



# MFIF

## TerraForm Power, Inc. (NASDAQ: TERP)

Analyst: Calvin Connor

**We recommend a market weight position on TERP's 4.75% Sr. Unsecured notes of 2030.** TerraForm Power, Inc. is an owner and operator of solar and wind assets in North America and Europe. The company produces cash flow stably through long-term power purchase agreements (PPA) with large-scale utilities and energy companies. TerraForm is sponsored by Brookfield Renewable Partners LP, who bought a majority stake in the company during SunEdison's bankruptcy proceedings. They have, on 01/13/20, offered to buy the remaining stock in TERP, a deal that we expect to go through. **Our market weight recommendation implies that we believe that upon Brookfield's successful buyout of the company, the 2030 notes will be tendered at a premium in the range of (T+280 to first call to T+250 to first call), which implies a price in the range of \$105.52-\$106.97,** in line with where the bonds are currently trading. Though we strongly believe that the offer from Brookfield will be accepted, **if the transaction is denied, we recommend an immediate short position to be taken on the 30s** as we believe market sentiment on the buyout has caused the notes to trade higher than our valuation, based off of their industry headwinds and relative value to competitors in the utilities sector.

Figure 1: Capitalization

TerraForm Power, Inc.						
LTM EBITDA, Leverage	577,909	11.6x				
2019E EBITDA, Leverage	591,220	11.32x				
2020E EBITDA, Leverage	653,852	10.24x				
Debt Outstanding (USD in thousands)						
Type	Maturity	Rate	Debt Outstanding	Leverage	Price	Yield
Revolver	10/05/24	4.27%	356,000		100.00	4.270%
Term Loan	11/08/22	4.04%	343,875		99.50	3.691%
*Permanent financing	Various	4.55%	3,557,646		N/A	N/A
*Bridge facility	09/23/20	3.09%	475,000		N/A	N/A
*Financing obligations	Various	5.85%	62,200		N/A	N/A
<b>Total Sr. Secured Loans</b>			<b>4,794,721</b>	<b>8.3x</b>		
Senior Notes due 2023	01/31/23	4.250%	500,000		102.95	3.096%
Senior Notes due 2028	01/31/28	5.000%	700,000		108.93	3.617%
Senior Notes due 2030	01/15/30	4.750%	700,000		104.64	4.053%
<b>Total Sr. Unsecured Bonds</b>			<b>1,900,000</b>	<b>11.6x</b>		
<b>Total Debt</b>			<b>6,694,721</b>	<b>11.6x</b>		
(-) Cash			344,504			
(+) Market Capitalization			4,471,633			
<b>Enterprise Value</b>			<b>10,821,850</b>	<b>18.73x</b>		

\* These senior secured loans are part of TERP non-recourse debt

Sources: Bloomberg, Company Filings

### Security Data

Bond Maturity: 01/15/30

Coupon: 4.750%

Rank: Sr. Unsecured

Rating: Ba3/BB-

Call Date(s): 01/15/25, 01/15/26,  
01/15/27, 01/15/2028

Price: \$104.96

YTW: 4.033%

Z-Spread: 278.2 bps

## Contents

- 1 Investment Thesis
- 2 Capitalization Table
- 3 Brookfield Acquisition
- 4 Precedent Transactions
- 5 Relative Value
- 6 Summary Model

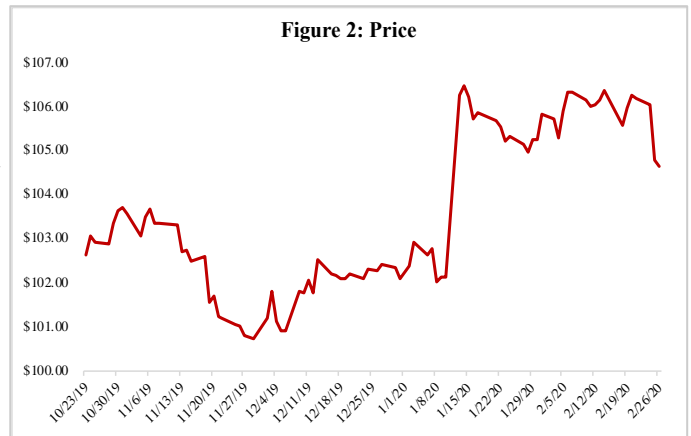
**Brookfield Renewable Partners (BEP) Acquisition**

BEP, a branch of Brookfield Asset Management, made an unsolicited offer on 01/13/20 to buy out the remaining ~35% stake of TerraForm Power that they do not currently own. The deal proposed by Brookfield values TERP at ~3.93 billion, or ~\$17.31 per share. This signifies an 11% premium to the stock price at the time of the offer.

