



Sunnova Energy International Inc

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Investment Thesis

We recommend an overweight position of Sunnova Energy's 5.875% 2026 senior notes. NOVA is an American renewable energy company that operates across multiple renewable segments, including solar and battery. Founded in 2012, NOVA operates in 34 states across the country, as well as 3 US territories. Their dealer base consisted of 814 at YE2021 and is expected to surpass 1,000 by YE2022. We believe that NOVA's unique position across renewable segments will allow them to capitalize on an increase in demand for alternative energy in a way that their competitors cannot. Furthermore, this increased demand and growing revenue will allow NOVA to improve their scale, lowering input and operational costs in relation to revenue. While the company is providing optimistic guidance for the upcoming FY, increasing customer growth and sticky revenues, coupled with improving margins will result in a ratings upgrade by aligning with Moody's grading criteria. **We believe that the market is overcompensating for NOVA's relatively poor performance in relation to competitors, but their ability to capitalize in a shift in demand from traditional energy sources towards renewables across segments, furthering increasing scale and margins will result in an upgrade in NOVA's creditworthiness from Moody's will cause the spread on NOVA's 5.875% 2026 senior notes to tighten by ~75-100 bps by YE23.**

Figure 1: Capitalization Table

Sunnova Energy International Inc (NOVA) (\$ in thousands)						
LTM Adj. EBITDA	47,400				Debt/EV	66.62%
Outstanding Debt and Leverage Metrics						
Type	Rate	Maturity	Outstanding	xEBITDA	Price	YTW
1st Lien Secured Loans			1,078,441	22.75x		
Solar ABS notes			1,082,241	22.83x		
Senior Unsecured Bonds						
2026 senior unsecured notes	5.875%	9/1/26	400,000		92.996	7.833%
2026 convertible notes	0.250%	12/1/26	575,000		76.801	6.243%
Total unsecured notes			975,000	20.57x		
Total Debt			3,135,681	66.15x		
Market Capitalization			1,814,500			
Less: Cash			243,101			
Enterprise Value			4,707,080	99.31x		

Source: Bloomberg, Company Filings, MFIF Analysis

MFIF

Minutemen Fixed Income Fund

Security Data

Bond Maturity: 9/1/2026

Rating: B-/B1

Rank: Senior

Price: 92.882

YTW: 7.833%

Call Date: 9/1/2023

Coupon: 5.875

Dirty OAS: 499.5

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Industry Overview

The global renewable energy market was valued at \$881.7B in 2020 and is projected to reach \$1,977.6B by 2030 at a CAGR of 8.4%. In 2021, after a record 2020, capacity installations for renewable energy sources remained at record highs. Wind and solar capacity additions over the first 8 months on 2021 sat at 13.8 GW, a 28% increase y/y for the same period. A shift in focus towards ESG considerations and a rising concern over climate change may accelerate the demand for cleaner energy sources, along with potential legislation backed by the Biden Administration.

Company Overview

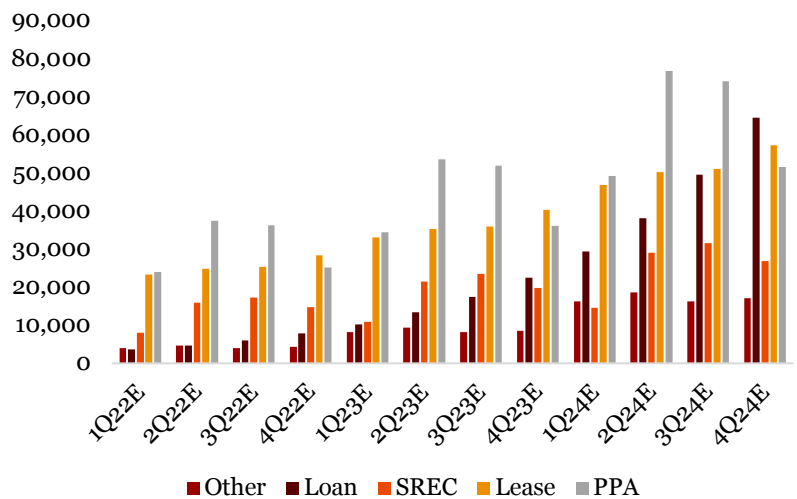
Sunnova Energy (NOVA) is a renewable energy company that was founded in 2012 and is headquartered in Houston, TX. The company went public in July of 2019, and most of the company’s debt is held by banks. Sunnova operates across a few segments within renewable energy, with a couple of the categories overlapping. They supply solar energy, batteries, EV chargers, and solar protection services. Much of NOVA’s revenue is sticky, with customers typically locked in contracts between 10 and 25 years in duration.

