EQUITY RESEARCH

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Talen Energy Corporation

Where Power Meets Compute

A Bird's Eye View: Talen Energy is a Texas-based independent power producer owning 13.1 GW of power infrastructure, uniquely positioned at the intersection of nuclear power generation and AI data centre demand. The company recently signed a US$18 billion, 17-year power purchase agreement (PPA) with Amazon Web Services (AWS), in addition to Amazon's US$650M acquisition of Talen's data centre campus in 2024. We initiate coverage with a BUY rating and a price target of $478, representing 28.4% upside from the current price of $372.16.

Key Points:

On-Site Power Generation Is Inevitable. Grid operators have flagged electricity supply gaps as data centres add 5–7 GW of demand annually while new power plants only add 2–3 GW of additional power. Subsequently, on-site power generation directly addresses this gap by producing electricity independently. Talen was the first company to operate a co-located independent power plant and data centre facility, with Amazon's $650M acquisition of the facility approving the feasibility of the project. Furthermore, nearly 30% of data centre projects announced in 2024 are expected to adopt on-site power as a primary source by 2030.

Flywheel Strategy Accelerates Portfolio Growth. Talen's "flywheel" strategy involves acquiring power plants at attractive prices, negotiating long-term PPAs with its data centre customers, and redeploying free cash flow from contracts to fuel incoming acquisitions. Since emerging from bankruptcy in 2023, Talen has deployed $6.95B across four gas plant acquisitions, adding ~5.5 GW of additional power to its portfolio, while maintaining net leverage of below its 3.5x target.

2025 GAAP Loss Masks Underlying Profitability. The FY2025 GAAP net loss of $(219)M was driven by a one-time, non-cash $501M stock-based compensation remeasurement charge. After normalizing the income statement for the non-cash expense, we get an adjusted EPS of $6.17, and an adjusted revenue of $2,626M (+26.7% YoY). Looking forward to 2026E, we expect EBITDA to surge to $2,018M, driven by the first full year of AWS PPA revenues and contributions from 4 newly acquired gas plants.

Recommendation. We initiate coverage on Talen Energy Corporation with a BUY rating and a 12-month price target of $478 (28.4% upside). Our blended target reflects: 40% DCF ($470.36), 30% EV/EBITDA comps ($506.39), 20% EV/CFO comps ($444.60), and 10% P/E comps ($490.22).

Outperform

NASDAQ: TLN; USD$ 372.16

Price Target: USD$ 478.00

Scenario Analysis*

Downside Scenario	Current Price	Price Target	Upside Scenario
$284 -9%	$372.16	$478 ↑ 28%	$551 ↑ 48%

**Implied Total Returns*

Key Statistics

Shares O/S:	45.4M	52 Week H/L:	$451/$232
Dividend:	N/A	Market Cap:	15.94M
Enterprise Value:	22.8B	Forward EV/EBITDA:	11.47x
Free Float:	99.22%	Beta:	1.64

Key Financial Metrics

FY Dec	2024A	2025A	2026E	2027E
EPS (Adj) - FD	$19.39	$6.17	$21.54	$29.24
P/E (Adj)	19.2x	60.2x	18.2x	13.21x
Revenue (MM)	**2,073**	**2,626**	**4,227**	**4,664**
EBITDA Mgn.	36.4%	40.1%	47.7%	53.0%
EBITDA (MM)	**770**	**1,035**	**2,018**	**2,474**
Net Debt/EBITDA	3.4x	5.9x	3.4x	2.7x
FCF/Share ($)	$6.23	$11.54	$26.21	$33.61

All values in USD unless otherwise noted.

