Atlantica Yield plc

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Company Report - Initiation of Coverage

AY-NASDAQ
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Outperform 2
US$26.00 target price

Get Paid to Wait While Turnaround Unfolds

Recommendation

We are initiating coverage of Atlantica Yield with an Outperform rating and US$26/share price target. Our constructive stance reflects our view of vastly improved growth prospects relative to recent years, discounted valuation, and steadily rising dividend. We believe the relatively new sponsor relationship with the Abengoa-Algonquin Global Energy Solutions (AAGES) JV and Algonquin, a sizable ROFO pipeline, and the resolution of certain operational issues combine for a potentially sustained period of CAFD growth. Meanwhile, with a CAFD yield of 9.0% and dividend yield of 6.3%, we also anticipate valuation upside.

Analysis

- **Discounted valuation a temporary phenomenon with stable footprint, new sponsors on deck –** As has been clearly illustrated in recent years, a YieldCo's health and valuation are heavily influenced by the development pipeline and financial health of its sponsor. As such, we believe financial challenges faced by Abengoa, Atlantica's previous sponsor, had a significant impact on the company's growth and share price, contributing to a precipitous decline from over $38 as recently as mid-2015 to $20.23 currently. However, we now believe Atlantica enjoys much improved visibility in its growth profile which, coupled with a high quality long life asset base, warrants a multiple re-rating, in our view. Trading at 9.1x 2019E EV/EBITDA (vs. YieldCo peers at 10.5x) and a 9.0% CAFD yield vs. comparable precedent transactions at 7.0-7.5%, we believe shares of Atlantica are materially undervalued.
- **ROFO pipeline, AAGES, and Algonquin bolster outlook –** With a combination of US$600-800 mln in assets ready for drop down from Abengoa/AAGES (over 2-3 years), future potential drop-downs from Algonquin, and the possibility of future third party M&A, we now believe Atlantica's growth outlook is as strong as it has been since the downturn of the YieldCo sector. On the back of these new growth avenues, we see the company's EBITDA and CAFD growing at 2017-2020E CAGRs of 8.7% and 10.6%, respectively.
- **Robust dividend growth on tap –** Consistent with above noted CAFD growth and a return to an 80% payout ratio (from ~70% currently), Atlantica has provided guidance for its dividend to grow at double digits out to 2019 (we estimate a 15.8% 2017-2020E CAGR) and at a pace of 8-10% annually between 2017 and 2022. We believe these growth rates stack up well relative to Atlantica's peers, as does the current 6.3% yield. Further, we emphasize our view that the rising dividend, coupled with a return of the stock's yield closer to its historical range, drive a potential theoretical equity value of $25-30/share or 24-48% above current levels.

Valuation

Our US$26/share price target is based on a ~9.5x 2019E EV/EBITDA, a discount to the YieldCo peer group average at 10.5x (see Exhibit 15) given the potential for a reduction in Spain's renewable tariffs. See our Valuation & Recommendation section for details.

EPS	1Q Mar	2Q Jun	3Q Sep	4Q Dec	Full Year	Revenues (mln)	EBITDA (mln)
2017A	US$(0.12)	US$0.24	US$0.30	US$(1.54)	US$(1.12)	US$1,089	US$769
2018E	(0.05)A	0.33	0.45	(0.33)	0.39	1,110	794
2019E	(0.02)	0.38	0.56	(0.11)	0.80	1,196	869

Source: Raymond James Ltd., Thomson One

Current Price (Jun-15-18)	US$20.23
Total Return to Target	35%
52-Week Range	US$25.99 - US$18.00
Suitability	High Risk/Income

Market Data

Market Capitalization (mln)	US$2,027
Current Net Debt (mln)	US$5,435
Enterprise Value (mln)	US$7,873
Shares Outstanding (mln, f.d.)	100.2
10 Day Avg Daily Volume (000s)	337
Dividend/Yield	US$1.28/6.3%

Key Financial Metrics

	2017A	2018E	2019E
P/E	NA	NA	25.3x
EV/EBITDA	10.2x	9.9x	9.1x
CAFD/Share	US$1.70	US$1.83	US$2.09
Payout Ratio (%)	65.2%	76.7%	75.1%
Dividends per Share	US$1.11	US$1.40	US$1.57
Generation Capacity (MW)	1650	1654	1939
Electric Transmission Lines (miles)	1,099	1,099	1,099
Net Debt (%)			69%
Net Debt/EBITDA			6.3x

Company Description

Atlantica Yield is a global power and energy/water infrastructure company with assets in North America, South America, and certain markets in EMEA.

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Investment Overview

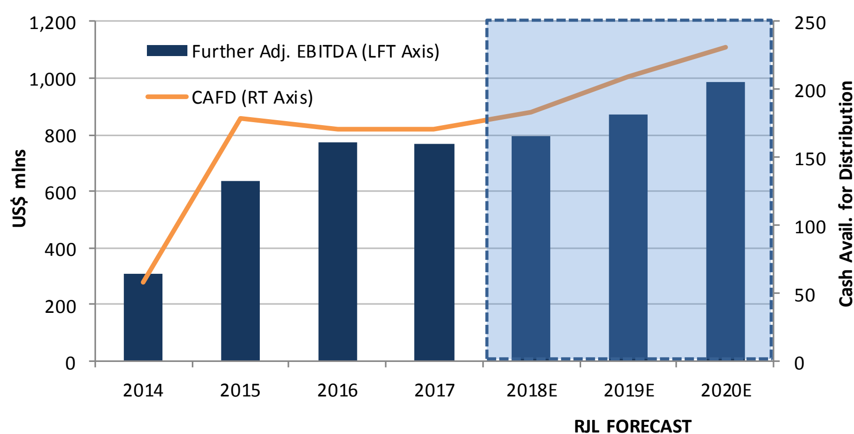
A new lease on life – As illustrated by the rise and fall of the YieldCo model in recent years, the success and valuation of these investment vehicles is very closely tied to the development portfolio and cost of capital of the respective sponsor company. Thus, the ~2 years spent under a cloud of uncertainty relating to the financial health of sponsor Abengoa materially impacted Atlantica's business and valuation, in our view. In fact it resulted in EBITDA and CAFD essentially remaining stagnant between 2016-2018 and, along with the onset of widespread difficulties among the YieldCo peer group, contributed to the share price declining ~47% from historical highs (vs. the NASDAQ up 53%). However, as part of a recently closed transaction which saw the formation of a JV between Algonquin Power & Utilities and Atlantica's prior sponsor Abengoa, Atlantica now has access to drop-down from this entity and potentially Algonquin, and we believe sports a much improved growth outlook. Among the first drop-downs from AAGES will likely be ATN3, a 220 mile 220 kV electric transmission concessional project in Peru slated for completion in 2020 (with the drop-down coming upon project completion). We believe this project is right in Atlantica's wheelhouse, with a 30 year PPA in US dollars, high quality offtake in the Peruvian Ministry of Energy (BBB+/A3 credit rating), and potential synergies with Atlantica's existing assets in Peru. Beyond this, Atlantica expects ROFO opportunities resulting in equity investments of $600-800 mln in capital over the coming 2-3 years across seven potential projects that could be dropped down from Abengoa/AAGES before capital deployment normalizes at an expected $200 mln/yr. These ROFO opportunities include cogeneration in Mexico, water transmission in the US and Algeria, electrical transmission in Peru (ATN3 described above), and solar projects in Chile and South Africa (see Exhibit 1). Longer term, there also exists the potential for assets to be dropped directly from Algonquin into Atlantica - something that will be revisited periodically. In addition to these drop-down opportunities, we understand Atlantica is also actively evaluating third party acquisitions, primarily in Latin America. We expect these investment opportunities will spur a resumption of growth, with EBITDA and CAFD rising at CAGRs of 8.7% and 10.6%, respectively, between 2017-2020E (see Exhibit 2).

Exhibit 1: Atlantica ROFO Opportunities

Asset	Sector	Location	Capacity	Potential Stake	Est. COD
Vista Ridge - San Antonio Water	Water Transmission	US	50K Acre-feet/yr	20%	2020
A3T	Cogeneration	Mexico	220 MW	100%	2019
ATN3	Transmission	Peru	220 kV - 221 miles	100%	2020
Cerro Dominador (Atacama)	Solar	Chile	210 MW	100%	2019
Xina	Solar	South Africa	100 MW	40%	In Operation
Khi	Solar	South Africa	50 MW	51%	In Operation
Tenes	Water Transmission	Algeria	7 Mft^3/day	51%	In Operation

Source: Atlantica Yield plc, Raymond James Ltd.