Investment Rationale and Catalysts

Positioning across renewable energy segments allows NOVA to capitalize on growth in alternative energy demand

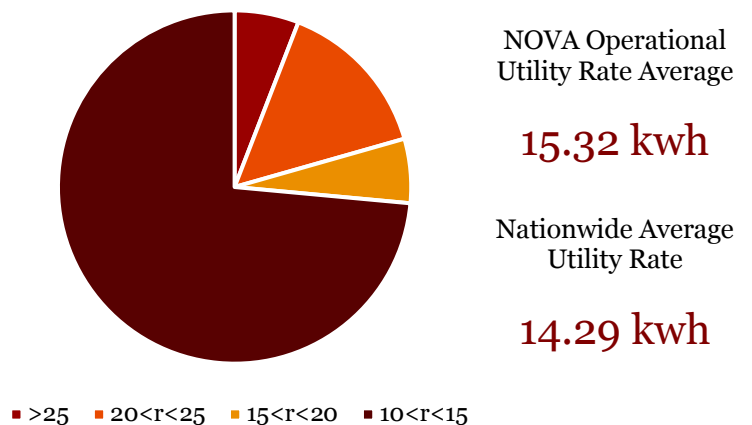
As the Russia-Ukraine conflict persists, exacerbating the cost of traditional, unsustainable energy, alternative energy sources are set to see a quicker growth in demand. In comparison to competitors, NOVA holds a unique positioning to capitalize on this demand by operating across multiple segments including solar and EV batteries. These cash flows appear under NOVA’s PPA & Lease revenue segments, have base case scenario growth rates of 33% and 36.5%, sitting right around their y/y averages. For both cases, customers are locked into contracts of either 10, 20, or 25 years. The average remaining life on NOVA’s existing contracts is 22.4 years. In 1Q22, NOVA expects \$384M in cash flows from its existing customer base, resulting in a \$1.8B of sticky revenues being amassed before the bond matures at the beginning of 3Q26. The segments that are poised for the highest growth are revenue streams from battery related products. NOVA services three battery related products, the Solar + Battery Storage Service (Lease & Loan) and the Add-on Battery Service (Loan). Energy storage systems, particularly for those that can power EVs, will see a greater growth in demand as higher commodity prices remain at higher levels and it becomes more advantageous for the consumer to capture and store renewable sources of energy. Utility rates have seen a 21% increase y/y, with the upside being as high as 40%. When utility rates grow, battery sales grow as well with households looking for alternative, renewable sources of energy that can be captured to power their households. Of the 35 states with the highest utility rates measured by kilowatt-hour, NOVA is operational within 31 of them. They are only operational in 3 of the bottom 15 states.

