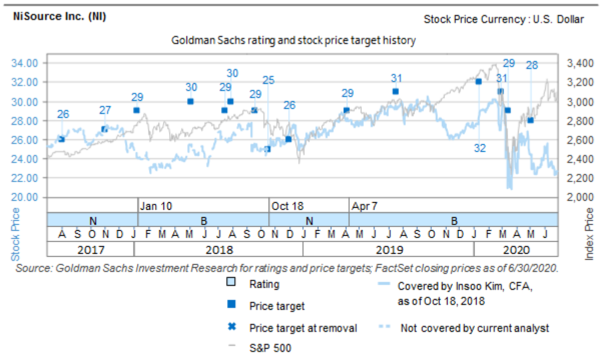
Price target and rating history chart(s)



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August 9, 2020 | Equity Research

WELLS FARGO SECURITIES

Gas LDC Round Up (Part 2): NI, NJR, NWN & SWX

Utilities

$	Rating		Price	FY EPS 2020E		2021E		Price Target	
Ticker	Curr.	Prior	08/07/20	Curr.	Prior	Curr.	Prior	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) Utility - 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) Energy Services – 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) CEV – 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).

Acronyms-
BPU – Board of Public Utilities
CEV – Clean Energy Ventures
CMA – Columbia Gas of Massachusetts
DEP – Department of Environmental Protection
EA – Environmental Assessment
FERC – Federal Energy Regulatory Commission
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.

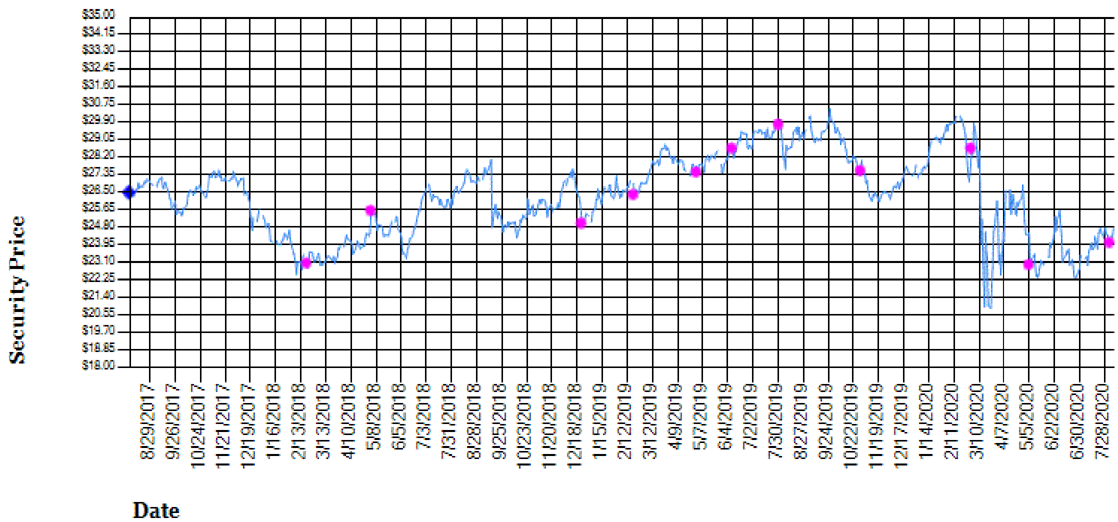
NJR Basis and Risks: Our price target is based on sum-of-the-parts analysis ($4-6/share for CEV and $33/share for the remaining segments based on an 15-20% discount to the LDC median of ~19X applied to our ex-CEV '22E of $1.93). Key risks include negative regulatory developments, risk of project delays/cancellations (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

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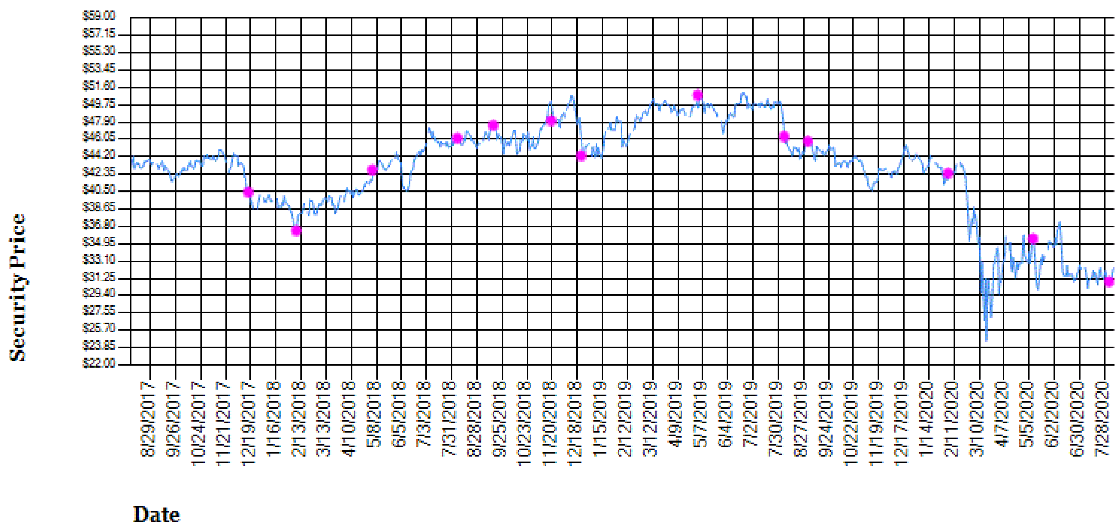
Source: Wells Fargo Securities, LLC estimates and Reuters data

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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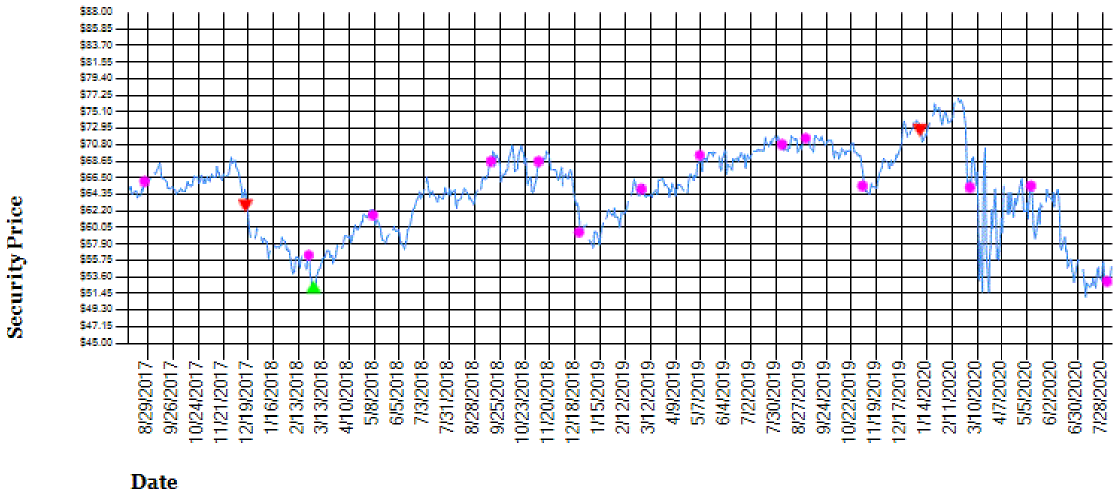
- □ Split Adjustment

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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Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
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- ▲ Rating Upgrade
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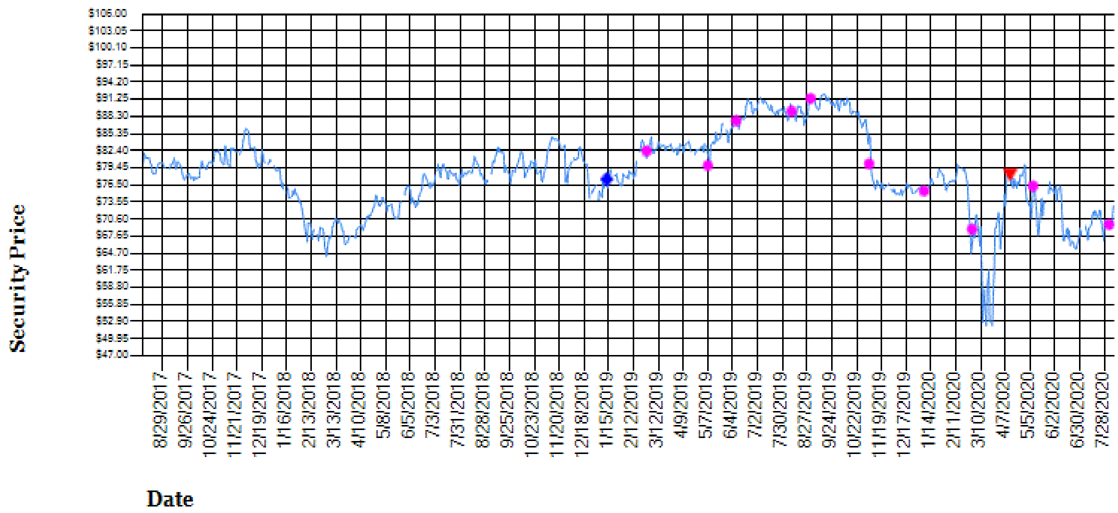
- ■ Analyst Change
- □ Split Adjustment

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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- ● Price Target/Val Range Change
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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

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NI: Risks include lower than expected sales growth, unfavorable regulatory developments, and unexpected cost pressures.
NJR: 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: Risks include onerous regulatory outcomes, Mist Expansion execution risks, exposure to unregulated storage operations, and inflationary cost pressures.
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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: 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

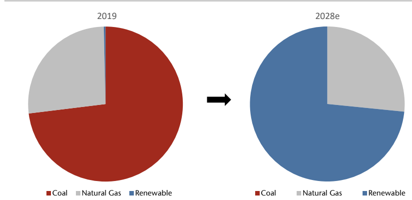
USA | Utilities

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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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

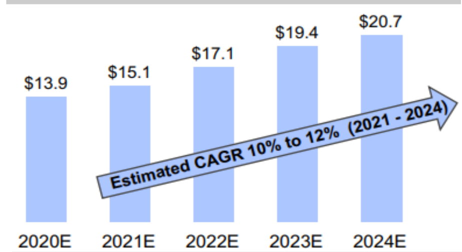
- 2020 Investor Day (Sept. 29th)
- Continued regulatory progress and reduction in regulatory lag could improve earnings growth
- Extension or expansion of modernization programs across any/all service territories
- Increased revenue-normalization efforts and reduction in volumetric sensitivities
- Sale 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