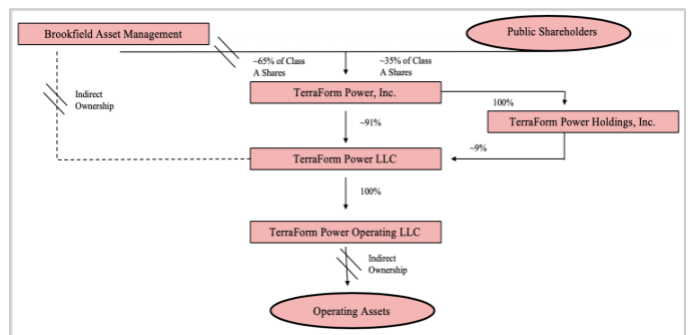
TERP has assembled a committee of non-executive, independent directors, to review and ultimately make a decision on how to proceed with the offer. (TERP's management team is exclusively comprised of executives inserted by Brookfield)

At the time of the offer the 30s traded up to ~\$106, from ~\$102, signifying the markets anticipation of the deal being successful. We agree with the market on the strong likelihood that the buyout will go through.

Upon Acquiring TERP, Brookfield would take them private, roll them up into their large renewable energy portfolio, and very likely refinance its debt at more favorable rates, as **BEP has stated in the past it tends to do with the companies they acquire, based on their ability to access low cost of capital.**



**Figure 3: Company Structure**



Sources: Bloomberg Terminal, Company Filings, MFIF Analysis

**Figure 4: GLBL 22s Tender Pricing**

	Date	Price
Tender	02/22/18	\$ 110.714
1st Call	08/15/18	\$ 107.313
2nd Call	08/15/19	\$ 104.875
3rd Call	08/15/20	\$ 102.438
4th Call	08/15/21	\$ 100.000
Maturity	08/15/22	\$ 100.000

**Figure 5: Expected TERP 30s Tender Pricing**

	Date	Price	Spread to First Call
Expected	N/A	\$ 105.52	T+280 bps
Tender Offer	N/A	\$ 105.81	T+275 bps
Range	N/A	\$ 106.97	T+250 bps
	Date	Price	Spread to Call
1st Call	01/15/25	\$ 102.38	T+301 bps
2nd Call	01/15/26	\$ 101.85	T+292 bps
3rd Call	01/15/27	\$ 100.79	T+284 bps
4th Call	01/15/28	\$ 100.00	T+280 bps
Maturity	01/15/30	\$ 100.00	T+286 bps

Sources: Bloomberg Terminal, Company Filings, MFIF Analysis

**Precedent Transaction Forecasting Tender Premium**

In order to find a range for an expected tender offer for TERP's 30s, we analyzed BEP's precedent transactions, with TerraForm Global (GLBL), TERP's sister company. In December of 2017, following the bankruptcy of Sun Edison, when BEP acquired 51% equity ownership in TERP, they also acquired 100% of TerraForm Global common stock and took it private. Two months after this transaction took place, BEP tendered GBLB's 22s at \$110.71 (801 MM outstanding) and refinanced the debt at a lower rate.

In our analysis of the covenants of GBLB's 22s and TERP's 30s, we discovered provisions that allow us to more accurately predict the premium offered on TERP's 30s if they are tendered. Although there is no outright covenant requiring a tender upon a change of control, the indentures of both TERP's 30s and GBLB's 22s have a provision regarding optional redemptions (40% and 35%, respectively) of the notes at any time before maturity for \$104.75 and \$109.75, respectively. We believe that this premium is significant because with this provision, bond holders are not likely to accept a tender offer at a price lower than this built in point. In 2018, when BEP tendered the GBLB 22s, they offered a ~100 bps premium to that redemption price. Knowing this, **we believe that the (anticipated) tender offer to be proposed on TERP's 30s will lie in the price range of \$105.52-\$106.97.**

## Catalysts

- TerraForm Power's committee of independent directors' acceptance of the terms of BEP's equity buyout offer
- Brookfield's announcement of a tender offer for the TERP 30s – likely to soon follow the acquisition

## Rel Val Offers Potential for Short if Offer is Denied

We utilized relative value analysis to create a recommendation in the case in which our main risk comes into fruition.