Figure 2: Projected Revenue Growth FY22 – FY24



Source: MFIF Analysis

Figure 3: Operations by Utility Rate



Source: EIA, Company Filings

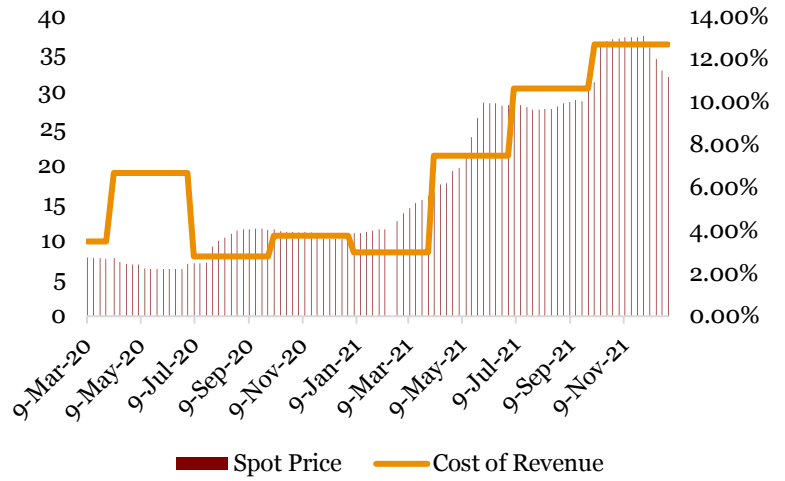
Profit acceleration allows for NOVA to improve scale and margins

NOVA has traditionally has a much lower, often negative, operating margin in comparison to other alternative energy companies, sitting at around -45%, but made significant strides in improving margins in the 2H21, decreasing operational expenses per customer by 15% in FY21. This figure could have been favorable if not for the elevated cost of Polysilicon, which more than doubled during 2H21. Bloomberg forecasts that Polysilicon supply will elevate during 2H22. As a result, cost of revenue, one of NOVA’s operational expenses, will ease in the same time frame. Comps VST and NEP operate at higher margins, sitting between ~10% to ~30%. With higher revenue growth which will accelerate in the coming years, NOVA will see itself entering a positive operational position in 2Q23. Both comps have traditionally relatively stagnant revenue growth and little room to improve margins and for growth as in comparison to NOVA. NOVA is operational and has recently established themselves in regions that are geographically continuous and that have higher utility rates, allowing them to operate at more favorable margins across the board. NOVA is also recently added a solar repairs service to capitalize on solar customers that have been abandoned by their supplier, in addition to their existing customer base. This segment is estimated to operate at a 50% gross margin, offering NOVA another, more profitable revenue stream.

Credit rating upgrade on the back of growth and key metric improvements

NOVA currently has a credit rating of B- from Standard & Poor’s and is B1 according to Moody’s. In looking at NOVA’s comps, many are rated in the BB+/Ba range. In part, NOVA’s poor leverage ratio is due to them taking on ~\$1.2B in additional long-term debt during FY2021. This has resulted in an inflated leverage ratio, which will gradually decrease as NOVA issues more non-recourse debt but greater increase EBITDA. By YE2024, debt is projected to be just over \$8B. This growth in debt will be outpaced by EBITDA growth, which is set to grow from ~\$42M to ~\$215M in the same time frame, with a CAGR of 72.3%, compared to debt growing at a CAGR of 36.85%. In 2Q23 NOVA will reach a profit turn inflection point in which operations will become profitable. These improvements fall in line with Moody’s guidance for credit upgrades for renewable companies. This faster than anticipated EBITDA growth, almost doubling on a y/y basis, will move NOVA out of the B range, as an investment “subject to high credit risk,” into the Ba range, where obligations are “subject to substantial credit risk”. Moody’s has five