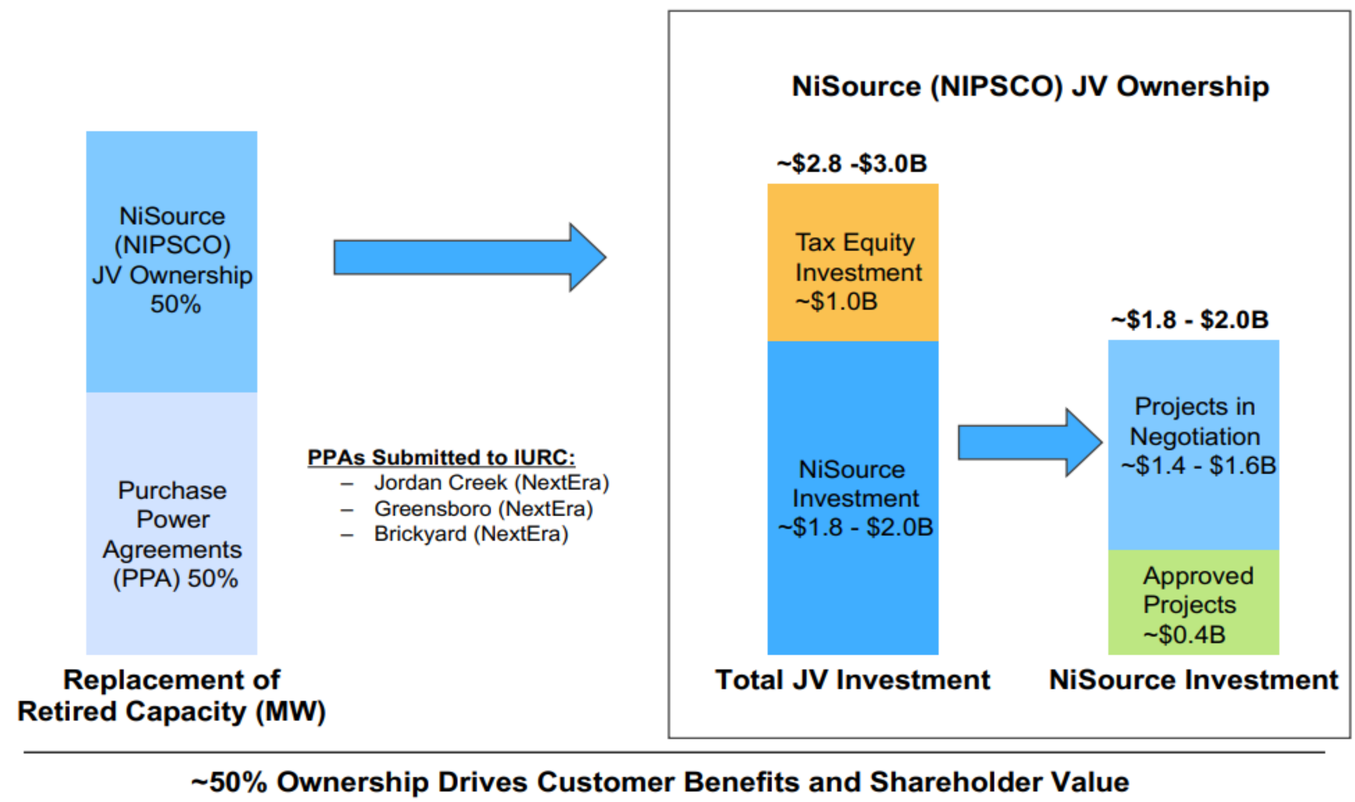
With its 2018 Integrated Resource Plan, NI outlined an initiative to retire NIPSCO's fleet of coal-fired electric generation facilities on an accelerated schedule, with its R.M. Schahfer Generation Station being retired by 2023 and its Michigan City Generating Station shuttered by 2028. In aggregate 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:

- <u>PPAs</u>:
  - **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
- <u>BTAs</u>:
  - **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.

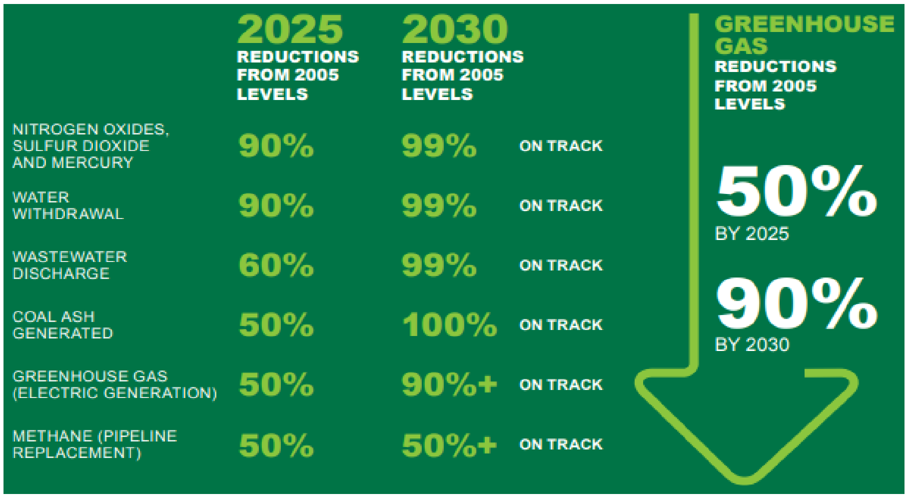
Exhibit 2 - NI Renewable Investment Opportunity



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



	2025 REDUCTIONS FROM 2005 LEVELS	2030 REDUCTIONS FROM 2005 LEVELS	
NITROGEN OXIDES, SULFUR DIOXIDE AND MERCURY	90%	99%	ON TRACK
WATER WITHDRAWAL	90%	99%	ON TRACK
WASTEWATER DISCHARGE	60%	99%	ON TRACK
COAL ASH GENERATED	50%	100%	ON TRACK
GREENHOUSE GAS (ELECTRIC GENERATION)	50%	90%+	ON TRACK
METHANE (PIPELINE REPLACEMENT)	50%	50%+	ON TRACK

GREENHOUSE GAS REDUCTIONS FROM 2005 LEVELS
50% BY 2025
90% BY 2030

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

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NiSource Inc. (NI)

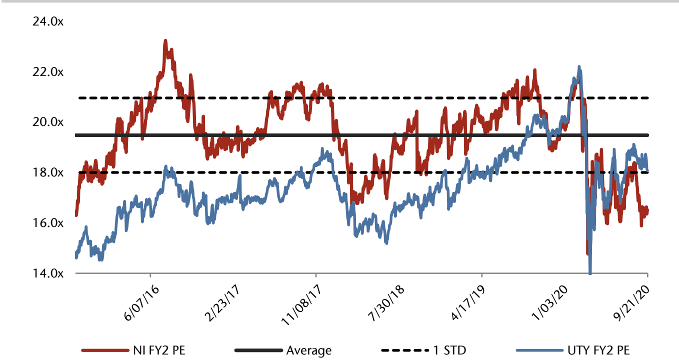
for NI, have been impacted by this dynamic. Add this to the litany of things which appear upside down in a COVID world: at least as represented by regressed betas, biotech stocks appear safe/defensive while regulated, IG-rated monopolistic utilities now appear risky.

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

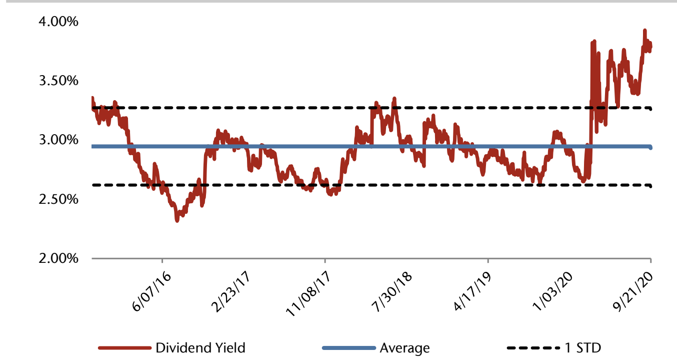
At current price, NI shares implies ~16.5x 2021 consensus EPS, an approximate 2 standard deviation (or 3x) discount to its trailing 5-year average and its ~3.8% dividend yield is ~2.5 standard deviations above its 5-year average despite the YTD crash in rates. With accelerating EPS growth through 2024 (~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

Please see important disclosure information on pages 16 - 21 of this report.

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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Exhibit 6 - NI Valuation Analysis

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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**

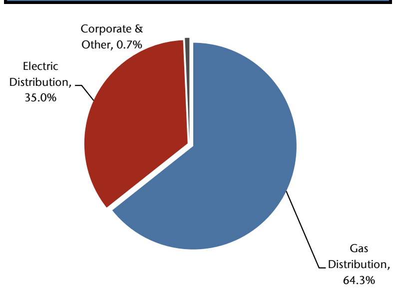
Assumptions	
EPS CAGR 2019-2024	4.7%
Dividend CAGR 2019-2024	5.8%
Terminal Growth Rate	2.25%
Stable Period Payout Ratio	64.6%
Stable Period ROE	10.2%
Implied 2021 EV/EBITDA	10.2x
Implied 2021 P/E	15.9x

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**

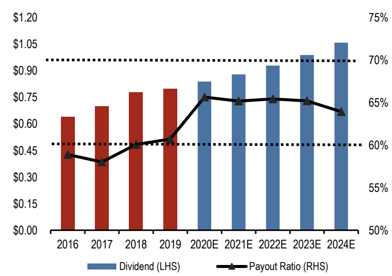
Total Return Expectations	
NI Current Price	**$21.50**
Appreciation to PT	16.3%
Yield over 12-months	4.0%
Total Return Potential	**20.3%**

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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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

Jefferies

EQUITY RESEARCH
NiSource Inc. (NI)

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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Investment Recommendation Record

(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.

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.

