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The Best of Breed Yieldco Most Investors Have Never Heard Of

You recently learned about a “super crystal” that will revolutionize solar power – perhaps the entire energy industry as we know it.

This is huge. Transformative. But you only need to keep an eye on one company to get in on the profits we see ahead.

The super crystal in question is called perovskite, and it has the potential to literally upend the solar industry, as we have explained.

And the company that could benefit most is what’s known in the industry as a solar yieldco company.

A yieldco is a dividend growth-oriented public company, created by a parent company (e.g., First Solar), that bundles renewable and/or conventional long-term contracted operating assets in order to generate predictable cash flows.

If that sounds a bit technical, don’t worry. I’ll explain...

Solar has been a tough sector of late, especially in the yieldco space.

Ever since the troubles began with SunEdison, yieldco have lost the trust of many investors in the market.

In that sense, one such company, 8Point3 Energy Partners, could not have gone public at a worse time.

The firm is a joint venture between First Solar and Sun Power, and it did an IPO in 2015, just as investors started to sour on the space. The company dipped shortly after its IPO and has been slow to bounce back.

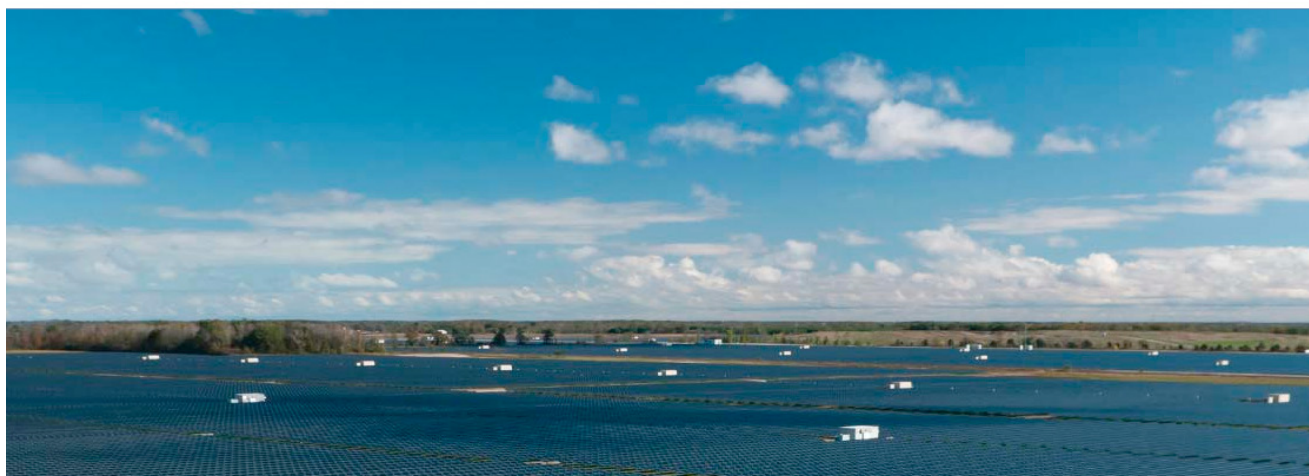
Here’s the thing:

That’s wonderful news for investors who can look beyond the short-term!

Today, 8point3 (ticker symbol: CAFD) presents a great opportunity. We think it’s one of the best and most underappreciated investment opportunities available right now.

8point3 is a growth-oriented limited partnership formed by First Solar and SunPower to own, operate and acquire solar energy generation projects.

In recent months, six of 8point3’s own executives have bought stock at market prices – management is putting its money where its mouth is.



8POINT3 ENERGY PARTNERS

The opportunity in 8point3 stems from two distinct factors...

First, the company is in a very strong place financially, while most of its peers are suffering under fundamentally bad business structures.

Second, 8point3 is well positioned to benefit from the revolutionary solar material, perovskite.

While the story behind 8point3 is exciting and cutting edge, the more mundane sounding objective of the company should be music to investors' ears: To generate predictable cash flow that grows at a sustainable rate.

CAFD will create huge value over time by acquiring high-quality solar assets that generate long-term contracted cash flows and serve utility, commercial and industrial (C&I) and residential customers in the United States and other select markets.

The relationship with its Sponsors provides CAFD with a major competitive advantage. CAFD has a right of first offer (ROFO) on interests in a number of advanced development stage projects included in the pipeline of its Sponsors (over 1.2 gigawatts).