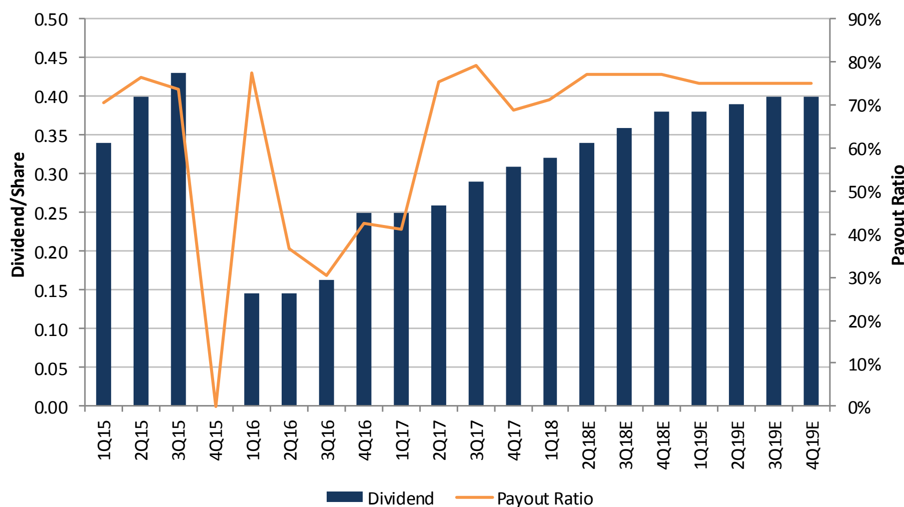
Exhibit 2: Atlantica Yield EBITDA and CAFD Trend – Historical & Forecast



Source: Raymond James Ltd., Capital IQ, Atlantica Yield plc

Attractive dividend yield with upside – Starting at an already attractive 6.3% yield, we expect Atlantica's dividend will continue to trend higher over our forecast horizon as CAFD grows and the company returns to an 80% payout ratio, consistent with management guidance. Accordingly, 2018 CAFD guidance of $170-190 mln implies a dividend of $1.36-$1.52/share, or 23-37% upside from FY2017 at $1.11/share. In conjunction with the company's 2017 year-end earnings report, Atlantica noted an expectation of double-digit dividend growth out to 2019 and an 8-10% growth rate out to 2022 (see Exhibit 3). We believe the share price implications of this dividend growth are potentially significant. Notably at the current 6.3% yield, we estimate a dividend at the low end of the 2018 forecast range implies ~7% upside in theoretical equity value from current levels. The high end of the range implies a theoretical equity value of $24.24, ~20% above current levels. We also highlight our view that as Atlantica's growth resumes and the Spain regulatory overhang (discussed later) is addressed, we believe a more appropriate yield would be in the 5.0-5.5% range which implies an equity value in the $25-30 range (see Exhibit 4). This is well below levels where the stock traded prior to Abengoa's financial troubles surfacing, but well above the more recent trading range. We note YieldCo peer NextEra Energy Partners (NEP-NYSE, Outperform – covered by Raymond James & Associates) currently has a yield of 3.8%, something we partially attribute to the deep pockets and sizable pipeline of its sponsor company NextEra Energy (NEE-NYSE, not covered) while other YieldCos have yields in the 7.0-9.0% range. While we would not argue that AY should be trading on par with NEP, we believe a dividend yield between the current 6.5% and NEP's 3.9% is reasonable and ballpark this in the 5.0-5.5% range. We further stress that Atlantica's long asset life, high quality CAFD, and conservative financial structure augur for a valuation premium (lower yield) vs. other YieldCos. From the perspective of Canadian investors, it is also noteworthy that, as a PLC, investors in Atlantica will not pay a withholding tax on dividends earned, unlike US listed YieldCos. Importantly, as operational setbacks at Solana and KaXu are rectified and distributions to Atlantica commence, we believe a CAFD run rate of $200 mln is possible, implying a dividend run rate of $1.60/share just from Atlatnica's existing footprint. At this CAFD rate and assuming a relatively modest pace of drop-downs, we believe the company's 8-10% dividend growth guidance out to 2022 is abundantly achievable, while dividend increases out to 2020 (our forecast horizon) could be met with minimal equity issuances.

Exhibit 3: Atlantica Yield Historical and Forecast Dividend and Payout Ratio



Source: Raymond James Ltd., Capital IQ

Exhibit 4: Atlantica Implied Theoretical Equity Value Sensitivity to Dividend & Payout Ratio

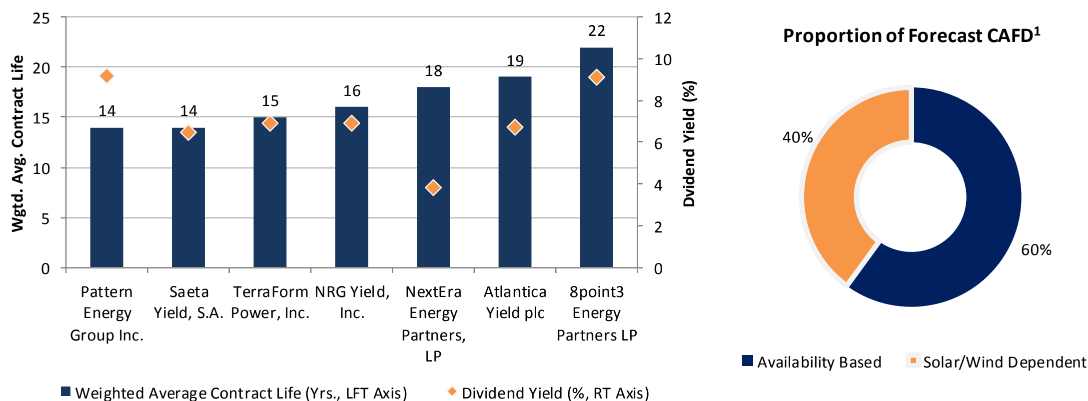
Atlantica Yield Theoretical Equity Value Sensitivity to Dividend & Yield

Dividend Run Rate	Dividend Yield 6.50%	6.25%	6.00%	5.75%	5.50%	5.25%	5.00%	4.75%	4.50%	4.25%	4.00%	3.75%	3.50%
1.20	18.5	19.2	20.0	20.9	21.8	22.9	24.0	25.3	26.7	28.2	30.0	32.0	34.3
1.23	18.8	19.6	20.4	21.3	22.3	23.3	24.5	25.8	27.2	28.8	30.6	32.7	35.0
1.25	19.2	20.0	20.8	21.7	22.7	23.8	25.0	26.3	27.8	29.4	31.3	33.3	35.7
1.28	19.6	20.4	21.3	22.2	23.2	24.3	25.5	26.8	28.3	30.0	31.9	34.0	36.4
1.30	20.0	20.8	21.7	22.6	23.6	24.8	26.0	27.4	28.9	30.6	32.5	34.7	37.1
1.33	20.4	21.2	22.1	23.0	24.1	25.2	26.5	27.9	29.4	31.2	33.1	35.3	37.9
1.36	20.8	21.6	22.5	23.5	24.5	25.7	27.0	28.4	30.0	31.8	33.8	36.0	38.6
1.39	21.2	22.0	22.9	23.9	25.0	26.2	27.5	28.9	30.6	32.4	34.4	36.7	39.3
1.41	21.5	22.4	23.3	24.3	25.5	26.7	28.0	29.5	31.1	32.9	35.0	37.3	40.0
1.44	21.9	22.8	23.8	24.8	25.9	27.1	28.5	30.0	31.7	33.5	35.6	38.0	40.7
1.46	22.3	23.2	24.2	25.2	26.4	27.6	29.0	30.5	32.2	34.1	36.3	38.7	41.4
1.49	22.7	23.6	24.6	25.7	26.8	28.1	29.5	31.1	32.8	34.7	36.9	39.3	42.1
1.52	23.1	24.0	25.0	26.1	27.3	28.6	30.0	31.6	33.3	35.3	37.5	40.0	42.9
1.55	23.5	24.4	25.4	26.5	27.7	29.0	30.5	32.1	33.9	35.9	38.1	40.7	43.6
1.57	23.8	24.8	25.8	27.0	28.2	29.5	31.0	32.6	34.4	36.5	38.8	41.3	44.3
1.60	24.2	25.2	26.3	27.4	28.6	30.0	31.5	33.2	35.0	37.1	39.4	42.0	45.0
1.60	24.6	25.6	26.7	27.8	29.1	30.5	32.0	33.7	35.6	37.6	40.0	42.7	45.7

Source: Raymond James Ltd.

High quality, diversified asset base and conservative financing strategy supports steady long-term cash flows – With a 100% contracted asset base and weighted average contract life of 19 years, we take a positive view of Atlantica's long life, low risk, stable business (see Exhibit 5). Equally importantly, roughly 60% of Atlantica's asset base earns revenues based on availability and does not face any exposure to wind/solar resources. This predictability has resulted in the company meeting guidance every quarter since its IPO. Further, we highlight what is a very stable CAFD profile over the coming ~10 years. This should eventually give way to a significant uptick in cash flows around 2030 as the company's debt repayment schedule moderates. We also like Atlantica's conservative financial practice of fully amortizing its project level debt; as opposed to incorporating bullet payments as has been done by some YieldCo peers (such as 8Point3 Solar and Terraform Power). In fact, not only does project level debt fully amortize over Atlantica's PPA terms, in most cases there is a significant tail where debt is fully repaid prior to the PPA expiring. We regard this as a source of long-term value and believe it is supportive of a premium valuation for Atlantica. Specifically, when viewed on a relative price/cash flow earnings metric vs. peers who may back-load project debt maturities, it suggests to us Atlantica is more favourably valued than near-term metrics may suggest as its CAFD is higher quality.