Jefferies

EQUITY RESEARCH
NiSource Inc. (NI)

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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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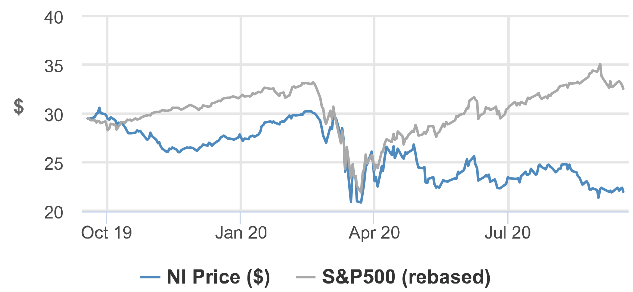
J.P.Morgan

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)

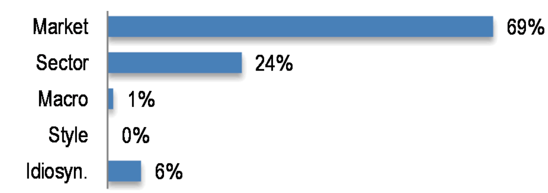
$ in millions	FY19A	FY20E	FY21E	FY22E
Financial Estimates				
Revenue	5,184	5,066	5,563	5,693
Adj. EBITDA	1,759	1,801	1,842	1,984
Adj. EBIT	1,042	1,070	1,141	1,254
Adj. net income	495	501	545	608
Adj. EPS	1.32	1.30	1.36	1.47
BBG EPS	1.30	1.29	1.34	1.43
Cashflow from operations	1,583	1,346	1,289	1,449
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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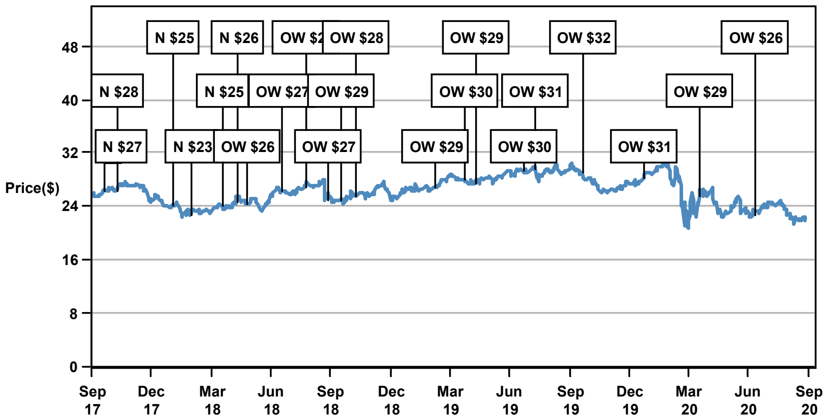
NiSource Inc. (NI, NI US) Price Chart



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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NiSource Inc

What is the Street really fearing at these levels?

Reiterate Rating: NEUTRAL | PO: 25.00 USD | Price: 22.59 USD

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 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.

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
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	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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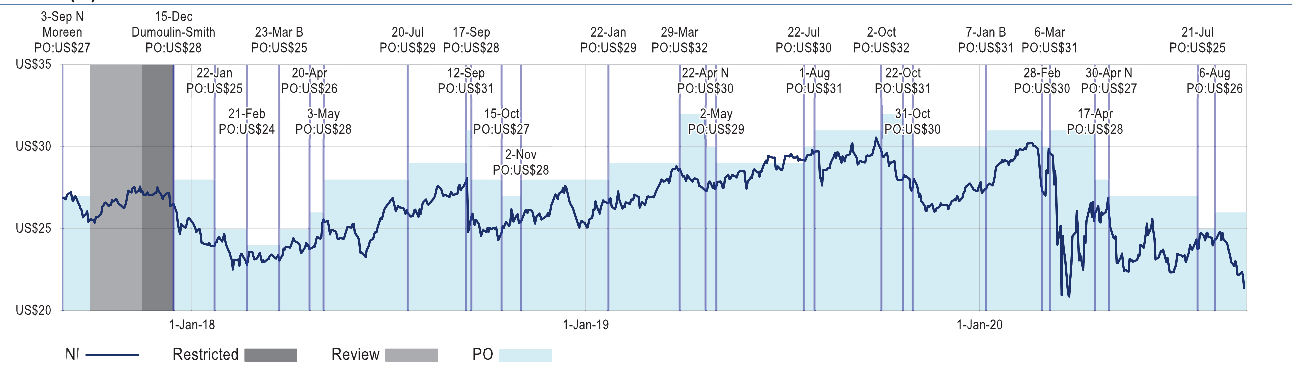
NiSource Inc (NI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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*
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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.

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

*iQ*method℠ – 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)

*iQ*method℠ – 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
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
	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
	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
	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℠ 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℠ 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.

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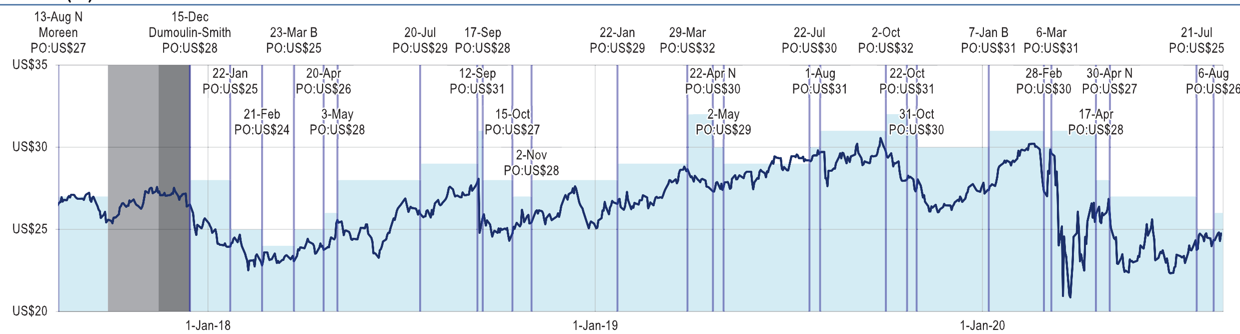
Important Disclosures

NiSource Inc (NI) Price Chart



NI ——— Restricted Review PO

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*
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Neutral	≥ 0%	≤ 30%
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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

Equity Research

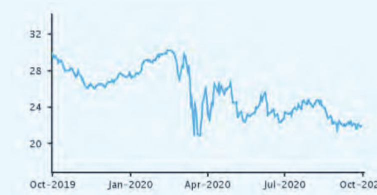
Power & Utilities | North America Power & Utilities

30 September 2020

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

North America Power & Utilities

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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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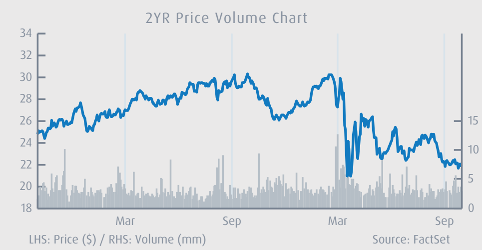


Company Data			in $
Dividend	$0.84	Shares O/S (mm)	383.0
Yield	3.8%	Market Cap (mm)	$8,411
P/BV	1.7x	Net Debt (mm)	$9,606

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

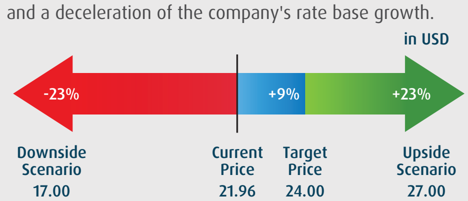
Our $24 target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2022E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook. For NI, we have removed EPS for its MA gas business from our P/E valuation 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

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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%

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.

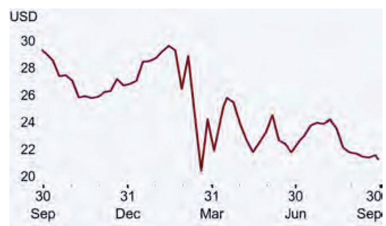
- **Capex Guidance:** NiSource is targeting $9.9-$10.5B of capex investments from 2021-2024. Aside from $1.8-$2.0B of renewable investments through 2023, NI guides $1.9-$2.2B of annual capex for planned safety & modernization investments. Management expects to start recovery of ~75% of investments within 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 — **Price: US$21.96; TP: US$24.00; Market Cap: US$8,411m; 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)	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.

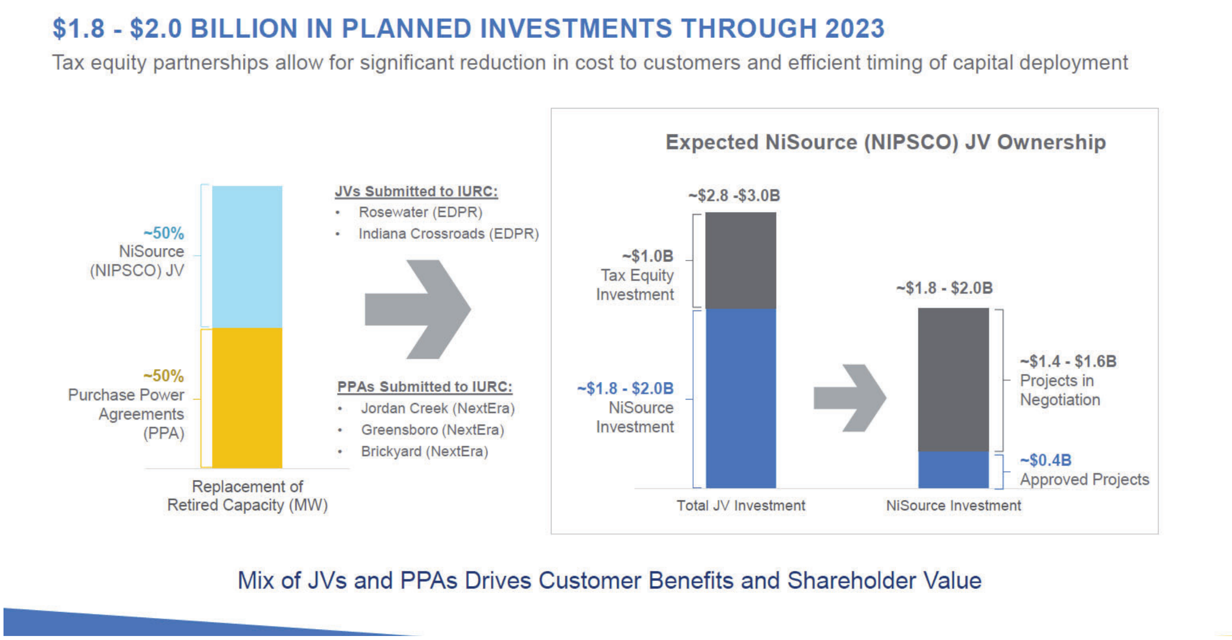
Powered by: dataCentral

Takeaways

Below we highlight three key investor slide from the analyst day this morning.