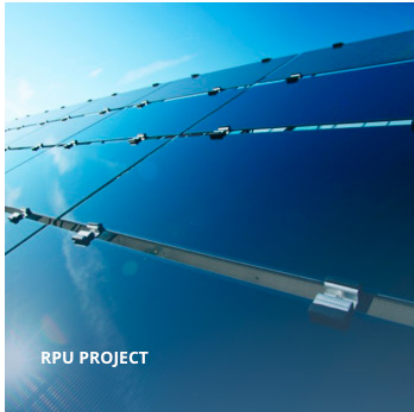
You do not want to invest directly in CAFD's sponsors at the expense of investing in CAFD. CAFD is simply a more efficient vehicle for benefiting from advancing technology and generating significant income for its investors.

That income comes from the efficiency of 8point3's sponsors. CAFD's Sponsors have a vertically integrated business model across the solar value chain, from solar module and select balance of systems manufacturing to providing engineering, procurement and construction, or EPC, and operations and maintenance, or O&M, services.

That vertical integration enables the Sponsors to more efficiently develop solar energy projects as their track record in development shows. The Sponsors then pass those projects along to CAFD and its investors.

8point3's current slate of projects includes highly profitable solar developments leasing power directly to groups like Macy's department stores and the University of California Davis.

Essentially, investors buying into 8point3 are buying into a little known company that is the power behind a lot of bigger organizations.



We believe the pipelines of First Solar and SunPower remain very strong, and expect both to improve even further with the extension of the Investment Tax Credit.

CAFD's joint ownership creates better oversight and governance in that the company does not overpay sponsors for projects to support its sponsors.

That type of destructive relationship is what happened with SunEdison and the deals it structured with TerraForm Power and TerraForm Global. Those deals left both sub-firms with massive debt loads. TERP has about \$80 million in short-term debt and an enormous \$1.5 billion in long-term debt. GLBL has roughly \$30 million in short-term debt and a dizzying \$500 million in long-term debt.

We believe solar is highly attractive for Yieldco vehicles like CAFD. Higher quality solar generation assets perform better and cost less to maintain than traditional generation.

Additionally, solar products require much less maintenance, simply because there are fewer moving parts. That's why groups like UC Davis want to work with 8point3 to take advantage of solar.



UC DAVIS PROJECT

The UC Davis Project is a 13MW solar generation facility located in Solano County, California. The project entered commercial operation in the fall of 2015. Energy from the project is used to supplement the on-site load at the UC Davis campus. 8point3 Energy Partners owns 100% interest in this asset.

Project Size

13MW

Location

Solano County, CA

Offtaker

UC Davis

Given that these panels are also expected to have a useful life of up to 40 years, investors should benefit from the quality and performance of its projects for decades to come.

Also, an advantage of solar is that all costs are incurred upfront to build the project, with no input costs needed to generate electricity, making the assets ideal for a yield-oriented investment.

Speaking to the firm's financial strength, CAFD has about \$360 million in long-term debt, but they have no short-term debt on the balance sheet. Moreover, not only does CAFD have significantly lower levels of debt, but it also has access to credit with a much lower interest rate with its current revolver of 2.67%.

CAFD also has an excellent slate of projects – enough to fund 12-15% growth for a long time to come without relying on third party M&A deals, which can be of more questionable quality.

Summary of 8point3 Energy Partners Operational Advantages:

I. Sponsor pipeline provides long term growth opportunity

II. Remain committed to sponsor only projects – no 3rd party M&A expected

III. Retain optionality and flexibility around growth and capital structure

- I. Focus remains on increasing long term shareholder value
- II. Assets already in place to maintain expected 12-15% growth target through 2017
- III. Sponsors balancing dilution with asset ownership

