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Subject: To Do - NRG bonds - reiterate OW

Date: Fri, 17 Feb 2012 18:52:51 +0000

Attachments: Short_Circuit.pdf

Jeffrey

We should buy \$1mm of this bond. Ytw 7.625%.

Dave Katz reiterates OW in his initiation of a high yield utility monthly.

We reiterate our Overweight on NRG credit and update our NRG financial model in advance of earnings. We estimate that the company generated \$384 million of EBITDA in 4Q11. We expect NRG will address the lower natural gas price environment and how it will impact, if at all, its timeline to refinance the 2017 notes and the company's shareholder friendly actions (i.e., dividends and share repurchases). We model a pick-up in shareholder friendly activities; this assumption may prove conservative if the company does not refinance the 2017 notes and given that NRG may flex the activities down to help guard cash.

Despite these assumptions, and using the current natural gas forward price curve (NGA <CMDTY> <GO> CCRV <GO>), we expect gross recourse debt leverage would increase from 4.2x to 5.3x at the end of 2013, before falling to 4.3x at the end of 2014. We believe NRG Energy is set up to survive an extended period of low power prices.

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