

Rating	Hold
Price (28 Nov 2020, \$)	66.75
Price Target (\$)	64.00
Market Cap (\$ B)	12.14
Enterprise value (\$ B)	14.71

Target price is an estimate based on past data

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Sunrun Inc. (RUN)

COMMENT

‘Sunrun Announces Definitive Agreement to Acquire Vivint Solar’

Sunrun and Vivint Solar share a mission to create a planet run by the sun. A statement says “Together, we can empower more families to take control of their energy future by increasing customer choice in how they create and consume power.” Sunrun acquired Vivint Solar in an all-stock transaction (each share of Vivint Solar common stock was exchanged for 0.55 shares of Sunrun common stock). Vivint Solar stockholders are expected to own approximately 36% and Sunrun stockholders are expected to own approximately 64% of the fully diluted shares of the combined company. The exchange ratio implies a 10% premium for Vivint Solar shares based on closing price and a 15% premium to the exchange ratio implied by the three-month volume-weighted average price of Vivint Solar and Sunrun shares.

Share Price Performance

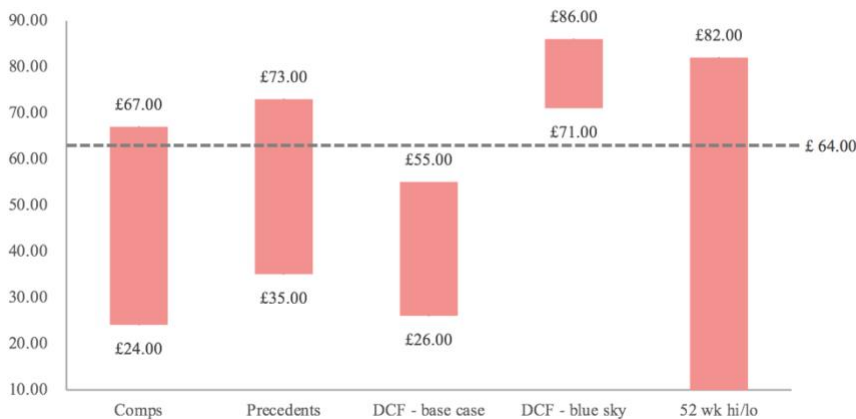


Financial and valuation metrics

Year	30/09/20	30/06/20	31/03/20
Market Cap (\$B)	9.83	2.41	1.21
EV (\$B)	12.35	4.93	3.57
EV/Rev	58.87	27.21	16.94
EV/EBITDA	NGV	NGV	NGV
Trailing P/E	NGV	197.20	48.10
Forward P/E	90.09	588.24	37.04
Price/Sales	11.45	2.82	1.46
Price/Book	1.07	2.76	1.26

Performance	RUN	SPX	SPWR	Year	28/08/20
TTM (%)	-0.13	-0.06	-2.81	Operating Margin	(27.05%)
1W (%)	+10.13	+1.69	+6.00	Profit Margin	1%
2W (%)	+20.48	+1.71	+19.88	ROE	(23.73%)
1M (%)	+19.54	+10.31	+43.61	Debt/Equity	156.58
3M (%)	+28.12	+4.39	+106.97	BV/Share	8.10
1Y (%)	+380.90	+15.86	+372.17	Float (\$M)	138.66

Valuation Summary



Notes

Key assumptions were made for the following items: perpetual growth, discount rate, tax rate, revenue forecasts. The main method used for revenue forecasting was top-down. Precedents involved one unusually large transaction (of which involved a 10%+ premium - the synergies involved in this deal are likely to be the reason precedents far outstretch comparables). DCF blue sky assumed a perpetual growth rate of 7% (less than the forecasted and historical). However, the continuation is questionable, especially in the larger figures. 52 hi/lo was especially affected by COVID-19 and thus stretches from base to high (for this reason no avg was used from this section).

Sunrun Inc. (RUN)

Price (28 Nov 2020): **\$66.75**; Rating: **Hold**; Target Price: **\$64.00**; Analyst: **Joshua Bissell**

Overview

Sunrun Inc. (RUN) are an American company that provide solar panels, home batteries and multiple other sources of renewable energy. Over recent months they have seen a great deal of demand (proven by the increases in revenue (12% minimum YoY).