NRG Energy (NRG) and Clearway Energy (CWENA) are both also yieldco's, owning and operating power producing facilities (NRG mainly in gas, and CWENA in renewables) and generating cash through PPA's. NRG is the company that we believe to be the most attractive in relative to comps. It has ~7.5x less leverage than TERP, with ~200 MM more cash on their Balance Sheet, and with almost 3x TERP's FCF. NRG is very vocal about their initiatives to de-lever and achieve IG status, while TERP's management is very stockholder focused, anticipating increasing already high dividends ~5%-8% per annum. On a company level, out of these comps, TERP generates the lowest EBITDA while maintaining the highest gross and net leverage and only 5% FCF/Debt.

On an individual security level, TERP's 30s are trading ~7 bps wider than NRG's far superior 29s despite maturing a year later than the 29s, having almost triple the leverage, and offering a lower coupon payment. TERP's notes also, significantly, have the lowest spread per turn of leverage (~2.75x less than NRG's 29s)

As a result of this analysis we are confident that the market is overvaluing TERP's 30s because they are trading in line with NRG, a far superior credit, as a result of the expected tender offer anticipated by Brookfield if (when) they take control of TerraForm, as they quickly tightened ~95 bps following BEP's announcement.

We believe that **if the acquisition proposal is declined, the TERP 30s will widen ~60 bps. In this scenario we recommend an immediate short position to be taken on the notes.**

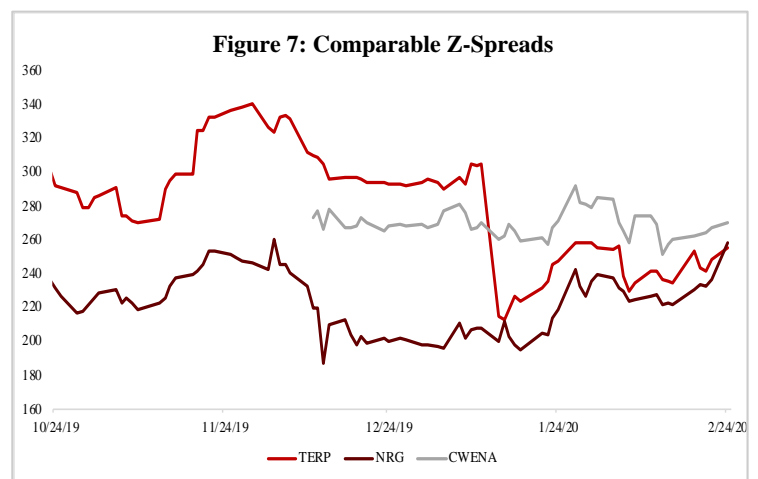
## Risks

- BEP's offer to purchase the remainder of TERP's equity is declined by TERP's special committee tasked with reviewing the proposal
- BEP successfully acquires TerraForm but becomes unable to tender the 30s
- BEP's terms on the tender offer are less attractive than our expectations

Figure 6: Comparable Companies

Comps (USD in Thousands)	TERP	NRG	CWENA
Market Cap	4,471,633	8,747,900	4,329,300
Debt	6,694,721	6,100,000	6,108,000
Cash	344,504	563,000	397,000
EV	10,821,850	14,284,900	10,040,300
LTM EBITDA	577,909	1,481,000	641,000
Debt/EBITDA	11.6x	4.1x	9.5x
Net Debt/EBITDA	11.0x	3.7x	8.9x
LTM FCF	346,744	917,000	255,000
FCF/Debt	5%	15%	4%
Individual Security Comps			
Bond Rating	Ba3/BB-	Ba2/BB	Ba2/BB
Coupon	4.750%	5.250%	4.750%
Maturity	01/15/30	06/15/29	03/15/28
Price	\$104.64	\$107.46	\$102.70
YTW	4.053%	3.913%	4.235%
Z-Spread	284.7 bps	278.1 bps	307.9 bps
Leverage	11.6x	4.1x	9.5x
Spread/Turn of Leverage	24.58 bps	67.52 bps	32.31 bps