Exhibit 5: YieldCo Comparative Remaining Contract Lives and Dividend Yield

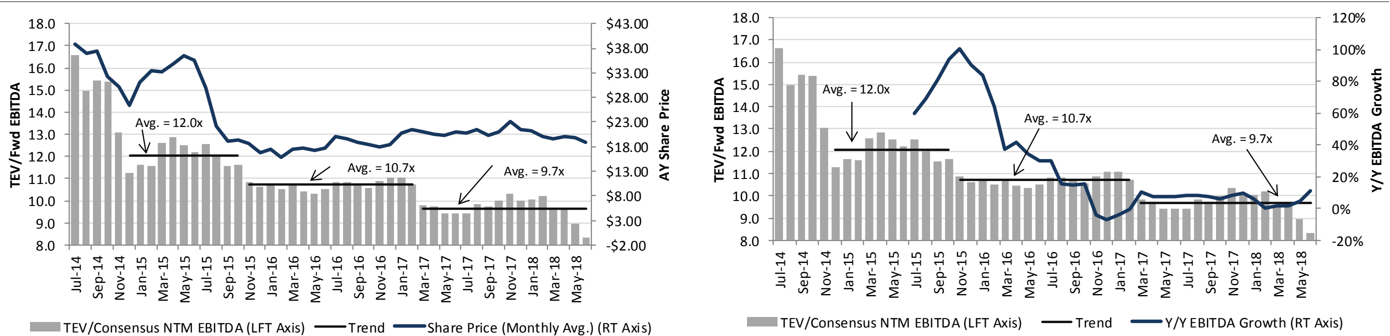


[1] Based on Atlantica Yield CAFD estimates for the next 3 years not including acquisitions

Source: Raymond James Ltd., Capital IQ, Company Reports

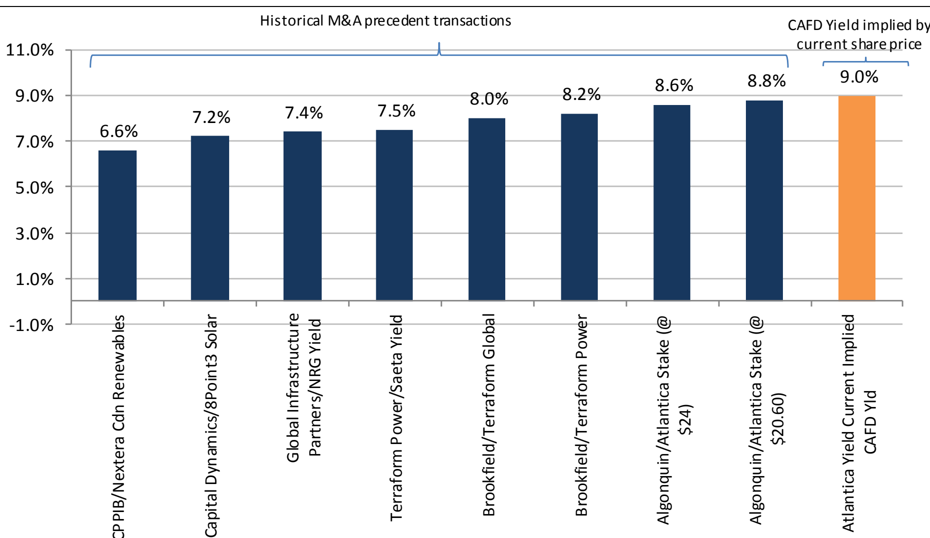
Depressed valuation should normalize as growth resumes – Referring to Exhibit 6 below, we note Atlantica's forward TEV/EBITDA ratio has declined over time, something attribute to the aforementioned uncertainty surrounding the company's growth outlook as well as the broader YieldCo downturn (detailed later in this report). Meanwhile, as illustrated in Exhibit 6 (right side chart), the valuation decline has also coincided with a period of declining EBITDA growth rates. While this pressure on valuation was not unwarranted given sponsor related uncertainty, we believe this issue is now behind the company. As such, we now see a situation where Atlantica boasts an attractive CAFD yield of 9.0% at a time when growth is poised to resume. For reference, recent transactions in the North America YieldCo space which have averaged an implied CAFD yield of 7.5% (see Exhibit 7). Notably, many of these historical transactions featured a target company that was facing a challenged financial situation, lack of growth, regulatory concerns, lack of legitimate sponsorship, or a combination of these factors. Fortunately, with the newly formed AAGES and Algonquin representing sources of drop-down opportunities, we expect growth to resume and anticipate this driving a market re-rating of the stock's trading multiple.

Exhibit 6: Atlantica Yield Historical EV/Fwd. EBITDA Multiple (LHS) and Atlantica Yield Historical EV/ Fwd. EBITDA vs. Y/y Consensus EBITDA Growth Rate (RHS)



Source: Raymond James Ltd., Capital IQ

Exhibit 7: Comparative YieldCo Transactions – Implied CAFD Yield



Note: Atlantica Yield CAFD yield based on 2018 RJL estimates, all others represent consensus forward estimates at the time of transaction

Source: Raymond James Ltd., Capital IQ

Considering development opportunities outside of the YieldCo relationship – Representing an intriguing element of the Atlantica story, we understand that the company is assessing opportunities outside of the sponsor/YieldCo relationship. To be clear, we see upside in shares of Atlantica even if this does not occur given the forecast CAFD growth and the stock's relatively depressed valuation. However, we see potential for the company to earn strong IRRs on Latin American expansion by this method representing an attractive opportunity. Atlantica maintains an active M&A team and we believe the company is primarily looking at Latin American opportunities where they see better return potential in OECD countries such as Mexico, Peru, Chile, Colombia, Uruguay, and Panama. Meanwhile, the company also sees some organic growth potential in its current footprint where extensions of existing transmission lines are possible in order to connect new renewable developments, among other opportunities. As many renewable peers have done of late, we also see potential for Atlantica to pursue a partnership with a financial entity and/or recycle capital given elevated prices for contracted renewable assets.

Operational issues at Solana and KaXu in the process of being resolved – While Atlantica's asset base has generally seen very few operational challenges, two of the company's Concentrated Solar Power (CSP) facilities have seen setbacks which have hindered production at each location. These issues included problems with the water pump at KaXu and the heat exchangers at Solana. In the case of KaXu, we understand required repairs to the water pump were a straightforward fix and that the asset is running well. Management has noted that despite the asset running at close to 100%, cash will need to be rebuilt at the project level at KaXu before distributions resume – something we assume happens by 2018 year-end at 50% of the normal run rate. Meanwhile, repairs to the heat exchangers at Solana are now complete. Atlantica will look for a few quarters of stable performance to confirm operational stability of the facility, which is not yet running at 100%. Similar to KaXu, we expect Solana will need to re-build cash reserves at the project level prior to resuming distributions – something we expect will be a 2019 event. We estimate additional CAFD of $15-25 mln as these assets reach full capacity, bringing CAFD to a run rate of ~$200 mln (midpoint). We further note that the low end of Atlantica's $170-190 mln CAFD guidance range does not factor in any distributions from these assets, while the high end assumes a partial contribution.

The Demise of the YieldCo Model: How Atlantica is Different?

What is the YieldCo structure? As an asset class, the YieldCo is a publicly traded vehicle meant to attract yield-based investment capital by providing stable and growing distributions while owning assets that provide a predictable stream of cash flows. Unlike Master Limited Partnerships (MLPs), YieldCos have no technical restriction on asset or income composition. However, in the case of renewable power, these entities have typically held long-term contracted generation assets with investment grade counterparties. These investment vehicles were first created as a means of overcoming 3 key obstacles to renewable power investment: 1) high transaction costs of buying large scale physical assets; 2) the illiquidity of these assets; and 3) concentration risk of these large investments relative to most portfolio sizes. Equally important, these assets provided a low-beta, bond like cash flow stream, low risk profile and relatively high yield. However, beyond this initial creation meant to align asset and investor class, the YieldCo sponsors saw the opportunity to devote large pipelines of potential projects to their respective YieldCos. This injected an element of growth potential and in many cases these YieldCos were able to deliver double-digit dividend growth supported by assets acquired in this manner. Meanwhile, renewable independent power producer (IPP) sponsors also realized a strategic benefit from having a guaranteed potential buyer while recycling capital into a lower cost vehicle. In its early years, the YieldCo was considered an efficient means of sourcing low cost capital, which generally was considered a success within the industry.

What led to the challenges the YieldCos faced? Despite the initial positive reception in pursuing growth, YieldCo sponsors had added risk back into the equation. Clearly, given the higher risk of project development vs. owning operating assets, the inclusion of future growth via an as-yet undeveloped portfolio meant these investment were no longer the low risk, high yield entities initially conceived. Although investors rewarded YieldCos for this growth strategy at first in the

form of the stocks trading at lower yields—implying a lower cost of capital—the increased risk eventually prompted investors to re-assess the appropriate implied cost of equity (see Exhibit 8). Specifically, the investing community came to realize that any one of several issues could hinder growth; issues including project delays, higher interest rates, poor project selection, or lack of ability to raise capital. Longer term, the need for more and more renewable development projects to fuel elevated dividend growth promises was also a challenge. Ultimately, this model was predicated on the contracted renewable assets being worth more to the YieldCos because of their lower cost of capital. Under this assumption, rising equity values meant more capital per share available to invest (and correspondingly higher dividends) and facilitated elevated transaction multiples in these drop-down deals which enable the sponsor to recycle capital and provided the YieldCo itself with a steady supply of growth. In addition, in order to meet aggressive growth targets, YieldCos were forced to move down the risk curve buying assets in emerging markets and shorter contract durations. Meanwhile, as YieldCos continued to proliferate, the scarcity value of these yield-oriented investments declined while demand for new renewable projects increased greatly; this made it more expensive for these companies to acquire new assets, further pressuring equity valuations. The net effect of these dynamics meant a significant decline in share prices and a lack of ability to raise cheap capital.

Exhibit 8: Average US YieldCo Dividend Yield

Source: Raymond James Ltd., Capital IQ

Too much of a good thing. The YieldCo movement peaked in the spring of 2015 around the time of the IPOs of 8point3 Energy Partners ($420 mln) and Terraform Global ($675 mln). In addition to these two IPOs, seven other YieldCos also raised equity between April and July of 2015 including: TransAlta Renewables ($226 million in April); Abengoa Yield (now Atlantica Yield) ($670 million in May); NextEra Energy Partners ($109 million in May); NRG Yield ($540 million in June); Hannon Armstrong ($18 million in June); TerraForm Power ($689 million in June); and Pattern Energy Group ($225 million in July). These equity issuances added ~$3.5 bln in capital to a market that had previously raised $12.5 bln in total. The large volume of YieldCo deals that came to market overwhelmed investor appetite, resulting in declining share prices and the suggestion—in Sep-2015 by NRG CEO David Crane—that the market for YieldCo equity financing was closed. This prompted large players like SunEdison to switch from using equity to debt to fund renewable development, something that proved an unsustainable strategy as the company's borrowings ballooned from $9 bln in Sep-2014, to $16.1 bln in Sep-2015. Over this same period, YieldCos continued to promise elevated dividend growth. One example of this was Terraform Global which indicated a 15% dividend CAGR target in its prospectus and eventually doubled that target to 30%. Ambitious, considering it was investing in an asset class providing ROEs of ~8%-10%. Among YieldCos that fared much better, NextEra Energy Partners benefitted from having the strongest sponsor in the group. Even today, this resulted in the stock trading at a much lower yield than the peer group. Meanwhile, TransAlta Renewables also fared relatively well by not promising the elevated dividend yields of its US peers.