Revenue Streams

Solar energy systems: Solar energy systems are one of Sunrun’s main segments for revenue creation. Their “TAN” panels, inverters and racking systems are the main sellers in this section. However, other solar-related products are also sold to re-sellers and wholesalers.

Consumer product sales: Further, customers can also purchase this product. This generally arises from customer leads with third-party firms (e.g. Sunrun’s partners and other solar providers). The customer will use the solar panel after purchase and thus would be eligible for federal tax credits, incentives, and state tax rebates. This line of income for Sunrun is likely to increase for a few reasons:

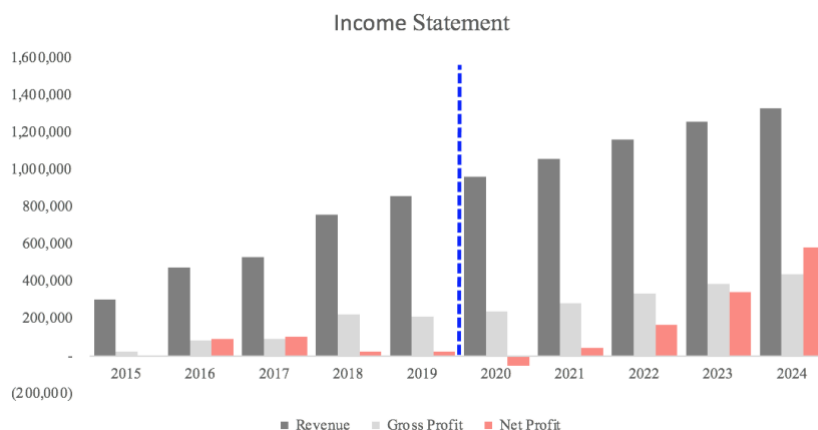
1. Increased customer base and exposure due to the recent acquisition of Vivint (will be mentioned later on).
2. Recent election antics are likely to benefit renewable energy plans and incentives assuming available information is accurate.

Operating leases & incentives segment: This section of revenues mainly includes proceeds from customer agreements, solar energy systems rebate incentives and SREC’s. The two types of offer agreements are solar lease agreements and power purchase agreements. In both cases money is received as a fixed monthly payment, however, in the latter it is a fixed sum of the power generated). Sunrun, does however, need to both install and maintain the solar panels for the customer. This is likely something that should be looked at due to the incredibly high costs of the company (thus leading to negative operating profits). One benefit of maintaining this is that Sunrun is eligible for both federal and state tax credits (this is shown in Sunrun’s 2019 income statement – they had a negative tax payment even though their minority interests exceeded expenses). Finally, it is important to mention that Sunrun provide a net metering system free of charge – this is then retrieved and thus classed as inventory.

Income Statement (\$,000)	31/12/18 A	31/12/19 A
Revenue	759,981	858,578
Cost of Revenue	534,923	645,829
Gross Profit	225,058	212,749
Operating Expenses	346,989	428,489
Operating profit	(121,881)	(215,740)
Pretax profit	(250,864)	(399,240)
Tax provision	9,322	(8,218)
Net Income	26,657	26,335

Balance Sheet (\$,000)	31/12/18 A	31/12/19 A
Current Assets	461,413	733,830
Non-current Assets	4,288,374	5,072,511
Total Assets	4,749,787	5,806,341
Current Liabilities	372,191	530,094
Non-current Liabilities	3,094,814	3,944,815
Total Liabilities	3,467,005	4,474,909
Total Equity	1,282,782	1,331,432
Total Equity + Liabilities	4,749,787	5,806,341

Cash Flow (\$,000)	31/12/18 A	31/12/19 A
Operating Cash Flow	(62,461)	(204,487)
Investing Cash Flow	(811,316)	(843,255)
Financing Cash Flow	936,386	1,106,572
End Cash Position	304,399	363,229
Capex	(811,316)	(840,533)
Interest	76,313	99,472
Issuance of Debt	1,214,626	1,376,139
Repayment of debt	(543,619)	(884,989)
Free Cash Flow	(873,777)	(1,045,020)



As you can see the blue line represents the handoff from historical data to future estimates. Reviewing the historical data shows, although revenue and thus gross profit are continuously increasing, net profit dips in 2018 and 2019. The large jump in operating income is the main culprit for this because in 2019 there was a tax rebate. This isn’t shown on the graph or in the income statement above, but the net profit is influenced by Sunrun’s subsidiaries (Vivint being one of them and this is why the net profit figure is positive). In the long run, the extrapolated data looks promising, but this is based on certain assumptions.