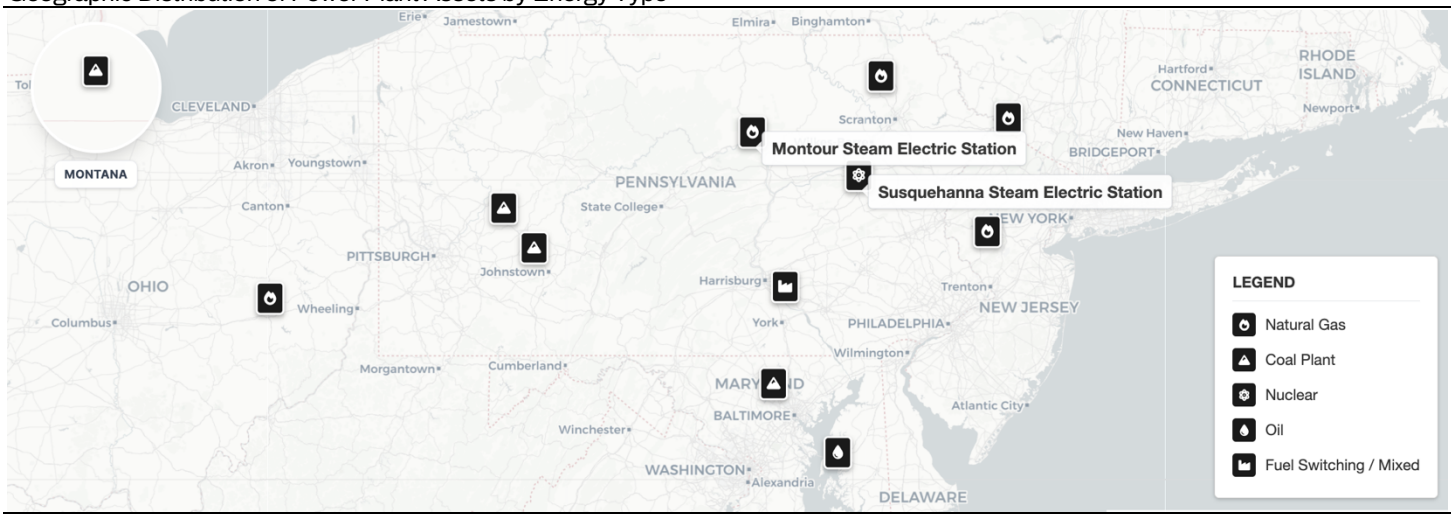
Company Profile

Talen Energy is a Texas-based independent power producer and energy infrastructure company established in 2015. Formed through the spinoff of PPL Corporation's competitive generation business and a merger with Riverstone Holdings' power assets, Talen currently owns and operates 13.1 GW of power infrastructure, consisting of both fossil fuel and nuclear facilities. While traditionally a wholesale electricity distributor, Talen Energy is rapidly becoming a leading clean energy provider for AI infrastructure. The company solidified this position through a $18 billion landmark power purchase agreement (PPA) to power Amazon Web Services (AWS) data centres directly from its Susquehanna nuclear facility. This expansion supports Amazon's broader AI and cloud computing infrastructure buildout in the region, potentially bringing more contracts for Talen as both companies have agreed to expand its partnership in the coming years.

Talen currently operates 12 power plant facilities across Maryland, Pennsylvania, Montana, and Ohio, selling power into the PJM Interconnection (covering the Mid-Atlantic and Midwest) as part of its wholesale business. From a strategic perspective, operating within the world's largest competitive wholesale electricity market grants Talen access to a pool of 67 million customers across 13 states and Washington, D.C., serving both residential and commercial users from Chicago to New Jersey. This allows the company to maintain geographic diversification while generating robust and consistent cash flow (~96% of FY25 revenue).

Recently, Talen has increasingly become more involved in digital infrastructure through its development of Cumulus Data Centre. Powered by its Susquehanna plant, the facility is the first nuclear-powered data centre infrastructure in the world to run independently without intermediation by distribution utilities. The distinct co-location model, which combines a data centre facility and supporting carbon-free power generation, addresses the need for a reliable and sustainable energy source to meet data centre uptime demand. Cumulus was later acquired by AWS in 2024 for $650 million, underlining the strong commercial validation of Talen's co-location approach. This breakthrough marks Talen's transition from focusing on wholesale electricity generation to enterprise driven power generation, paving the way for a business directly powering AI infrastructure in the United States.

Exhibit 1: Talen Energy's Infrastructure Sits at the Heart of the Data Centre Boom
Geographic Distribution of Power Plant Assets by Energy Type



Source: Company portfolio

Notably, Talen's advantage comes from its assets that sits at the forefront of data centre growth: Pennsylvania is becoming one of the fastest growing locations for data centres nationwide with 53 data centre proposals as the state enters its data centre boom with Amazon, Blackstone, CoreWeave, and Google collectively committing over $50 billion in data centre investment within the state. This proximity to demand creates a durable pipeline for future enterprise contracts, directly reinforcing the long-term cash flows that define Talen's investment case.