Key Slides:

Figure 1. JV Ownership Details



Source: NI Presentation

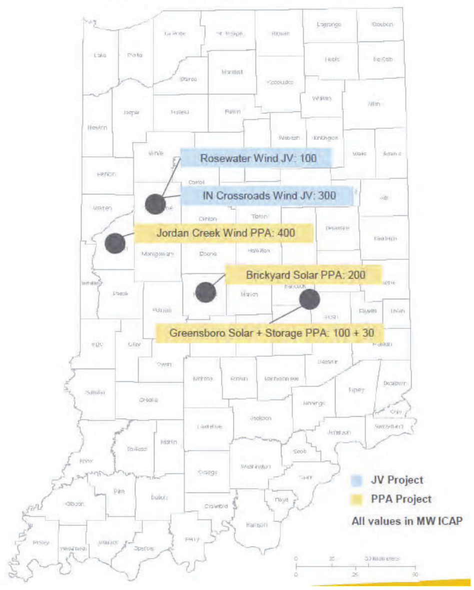
Figure 2. Renewable Investments

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			
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			

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

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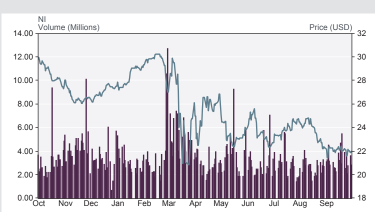
NI — BUY

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



NI Investor Day – Robust Update, Though Mostly In Line with Expectations

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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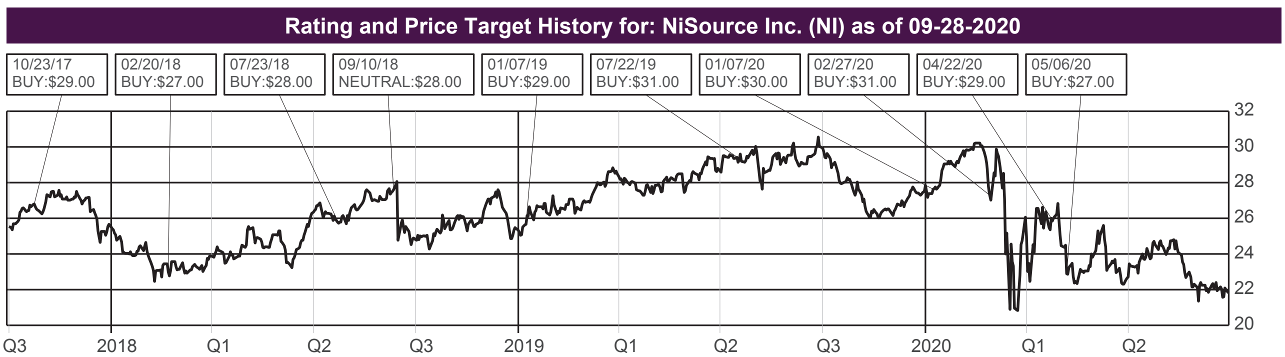
Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from NiSource Inc. in the next 3 months.

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.



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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.

Guggenheim Securities, LLC methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

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

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.

Utilities and Power

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See page 2 for analyst certification and important disclosures.

UBS

Global Research | 29 September 2020

First Read

NiSource Inc.

Highlights from NI's Long-Term Growth Strategy

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.

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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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.

Required Disclosures

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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

30 September 2020

Equity

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

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℠ 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%	9.6%
Operating Margin	18.3%	20.2%	19.5%	19.9%	21.1%
Free Cash Flow	(1,278)	(219)	(412)	(712)	(1,009)

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%	141.7%	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℠ 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.

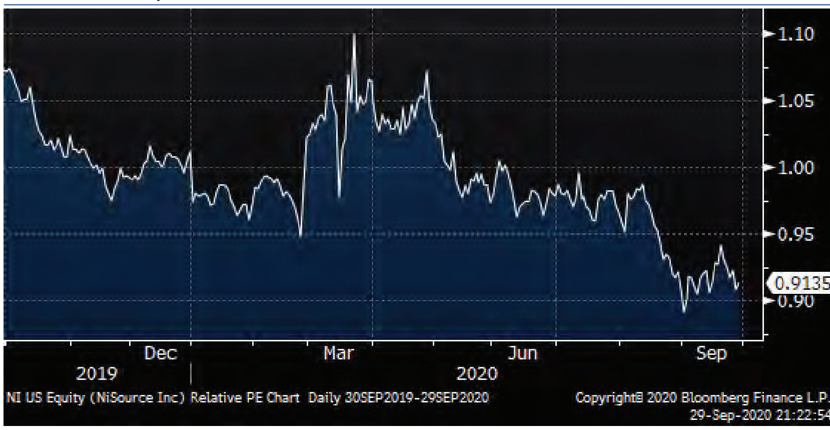
Stock Data

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

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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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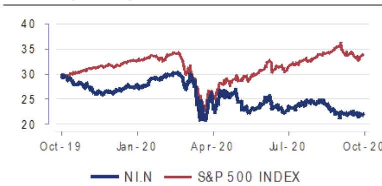
Financial and valuation metrics

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

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

30 September 2020

CREDIT SUISSE

NiSource Inc. (NI)

Analyst: **Michael Weinstein**

Price (29 Sep 2020): **US$21.96** Target Price: **26.00** Rating: **Outperform**

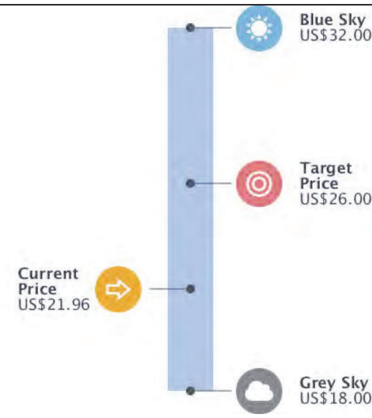
Income Statement	12/19A	12/20E	12/21E	12/22E
Revenue (US$ m)	**5,184.1**	**6,112.6**	**6,219.7**	**6,513.9**
EBITDA (US$ m)	**1,764**	**1,806**	**1,837**	**1,966**
Depr. & amort.	(717)	(779)	(812)	(843)
EBIT (US$)	**1,047**	**1,027**	**1,025**	**1,123**
Net interest exp	(377)	(418)	(415)	(444)
PBT (US$)	**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$)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Assets				
Cash & cash equivalents	139	142	142	142
Account receivables	857	546	546	546
Other current assets	607	2,059	2,059	2,059
Total current assets	**1,854**	**2,860**	**2,860**	**2,860**
Total fixed assets	16,912	15,206	16,119	17,475
Investment securities	-	-	-	-
Total assets	**22,660**	**21,870**	**22,783**	**24,140**
Liabilities				
Total current liabilities	**3,746**	**3,591**	**3,983**	**4,209**
Total liabilities	**16,673**	**16,038**	**16,430**	**16,656**
Total liabilities and equity	**22,660**	**21,870**	**22,783**	**24,140**
Net debt	9,504	9,111	9,503	9,728
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
No. of shares (wtd avg)	375	385	395	415
CS adj. EPS	1.32	1.32	1.33	1.39
Prev. EPS (US$)	-	-	-	-
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



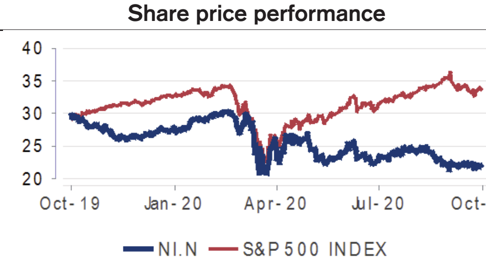
Our Blue Sky Scenario (US$) 32.00

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
Equity Research
Americas | United States

CREDIT SUISSE

NiSource Inc.

3Q20 Beat, 2021 Guidance Reaffirmed

NI

Target price (12M, US$)
26.00
Outperform

Natural Gas | Research Bulletin

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.

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

Companies Mentioned *(Price as of 31-Oct-2020)*
NiSource Inc. (NI.N, $22.97, OUTPERFORM, TP $26.0)

Disclosure Appendix

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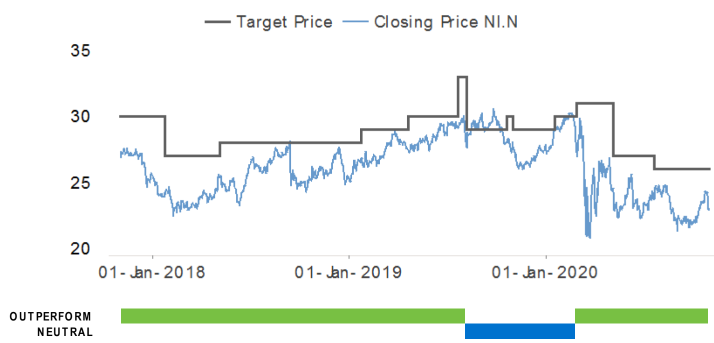
Michael Weinstein, ERP, and Maheep Mandloi each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation 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.*

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.
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Neutral/Hold*	37%	(28% banking clients)
Underperform/Sell*	12%	(20% banking clients)
Restricted	1%	

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This research report is authored by:

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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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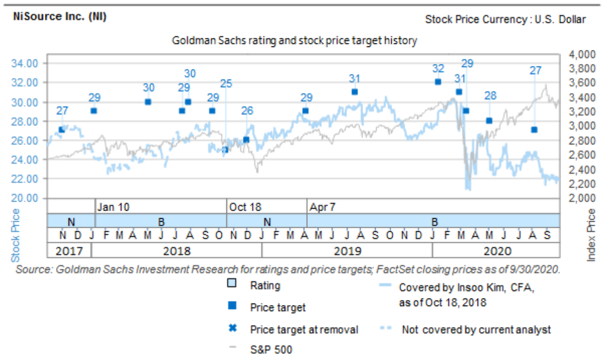

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J.P.Morgan

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

North American Utilities

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J.P. Morgan Securities LLC

- **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.

See page 2 for analyst certification and important disclosures.