Figure 3: Polysilicon Spot Price & Cost of Revenue



Source: Company Filings

Figure 5: Operating Margins

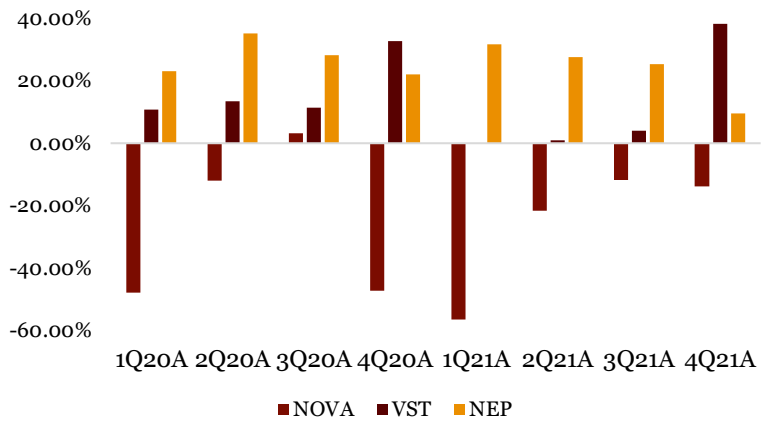
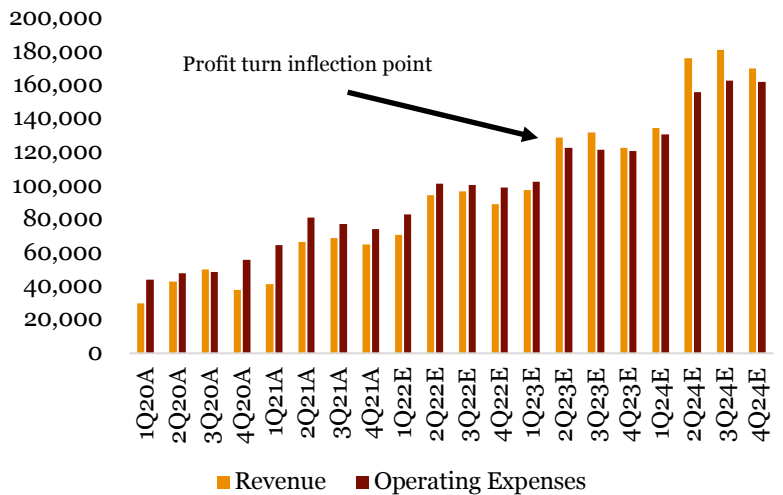


Figure 5: Revenue & Operating Expenses



Source: Company Filing, MFIF Analysis

main criteria for rating renewable energy companies, and of the five NOVA will make significant improvements in three of them: scale, profitability and efficiency, and leverage and coverage. Of the five broken down, scale along with leverage and coverage accounts for 60% of the total weighting, with revenue accounting for 20%. Leverage and EBIT ratios take up the other 40% of Moody's breakdown. NOVA is set to make significant progress on all those fronts. Leverage is set to improve to 37.28% by YE2024, with EBIT Margin growing from 4.65% to ~24% in the same time frame. Similarly, revenue to grow to ~\$480M from ~\$662M. Healthy growth in key metrics arriving in an accelerated manner will see a ratings upgrade from Moody's by YE2023.

Risks

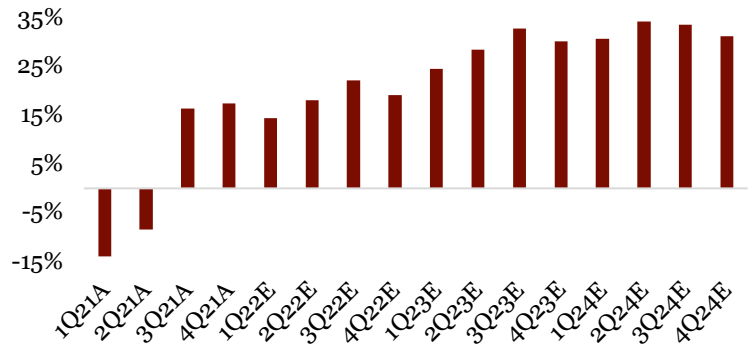
- NOVA is in part dependent on a dealer network for growth. Loss of key partners would hinder revenue projections
- Residential solar could shift towards an outright purchasing model, shrinking revenue growth from the lease segment
- Adverse performance could see NOVA dip into the market for debt, putting a strain on their leverage ratio