Industry Overview

U.S. electricity demand is projected to grow at a 5.7% CAGR, rising to approximately 5,600 TWh by 2030, marking the fastest sustained growth the grid has seen in nearly two decades. The rise in energy demand can be attributed to three driving forces:

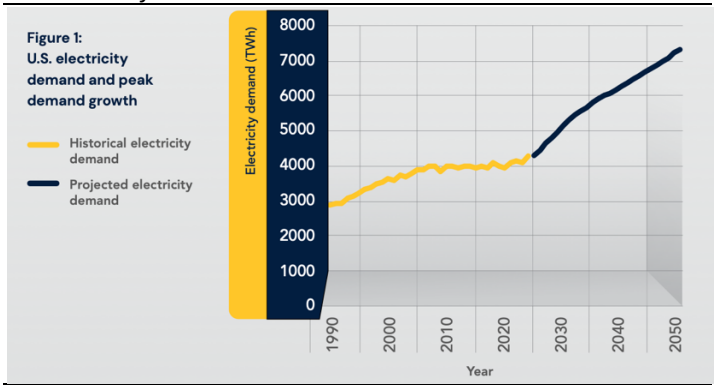
1. Data Centres and AI: The transition from traditional cloud computing to generative AI requires significantly higher power density. A standard server rack historically required 5–10 kW; AI server racks (e.g., utilizing advanced GPUs) routinely demand 40–100+ kW.

2. Industrial Electrification: Heavy industrial operations, such as semiconductor fabs and factories, introduce massive power loads that exceed standard commercial usage.

3. Industrial Reshoring: Spurred by federal incentives (the CHIPS Act, the Inflation Reduction Act), the U.S. is experiencing a domestic manufacturing boom. Multi-gigawatt loads are being added via new semiconductor fabrication plants, battery gigafactories, and domestic supply chain infrastructure.

Exhibit 2: After Decades of Flat Growth, U.S. Power Demand Is Surging

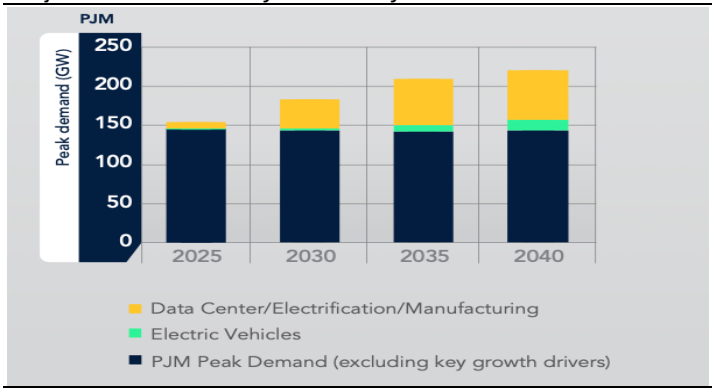
US Electricity Demand Forecast



Source: ICF 2025 Energy Report

Exhibit 3: Data Centres Are Driving Nearly All of PJM's Demand Growth

Projected PJM Electricity Demand by Source



Source: ICF 2025 Energy Report

Within the PJM region, data centres are projected to drive a 3.6% CAGR in electricity demand, pushing peak load to 253 GW by 2046 and accounting for 76% of total demand growth. Talen's footprint across Pennsylvania and Virginia places it at the epicentre of this buildout: Virginia is the world's largest data centre market with over 645 operating facilities and 498 more planned, while Pennsylvania has 41 projects totalling 19,932 MW of additional capacity that is yet to be constructed.

Industry Trends

AI Demand Is Supercharging Natural Gas Growth

Data centres must maintain continuous uptime while running at peak capacity, making renewables insufficient as a primary power source. Natural gas is increasingly favoured to meet surging AI-driven power demand, with its share of planned U.S. power capacity jumping from 11.1% in 2024 to 18.1% in 2026, backed by projections of up to 6 Bcf/d in new gas demand by 2030.

Grid Infrastructure Is Being Bypassed

Midstream gas companies are pivoting from wholesale transporters to on-site, "behind-the-meter" power producers for hyperscalers. Grid interconnection queues have stretched to several years, while a dedicated, independent gas power plant can be built in as little as 18 months. This makes private power plants the fastest way to power data centres.

Nuclear Is Emerging as the Long-Term Solution to Power Data Centres

With natural gas dominant in the near term, nuclear is the preferred long-term firm power solution for hyperscalers with sustainability commitments. Microsoft, Google, Meta, Amazon, and Oracle have collectively committed to more than 10 GW of nuclear capacity through PPAs and small modular reactor (SMR) deals.

TALEN ENERGY

Investment Theses

1. On-Site Power Generation Is Inevitable, And Talen is at the Forefront of It

Rapid growth in artificial intelligence (AI) and cloud computing is driving data centre loads higher. As AI models become more capable and widely adopted by households and enterprises, the compute power required to train and run them also increases. Training compute for frontier AI models has grown at roughly 5 times per year since 2020, with the top five models consuming roughly 10,000 times more compute today than in 2020. This surge in computing demand is reflected in the AI server market, where server shipments for data centres are expected to grow at a 29 percent CAGR through 2029.