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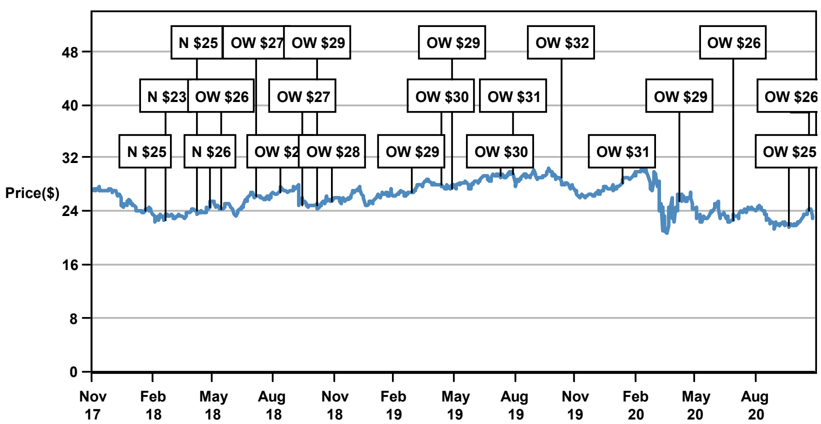
NiSource Inc. (NI, NI US) Price Chart



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 ($)	Price Target ($)
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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UBS

Global Research | 2 November 2020

First Read

NiSource Inc.

Lower Costs Drive the Beat

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.

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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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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12-Month Rating	Definition	Coverage[1]	IB Services[2]
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.
3:Percentage of companies under coverage globally within the Short-Term rating category.
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UBS Securities LLC: Aga Zmigrodzka, CFA, Brian Reynolds, Shneur Z. Gershuni, CFA.

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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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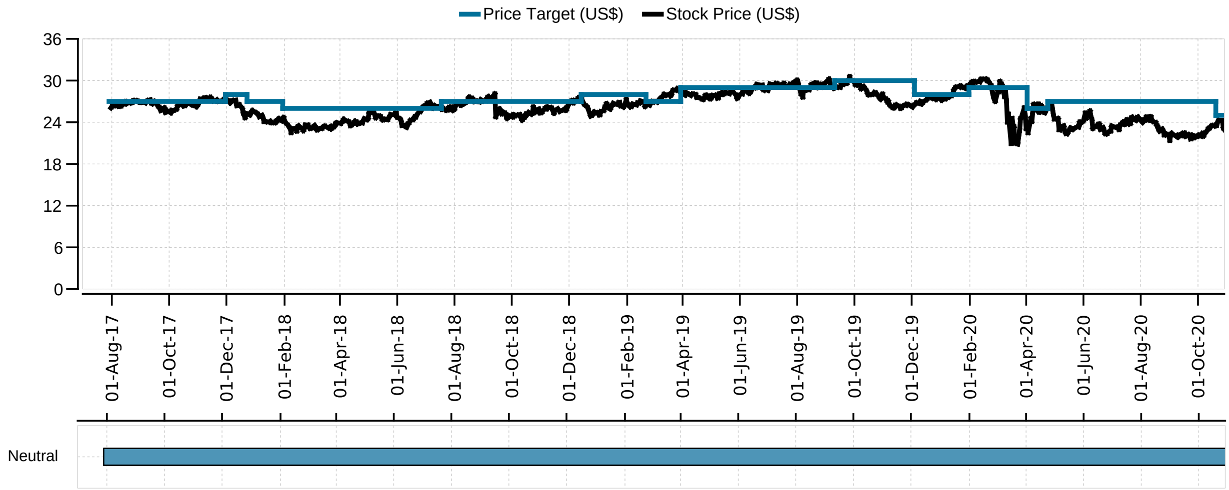
NiSource Inc. (US$)



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 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.

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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.

$	2019A	2020E		2021E	
EPS		Curr.	Prior	Curr.	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

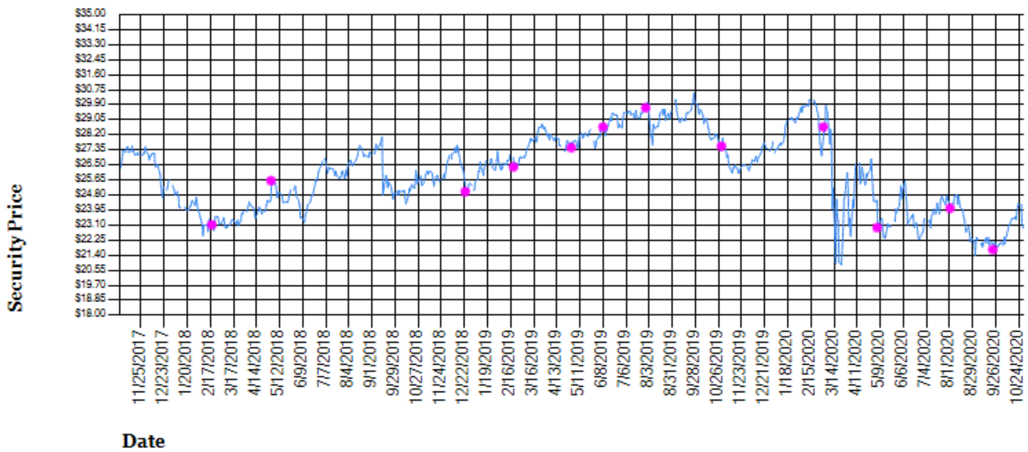
We rate shares Overweight. We are attracted to NI's robust long-term infrastructure growth opportunities and supportive regulatory treatment.

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
- 2 Equal Weight/Hold
- 3 Underweight/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

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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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: November 2, 2020

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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*

BMO Capital Markets — IN Fact

Utilities, Power & Renewables

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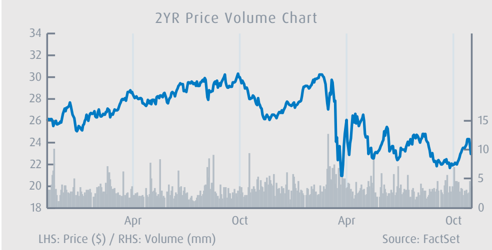


Company Data			in $
Dividend	$0.84	Shares O/S (mm)	383.0
Yield	3.6%	Market Cap (mm)	$8,982
P/BV	1.7x	Net Debt (mm)	$9,606

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	$1,102	$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.

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	1,759.30	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

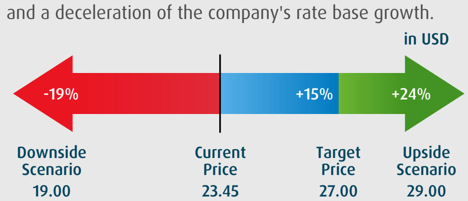
Our $27 target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2022E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook. For NI, we have removed EPS for its MA gas business from our P/E valuation 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.



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

BMO Capital Markets

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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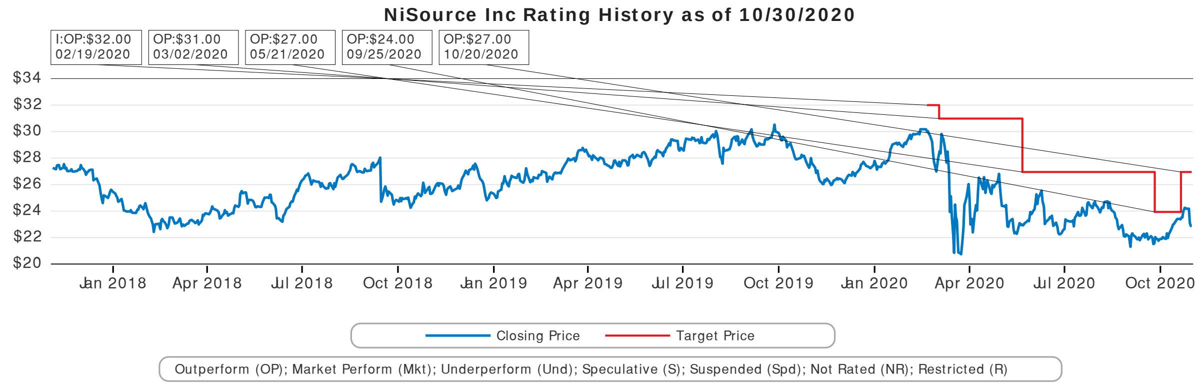
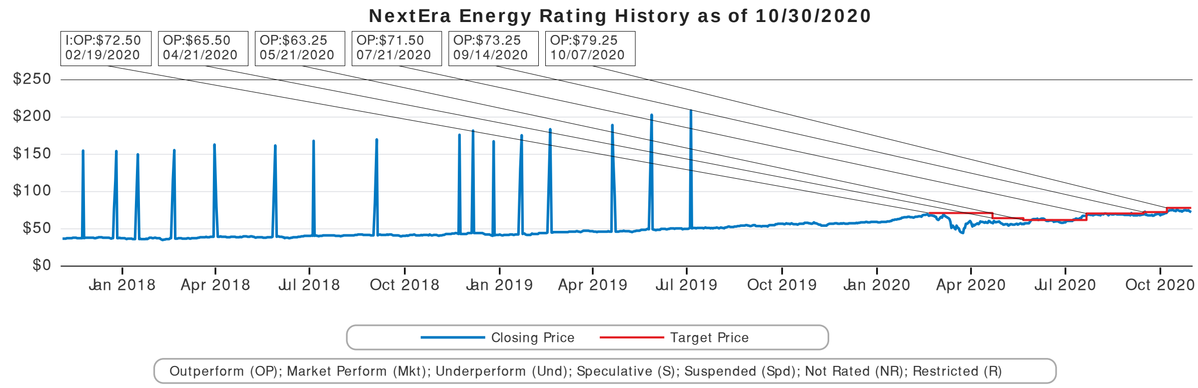


Source: FactSet, BMO Capital Markets



Source: FactSet, BMO Capital Markets

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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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~ As of April 1, 2019.

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http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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November 02, 2020

NiSource Inc
NI | $22.97
Outperform | TARGET PRICE: $26.00
Earnings Report

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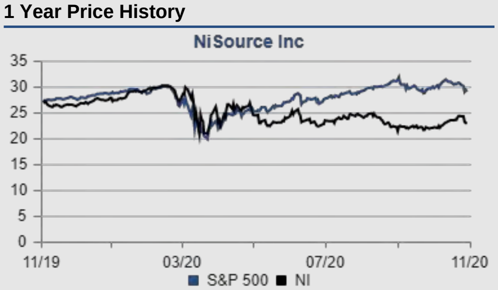
Company Statistics

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 payout 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

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: November 02 2020 04:09 PM ET

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The analysts, Durgesh Chopra, 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.

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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.

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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 11/02/2020)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
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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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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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.