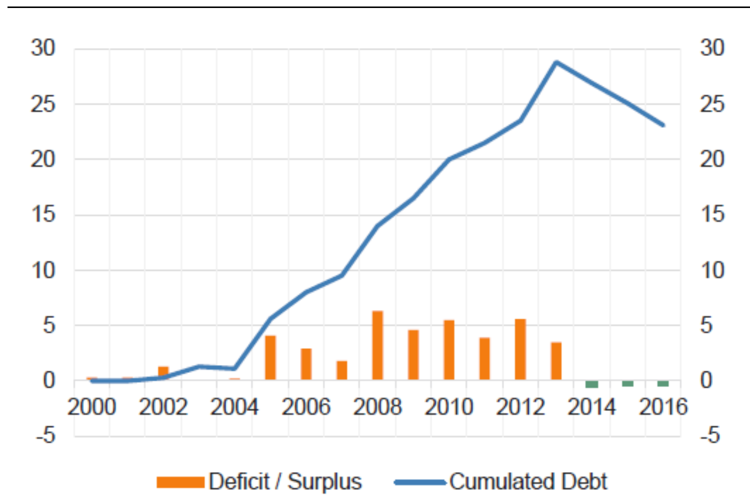
How is Atlantica Different? It is true that Atlantica's sponsor company, Abengoa, faced issues that ultimately culminated in the company undergoing a financial restructuring. As discussed above, this weighed on growth for several years. However, Atlantica began looking to make arrangements to become a stand-alone entity in 2015, as well as searching for additional sponsors; a process that was completed with the AAGES/Algonquin arrangement. In addition, with reasonable long-term dividend growth guidance of 8-10%, we believe Atlantica is abundantly capable of fueling growth sufficient to meet this target. Equally important, Atlantica's sponsors do not use Incentive Distribution Rights (IDRs) whereby distributions above levels promised to th e unitholders resulted in additional cash being diverted to the IDR holders (the sponsors). Several sponsors, including SunEdison, SunPower, FirstSolar, NextEra, and NRG, implemented IDRs. This would result in additional cash payments when dividends surpassed thresholds of 150%, 175%, and 200% of initial dividends promised to unitholders. The incremental proportion of CAFD passed to the IDR holders was 15%, 25%, and 50% when these respect dividend benchmarks were surpassed. These incentives rewarded aggressive growth, which contributed to the sponsors over-extending themselves. We also note Atlantica has always maintained strong corporate governance with an independent management and the majority of the Board of Directors being independent. Lastly, the company also sports a conservative financial structure and solid balance sheet – discussed below.

Solid balance sheet with modest corporate level debt – As noted above, we believe Atlantica sports a conservative financial structure with fully amortizing project level debt and a healthy tail in most projects where project debt is repaid well in advance of the PPA expiry. At the corporate level, the company has a net debt/CAFD of 2.3x and has suggested that 3.0x is an appropriate amount of leverage; implying roughly $150 mln additional room to raise debt for growth while remaining at or below this target ratio. Additionally, the company maintains corporate level cash balance of $151.4 mln, which has increased in recent quarters as the company put its growth plans on hold. This, in addition to $71.0 mln in available credit, provides ample financial flexibility and liquidity in our view. The company also retains 20% of CAFD, which can be used to fund growth. In light of these sources of cash, and as the company reaches an estimated CAFD run rate of $200 mln (once operational issues at Solana and KaXu are rectified), we expect Atlantica can deliver on dividend growth targets out to 2020 with minimal equity issuances. In fact, we note that a $200 mln CAFD run rate an 80% payout ratio equates to a dividend per share (DPS) run rate of $1.60/share. Relative to the dividend (as of 4Q17) of $1.24/share, we estimate this represents a 5.2% 5-year CAGR just from the existing asset base.

Spain regulatory uncertainty an overhang, but outlook is promising – Consistent with a renewable power tariff policy instituted in 2013, renewable power projects in Spain earn income based on a "reasonable rate of return." Currently at 7.4%, this regulated IRR is up for renewal every 6 years, meaning 2019 will mark the first such occasion. While we believe the eventual outcome is difficult to handicap (particularly as it is the first under this relatively new system), we acknowledge the potential for a downward revision represents an overhang to the stock. With ~35% of the company's run-rate CAFD earned via Spain based solar projects, Atlantica has provided guidance that a 100 bps reduction in this return would negatively impact CAFD by €18 mln (US$21.2 mln). This equates to ~12% of our 2018 full year CAFD estimate. While this represents a material potential impact, we note Terraform Power's recent acquisition of Saeta Yield (80% of revenues earned in Spain) tempers our concerns somewha t. As highlighted in Terraform's slide deck at the time of the Saeta acquisition, there are several reasons why the risk of a downward revision is mitigated. First, the Spanish government had previously been running a €2.5 bln/year tariff deficit – a function of the fact that the country's full electrical system costs were not being passed on to customers. This was clearly an unsustainable situation (see Exhibit 9). However, several changes enacted between 2013 and 2015 largely addressed this iss ue. These included a moratorium on new subsidies for renewables, increased access tariffs to customers, reduced tariffs/subsidies for renewables/cogeneration via the aforementioned 2013 transition to a regulated return model and new taxes on a variety of generators. As a result of these changes, Spain's annual tariff deficit has been remedied and the country is now posting an annual surplus of roughly €500 mln. Beyond this, there is an estimated 8 GW of new greenfield projects awarded in 2017 that could be compromised by a reduced tariff. More recently we believe the transfer of leadership to Pedro Sanchez, who came into power after a vote of no-confidence leading to the ousting of former Prime Minister Mariano Rajoy, is a constructive development. While the

eventual outcome remains uncertain, his naming of climate action advocate Teresa Ribiera to lead energy policy for the new government is positive initial sign, in our view. Given Spain's European renewable targets and the government's control over revision parameters, we see both motivation and discretion for modest tariff changes and potential for no change at all.

Exhibit 9: Historical Tariff Deficit/Surplus and Accumulated Debt (€ bln)

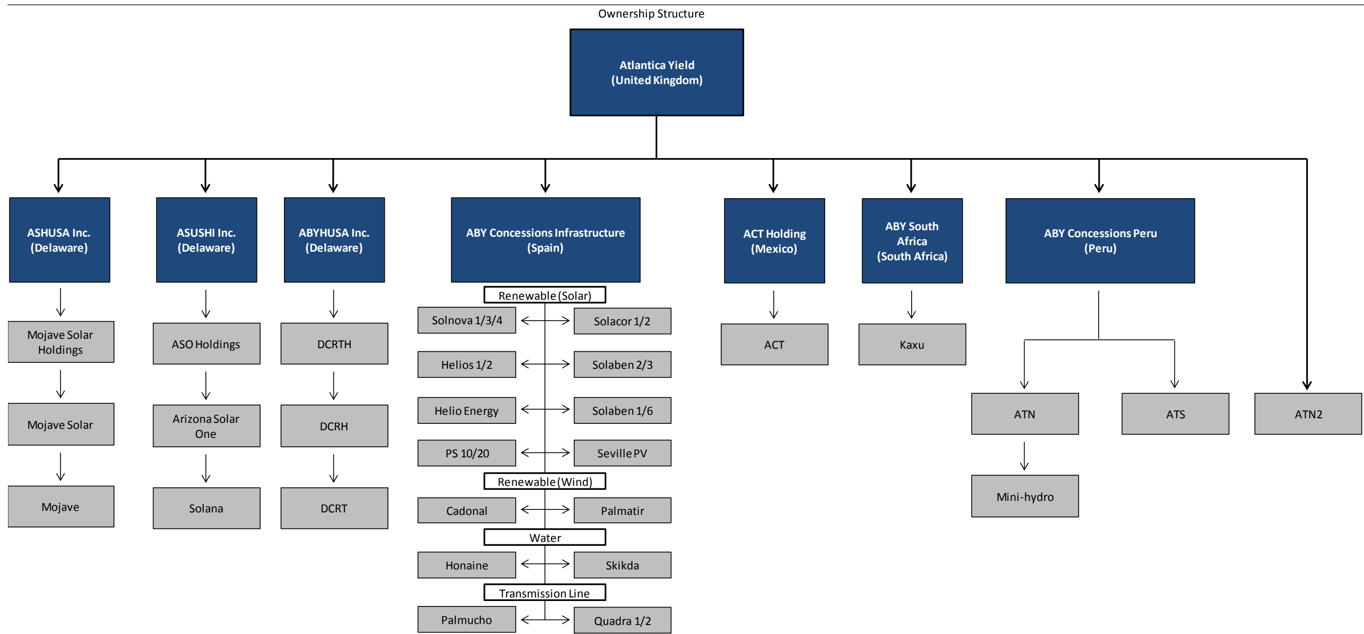


Source: Spain National Commission on Markets & Competition – Report on the Status of the Debt of the Electrical System

Company Overview

Headquartered in London, UK, Atlantica Yield plc is an owner/operator of renewable energy, efficient natural gas, electric transmission lines and water assets. The company's primary focus is delivering stable and growing dividends to investors and growing cash available for distribution by acquiring new, long-life, contracted assets with credit-worthy counterparties. As of March 31, 2018, the company owns or has interests in 22 assets spread across four continents (see Exhibit 10). The assets are focused in North America (United States and Mexico), South America (Peru, Chile and Uruguay), Europe (Spain) and Africa (Algeria and South Africa). The company's portfolio consists of 14 renewable energy facilities, with total capacity of 1,446 MW, 300 MW of efficient natural gas power generation, 10.5 M ft^3 per day of water desalination and 1,099 miles of electric transmission lines. As of March 31, 2018, these assets have a weighted average remaining contract life of 19 years. In 2017, 55% of the revenues came from EMEA, 33% from North America and 12% from South America.