Sources: Bloomberg Terminal, Company Filings, MFIF Analysis



Sources: Bloomberg Terminal

Figure 8: Summary Model

TerraForm Power, Inc. (TERP)									
EOP Date	12/31/17	12/31/18	03/31/19	06/30/19	09/30/19	12/31/19	12/31/19	12/31/20	12/31/21
Fiscal Year	2017A	2018A	Q119	Q219	Q319	Q419	2019E	2020E	2021E
<b>Income Statement (USD in thousands)</b>									
Operating revenues, net	610,471	766,570	225,332	255,366	253,808	239,939	974,445	1,071,889	1,125,484
% growth	-7%	26%	77%	42%	3%	13%	27%	10%	5%
Cost of operations	150,733	220,907	60,751	71,575	75,037	71,982	282,589	300,129	303,881
Cost of operations - affiliate	17,601	-	-	-	-	-	-	-	-
G&A	139,874	87,722	23,162	22,057	15,397	23,994	87,700	96,470	101,294
G&A - affiliate	13,391	16,239	5,164	6,159	7,764	4,799	19,489	21,438	22,510
Acquisition costs	-	7,721	182	293	963	479	1,917	-	-
Depreciation, accretion and amortization	246,720	341,837	106,969	100,354	114,282	105,573	428,756	482,350	506,468
Total operating costs and expenses	569,748	696,591	196,228	200,438	213,443	206,827	820,451	900,387	934,151
Operating income	40,723	69,979	29,104	54,928	40,365	33,112	153,994	171,502	191,332
Interest expense, net	262,003	249,211	86,287	71,041	89,393	89,393	336,114	350,000	350,000
Loss (gain) on extinguishment of debt, net	81,099	1,480	(5,543)	-	1,355	-	(4,188)	-	-
Loss (gain) on foreign currency exchange, net	(6,061)	(10,993)	(8,752)	(6,440)	10,975	-	(4,217)	-	-
Other (income) expenses, net	(5,017)	(4,102)	(2,680)	1,485	(557)	(584)	(2,336)	-	-
Total other expenses, net	296,667	235,596	69,312	66,086	101,166	88,809	325,373	350,000	350,000
Loss before income tax expense	(255,944)	(165,617)	(40,208)	(11,158)	(60,801)	(55,697)	(171,379)	(178,498)	(158,668)
Income tax expense	(19,641)	(12,290)	(4,151)	5,669	1,512	-	3,030	-	-
Net (loss) income	(236,303)	(153,327)	(36,057)	(16,827)	(62,313)	(55,697)	(174,409)	(178,498)	(158,668)
<b>EBITDA Reconciliation (USD in thousands)</b>									
Net income (loss)	(236,303)	(153,327)	(36,057)	(16,827)	(62,313)	(55,697)	(174,409)	(178,498)	(158,668)
(+) Depreciation, accretion and amortization	246,720	341,837	106,969	100,354	114,282	105,573	428,756	482,350	506,468
(+) Interest expense	262,003	249,211	86,287	71,041	89,393	89,393	336,114	350,000	350,000
(+) Income tax (benefit) expense	(19,641)	(12,290)	(4,151)	5,669	1,512	-	3,030	-	-
(+) Acquisition and related cost, including affiliate	-	14,646	182	293	963	479	1,917	-	-
(+) Impairment charges	1,429	15,240	-	-	-	-	-	-	-
(+) Loss on extinguishment of debt	81,099	1,480	(5,543)	-	1,355	-	(4,188)	-	-
Adjusted EBITDA	335,307	456,797	147,687	160,530	145,192	139,748	591,220	653,852	697,800
% of revenue	55%	60%	66%	63%	57%	58%	61%	61%	62%
<b>Statement of Cash Flows (USD in thousands)</b>									
Net (loss) income	(236,303)	(153,327)	(36,057)	(16,827)	(62,313)	(55,697)	(174,409)	(178,498)	(158,668)
Depreciation, accretion and amortization	246,720	341,837	106,969	100,354	114,282	105,573	428,756	482,350	506,468
Amortization of favorable and unfavorable rate revenue contracts, net	39,576	38,767	9,138	9,716	9,791	9,548	38,193	38,193	38,193
Amortization of deferred financing costs, debt premiums and discounts, net	23,729	11,009	2,453	1,690	3,577	-	7,720	-	-