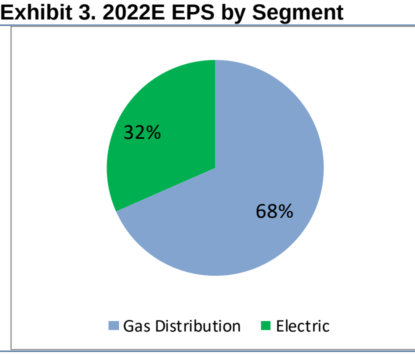
Investment Thesis

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

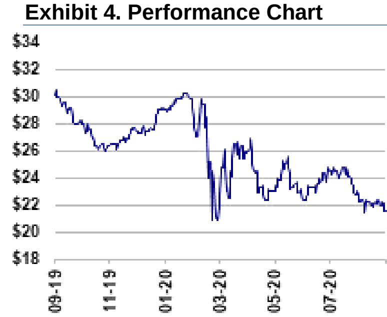
Our $26 price target is derived by using a full-turn premium (18.5 x) on NI's electric earnings and an average (17.5x) on its gas LDC earnings in 2022. Risks for NiSource are 1) bad regulatory outcomes; 2) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer and sales growth

Exhibit 3. 2022E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: FactSet

WOLFE RESEARCH

NiSource

November 2, 2020

Investment Conclusion

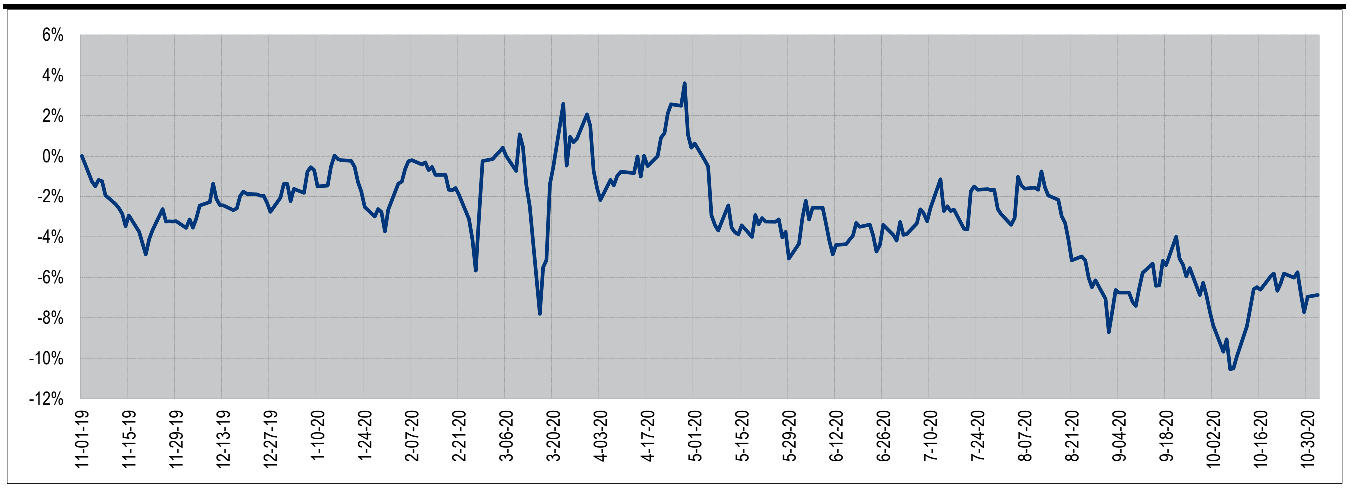
We are Outperform rated on NiSource. Most of the NI's annual capex (~75%) is recovered with minimal lag via tracking mechanisms and the company has built a constructive track record with most of its state regulators. Post the sale of Columbia Gas of Massachusetts, we believe the company's plan will be 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		Current	Current	Mkt Cap	P/E Multiple				Div	Div	Payout	Price/	Equity
Name	Ticker	Price	Shares	($M)	2020E	2021E	2022E	2023E	Yield	Growth (E)	Ratio	Book	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

WOLFE RESEARCH

NiSource

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

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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.

03 November 2020

Equity

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

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

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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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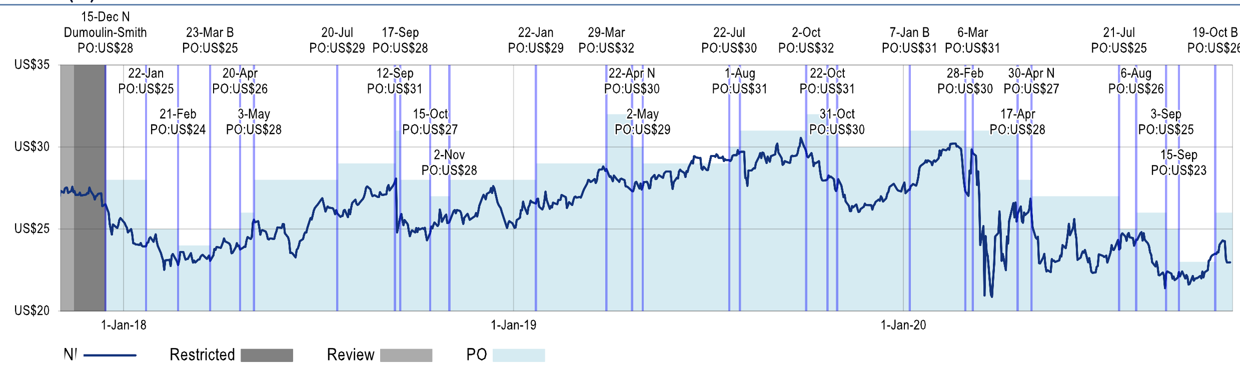
NiSource Inc (NI) Price Chart



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 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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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3 November 2020
Equity Research
Americas | United States

CREDIT SUISSE

NiSource Inc.

Clean Infrastructure Plans Progressing

Natural Gas | Increase Target Price

NI

Target price (12M, US$)
28.00
Outperform

- **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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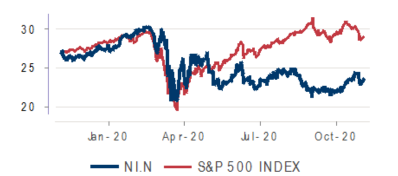
Financial and valuation metrics

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

3 November 2020

CREDIT SUISSE

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

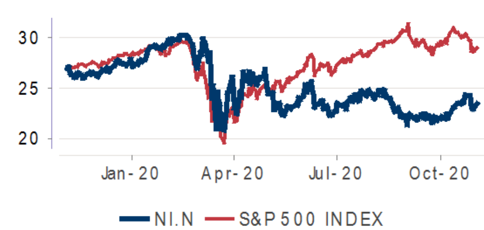
Our Blue Sky Scenario (US$) (from 32.00) 33.00

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

	2022 EPS	BASE CASE 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 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		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/ (Dow nside) 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

3 November 2020

CREDIT SUISSE

Companies Mentioned *(Price as of 02-Nov-2020)*
NiSource Inc. (NI.N, $23.45, OUTPERFORM, TP $28.0)

Disclosure Appendix

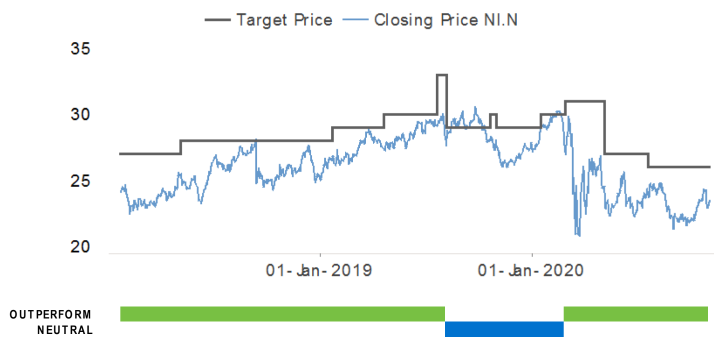
Analyst Certification

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.*
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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.
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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

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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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.

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

Timestamp: 19 October 2020 06:57AM EDT

iQprofile SM NiSource Inc

*iQ*method 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%	9.5%
Operating Margin	18.3%	20.2%	19.6%	20.0%	21.1%
Free Cash Flow	(1,278)	(219)	(412)	(709)	(1,011)

*iQ*method 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%	141.6%	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 *iQ*method 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

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

		P/E Multiples			Equity Value Per Share
	2023E EPS	Peer	Prem/ Discount		
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[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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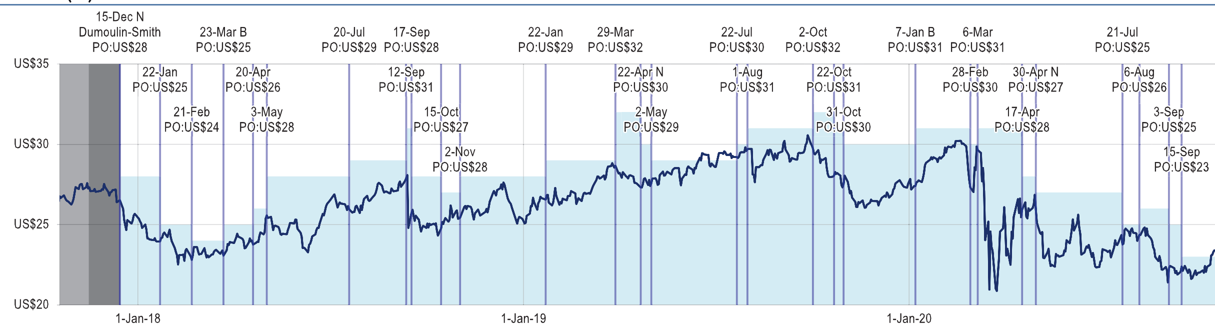
NiSource Inc (NI) Price Chart



NI Restricted Review PO

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 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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Energy | Power & Utilities