Exhibit 10: Atlantica Ownership Structure



Source: Raymond James Ltd., Atlantica Yield plc

Business Strategy

Atlantica Yield's primary business strategy is two-fold: (1) to generate stable cash flows with the company's current portfolio of assets, (2) to grow cash available for distribution and dividends to shareholders through organic growth and acquisitions. The firm's growth will mainly come from acquisitions through obtaining new contracted assets from AAGES, Abengoa, Algonquin, third parties and potential new future partners. Specifically, through acquisitions of contracted assets operating in the segments the firm is already present in. Management states that they have an overall focus of maintaining renewable energy as the main segment and North and South America as the main geographic segments. Management has stated some key components to attain this goal:

- Focus on stable, long-term contracted assets in renewable energy, efficient natural gas, power generation, electric transmission lines and water assets;
- Maintain geographic diversification across three principal geographic areas : North America, South America, and Europe;
- Increase cash available for distribution by optimizing existing assets ;
- Increase cash available for distribution through the acquisition of new contracted assets in renewable energy, efficient natural gas power and electric transmission ;
- Maintain a portfolio of credit worthy offtake counterparties, hedged foreign currency, and long-term contracted revenues that will foster a low risk approach;
- Maintain financial strength and flexibility through keeping a solid financial position from a combination of cash and credit facilities.

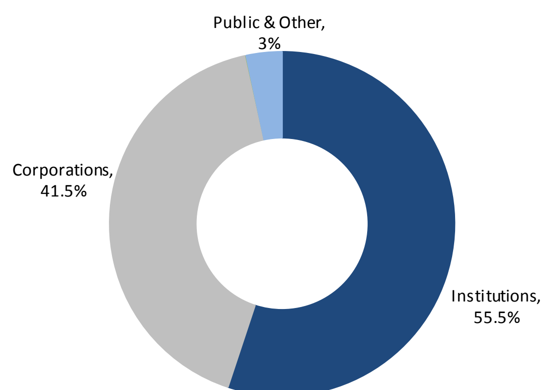
Share Ownership

As shown in Exhibit 11, no Directors or members of senior management own more than 1% of the ordinary shares outstanding. Additionally, all senior management and Directors have the same voting rights as holders of ordinary shares. Atlantica Yield has one class of ordinary shares with each share receiving one voting right. The largest single shareholder is Algonquin Power & Utilities Corporation which currently owns 25 mln shares. However, after completion of the share sale between Abengoa (Stichting Seville in the table below) and Algonquin, Algonquin will own 41.5 mln shares, which is approximately 41.5% of shares outstanding.

Exhibit 11: Atlantica Stock Ownership Summary (as at May-15-18)

Share Holder Summary		
Largest Institutional & Corp Holders	**# of Share (mlns)**	**% Outstanding**
Algonquin Power & Utilities Corp	25.1	25%
Stichting Seville	16.5	16%
Morgan Stanley Investment Mgmt Inc	5.6	6%
Centerbridge Partners, L.P.	3.9	4%
Appaloosa Mgmt L.P.	3.8	4%
Other Institutional	42.0	42%
Total Institutional & Corp	96.8	97%

Insiders		
Largest Insider Holders	**# of Share (mlns)**	**% Outstanding**
Daniel Villalba (Chairman of Board)	0.06	0.06%
Santiago S. Medela (CEO)	0.02	0.02%
Jackson W. Robinson (Director)	0.01	0.01%
Total Insider	0.09	0.09%
Total Common Shares) O/S	100.2	



**Note: Algonquin has since purchased an additional 16.5 mln shares of Atlantica, slated to close during 2Q18 or 3Q18.*

Source: Raymond James Ltd., Capital IQ

Asset Overview

Diversified portfolio with long-term contracts— As is evidence by the company's attractive asset mix (see Exhibit 12), Atlantica has a strong track record of acquiring assets with long-term contracted revenue and high quality offtakers. As of March 31, 2018 the assets have an average contracted life of approximately 19 years remaining (all assets are contracted except for the Spanish assets, which have regulated terms). Meanwhile, the majority of their offtakers, with the exception of Quadra 1 & 2, Honaine, Skikda, and ATN2, are investment grade.

Asset portfolio attributes—In addition to being contracted, 60% of Atlantica's CAFD comes from availability based facilities, thus providing relatively low dependence on weather related variables such as solar irradiation. We believe this represents an attractive attribute as it provides predictability, which has enabled the company to meet guidance every quarter since the 2014 IPO.

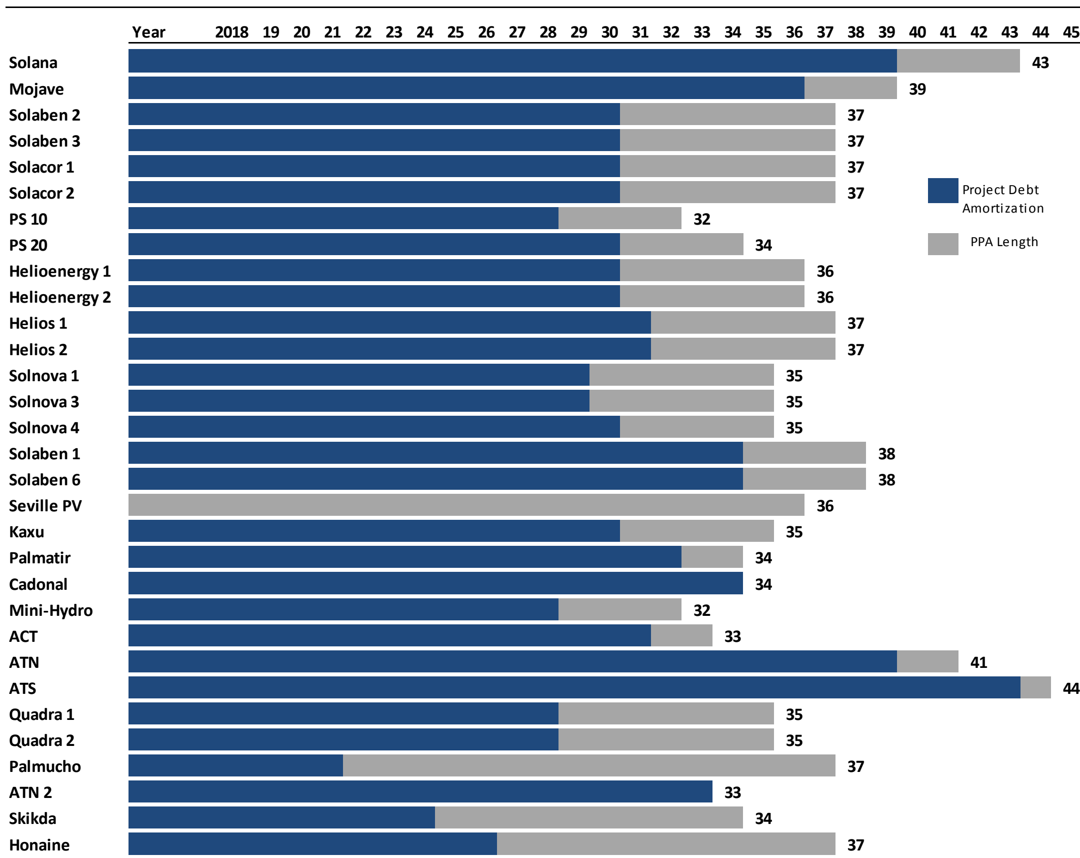
Healthy project life remaining after debt fully amortized—For the most part, the company's portfolio of assets have contract terms that will outlast project debt amortization – something we regard as an underappreciated driver of long-term value. Exhibit 13 shows each individual asset's project debt term vs. its contract term; these terms are assuming that none of the assets will receive renewed power purchasing agreements. However, each asset has the possibility to extend contract lives.