In addition, grid operators have already flagged growing supply gaps due to data centres adding 5 to 7 GW of demand annually while new supply delivers only 2 to 3 GW. Unlike residential or commercial customers, data centres cannot reduce electricity consumption during periods of grid-stress. This inflexibility is coupled with equally stringent reliability needs, targeting close to zero downtime per year and non-interruptible power service. At the same time, latency-sensitive workloads and client proximity requirements anchor data centres to specific cities or regions, often the very places where grid capacity is already stretched thin, further intensifying local grid constraints.

On-site power generation has emerged as the most practical near-term solution to grid constraints. Rather than joining utility interconnection queues that can stretch beyond a decade, developers can generate electricity directly where it is needed, reducing dependence on high-voltage transmission infrastructure and dramatically shortening building timelines. Nearly 30% of data centre projects announced in 2024 are expected to adopt on-site power as a primary source by 2030.

Moving to on-site generation gives data centre operators a degree of control that traditional utility grids cannot provide. We believe this creates an underappreciated structural advantage across three dimensions:

Energy Reliability: An independent power source significantly reduces exposure to grid outages, as electricity is generated on-site rather than transmitted over high-voltage lines traversing long distances. Critically, data centres of this type remain connected to the public grid, effectively operating with dual power sources. We think that a dual-supply configuration provides a meaningful operational advantage and competitive moat.

Energy Transparency: As big tech faces growing shareholder pressure from the 2025 proxy season that saw major questions about climate credibility, we believe energy transparency will become an increasingly important disclosure obligation. Owning the power source gives operators full visibility into their generation mix, enabling granular reporting that grid-dependent operators currently cannot provide. Furthermore, if that source is carbon-free, such as nuclear, operators can directly reduce carbon credit expenditures entirely, producing direct cost savings benefits.

Long-Run Cost Effectiveness: Independent power generation bypasses locational marginal pricing, a mechanism that inflates electricity costs by pricing in transmission losses and grid congestion. It also eliminates exposure to peak pricing, where grid electricity costs spike during periods of high demand. Electricity costs in areas near major data centre clusters have quadrupled compared to historical levels, and we expect this trend to persist as AI-driven demand continues to outpace grid investment. Combined, bypassing these cost layers provides long-term price predictability that grid-dependent operators simply cannot access.

Talen Energy was the first company in the world to successfully operate a co-located power plant and data centre model. The company developed a 1,200-acre data centre campus in Pennsylvania, directly adjacent to its Susquehanna Steam Electric Station, a 2.5 GW nuclear plant. This is a proof-of-concept for integrating hyperscale data centres directly with a nuclear generation asset, establishing Talen as a first mover in an infrastructure model increasingly relevant to AI-driven electricity demand.

Amazon's $650 million acquisition of the Cumulus campus validated the commercial viability of the co-located model as strong demand persists from the world's leading hyperscalers for reliable, carbon-free power. Talen is now uniquely positioned to replicate this model as enterprises increasingly seek to co-locate data centres with dedicated power generation assets to meet the surging electricity demands of AI.

We believe the shift to energy decentralisation would traverse in two ways, in which Talen would strongly benefit from both:

Nuclear Reactors
Talen already owns and operates 2.245 GW of nuclear capacity from the Susquehanna Steam Electric Station, the sixth-largest nuclear facility in the United States. The company has signed a 17-year, $18 billion power purchase agreement (PPA) to supply up to 1,920 MW from Susquehanna to AWS data centres in Pennsylvania through 2042, providing multi-decade contracted cash flows to fund further portfolio expansion.

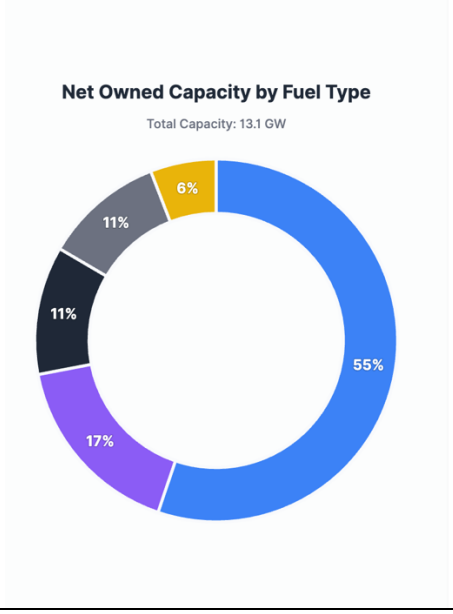
Looking ahead, Talen has recently partnered with X-energy, a U.S.-based nuclear reactor developer, to deploy at least three Xe-100 small modular reactor (SMR) plants across Pennsylvania and the broader PJM market. Each Xe-100 unit produces 80 MW independently, and their modular design (pre-assembled in factories) offers faster construction timelines, improved safety profiles, and lower capital costs compared to conventional nuclear plants.