Relative Valuation

We believe the market is not accurately pricing NOVA's 2026 senior unsecured notes due to poorer performance in terms of key metrics in relation to comparable renewable energy and solar companies and bottom-line performance. Compared to both VST's and NEP's 2026 notes, NOVA's notes are trading ~300 bps wider. Since 4/1, the spread on NOVA's 2026s have widened by ~45 bps, while during the same time frame the spread on AY's 2028s have tightened by ~23 bps and VST's 2026s have tightened by ~29 bps, respectively. VST also holds a far worse FCF over LTM, at -\$1.24B, while NOVA has a FCF of -\$764M, despite still being in a growth stage. VST has stagnant revenue growth compared to NOVA, despite burning through far more cash. We believe this is unjustifiable, even considering NOVA's strained financials. NOVA has a daunting debt structure, but most of their 1st Lien Loans of Solar ABS notes mature after 2040. With steady cash flows and strong EBITDA growth from ~\$41M in FY2021 to ~\$140M at a CAGR of 49.5% per year by YE23, we expect NOVA to be fully able to service their interest payments and that the spread on their 2026 non-convertible notes will tighten by 75 – 100 bps by YE23.

MINUTEMEN FIXED INCOME FUND

Figure 7: EBIT Margin



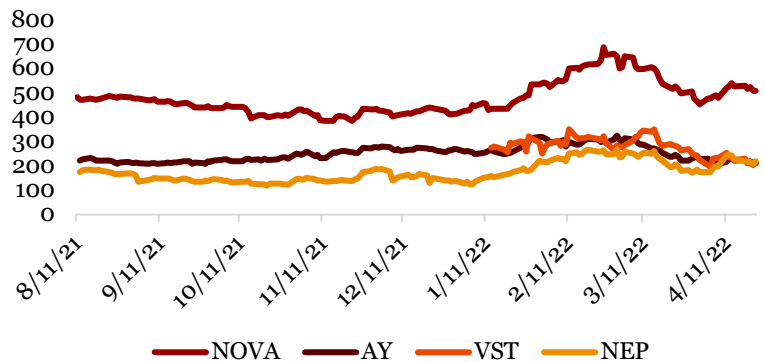
Source: Company Filings, MFIF Analysis

Figure 7: Comparable Company Analysis

Comps (USD in millions)	NOVA	AY	VST	NEP
Market Cap	2,668.0	3,906.6	11,179.2	5,859.1
Debt	3,335.0	5,410.7	10,774.0	5,414.0
Cash	243.1	830.1	1,325.0	168.0
Enterprise Value	6,143.1	8,693.4	20,628.2	11,105.1
Interest Expense	116.2	361.3	384.0	457.0
FCF (LTM)	-763.8	505.6	-1,239.0	158.0
Revenue (LTM)	241.8	1,211.7	12,077.0	1,018.0
EBITDA, Adj (LTM)	47.4	793.3	1,436.0	645.0
Debt/EBITDA (LTM)	66.14x	6.8	7.50x	8.39x
EBITDA Margin	19.6%	65.5%	11.9%	63.4%
EV/EBITDA	129.60x	10.96x	14.37x	17.22x
EBITDA/Interest (LTM)	0.4	2.2	3.7	1.4
Debt/FCF (LTM)	-4.1	10.7	-8.7	34.3
Individual Security Comps				
Maturity	9/1/26	6/15/28	9/1/26	10/15/26
Coupon	5.875	4.125	5.500	3.875
Rating	B-/B1	BB+/BB+	BB/BB+/Ba2	BB/BB+/Ba1
YTW	7.833%	9.952%	5.360%	4.912%
OAS Spread	502.2 bps	195.1 bps	184.0 bps	203.9 bps
Spread/Turn of Leverage	7.6 bps	24.5 bps	24.3 bps	24.3 bps