Exhibit 12: Atlantica Yield Asset Summary Table

Segment	Asset	Type	Stake	Location	Gross Cap. (MW)	Years in Contract Left
Renewable Energy						
	Solana	Solar	100%	USA, Arizona	280	26
	Mojave	Solar	100%	USA, California	280	22
	Solaben 2/3	Solar	70%	Spain	2 x 50	20/19
	Solacor 1/2	Solar	87%	Spain	2 x 50	19
	PS 10/20	Solar	100%	Spain	31	14/16
	Helioenergy 1/2	Solar	100%	Spain	2 x 50	19
	Helios 1/2	Solar	100%	Spain	2 x 50	20
	Solnova 1/3/4	Solar	100%	Spain	3 x 50	17/17/18
	Solaben 1/6	Solar	100%	Spain	2 x 50	21
	Seville PV	Solar	80%	Spain	1	18
	Kaxu	Solar	51%	South Africa	100	17
	Palmatir	Wind	100%	Uruguay	50	16
	Cadonal	Wind	100%	Uruguay	50	17
	Mini-Hydro	Hydro	100%	Peru	4	15
Efficient Nat. Gas						
	ACT	Power	100%	Mexico	300	15
Electrical Trans.						
	ATN	Trans. Line	100%	Peru	362	23
	ATS	Trans. Line	100%	Peru	569	26
	ATN 2	Trans. Line	100%	Peru	81	15
	Quadra 1&2	Trans. Line	100%	Chile	81	17
	Palmucho	Trans. Line	100%	Chile	6	20
Water						
	Skikda	Water	34%	Algeria	3.5 M cu.ft/day	16
	Honaine	Water	26%	Algeria	7 M cu.ft/day	20

Source: Raymond James Ltd., Atlantica Yield plc

Exhibit 13: Atlantica Yield PPA Life vs. Project Debt Amortization



Source: Raymond James Ltd., Capital IQ

Financial Analysis & Outlook

Strong earnings and cash flow growth on deck – As detailed in the summary table in Exhibit 14 below, we see Atlantica posting strong earnings growth driven primarily by improved performance at Solana, KaXu and drop-downs via the ROFO pipeline from AAGES/Abengoa. As highlighted previously, we expect distributions at KaXu to resume around the end of 2018, while distributions at Solana likely resume at some point in 2019. In sum, we expect these facilities getting back to full capacity could lift cash flow by $15-25 mln; bringing the company to a ~$200 mln annual CAFD run rate (midpoint). Relative to 2017's $170 mln CAFD, this cash flow run rate would represent an 6% CAGR over 2017-2020 even without additional drop-downs. On an EBITDA basis, we see steadily improving results rising 10% and 13% y/y in each of 2019E and 2020E. Consistent with the ROFO pipeline and previous indications of $600-800 mln in drop-downs being executed over 2018-2020, we anticipate several assets being dropped down during the remainder of 2018 and into 2019. Aside from ATN3, which is the most likely drop down from AAGES (likely in 2020) we do not specifically forecast which of the pipeline is acquired by Atlantica, however, we do forecast drop downs of $75 mln in 2018 and a further $150 mln in 2019 with average CAFD yields in the 9-10% range.

Available cash and credit, as well as incremental corporate debt capacity, sufficient to fund dividend growth guidance – As previously highlighted, Atlantica has indicated an 8-10% dividend growth CAGR out to 2022 from a reference point of $1.24/share in 4Q17. As mentioned above, we anticipate the company reaching $2.00/share in CAFD on a run rate basis at some point in 2020, suggesting a dividend run rate of $1.60/share. In addition to this, we note the company maintains $151.4 mln in corporate cash, $71.0 mln in available credit, and is willing to bring corporate net debt/CAFD up to the 3.0x level, from 2.3x currently, implying a further ~$80-90 mln in debt capacity – which the company could utilize given a recent upsizing of its credit facility to $215 mln. Moreover, we note the 20% of CAFD retained each year totals ~$75 mln over 2018/2019, by our estimates. Thus, factoring in ~$50 mln in cash required for working capital, we peg available growth capital at $325-335 mln. Assuming what we consider to be a conservative 9% CAFD yield on this potential capex, we estimate further CAFD generation of $30 mln. Adding this amount to the $200 mln run rate from existing assets yields a CAFD estimate of $230 mln, or $2.30/share. At an 80% payout ratio this equates to a dividend of $1.84, or an 8.2% dividend/share CAGR – within management's guided range out to 2022.

Balance sheet solid – With a conservative financial practice of fully amortizing project level debt, as well as a reasonable 2.3x corporate net debt to CAFD, we believe Atlantica's balance sheet is abundantly manageable. Even factoring the growth plans above, which assume Atlantica reaches a 3.0x Net Debt/CAFD based on the current CAFD run rate, rising cash flow results in this ratio remaining below this upper bound over our forecast horizon. Further, the company also recently refinanced its revolving credit facility, increasing the amount to $215 mln from $125 mln and reducing the cost of debt by 100 bps relative to the previous facility.

Exhibit 14: Atlantica Yield Operating and Financial Summary Table

Atlantica Yield					
Operational Stats	**2017**	**2018E**	**2019E**	**2020E**	**2017-2020 CAGR**
Net Operating Capacity (MW)	1650	1654	1939	2159	9%
Water Net Operating Capacity (Mft3)	3.0	3.0	3.7	3.7	7%
Electric Transmission Net Capacity (Miles)	1099	1099	1099	1099	n/a
Consolidated Generation (GWh)	5351	5240	5711	6454	6%
Financial Stats					
Total Revenue ($mln)	1089	1110	1196	1391	8.5%
YoY Growth	*5%*	*2%*	*8%*	*16%*	
Gross Profit ($mln)	788	814	889	1010	8.7%
Gross Profit (%)	76%	73%	76%	73%	
Adj. EBITDA ($mln)	769	794	869	986	8.7%
YoY Growth	*1%*	*3%*	*10%*	*13%*	
CAFD ($mln)	171	183	209	231	10.6%
YoY Growth	*0%*	*7%*	*14%*	*10%*	
CAFD/Share	1.70	1.83	2.09	2.30	10.6%
YoY Growth	*0%*	*7%*	*14%*	*10%*	
Net Income	-111.8	39.4	80.1	143.7	n/a
YoY Growth					
EPS	-$1.12	$0.39	$0.80	$1.43	n/a
YoY Growth					
Dividends Declared ($mln)	111	139	157	173	15.8%
Dividend/Share	*1.11*	*1.40*	*1.57*	*1.72*	15.8%
Payout Ratio	65%	77%	75%	75%	
Balance Sheet ($mln)					
Cash	669	793	1067	1270	
Adj. Net Debt - End of year Forecast	5449	5068	5031	4998	
Cons. Net Debt/EBITDA	8.1	6.4	5.8	5.1	
Shares Outstanding	100.2	100.2	100.2	100.2	

Source: Raymond James Ltd.

Valuation & Recommendation

Initiating coverage with an Outperform rating, US$26 price target – Our constructive stance on Atlantica reflects our view of a lengthy period of uncertainty as to its prior sponsor's financial state giving way to robust earnings and cash flow growth over our forecast horizon. We believe the company's 8-10% DPS CAGR out to 2022 is achievable and see material near-term dividend growth over our 2020 forecast horizon with minimal external equity needs. This is something we believe is rare among the company's peer group. While uncertainty relating to the potential adjustment to renewable tariffs in Spain tempers our enthusiasm to a degree, we believe recent political changes in Spain bode well for a constructive outcome on this front. Referring to Exhibit 15 below, we note Atlantica currently trades at 9.1x 2019E EV/EBITDA, a discount to the YieldCo peer group average at 10.5x and the Canadian IPPs at 10.7x. As noted above, our US$26 price target is based on a ~9.5x 2019E EV/EBITDA, also a discount to the peer group average given the potential for a reduction in Spain's renewable tariffs. Viewed another way, we believe Atlantica's current share price implies a 9.0% CAFD yield, again, attractive relative to recent comparable YieldCo transactions. Beyond these attractive attributes we reiterate our view of Atlantica's long life asset base, conservative financial footing, and predominantly availability based revenue contracts as other elements of our constructive stance.

Exhibit 15: Global YieldCo Comparative Valuation Summary Table

Global Yieldco Comp Table

Company	Ticker Symbol	Rating	Recent Price 6/15/2018	Shares o/s	Market Cap $ mlns	Net Debt Current $mlns	Total EV $mlns	Net Debt (%)	EBITDA ($ mln) 2016A	2017E	2018E	2019E	EV/EBITDA Annual 2016A	2017A	2018E	2019E	Dividend Yield (%)
8point3 Energy Partners LP	NASDAQ:CAFD	Market Perform	$ 12.42	79	982	681	1,614	42%	76	118	110	106	21.2x	13.7x	14.7x	15.2x	9.0%
NRG Yield, Inc.	NYSE:NYLD.A	Not Covered	$ 17.28	100	1,727	5,809	7,905	73%	856	935	969	1,057	9.2x	8.5x	8.2x	7.5x	7.2%
Pattern Energy Group Inc.	NASDAQ:PEGI	Market Perform	$ 19.35	98	1,899	2,275	5,309	43%	299	344	437	422	17.8x	15.4x	12.1x	12.6x	8.7%
NextEra Energy Partners, LP	NYSE:NEP	Outperform	$ 43.44	54	2,359	3,406	7,630	45%	534	495	556	624	14.3x	15.4x	13.7x	12.2x	3.9%
Saeta Yield, S.A.	BME:SAY	Not Covered	$ 12.14	82	990	1,485	2,474	60%	191	232	266	267	13.0x	10.6x	9.3x	9.3x	6.5%
TerraForm Power, Inc.	NASDAQ:TERP	Not Covered	$ 11.55	209	2,415	3,439	6,608	52%	498	448	554	706	13.3x	14.8x	11.9x	9.4x	6.6%
TransAlta Renewables Inc.	TSX:RNW	Market Perform	$ 12.61	251	3,159	959	4,155	23%	392	424	419	447	10.6x	9.8x	9.9x	9.3x	7.5%
Average													13.5x	12.6x	11.3x	10.5x	7.0%
Atlantica Yield plc	NASDAQ:AY	Outperform	$ 20.23	100.2	2,027	5,435	7,873	69%	761	769	794	869	10.3x	10.2x	9.9x	9.1x	6.3%

*Note: Estimates for Pattern Energy, TransAlta Renewables and Atlantica Yield are produced by Raymond James Ltd. Estimates and rating for 8point3 Energy and NextEra Energy Partners produced by Raymond James & Associates Analyst Pavel Molchanov. All other estimates represent consensus averages from Capital IQ

Source: Raymond James Ltd., Raymond James & Associates, Capital IQ

Appendix A: Financial Statements

Exhibit 16: Atlantica Yield Income Statement (2016A-2020E)