IV. Conservative capital structure

- I. No project level debt in existing portfolio

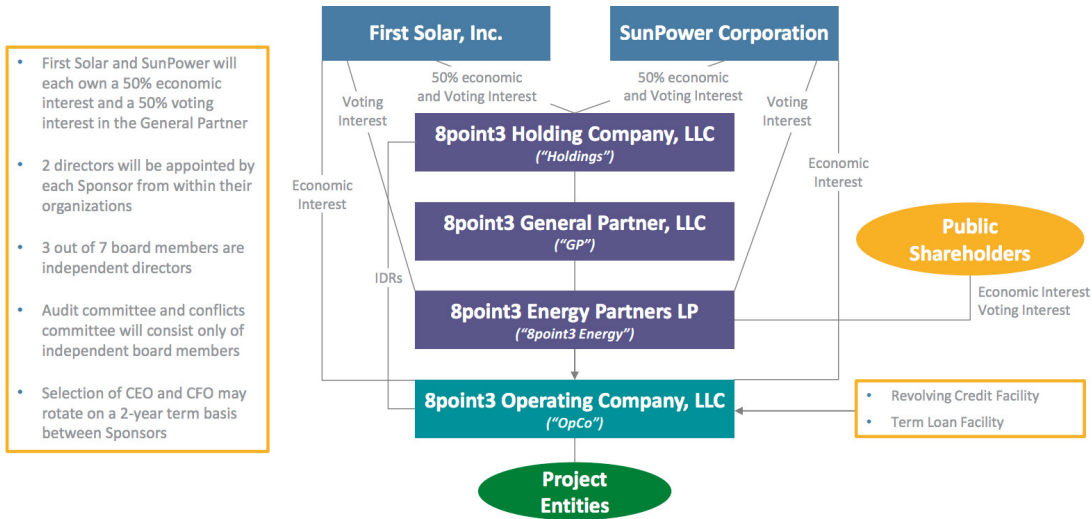
V. Corporate governance structure that is aligned with investors interests

CAFD also has a very favorable governance structure for investors, as the chart below illustrates.

This type of arrangement is very important for investors, particularly after the issues that SunEdison has had, which have undermined trust in this type of investment structure.

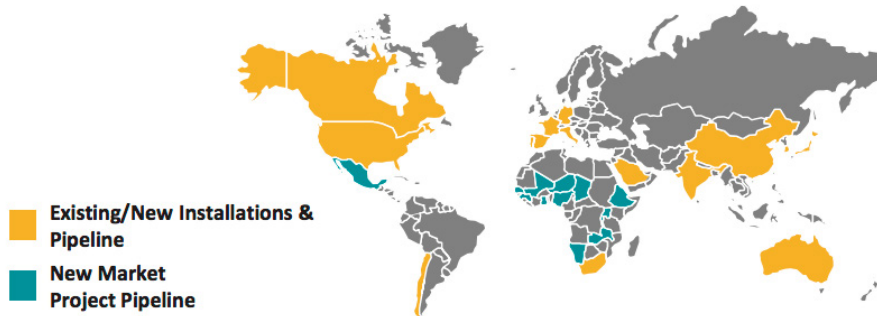
In addition to the accountability created by the partnership's structure, stability is also created by long-term contracts the company operates under. CAFD has a portfolio that allows for a long-term series of steady cash flows.

Its projects have power purchase agreements with a weighted average length of about 20 years, and its industrial project's off-taker's credit quality rating is investment grade, which minimizes counter-party risk.



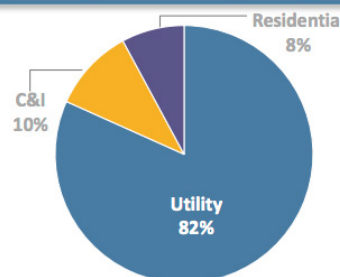
8Point3 Energy Partners Project Portfolio

25+ Countries

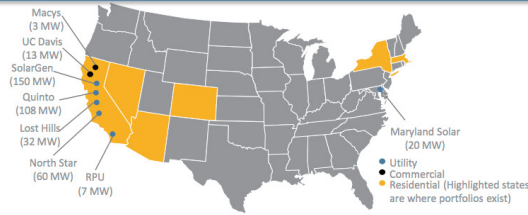


- Active and successful across diverse customer segments
- Total S.A. relationship adds global commercial opportunities and co-development platform

Pipeline by Customer Segment (MW)