Crucially, Talen intends to repurpose existing fossil-fired sites for nuclear deployment, leveraging established grid connections, transmission infrastructure, and local workforces to reduce development costs and timelines. We view this as Talen's long-term strategy given that nuclear development typically spans 5 to 10 years, but one that structurally aligns with Talen's decarbonisation strategy.

Natural Gas Generation
Talen's current portfolio is primarily composed of natural gas plants, representing 55% of total capacity at 7,230 MW. The company recently reinforced this position with a $3.45 billion acquisition of three plants: Waterford Energy Centre and Darby Generating Station in Ohio, and Lawrenceburg Power Plant in Indiana. The acquisition is expected to strengthen Talen's position in the PJM market by boosting its natural gas capacity by nearly double, which the company claims will grow adjusted free cash flow per share by more than 15% annually through 2030.

In the long run, we believe Talen's predominantly natural gas portfolio would benefit the company as a strategic backstop for its nuclear ambitions. This is particularly relevant as the nuclear industry faces aging infrastructure cost challenges, and the US Nuclear Regulatory Commission has yet to approve any SMR projects for full commercial operations. Should nuclear not work out as expected, Talen could easily pivot back to natural gas and continue generating meaningful cash flows. The company has already demonstrated prior success integrating nuclear generation with data centre demand, and we see no structural reason why it could not replicate that model with its natural gas assets.

Exhibit 3: Portfolio is Dominated by Natural Gas and Zero-Carbon Nuclear Assets
Talen's Net Owned Capacity by Fuel Type



FLEET DISTRIBUTION & ASSETS

FUEL TYPE	FACILITIES	COUNT	CAPACITY (MW)	% OF MIX
Natural Gas	Freedom, Guernsey, Lower Mount Bethel, Martins Creek, Montour	5	7,230	55%
Nuclear	Susquehanna	1	2,200	17%
Coal	Brandon Shores, Colstrip (Unit 3), Conemaugh, Keystone	4	1,500	11%
Mixed (Gas/Coal)	Brunner Island	1	1,400	11%
Oil	H.A. Wagner	1	770	6%
Total Portfolio		**12**	**13,100**	**100%**

Source: Company portfolio

2. Talen's Flywheel Strategy Accelerates Portfolio Growth

Talen's "flywheel" strategy of acquiring power plants, securing power contracts with data centre companies, and using the cash flow proceeds for more acquisitions makes it positioned to capture more market share in the data centre power contracting space at an unprecedented rate.