Atlantica Yield (AY-US) Income Statement	2016	2017	2018E	2019E	2020E
Currency: mlns USD					
Revenue	971.8	1008.4	1049.3	1137.8	1,332.9
Other Revenue	65.5	80.8	60.4	58.0	58.0
Total Revenue	**1037.3**	**1089.2**	**1109.8**	**1195.8**	**1,390.9**
Depreciation & Amort.	332.9	311.0	314.6	340.0	350.0
Other Operating Exp.	302.0	320.3	315.9	326.4	404.4
Total Operating Exp.	**634.9**	**631.3**	**630.5**	**666.4**	**754.4**
Operating Income	**402.4**	**458.0**	**479.2**	**529.5**	**636.5**
Net Interest Exp.	405.8	448.4	416.6	420.0	443.5
Income/(Loss) from Affiliates	6.6	5.4	7.4	8.0	8.0
EBT Excl. Unusual Items	**3.3**	**14.9**	70.0	117.5	201.0
Income Tax Expense	1.7	119.8	21.4	29.4	50.2
Earnings from Cont. Ops.	**1.7**	**-104.9**	**48.7**	**88.1**	**150.7**
Minority Int. in Earnings	-6.5	-6.9	-9.3	-8.0	-7.0
Net Income	**-4.9**	**-111.8**	**39.4**	**80.1**	**143.7**
Basic EPS Excl. Extra Items	**-0.05**	**-1.12**	**0.39**	**0.80**	**1.43**

Source: Atlantica Yield plc, Raymond James Ltd.

Exhibit 17: Atlantica Yield Balance Sheet (2016A-2020E)

Atlantica Yield (AY-US) Balance Sheet	2016	2017	2018E	2019E	2020E
Currency: mlns USD					
ASSETS					
Cash And Equivalents	594.8	669.4	793.0	1,066.7	1,269.6
Short Term Investments	228.0	210.1	209.2	209.2	209.2
Accounts Receivable	207.6	244.4	210.7	264.4	309.8
Inventory	15.4	17.9	17.7	21.2	24.8
Total Current Assets	**1,045.9**	**1,141.9**	**1,230.6**	**1,561.5**	**1,813.4**
Contracted Concessional Assets	8,924.3	9,084.3	8,980.5	8,796.5	8,652.5
Long-term Investments	55.0	55.8	57.6	57.6	57.6
Deferred Tax Assets, LT	202.9	165.1	173.4	173.4	173.4
Other Long-Term Assets	69.8	45.2	47.2	47.2	47.2
Total Assets	**10,297.8**	**10,492.3**	**10,489.4**	**10,636.3**	**10,744.1**
LIABILITIES					
Accounts Payable & Other Current Liabs.	160.5	155.1	144.1	158.7	185.9
Short-term Borrowings	291.9	68.9	73.8	73.8	73.8
Curr. Port. of LT Debt	701.3	246.3	303.3	370.3	390.3
Curr. Income Taxes Payable	21.4	30.0	27.0	27.0	27.0
Total Current Liabilities	**1,175.1**	**500.4**	**548.2**	**629.7**	**676.9**
Long-Term Debt	5,005.5	5,803.1	5,484.0	5,654.0	5,804.0
Unearned Revenue, Other Non-Current	1,713.8	1,777.1	1,821.2	1,821.2	1,821.2
Def. Tax Liability, Non-Curr.	95.0	186.6	201.3	201.3	201.3
Other	349.3	329.7	320.4	320.4	320.4
Total Liabilities	**8,338.7**	**8,596.9**	**8,375.0**	**8,626.5**	**8,823.7**
Common Stock	10.0	10.0	10.0	10.0	10.0
Parent Company Reserves & Other Reserves	2,321.3	2,244.2	2,228.3	2,228.3	2,228.3
Retained Earnings	(365.4)	(477.2)	(274.6)	(379.2)	(468.5)
Comprehensive Inc. and Other	(133.2)	(18.1)	9.5	9.5	9.5
Total Common Equity	**1,832.7**	**1,758.9**	1,973.3	1,868.7	1,779.3
Minority Interest	126.4	136.6	141.1	141.1	141.1
Total Equity	**1,959.1**	**1,895.5**	**2,114.3**	**2,009.7**	**1,920.4**
Total Liabilities And Equity	**10,297.8**	**10,492.3**	**10,489.4**	**10,636.3**	**10,744.1**

Source: Atlantica Yield plc, Raymond James Ltd.

Exhibit 18: Atlantica Yield Cash Flow Statement

Atlantica Yield (AY-US) Cash Flow Statement	2016	2017	2018E	2019E	2020E
Currency: mlns USD					
Net Income	**1.7**	**(104.9)**	42.7	80.1	143.7
Amort. of Goodwill and Intangibles	332.9	311.0	314.6	340.0	350.0
Financial Income/Expenses	398.0	443.5	391.2	400.0	400.0
Income Tax	1.7	119.8	(12.1)	(29.4)	(50.2)
Changes in Consolidation of Non-Monetary Items	(59.4)	(20.9)	-	-	-
Other	(8.4)	(4.6)	-	-	-
Profit Adj. By Non-Monetary Items	**666.4**	**744.0**	**736.4**	**790.7**	**843.5**
Change in Working Capital	2.0	(8.8)	16.2	(42.7)	(21.8)
Net interest and income tax paid	(334.1)	(349.5)	(356.8)	(399.0)	(410.0)
Cash from Ops.	**334.4**	**385.6**	**395.9**	**349.1**	**411.7**
Acquisitions/Investments	(22.7)	63.2	(68.8)	(156.0)	(206.0)
Total Other Investing Activities	(3.6)	8.2	(3.6)	-	-
Cash from Investing	**(26.4)**	**71.4**	(72.5)	(156.0)	(206.0)
Net Debt Issued	(171.5)	(316.8)	(70.1)	237.0	170.0
Common Dividends Paid	(35.5)	(99.5)	(139.3)	(156.3)	(172.9)
Other Financing Activities	(19.1)	0	-	-	-
Cash from Financing	**(226.1)**	**(416.3)**	(209.4)	80.7	(2.9)
Foreign Exchange Rate Adj.	(1.9)	33.9	9.7	-	-
Net Change in Cash	**80.1**	**74.6**	123.6	273.7	202.9

Source: Atlantica Yield plc, Raymond James Ltd.

Appendix B: Management

Santiago Seage, Chief Executive Officer – Mr. Seage became Chief Executive Officer in December 2013 when Atlantica Yield was created. He resigned as CEO from May 2015 to November 2015, where he then resumed the CEO role. He remained involved with the company during that short time frame by serving as Chairman of the Board of Directors. Mr. Seage received a degree in Business Management from I.C.A.D.E University in Madrid. Before joining Abengoa, he was a partner with McKinsey & Company.

Francisco Martinez-Davis, Chief Financial Officer – While working in Spain and the United States, Mr. Martinez-Davis has gained more than 24 years of experience in senior finance positions. He worked several years as Chief Financial Officer for many large industrial companies. Notably, he worked as CFO for a retailer and as Deputy General Manager in Finance and Treasury for Telefonica Moviles. Additionally, he worked for several investment banks such as, J.P. Morgan Chase & Co. and BNP Paribas. Mr. Martinez-Davis holds a Bachelor of Science in Business Administration from Villanova University and an MBA from The Wharton School of business.

Emiliano Garcia, Vice President North America – Mr. Garcia is responsible for managing the Solana and Mojave Solar power assets in Arizona and California respectively. Over the past 20 years, he has held a number of managerial positions in various Abengoa companies. Prior to Atlantica Yield, Mr. Garcia was the General Manager of Abengoa Solar and of Solana Power Plant. Mr. Garcia received his Bachelor's degree in Engineering from Madrid Technical University.

Antonio Merino, Vice President South America – Prior to his current position at Atlantica Yield as Vice President of South America, Mr. Merino was the CEO of Abengoa's Brazilian business, as well as the head of Abengoa's commercial activities and partnerships in South America. Mr. Merino attained his MBA from San Telmo International Institute in Sevilla, Spain.

David Esteban, Vice President EMEA – After serving two years at Abengoa's Corporate Concessions department, Mr. Esteban has served as Vice President of operations in EMEA since July 2014. Before joining Abengoa, David worked for the management consulting firm Arthur D. Little for seven years in the industries of Telecoms and Energy. Additionally, Mr. Esteban gained experience while working at a European private equity firm specializing in renewable energy.

Stevens C. Moore, Vice President Strategy & Corp. Development – With more than 21 years of finance experience in Spain, the United Kingdom and the United States, Mr. Moore brings a great deal of value to the management team at Atlantica Yield. Most recently, Mr. Moore worked at Codere, an international gaming company listed on the Madrid stock exchange, as a Director of Corporate Development and Investor Relations. Prior to these positions, he worked in various positions in Structured & Leveraged finance at Citibank and Banco Santander, and Vice President of M&A at GBS Finanzas.

Appendix C: Board of Directors

Daniel Villalba, Director, Independent & Chairman of the Board – Mr. Villalba brings extensive experience to the Board of Directors through his years spent as a Professor of Business Economics, at the Universidad Autonoma de Madrid, and various other positions in banking and private companies. Mr. Villalba holds a Master of Science in Operations Research from Stanford University, a Master of Science in Business Administration from the University of Massachusetts and a PhD in Economics from the Universidad Autónoma de Madrid.

Ian Robertson, Director – As an electrical engineer with close to 30 years of experience in the development, financing, acquisition and operation of electric power generating projects and diversified regulated utilities, Mr. Robertson currently serves as Algonquin's CEO. Mr. Robertson is a co-founder of Algonquin and holds a Bachelor of Applied Science degree from the University of Waterloo, a Professional Engineering designation, a Master of Business Administration degree from York University, and a Global Professional Master of Laws degree from the University of Toronto. He is also a CFA charter holder and a Chartered Director (C.Dir. – McMaster University).