Source: Bloomberg Terminal, Company Filings

Figure 8: OAS Spread



Source: Bloomberg Terminal

Summary Model

Sunnova Energy International Inc (NOVA) (\$ in thousands)																	
Fiscal Year	FY2020A	FY2021A	1Q22E	2Q22E	3Q22E	4Q22E	1Q23E	2Q23E	3Q23E	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	FY2022E	FY2023E	FY2024E
EOB	12/31/20	3/31/21	3/31/22	6/30/22	9/30/22	12/31/22	3/31/23	6/30/23	9/30/23	12/31/23	3/31/24	6/30/24	9/30/24	12/31/24	12/31/22	12/31/23	12/31/24
Income Statement																	
Revenue	160,820	241,752	70,794	94,450	96,563	89,068	97,331	128,751	131,924	122,662	134,510	176,376	181,208	169,959	271,270	480,668	664,052
% change	50.32%	71.51%	41.91%	40.15%	36.99%	37.48%	37.48%	36.32%	36.62%	37.72%	38.20%	36.99%	37.36%	38.56%	12.21%	77.19%	37.74%
Total operating expense, net	196,598	296,642	82,922	101,182	100,608	99,159	102,313	122,863	121,525	120,671	130,616	155,832	162,816	162,072	383,872	467,373	611,335
Operating income (loss)	(35,778)	(54,890)	(12,127)	(6,732)	(4,046)	(10,091)	(4,982)	5,887	10,399	1,991	3,894	20,544	18,392	7,887	(112,601)	13,295	50,717
Interest expense, net	154,580	116,248	16,839	42,273	16,839	42,273	16,839	42,273	16,839	42,273	16,839	42,273	16,839	42,273	118,224	118,224	118,224
Interest income	(23,741)	(34,228)	(10,759)	(11,620)	(12,549)	(13,553)	(14,637)	(15,808)	(17,073)	(18,439)	(19,914)	(21,507)	(23,228)	(25,086)	(48,481)	(65,958)	(89,735)
Other	141,020	516	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gain (loss) before income tax	(307,637)	(24,064)	(18,207)	(37,385)	(8,335)	(38,811)	(7,184)	(20,577)	10,634	(21,843)	6,969	(222)	24,781	(9,300)	(102,739)	(38,971)	22,228
Income tax expense	181																
Net Income (loss)	(307,818)	(147,510)	(18,207)	(37,385)	(8,335)	(38,811)	(7,184)	(20,577)	10,634	(21,843)	6,969	(222)	24,781	(9,300)	(102,739)	(38,971)	22,228

Balance Sheet																	
Cash	209,859	243,101	410,794	540,015	699,544	797,832	1,336,844	1,550,013	1,781,430	1,966,868	1,605,664	1,226,885	862,614	457,692	797,832	1,966,868	457,692
Total current assets	456,655	615,742	824,515	999,496	1,210,021	1,365,160	1,935,875	2,182,583	2,449,485	2,672,471	2,351,004	2,014,283	1,694,532	1,332,698	1,365,160	2,672,471	1,332,698
Property and equipment, net	2,323,169	2,699,613	3,112,538	3,329,395	3,560,853	3,807,501	4,064,327	4,322,507	4,591,393	4,867,996	5,152,725	5,445,640	5,746,999	6,056,739	3,807,501	4,867,996	6,056,739
Customer notes receivable, net of allowance	543,386	1,294,073	1,324,480	1,456,928	1,602,621	1,762,883	1,851,027	1,943,379	2,040,758	2,142,796	2,249,935	2,362,432	2,480,554	2,604,581	1,762,883	2,142,796	2,604,581
Other noncurrent assets	294,372	774,806	841,250	904,075	938,628	974,910	1,013,005	1,053,005	1,095,006	1,139,106	1,162,259	1,185,990	1,210,315	1,235,248	974,910	1,139,106	1,235,248
Total assets	3,587,582	5,504,234	6,102,783	6,689,894	7,312,123	7,910,454	8,861,235	9,501,674	10,176,552	10,822,369	10,915,923	11,008,345	11,132,310	11,229,257	7,910,454	10,822,369	11,229,257
Total Liabilities	2,306,901	746,940	4,488,328	5,100,313	5,717,366	6,339,915	7,282,120	7,926,116	8,571,977	9,219,785	9,284,928	9,354,415	9,428,590	9,507,827	5,926,729	8,727,123	8,844,571
Net debt	382,248	400,967	802,647	864,632	931,685	1,004,234	1,046,439	1,090,435	1,136,296	1,184,104	1,249,247	1,318,734	1,392,909	1,472,146	591,048	691,442	808,890