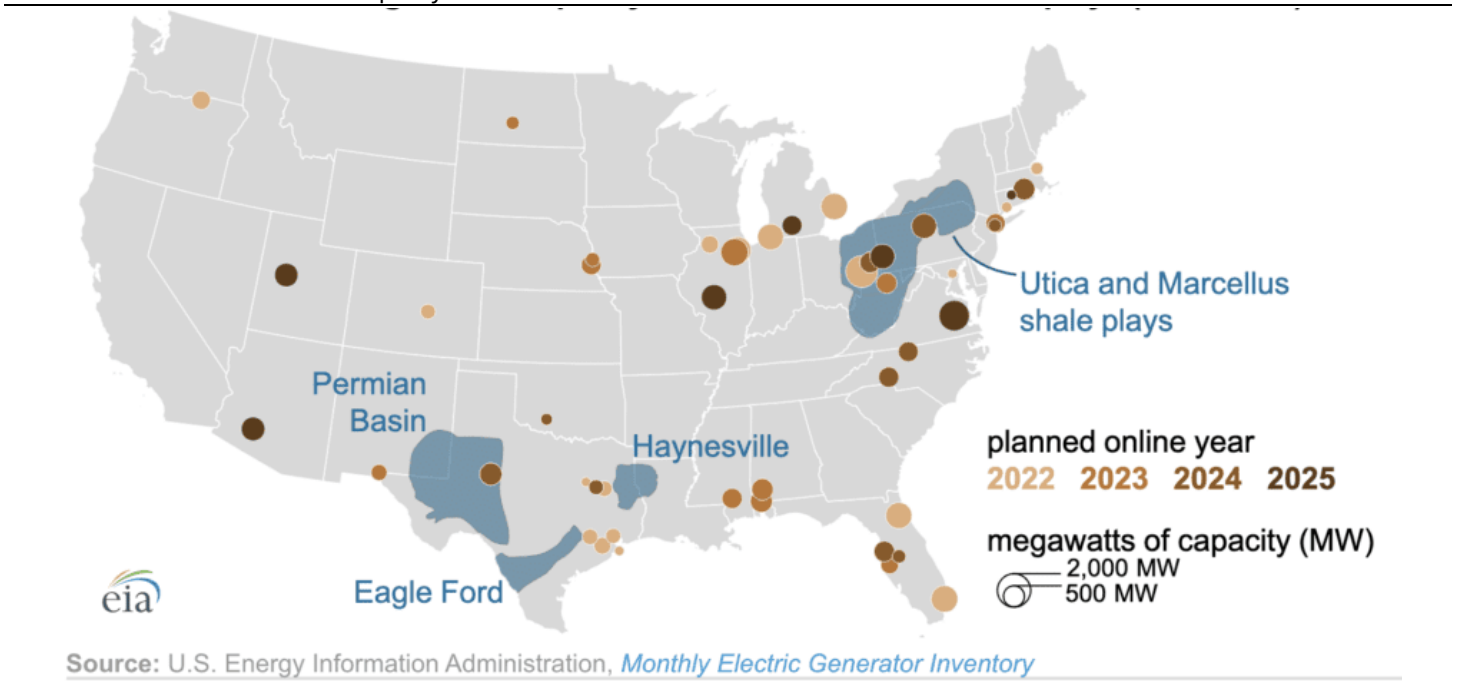
The Flywheel Strategy

1. **Acquire high-quality power plants at attractive market prices** on a pure merchant basis (where the deal is justified at prevailing power prices, before any premium contracts).

2. **Negotiate long-term Power Purchase Agreements** (PPA) with hyperscale data centre customers that locks in long-term, predictable cash flows on top of the plant's existing merchant revenue.

3. **Redeploy free cash flow** to pay down debt and finance the next acquisition, spinning the wheel again.

Exhibit 4: Proximity to the Marcellus and Utica Shale Plays Positions Talen for Low-Cost Natural Gas Expansion
Planned U.S. Natural Gas-Fired Capacity Additions



Source: Energy Information Administration

The PJM region sits directly atop the Marcellus and Utica shale formations, the largest natural gas producing region in the U.S., accounting for roughly one-third of total domestic gas output. This gives Talen easy access to some of the cheapest and most abundant gas supply in the country. As a result, we believe Talen will most likely maintain a predominantly natural gas portfolio if it chooses to expand its footprint in the PJM region.

We think this will reinforce business certainty relative to nuclear plants, given natural gas assets carry lower maintenance costs and fewer regulatory and operational risks. Energy demand for these assets would remain robust, even though they are more vulnerable to price swings from spot gas markets. That said, a heavier natural gas weighting would increase Talen's exposure to gas price volatility, which directly determines its breakeven economics.

Recent Acquisitions

After Talen's reorganization and emergence from bankruptcy in May 2023, Talen had $875 million of liquidity (cash plus pre-approved credit lines), which allowed it to start acquiring companies as early as 2025, with an emphasis on maintaining discipline and keeping the balance sheet healthy while actively increasing its capacity.

So far, the company has acquired four natural gas power plants in two M&A deals. In 2025, the company spent $3.5 billion to acquire Moxie Freedom Energy Centre (PA) and Guernsey Power Station (OH). In 2026, Talen spent $3.45 billion (in cash and stock) to acquire Waterford (Ohio), Darby (Ohio), and Lawrenceburg (Indiana) from Energy Capital Partners. The company has affirmed that it will maintain its net debt-to-EBITDA at below 3.5x even after the 2026 acquisition. So far in Q1 2026, it has reported a net debt-to-EBITDA of 3.1x.

Exhibit 5: Talen M&A History

Date	Acquisition	Price	Implied EBITDA	Capacity	EV/EBITDA	EV/kW	Geography
Nov 2025	Moxie Freedom (PA) & Guernsey (OH)	$3.5 bn	$520 mn	2,881 MW	6.7x	~$1,300	Pennsylvania, Ohio (PJM)
H2 2026 (expected)	Lawrenceburg (IN), Waterford & Darby (OH)	$3.45 bn	$523 mn	2,567 MW	6.6x	$1,344	Indiana, Ohio

Source: Company reports and estimates

Looking ahead, the company could see a phase of cash-flow harvesting, having established a massive footprint in the PJM market. We expect future M&A to be more selective, focused on assets that strengthen the "data centre + power" ecosystem. That said, if leverage rises too far above management's comfort zone, the strategy could become less attractive, as higher debt would reduce financial flexibility and increase downside risk. Assuming Talen maintains its net debt-to-EBITDA ratio at around 3.5x, the strategy remains manageable and supports further growth.