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

AMERICAN ELECTRIC POWER

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

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

NEXTera ENERGY

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

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

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

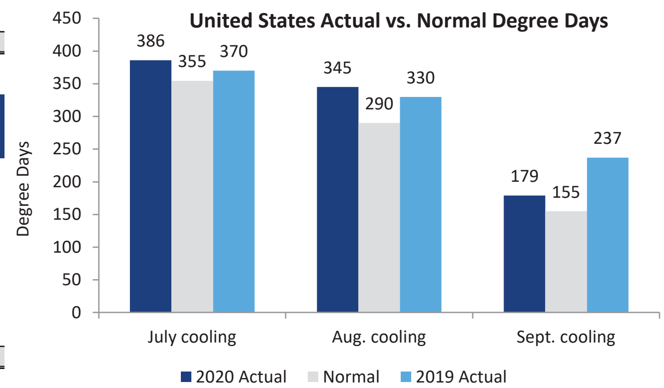
EVERCORE ISI

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%**

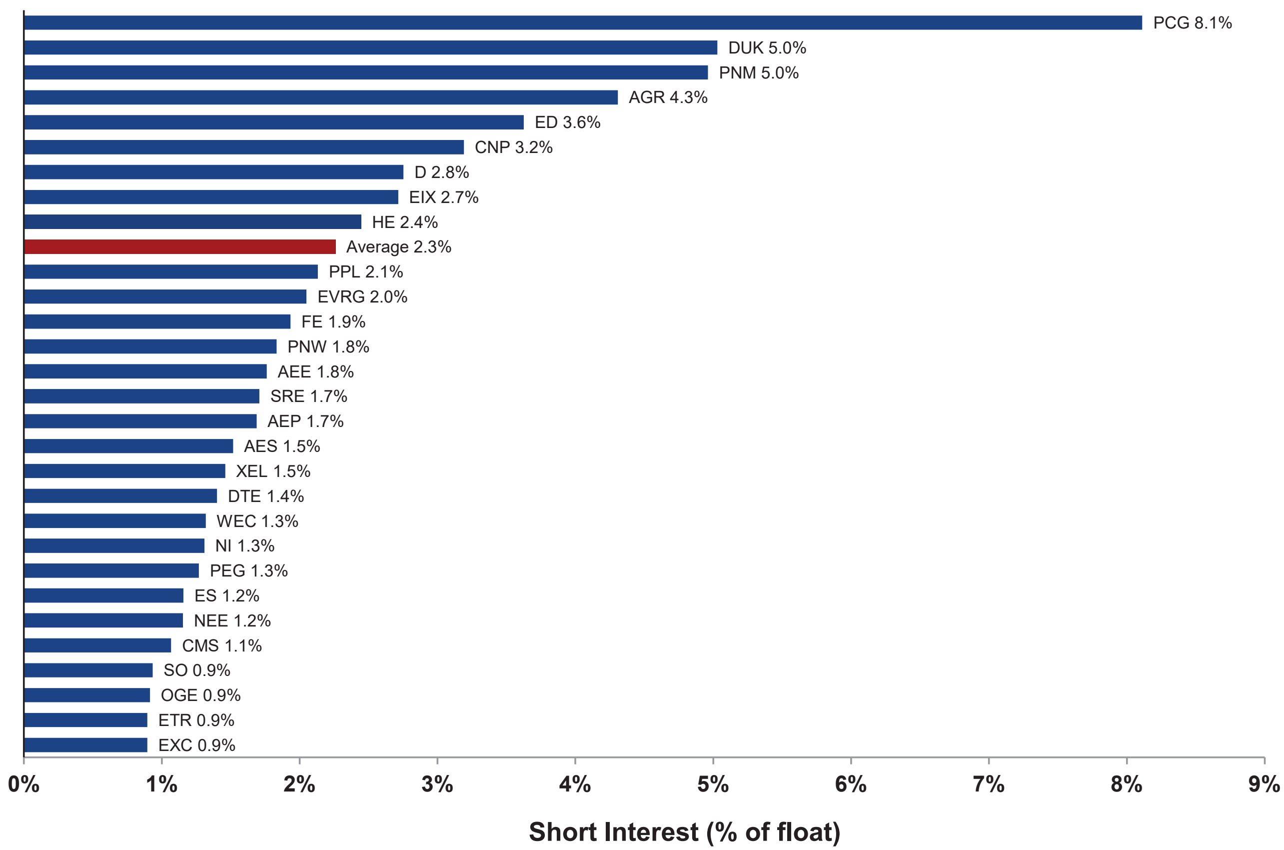
Region	Sept. cooling 2020 actual	Sept. cooling 2019 actual	Sept. cooling norm	% change vs. year-ago	% change vs. norm
New England	60	29	22	107%	173%
Middle Atlantic	79	79	59	0%	34%
NE Central	53	132	60	-60%	-12%
NW Central	76	198	87	-62%	-13%
South Atlantic	289	376	259	-23%	12%
SE Central	242	390	209	-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

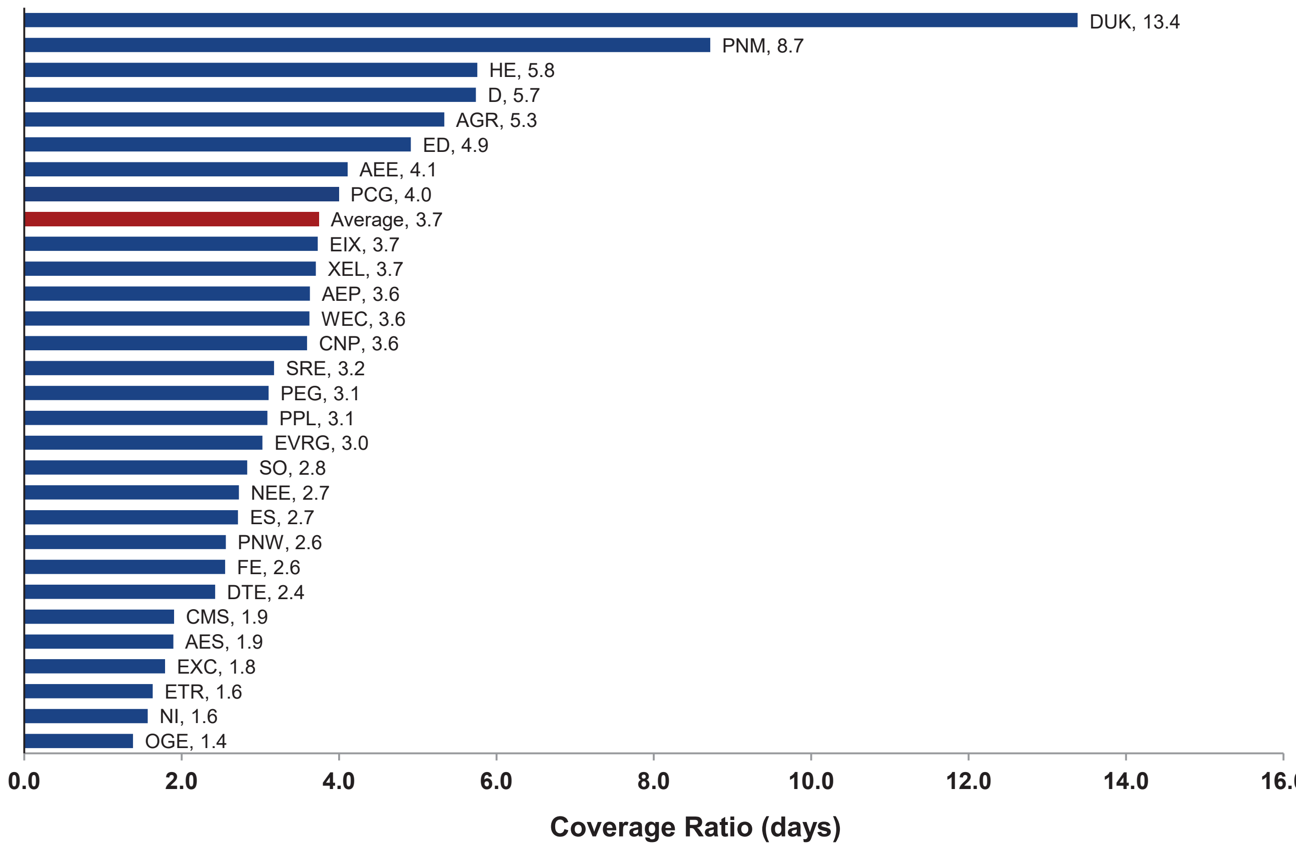
Short Interest as Percentage of Float



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

EVERCORE ISI

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 10/13/20			10 YR Baa	0.73% 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 10/13/20			10 YR Baa	0.73% 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%

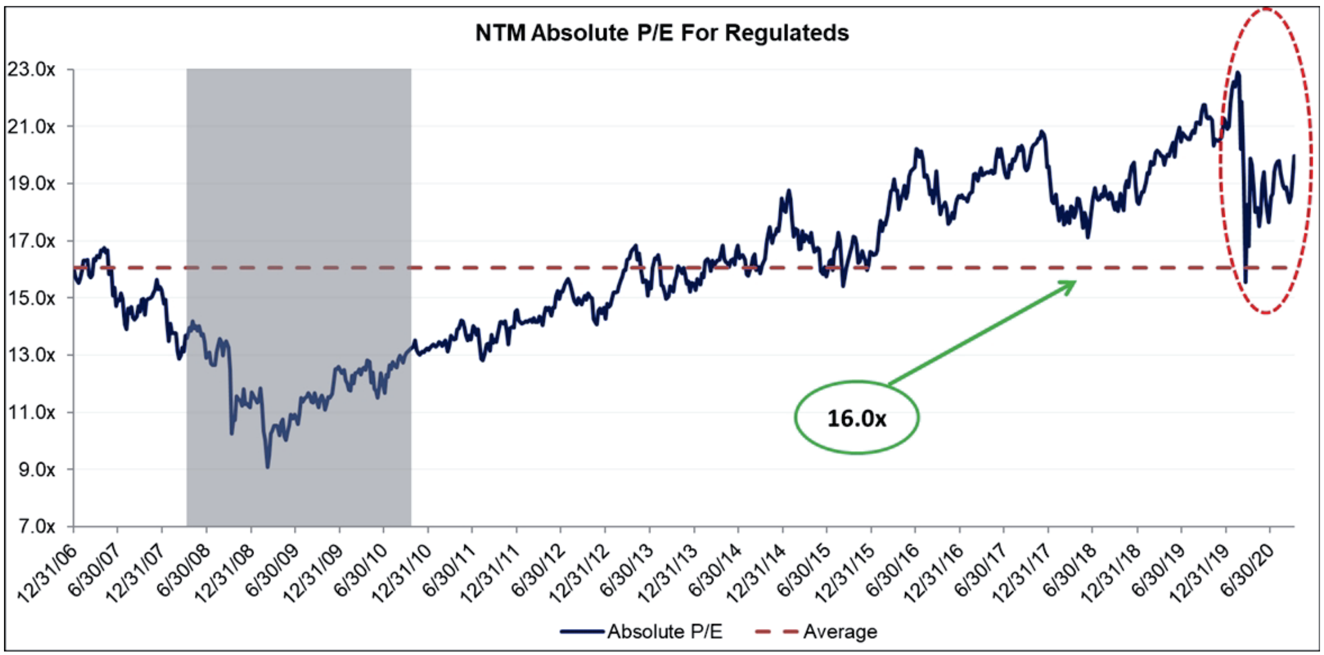
If rates stay unchanged for the next 12 months, regulated utilities now look ~7% inexpensive

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.