Statement of Cash Flows																	
Cash from operating activities	(28,890)	(62,383)	(47,710)	(60,140)	(1,380)	(32,274)	(5,883)	(19,337)	11,829	(20,668)	46,567	43,292	72,556	47,165	(141,504)	(34,059)	209,580
CapEx	(138,514)	(210,497)	(225,239)	(240,702)	(256,909)	(273,769)	(282,721)	(291,963)	(301,615)	(311,710)	(322,073)	(332,731)	(343,714)	(355,069)	(996,619)	(1,188,009)	(1,353,587)
Cash used in investing activities	(235,244)	(394,035)	(343,646)	(373,150)	(402,602)	(434,031)	(370,865)	(384,515)	(398,794)	(413,748)	(429,213)	(445,227)	(461,836)	(479,097)	(1,555,429)	(1,567,922)	(1,815,373)
Cash from financing activities	431,118	328,046	915,760	617,021	618,382	619,853	21,441	23,157	25,009	27,010	431,118	328,046	25,009	27,010	2,251,664	2,771,016	96,617
Net change in cash	166,984	(128,372)	522,404	183,731	214,401	153,548	(355,306)	(380,696)	(361,956)	(407,406)	48,473	(73,889)	(364,271)	(404,923)	554,731	1,169,036	(1,509,176)
FCF	(709,835)	(763,771)	(288,604)	(311,301)	(289,786)	(332,378)	(275,505)	(289,439)	(271,158)	(307,905)	(275,505)	(289,439)	(271,158)	(307,905)	(1,138,123)	(1,222,068)	(1,144,007)

EBITDA Reconciliation																	
Net Income	(307,818)	(147,510)	(18,207)	(37,385)	(8,335)	(38,811)	(7,184)	(20,577)	10,634	(21,843)	6,969	(222)	24,781	(9,300)	(102,739)	(38,971)	22,228
(+) interest expense	154,580	116,248	16,839	42,273	16,839	42,273	16,839	42,273	16,839	42,273	16,839	42,273	16,839	42,273	118,224	118,224	118,224
(+) interest income	(23,741)	(34,228)	(10,759)	(11,620)	(12,549)	(13,553)	(14,637)	(15,808)	(17,073)	(18,439)	(19,914)	(21,507)	(23,228)	(25,086)	(48,481)	(65,958)	(89,735)
(+) income tax	181																
(+) depreciation	58,421	85,600	22,313	23,845	25,451	27,121	28,895	30,784	32,819	35,016	37,344	39,816	42,444	45,249	98,731	127,514	164,854
(+) amortization	24,716	21,771															
EBITDA	(93,651)	42,141	10,186	17,113	21,405	17,030	23,912	36,671	43,219	37,007	41,238	60,360	60,837	53,136	65,735	140,809	215,571

Credit Metrics																	
Debt	1,924,653	3,335,681	3,685,681	4,235,681	4,785,681	5,335,681	6,235,681	6,835,681	7,435,681	8,035,681	8,035,681	8,035,681	8,035,681	8,035,681	5,335,681	8,035,681	8,035,681
LTM EBITDA (unadjusted)	42,141	47,330	59,051	64,249	65,735	79,461	99,009	120,832	140,809	158,335	181,824	199,441	215,571	95,735	140,809	215,571	
Debt/EBITDA	-20.55x	74.41x	77.87x	71.73x	74.49x	81.77x	78.48x	69.03x	61.54x	57.07x	50.82x	44.19x	40.29x	37.28x	81.17x	57.07x	37.28x
EBITDA/Interest Expense	0.36x	2.81x	2.81x	1.40x	3.82x	1.55x	4.72x	2.34x	7.18x	3.33x	9.39x	4.30x	11.84x	5.10x	0.56x	1.19x	1.82x