Stock-based compensation expense	16,778	257	160	43	265	-	468	-	-
(Gain) loss on extinguishment of debt, net	81,099	1,480	(5,543)	-	1,355	-	(4,188)	-	-
Net working capital:									
Accounts receivable	(2,939)	12,569	(9,058)	(12,347)	(10,793)	26,954	(5,244)	1,875	1,875
Prepaid expenses and other current assets	803	(5,512)	10,345	(2,044)	977	(1,875)	7,403	(1,473)	(1,473)
Accounts payable, accrued expenses and other current liabilities	(42,736)	(18,976)	(1,888)	2,613	4,513	(19,714)	(14,476)	(19,336)	(19,336)
Due to affiliates, net	3,968	3,023	(535)	1,777	576	606	2,424	2,354	2,354
Other, net	29	33,822	4,893	7,410	10,268	7,524	30,095	-	-
Net cash provided by operating activities	67,197	253,201	84,999	91,488	91,716	72,919	339,184	325,465	369,413
Capital expenditures	(8,392)	(22,445)	(7,368)	(3,254)	(5,886)	(5,503)	(22,011)	(125,000)	(250,000)
Net cash provided by investing activities	206,272	(858,998)	(3,803)	10,245	(737,325)	(5,503)	(736,386)	(125,000)	(250,000)
Revolver draws	265,000	679,000	50,000	33,000	326,500	-	409,500	-	-
Revolver repayments	(757,000)	(362,000)	(15,000)	(255,000)	(160,500)	-	(430,500)	-	-
Term Loan principle payments	-	(3,500)	(875)	(875)	(875)	(875)	(3,500)	(3,500)	(3,500)
Borrowings of non-recourse long-term debt	79,835	236,251	-	179,409	132,644	-	312,053	-	-
Principle payments and prepayments on non-recourse long-term debt	(569,463)	(259,017)	(50,194)	(96,433)	(39,702)	-	(186,329)	-	-
Debt financing fees paid	(29,972)	(9,318)	(1,197)	(8,838)	(5,937)	-	(15,972)	-	-
Payment of dividends	(285,497)	(135,234)	(41,987)	(41,992)	(41,717)	(41,899)	(167,595)	(181,002)	(195,482)
Net cash provided by financing activities	(789,513)	782,501	(59,794)	(196,192)	679,775	(48,508)	375,281	(200,714)	(215,194)
Net (decrease) increase in cash, cash equivalents and restricted cash	(516,044)	176,704	21,402	(94,459)	34,166	18,908	(21,921)	(248)	(95,781)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	3,188	(8,682)	(4,377)	2,144	(7,181)	-	(9,414)	-	-
Cash, cash equivalents and restricted cash at beginning of period	682,837	224,787	392,809	409,834	317,519	344,504	392,809	361,474	361,226
Cash, cash equivalents and restricted cash at the end of period	224,787	392,809	409,834	317,519	344,504	363,412	361,474	361,226	265,445
<b>Balance Sheet Summary (USD in thousands)</b>									
Debt	3,598,800	5,761,845	5,707,070	5,601,562	6,260,443	6,694,721	6,694,721	6,694,721	6,694,721
Cash	224,787	392,809	409,834	317,519	344,504	363,412	361,474	361,226	265,445
Net debt	3,374,013	5,369,036	5,297,236	5,284,043	5,915,939	6,331,309	6,333,247	6,333,495	6,429,276
<b>Leverage Metrics</b>									
Debt/LTM EBITDA	10.7x	12.6x	10.5x	9.4x	10.8x	11.3x	11.3x	10.2x	9.6x
Net debt/LTM EBITDA	10.1x	11.8x	9.7x	8.8x	10.2x	10.7x	10.7x	9.7x	9.2x
<b>Free Cash Flow Reconciliation (USD Thousands)</b>									
Cash flow from operations	67,197	253,201	84,999	91,488	91,716	72,919	339,184	325,465	369,413
(-) Capital expenditures	(8,392)	(22,445)	(7,368)	(3,254)	(5,886)	(5,503)	(22,011)	(125,000)	(250,000)
Free cash flow	58,805	230,756	77,631	88,234	85,830	67,416	317,174	200,465	119,413
FCF/Debt	2%	4%	1%	2%	1%	1%	5%	3%	2%