3. The 2025 GAAP Loss Masks Underlying Profitability

Exhibit 6: Talen Adjusted Income Statement (in $mln)

FYE: December	2021A	2022A	2023A	2024A	2025A	2025A Adj
Revenue	1,775.0	2,412.0	2,439.0	2,073.0	2,626.0	2,626.0
Other Revenue	-	-	-	-	-	-
Total Revenue	**1,775.0**	**2,412.0**	**2,439.0**	**2,073.0**	**2,626.0**	**2,626.0**
Y/Y Growth	-	*35.9%*	*1.1%*	*(15.0%)*	*26.7%*	*26.7%*
Fuel & Purchased Power	**952.0**	**1,032.0**	**741.0**	**817.0**	**1,005.0**	**1,005.0**
Ops. and Maintenance	584.0	610.0	643.0	592.0	620.0	620.0
Selling General & Admin Exp.	**88.0**	**106.0**	**144.0**	**163.0**	**624.0**	**123.0**
Depreciation & Amort.	524.0	520.0	365.0	298.0	279.0	279.0
Other Operating Exp.	675.0	(630.0)	78.0	(24.0)	153.0	153.0
Total Operating Exp.	**2,823.0**	**1,638.0**	**1,971.0**	**1,846.0**	**2,681.0**	**2,180.0**
Y/Y Growth	-	*(42.0%)*	*20.3%*	*(6.3%)*	*45.2%*	*45.2%*
Operating Income	**(1,048.0)**	**774.0**	**468.0**	**227.0**	**(55.0)**	**446.0**
Y/Y Growth	-	*(173.9%)*	*(39.5%)*	*(51.5%)*	*(124.2%)*	*(124.2%)*
Interest Expense, Total	(325.0)	(359.0)	(339.0)	(238.0)	(302.0)	(302.0)
Interest and Invest. Income	-	-	-	-	-	-
Net Interest Exp.	**(325.0)**	**(359.0)**	**(339.0)**	**(238.0)**	**(302.0)**	**(302.0)**
Y/Y Growth	-	*10.5%*	*(5.6%)*	*(29.8%)*	*26.9%*	*26.9%*
Gain (Loss) On Sale Of Assets	-	(170.0)	101.0	884.0	42.0	42.0
Asset Writedown	-	-	(384.0)	(1.0)	-	-
Total Legal Settlements	-	(18.0)	104.0	-	-	-
Other Unusual Items	-	(812.0)	799.0	-	-	-
EBT Incl. Unusual Items	**(1,277.0)**	**(1,328.0)**	**871.0**	**1,111.0**	**(166.0)**	**335.0**
Income Tax Expense	(300.0)	(35.0)	263.0	98.0	53.0	53.0
Earnings from Cont. Ops.	**(977.0)**	**(1,293.0)**	**608.0**	**1,013.0**	**(219.0)**	**282.0**
Y/Y Growth	-	*32.3%*	*(147.0%)*	*66.6%*	*(121.6%)*	*(121.6%)*
Earnings of Discontinued Ops.	-	-	-	-	-	-
Extraord. Item & Account. Change	-	-	-	-	-	-
Net Income to Company	**(977.0)**	**(1,293.0)**	**608.0**	**1,013.0**	**(219.0)**	**282.0**
Minority Int. in Earnings	-	4.0	5.0	(15.0)	-	-
Net Income	**(977.0)**	**(1,289.0)**	**613.0**	**998.0**	**(219.0)**	**282.0**
Pref. Dividends and Other Adj.	-	-	479.0	-	-	-
NI to Common Incl Extra Items	**(977.0)**	**(1,289.0)**	**134.0**	**998.0**	**(219.0)**	**282.0**
NI to Common Excl. Extra Items	**(977.0)**	**(1,289.0)**	**134.0**	**998.0**	**(219.0)**	**282.0**
Per Share Items						
Basic EPS	$ (2,171.11)	$ (2,864.44)	$ 2.27	$ 18.39	$ (4.79)	$ 6.18

Source: Company reports and estimates

We believe the market has not fully priced in the fact that Talen Energy's FY2025 GAAP net loss of $(219)mn and $(4.79) diluted EPS was driven by a one-time, non-cash $501mn stock-based compensation (SBC) remeasurement charge, coming from the reclassification of equity-classified performance stock units (PSU) awards to liability status under ASC 718, not a decline in operating performance.

Looking more closely at the revenue line, Talen grew FY2025 revenue 26.7% year-over-year to $2,626mn, driven primarily by the increase in PJM capacity prices and capacity revenues under the expanded Amazon Web Services power purchase agreement.

