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Subject: NRG Bonds

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Attachments: JPM_NRG_Energy_Initiatin_2011-12-13_742861[1]-pdf.zip

Jeffrey

NRG bonds look very interesting. We should buy \$1MM of the NRG 7.625% 2018 at ytw 7.50%.

We initiated coverage on the bonds in December with an OW (note attached)

NRG is an independent Power producer (IPP) with a generation blend of 44% nat gas, 33% coal, 16% oil, 5% Nuclear & 2% wind. 67% of Adjusted EBITDA comes from wholesale generation and 33% retail generation. Think of the product mix as follows; NRG wants high energy prices to sell long term contracts while they want low energy prices for their retail business since they do not pass through cost savings to customers.

Running an asset valuation using very conservative assumptions, our analyst thinks the bonds are well covered with a total asset valuation of \$12.4 billion implying 1.4x coverage on the unsecured notes.

We estimate NRG generates free cash flow before growth investments, share repurchases, and dividends of \$933 million in 2012, \$738 million in 2013, and \$1.04 billion in 2014.

In the attached note, our analyst said;

"The company compares well to other IPPs in our high yield universe. NRG has the most diversified generation portfolio in terms of both fuel type and generation type (i.e., baseload, peaking, etc.). The company is lower levered than all names but AES and trades 170bp wide to Calpine, with whom it shares similar ratings. We recognize that Calpine trades so tight because of its natural gas portfolio, but think that NRG trades too wide, in relation, given its strong credit profile. We also think NRG should trade more than the current 100bp inside of GenOn given NRG's stronger credit metrics, balanced somewhat by its slightly lower (as a percentage of debt), but still strong liquidity."

I prefer the 7.625% of 2018 due to their debt distribution. This is the first issue to mature excluding a \$2.3 B revolver and a \$1.1 B unsecured issuance which will likely be called based on how they're trading. If you go a little bit further you have a \$1.6 B loan and another \$1.7 B unsecured maturing in 2019.

Paul

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