



## Pattern Energy Group Inc.

**Rating: Buy, Risk: Above-average, Target: C\$39.00**

PEG C\$34.25, TSX/PEGI US\$27.47, NASDAQ

### ***ROFO list continues to grow—adds 147MW Québec wind project from 2014 RFP win***

#### **The Desjardins Takeaway: Slightly positive**

**Event.** This morning, Pattern Energy announced it is adding the contracted 147MW Mont Sainte-Marguerite wind project in Québec (100% owned by Pattern Development) to its right of first offer (ROFO) list, taking the ROFO list to nine projects totaling 977 net MW.

**Our take.** We were expecting this news when the project was announced (in December 2014) as one of three successful bidders in the recent Québec wind RFP. Project details are limited, so estimating the distributable cash (CAFD) at this point is challenging—we will look to get greater colour from the company. Overall, while increasing the ROFO list is incrementally positive, on a risk-adjusted basis (we risk adjust ROFO projects by 75%) and given that the project COD is ~3 years away, the contribution (based on our reasonable assumptions) from this project is not enough to move the needle on our valuation/target. There is no impact on our 2015 and 2016 estimates.

#### ***Highlights***

**ROFO list stands at 977 net MW.** Adding this project brings the ROFO list to nine assets and 977 net MW; the list includes one operating, two in-construction and six pre-construction, contracted projects. The ROFO list represents a potential 60% increase relative to the current owned asset portfolio.

**Project details.** Pattern Development now owns 100% of this project after acquiring RES's ownership stake. The project has a 25-year PPA with Hydro-Québec and was one of three projects selected as winners in the most recent highly-competitive Québec wind RFP. Construction is expected to start in 3Q16, with a targeted COD of December 2017. While PEG did not disclose PPA pricing, according to Hydro-Québec, the average PPA pricing of the three PPAs awarded is C\$76/MWh. Specific project details on capacity factor and build costs have not yet been provided. Until we get greater colour from management, deriving an accurate estimate of the potential CAFD from this project is challenging.

**Next catalyst—dividend increase with 4Q results.** Based on recent commissionings, we believe PEG could announce a more significant dividend increase (5%) with its 4Q14 results vs the 2% last quarter, which could be a positive catalyst for the stock.

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NA

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Top Pick	Buy	Hold	Sell	Not Rated
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#### RISK QUALIFIERS

Average Risk	Above-average Risk	Speculative
Risk represented by the stock is in line with its peer group* in terms of volatility, liquidity and earnings predictability	Risk represented by the stock is greater than that of its peer group* in terms of volatility, liquidity and earnings predictability	High degree of risk represented by the stock, marked by an exceptionally low level of predictability

\* Peer group refers to all of the companies that an analyst has under coverage and does not necessarily correspond to what would typically be considered an industry group. Where an analyst's coverage universe is such that 'relative' performance against a 'peer group' is not meaningful, the analyst will benchmark the rating against the most appropriate market index

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Hold	Hold	60	41	24	38
Sell	Sell/Tender	7	5	0	0
<b>Total</b>		<b>145</b>	<b>100</b>	<b>64</b>	<b>100</b>

Pattern Energy Group Inc. rating history as of 12-Feb-15

powered by: BlueMatrix



**Chart legend:** TP: Top Pick, B: Buy, H: Hold, S: Sell, NR: Not Rated, I: Company initiation, T: Transfer of coverage, S: Coverage suspended, DC: Coverage dropped

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