8point3 Initial Portfolio



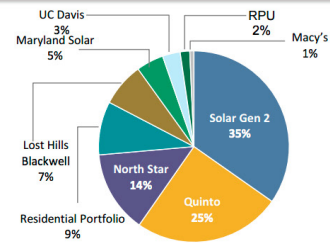
Project	COD ¹	Location	Gross MW(ac)*	Offtaker	Counterparty Credit Rating / Avg. FICO Score	Remaining PPA Tenor ²
Utility						
Maryland Solar	Feb-14	MD, USA	20	First Energy Solutions	BBB-	18.0
Solar Gen 2	Nov-14	CA, USA	150	San Diego Gas & Electric	A	24.7
Lost Hills Blackwell	Apr-15	CA, USA	32	Pacific Gas & Electric	AA+ / BBB	28.7
North Star	Jun-15	CA, USA	60	Pacific Gas & Electric	BBB	20.0
RPU	Oct-15	CA, USA	7	City of Riverside	A-	25.0
Quinto	Oct-15	CA, USA	108	Southern California Edison	BBB+	20.0
Commercial & Industrial						
UC Davis	Sep-15	CA, USA	13	University of CA	AA	20.0
Macy's	Oct-15	CA, USA	3	Macy's Corporate Services	BBB+	20.0
Residential						
Resi Portfolio	Jun-14	USA	39	Approx. 5,900 Homeowners	765 Average / 680 Minimum	17.3
Total			432			WAL: 22 yrs²

* MW shown on a gross basis. Refer to S-1 for additional disclosures.

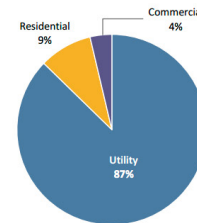
¹ COD represents expected timing, where applicable.

² Remaining term of offtake agreement is measured from the later of March 31, 2015 or the COD of the applicable project. Refer to S-1 for additional disclosures.

Gross MW by Project



Gross MW by Customer Segment



CAFD is trading with a dividend yield in excess of 5%, which means that even if the stock just trends water, investors still earn a reasonable return with a great deal of consistency on their investment.

According to CFO, Mark Widmar, the company is “well positioned to support our targeted 12 to 15 percent annual distribution growth rate through 2017”, and it looks like that trend will continue for years into the future.

In other words, CAFD could be the next Kinder Morgan – a company that has grown dividends and rewarded shareholders for many years. On that basis alone, 8point3 is worth owning.

Perhaps more important than any of the current financial strengths of 8point3, is the firm's long term opportunities.

As an owner and operator of major solar projects, the company is poised to benefit in the longer term from perovskite, which could revolutionize the solar field.

Modern conventional solar cells are typically made of silicon and feature power conversion efficiencies in the range of around 20-22%. That figure has been stagnant since roughly 2000. Yet solar power has taken off since that time.

The success of solar is mostly due to the fact that costs have come down substantially over time on conventional cells. In other words, the current solar revolution is an economic one rather than a technological one.

Perovskite solar cells could change that.

That technological problem is not impossible to solve, though. It's just a matter of using the right materials and overcoming the engineering challenges involved.

In April of 2013, Sharp Corporation announced that they had achieved the world's highest solar cell conversion efficiency of 44.4% with their concentrator triple-junction compound solar cell. That success is significant, but getting a 44.4% efficiency level on a conventional solar panel rather than a single solar cell is another matter.

Perovskite solar cells can help with the engineering challenges in question. Perovskite is an extremely versatile mineral that