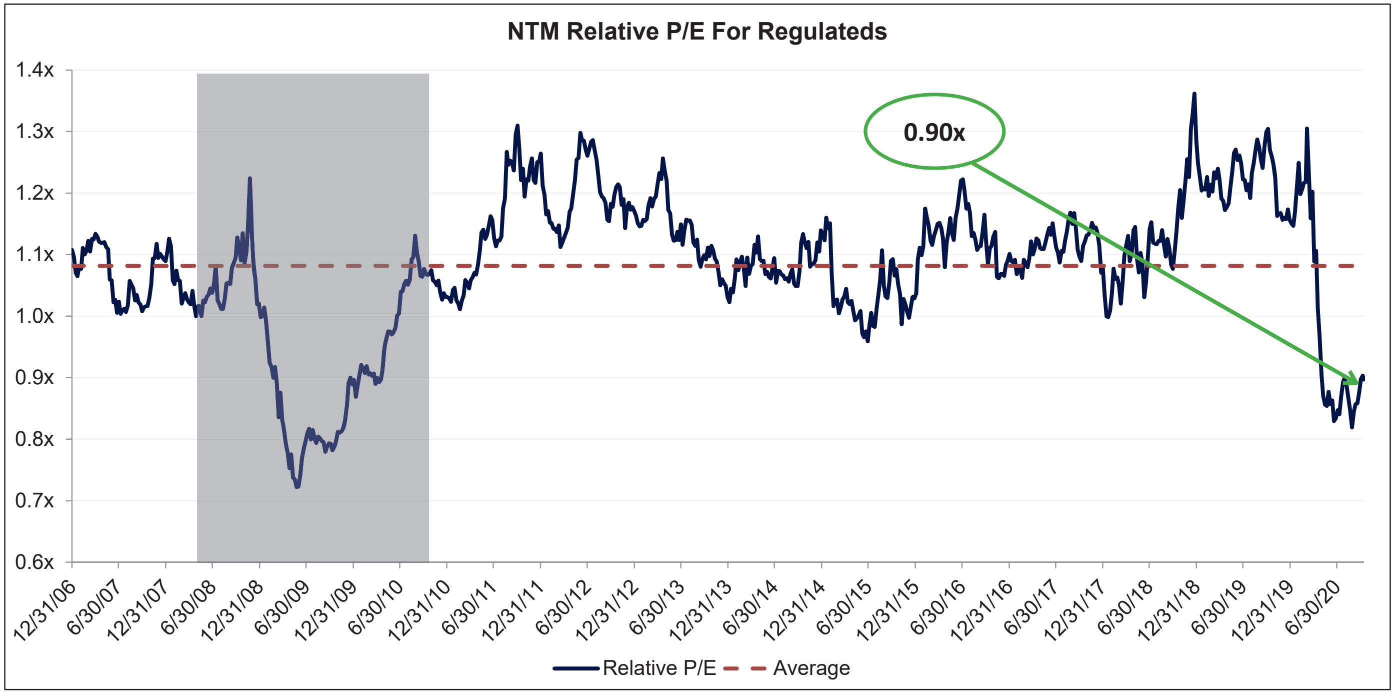


Updated as of 10/13/20

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

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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
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*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%

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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:

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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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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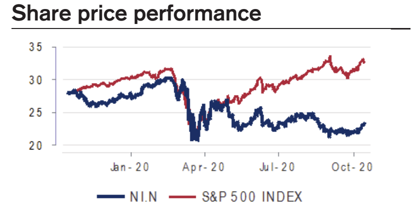
Share price performance



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

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

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15 October 2020

CREDIT SUISSE

NiSource Inc. (NI)

Analyst: **Michael Weinstein**
Rating: **Outperform**

Price (14 Oct 2020): **US$23.3**
Target Price: **26.00**

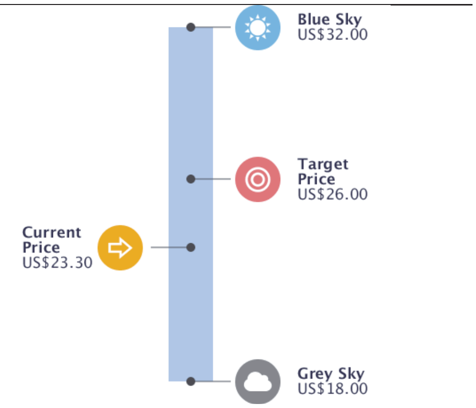
Income Statement	12/19A	12/20E	12/21E	12/22E
Revenue (US$ m)	**5,184.1**	**6,112.6**	**6,219.7**	**6,513.9**
EBITDA (US$ m)	**1,764**	**1,806**	**1,837**	**1,966**
Depr. & amort.	(717)	(779)	(812)	(843)
EBIT (US$)	**1,047**	**1,027**	**1,025**	**1,123**
Net interest exp	(377)	(418)	(415)	(444)
PBT (US$)	**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



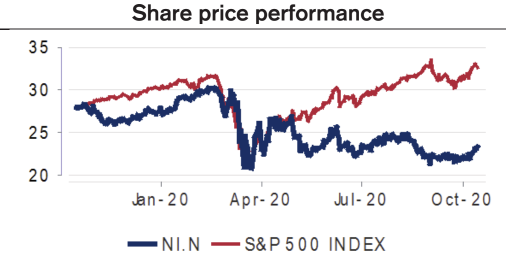
Our Blue Sky Scenario (US$) **32.00**

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



On 14-Oct-2020 the S&P 500 INDEX closed at 3488.67
Daily Oct16, 2019 - Oct14, 2020, 10/16/19 = US$27.97

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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 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 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

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

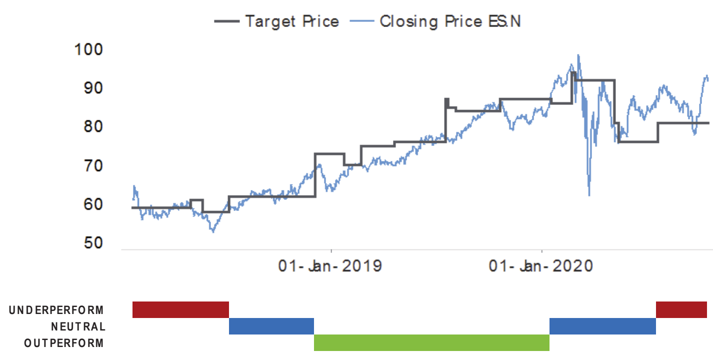
Analyst Certification

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	Closing Price	Target Price	
Date	(US$)	(US$)	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

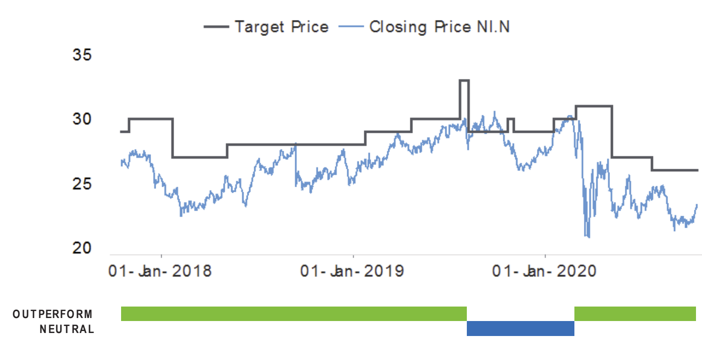
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N	Closing Price	Target Price	
Date	(US$)	(US$)	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.

TABLE OF CONTENTS

TABLE OF FIGURES

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	Earnings Per Share '21E	Earnings Per Share '22E	Price / Earnings '20E	Price / Earnings '21E	Price / Earnings '22E	Price / Earnings '20E	Price / Earnings '21E	Price / Earnings '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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- **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

 See pages 46 - 47 for analyst certification and important disclosures.

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

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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.

See pages 46 - 47 for analyst certification and important disclosures.

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

 See pages 46 - 47 for analyst certification and important disclosures.

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.

See pages 46 - 47 for analyst certification and important disclosures.

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

 See pages 46 - 47 for analyst certification and important disclosures.

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 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 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).

See pages 46 - 47 for analyst certification and important disclosures.

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 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.

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

 See pages 46 - 47 for analyst certification and important disclosures.

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

 See pages 46 - 47 for analyst certification and important disclosures.

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

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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.

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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 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.

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.

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) 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

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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.

See pages 46 - 47 for analyst certification and important disclosures.

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

See pages 46 - 47 for analyst certification and important disclosures.

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

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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			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

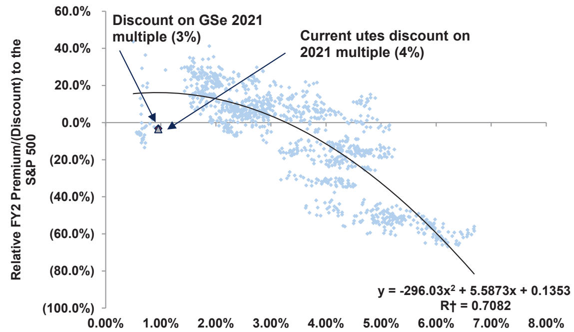
We come away from our 2020 Edison Electric Institute (EEI) meetings with management with two major themes:

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

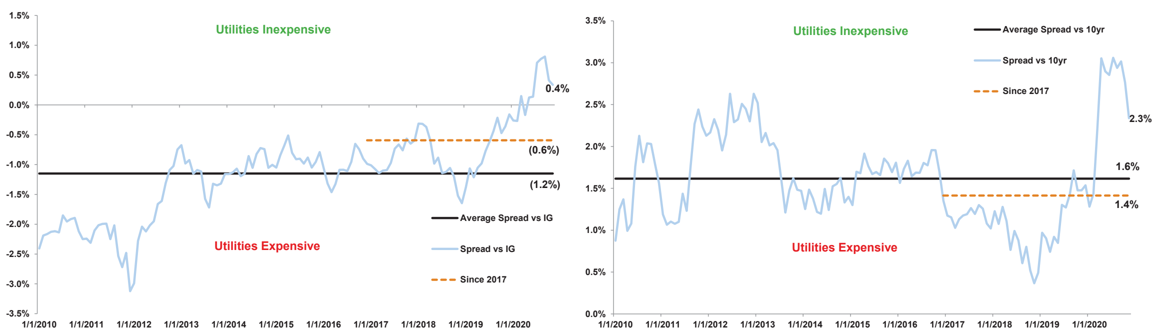
Utilities FY2 P/E premium/(discount) to the S&P vs UST 10-year yields



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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