Chris Jarratt, Director – With nearly three decades of experience in the independent electric power and utility sectors, Mr. Jarratt is a founder of Algonquin and currently serves as Algonquin's Vice Chair. Mr. Jarratt holds an Honors Bachelor of Science degree from the University of Guelph, a Professional Engineering designation and is a Chartered Director (C.Dir.).

Gonzalo Urquijo, Director – Mr. Urquijo brings forth extensive banking sector experience, from his time at Citigroup and Credit Agricole, as well as steel industry experience. He was also a member of the General Management Board in ArcelorMittal. Mr. Urquijo is currently the Executive Chairman of Abengoa and is a Director in Gestamp, Vocento and Fertiberia. Mr. Urquijo graduated from Yale in Economics and has a MBA from the Instituto de Empresa.

Jack Robinson, Director Independent – Mr. Robinson is Vice Chairman and Portfolio Manager at Trillium Asset Management and has served as a director for Atlantica since its inception in 2014. He also serves on the advisory board of several institutions such as the American Council on Renewable Energy, Energy, Food & Water. He attained his Bachelor's degree from Brown University.

Andrea Brentan, Director Independent – Mr. Brentan currently serves as a senior advisor to Bain Capital, but has held several executive positions in the power sector. Most notably he was the CEO of Endesa, an international utility, and has held executive positions at Enel, Alstom Power and ABB.

Francisco J. Martinez, Director Independent – Mr. Martinez has more than 30 years of experience as certified public accountant. He was a partner at PwC in charge of the Energy sector, including audit, legal and tax. He served as the deputy director for economy at the energy regulator of Spain.

Robert Dove, Director Independent – Mr. Dove brings extensive executive experience to Atlantica through several positions in that capacity and currently serves as a Senior Advisor of the Carlyle Group. Previously, he was a partner, managing director and a co-head of Carlyle Infrastructure Fund and held various executive positions at Bechtel Group Inc. and UBS Securities.

Risks

Ability to identify and acquire or develop attractive growth opportunities – Part of Atlantica's strategy includes expanding its fleet of renewable power assets. Should the company have difficulty finding or executing on such projects going forward this would negatively impact the business and potentially our estimates and rating. Atlantica Yield may take on additional equity and debt to pay for acquisitions. There is no guarantee that the company will be able to complete any such transactions that are considered. Potential transactions expose them to risks in integrating acquired businesses and personnel, with terms and conditions of financing for acquisitions could restrict their business execution.

Performance of Assets – Should the company's assets underperform expectations, this could result in a loss of revenue and cash flows. In addition, the company is also subject execution risk from third parties that provide maintenance, technological services and equipment.

Access to future acquisitions – Atlantica's growth strategy depends on their ability to successfully identify and evaluate acquisition opportunities and complete acquisitions on favourable terms. However, the number of acquisition opportunities may be limited and there is no certainty that AAGES, Algonquin or Abengoa will offer any of their assets under the ROFO Agreements that fit within Atlantica's portfolio of assets or contribute to their growth strategy. The ROFO agreement does not give a guarantee on the Abengoa drop-down assets that may become available. Abengoa does not have to sell the asset to Atlantica Yield if favourable terms cannot be met

Regulation, legal, environmental and compliance of asset base – Atlantica's strategy to grow their business through the acquisition of renewable energy projects partly depends on current government policies that promote and support renewable energy and enhance the economic viability of owning solar and wind energy projects. Renewable energy projects currently benefit from various federal, state and local governmental incentives. A loss in such incentives could decrease the attractiveness of solar or renewable energy projects to project developers, and the attractiveness of solar energy systems to utilities, retailers and customers, which could reduce their acquisition opportunities.

Financing and interest rate risk – The company may from time to time require cash for new projects which would come from either operational cash flows or external sources such as raising additional equity or debt on public markets. The inability to source sufficient cash by these methods to expand and maintain Atlantica's business represents a risk of this strategy. In addition, increased interest rates on the company's floating rate facilities or difficulties in refinancing existing debt could arise. Atlantica also has certain financial restrictions and debt covenants as part of its existing loan/security agreements which, if not met by the company, could result in issues in refinancing debt or sourcing sufficient liquidity to withstand downturns in the business.

Exchange rate risk – Given that Atlantica's functional currency is the US dollar, most operations are indexed or linked to the US dollar. Solar assets in Spain and the KaXu project in South Africa are denominated in euros and the South African rand, respectively. Although Atlantica does largely hedge the exposure to the euro, fluctuations in the South African rand could impact cash flows, albeit at minimal impact.

Environmental regulation risk – Atlantica Yield is subject to significant environmental regulation, which requires them to obtain and maintain regulatory licenses, permits and other approvals and comply with the requirements of such licenses. Additionally they must perform environmental impact studies on changes to projects. As such, there can be no assurance that: public opposition will not result in delays or cancellation of any project or license; laws or regulations will not change or be interpreted in a way that increases their costs of compliance or their operations; or governmental authorities will approve our environmental impact studies.

Counterparty risk – A significant portion of the electric power they generate, the transmission capacity they have, and their desalination capacity is sold under long-term offtake agreements with public utilities, commercial end-users or governmental entities. To the extent any of their power, transmission capacity or desalination capacity purchasers are controlled by governmental entities, their facilities may be subject to sovereign risk or legislative or other political action that may impair their contractual performance.

Concentrated shareholder base – Upon completion of the acquisition of shares; Algonquin will beneficially own and will be entitled to vote approximately 41.5% of ordinary shares. There is no assurance that the interests of Algonquin will coincide with the interests of the purchasers of Atlantica's shares.

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
8point3 Energy Partners LP	CAFD	NASDAQ	US$	12.42	3	RJ & Associates
Algonquin Power & Utilities	AQN	TSX	C$	12.71	1	RJ Ltd.
NextEra Energy Partners, L.P.	NEP	NYSE	US$	43.44	2	RJ & Associates
Pattern Energy Group Inc.	PEGI	NASDAQ	US$	19.35	3	RJ Ltd.
SunPower Corporation	SPWR	NASDAQ	US$	7.62	2	RJ & Associates
TransAlta Renewables Inc.	RNW	TSX	C$	12.61	3	RJ Ltd.

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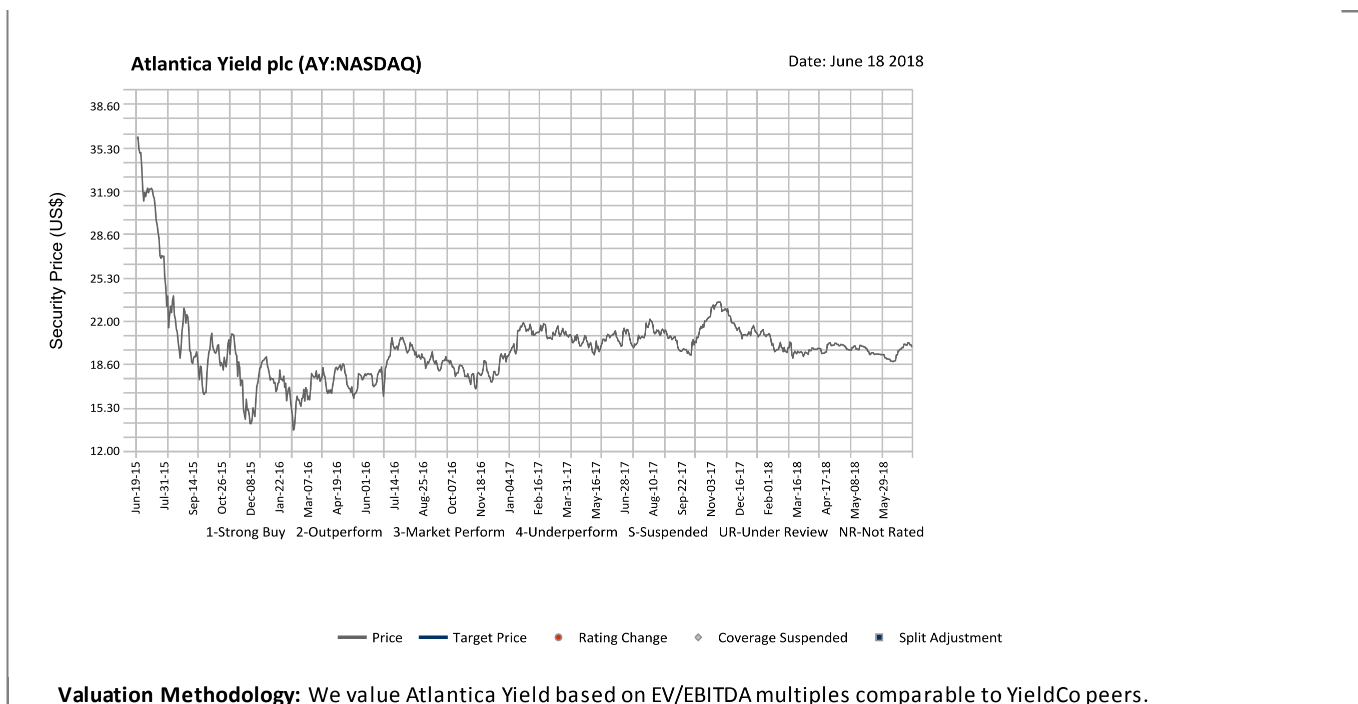

Valuation Methodology: We value Atlantica Yield based on EV/EBITDA multiples comparable to YieldCo peers.

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Risks - Atlantica Yield plc

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