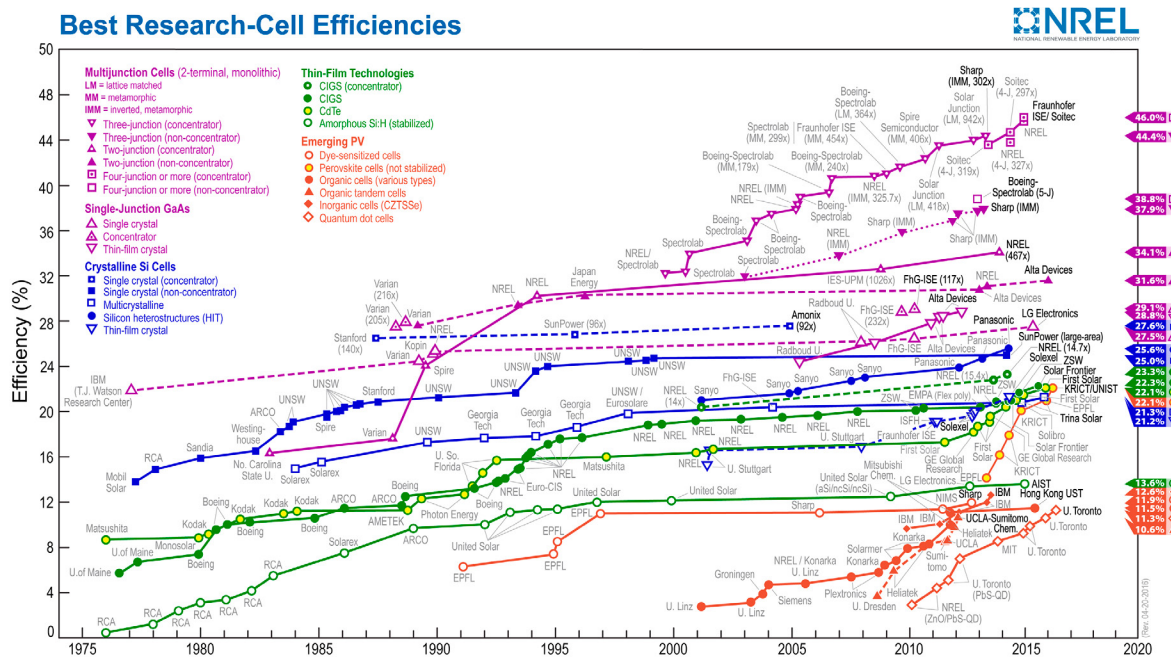
occurs naturally as calcium titanium oxide. The material is excellent from a cost perspective for making solar cells.

One 2012 Oxford University study predicted that perovskite solar cells, for instance, could be used to cut the costs of making solar panels by 75%.

As a technology, perovskite solar cells have also come a long way. Initial attempts at making solar panels with perovskite led to efficiencies of around 4%.

Modern formulations of the versatile material used in conjunction with other materials have made drastic improvements. For instance, in April 2016, Hong Kong Polytechnic researchers demonstrated perovskite solar cells with an efficiency of 25.5% - that's still not as good as the 44.4% that Sharp Corp researchers found in theoretical tests, but it's better than conventional solar panels with a 20% efficiency.

The chart below shows the rapid progress that perovskite solar cell formulations have made in efficiency terms in a short period of time.



For investors looking at 8point3, the future does not depend on perovskite solar cells – CAFD will be a successful company regardless of whether or not perovskite cells reach the potential they appear to have.

But perovskite is a very promising technology that appears poised to be the next game changer for solar – perovskite cells will be on the market by 2017 and could be disrupting traditional solar production by 2019.

If this occurs, then 8point3 will be able to take advantage of even more profitable projects over time, especially given CAFD's association with two of the world's preeminent solar developers. This arrangement will let the firm build an unparalleled set of assets that will pay steady cash flows to investors for decades to come.

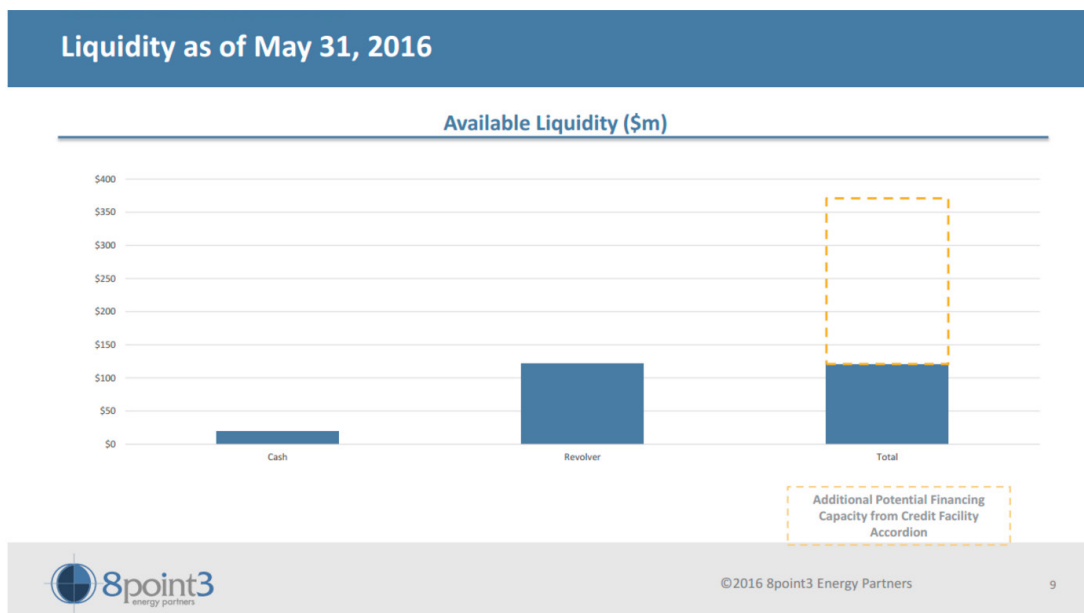
CAFD has the ability to take advantage of new technology and attractive new solar projects in a way that few other companies do.