INVESTMENT RATIONALE

After acquiring Vivint Solar, they have a combined customer base of over half a million customers and in turn, have 3+ GW worth of assets on their consolidated balance sheet. One of their rationale for the move was employee related – they can now off their employees more opportunities and stability. Other rationale includes:

1. Cost synergies – using Vivint’s highly trained consultative field experts.
2. Structural cost reduction and customer benefit – Vivint had a contactless selling and installation experience that Sunrun wanted to make use of.
3. They expect cost synergies to equal \$90 million in realizable value per year (technological synergies, optimizing branch footprint).
4. They wanted to scale their current racking technology and improve sourcing capabilities within their supply chain.
5. Further, Sunrun benefitted from other shared corporate functions (e.g. HR, accounting, etc.)
6. Finally R&D synergies – allowing them to lower prices and offer new technology such as virtual power plants.



ESG RISK TOTAL: 6.8 (Low)

Environmental risk score: 0.2

This is low because of the carbon-negative program that Sunrun has introduced. Further, the exact figures for CO2 reduction total 5.2 million metric tons. Sunrun also has corporate targets in place that are in line with ESG (one being the goal to replace fossil fuel plants with renewable energy sources).

Social risk score: 3.2

A formal committee was founded within Sunrun in order to manage all issues related to ESG. Sunrun also established board-level oversight and nominated CSR as a key talking point at meetings.

Governance risk score: 3.4

We weighted this section as 20% with social risk and environmental score steaming ahead. This is mainly due to the nature of the company. However, governance could come as an important factor when it comes to tax benefits for both consumers and Sunrun.

Controversy Rating: 0/5

This should come as no surprise. The industry average is 1 to put this in perspective.

DEVILS ADVOCATE

Porters 5 forces

The Vivint deal effectively creates a monopoly in the U.S. residential solar market. Sunrun’s business is likely to switch completely to a self-installation focus after the announcement that Vivint has a contactless purchase and installation system. This change could come as a surprise for a company that originally started as software solutions and may bring resistance from some early employees. A big competitor will allow Sunrun to raise prices and/or keep them elevated. This will allow Sunrun to open margins back up in certain regions (places where competition may be bringing excessive margin pressure). Cost synergies in both cases are likely to result in additional profits and better cashflows thus benefitting Sunrun.

US Market

While it is true US annual renewable energy exceeds that of coal for the first time in over 100 years Sunrun is verging at the top of its valuation according to base DCF and Comparables. The precedents and blue-sky model do show there is room to grow, however, for now I maintain this report at a hold recommendation due to weak cashflows and primarily negative operating profits. However, in the future, Sunrun does have potential to lower costs (using synergies provided by the Vivant Solar deal). However, as of now, it is uncertain whether the \$90 million estimate is accurate.

MARKET OVERVIEW

Industry: Renewable Energy

Location: Worldwide (50% US)

Market Size: \$10.44 Billion (Global Renewables)

Predicted CAGR: 6.1% per annum (until 2025)

Vivant Solar’s Top Holders

Blackstone – 55.31%

FMR – 13.87%

Key Competitors

Centrica

Price: £45.75

EV: 6.29 Billion

EV / EBITDA: 2.74

P/E: 11.19

Debt / equity: 363.64

Float: 5.57 billion

Beta: 1.23



It is important to note the holders of Vivant as these are now likely to hold Sunrun due to the nature of the All-stock deal. To the right, there are two of Sunrun’s competitors. No competitor is a perfect comparison - for this reason, we included one industry competitor and also Centrica who diversified into Solar with subsidiaries (this more closely aligns with Sunrun’s capital structure).

SunPower

Price: \$23.16

EV: \$4.59 Billion

EV / EBITDA: 21.49

P/E: 59.23

Price / Book: 54.86

Float: 80.88 Million

Beta: 1.97