8point3 has kept a strong balance sheet with minimal amounts of long-term debt and no project-level debt. The company also has considerable capital available from an accordion credit facility. That facility combined with its cash and current revolver gives CAFD access about \$400 million.

Management has repeatedly told investors it wants to expand this opportunity even more by working to achieve an investment grade credit rating. CAFD management has confidence it will be able to achieve that hallmark thanks to sound current financials, predictable cash flow with long-term contracts, and off-take agreements with investment grade organizations.

These are the same characteristics that allow the firm access to cheap debt, and once the company gets an investment grade rating, that debt cost will be even lower.

The company's current revolver is LIBOR plus 200 basis points, which equates to an approximately 2.5% interest rate. This inexpensive available liquidity is crucial to CAFD as the firm looks to continue its growth while avoiding shareholder dilution through secondary offerings at depressed share prices.



8point3 is not without risks, though.

In particular, a big risk that investors should take into account is that CAFD, like other yieldcos, is legally obligated to pay out almost all cash available for distribution to investors. That requirement means that the firm lacks the ability to keep a cash cushion they'll want during times of market turbulence.

It also means that 8point3 requires strong access to both cheap debt and equity markets to fund growth. If the market continues to keep CAFD share prices depressed, the company may not be able to raise the needed capital via equity offerings and dividend growth could slow.

These issues are unlikely to be serious concerns in my view, given the strength of the management team and 8point3's financials.

Basis for Recommendation:

CAFD should have a year of strong financial results ahead. We forecast revenue of \$90 million in FY 17, which would represent an increase of ~50% compared to our \$59 million estimate for FY 16.

As of May 31, 2016, CAFD's portfolio consisted of 525 megawatts (MW) of solar generating assets. These assets had an average weighted life of 20 years.

Based on this portfolio and its expected growth over time, we see cash available for distribution growing to \$82 million in FY 17 compared to our expectation for \$63 million in FY 16 and the actual \$25 million posted in FY 15. In particular, the Kern County, Kingbird and Hooper projects appear poised to add more than \$12 million in additional annual pre-tax cash available for distribution.

While the dislocation in the yieldco space around the SunEdison bankruptcy is unsurprising, we believe this will slowly subside.

Based on its current financial profile, CAFD appears poised to maintain a dividend growth rate of 10%-15% through the end of 2018 given planned asset purchases that will become operational in the coming quarters.

We see CAFD as "best of breed" within the admittedly tough yieldco space and view it as a core holding for income investors. The firm's conservative business strategy is prudent in light of challenges from peer yieldcos tied to SunEdison. Ultimately, CAFD's underlying assets are attractive and good cash flow generators. Going forward, we expect all asset purchases to come from the sponsor as opposed to third-party acquisitions.

We estimate CAFD shareholders will see distributable cash per share of \$1.03 in FY 16 and \$1.30 in FY 17, and an annualized dividend per share of \$0.96 for FY 16. That dividend should grow to \$1.12 in FY 17 for a year-over-year growth rate of 16.7%.

CAFD's backing by two established and well-capitalized sponsors help to give it a pipeline that is unparalleled in the yieldco space, and give the company upside around new technology developments like perovskite that could fundamentally upend the traditional power generation market.

Sage investors should start looking at 8point3 as an investment option now while the rest of the market sheep are still avoiding the sector altogether and valuations remain attractive.

We are keeping an eye on this breaking situation... so keep an eye on your inbox for further updates from us. We have our eyes on a few companies that could IPO... keeping track of patent applications... reaching out to insiders... looking for the next play, and we'll let you know what we find for you.