After normalizing the cost structure by removing the one-time SBC remeasurement, we arrive at adjusted net income of $282mn and adjusted EPS of $6.17 for FY2025. While this is still below FY2024's net income of $998mn, FY2024's figure was significantly inflated by a $884mn one-time gain on the sale of Talen's assets in ERCOT to CPS Energy. Stripped of that non-recurring divestiture gain, FY2024's underlying profitability was materially lower.

We think that Talen will continue to grow both revenue and profitability as it expands its generating footprint in the PJM region through strategic acquisitions, most notably the $3.5bn acquisition of Caithness Energy's Freedom and Guernsey gas plants, adding approximately 2.8 GW of baseload capacity in a region with growing demand from data centres.

This short-term acquisition strategy is executable given the well-documented backlog of data centre interconnection demand in PJM, where Talen has already secured ~$805mn in contracted 2026/27 capacity revenues and $1,067mn for 2027/28.

However, a risk we flag is rising interest expense: net interest expense grew 26.9% in FY2025 from $(238)mn to $(302)mn, and the Freedom/Guernsey acquisition was funded at a $3.8bn gross price, adding meaningful debt service obligations that creates a headwind to net income even as EBITDA expands.

TALEN ENERGY

Catalysts

Talen is positioned for significant upside driven by surging AI power demand in the PJM market, cash-generating additions like the $3.45B Cornerstone natural gas acquisition, and a path to generating ~$41 in free cash flow per share by 2028.

Surging Data Centre and AI Power Demand
Talen is positioned at the epicentre of the "Reliability Shock" facing the U.S. power grid, driven heavily by massive power demands from artificial intelligence and data centres. PJM (the largest U.S. power grid) is experiencing capacity shortfalls because power supply cannot keep up with this exponential demand. As a result, forward power and capacity prices in the PJM market are expected to remain elevated, providing a massive organic tailwind to Talen's cash flow without requiring additional capital expenditure.

The Cornerstone Acquisition
Talen is buying three natural gas plants (Waterford, Darby, and Lawrenceburg) totalling 2,451 MW from Energy Capital Partners for $3.45 billion. The transaction is priced at a favourable 6.6x 2027E adjusted EBITDA. Once closed, it is projected to boost annual free cash flow per share by over 15% through 2030. Importantly, this acquisition remains excluded from current 2026 guidance, representing pure upside to consensus earnings expectations.

~$41 Free Cash Flow Per Share in 2028E
Management forecasts roughly $41 in free cash flow per share by 2028. This growth is driven by the Cornerstone integration, the scaling AWS power contract, and rising PJM capacity revenues. At current trading levels, this implies a sub-5x price-to-FCF multiple on 2028 estimates, offering a clear valuation re-rating opportunity if the company executes on these targets.

Risks and Mitigants

Talen faces risks related to commodity prices, liquidity, and asset concentration, but its balance sheet discipline, diversification efforts, and hedging strategy help reduce volatility and strengthen long-term resilience.

Risk: Debt Service and Liquidity Constraints
Following emergence from bankruptcy in 2023, Talen has pursued aggressive expansion, most notably the $3.8 billion debt-funded Freedom and Guernsey acquisitions in 2025 and the pending Cornerstone gas-plant acquisition. As a result, net interest expense has risen 26% in 2025.

Mitigant: Strong Deleveraging Targets and Current Cash Generation
Talen reported strong Q4 2025 and Q1 2026 results with robust adjusted free cash flow. Management is strictly committed to a net leverage target of below 3.5x net debt-to-Adjusted EBITDA. As of early 2026, Talen projected a net leverage ratio of about 3.1x, comfortably below its ceiling. The company also maintains a healthy current ratio of 2.29.

Risk: Susquehanna Nuclear Plant Dependency
Talen relies heavily on its Susquehanna nuclear plant, which historically contributes approximately 75% of its total realized energy margin. This creates high asset concentration risk. For instance, when Susquehanna experienced an outage in Q2 2025 for condenser improvements, Talen's net income plummeted by 84%.

Mitigant: Strategic Diversification and AWS Partnership
Talen is actively diversifying its generation portfolio away from a single asset through its recent acquisitions (Freedom, Guernsey, and Cornerstone). Furthermore, the Susquehanna outage was a calculated, temporary investment expected to recover 27 megawatts of output with a 1.5-year payback period. Talen also hedged this asset with a stable $1.2 billion energy delivery agreement with Amazon Web Services (AWS), creating a reliable, long-term revenue stream.

Risk: Exposure to Fuel Markets and Unhedged Spikes
Talen's earnings are heavily exposed to natural gas price fluctuations and hedging program performance. If natural gas prices spike or unhedged fuel costs rise, the company's margins will compress.

Mitigant: Assertive Hedging Programs and Surging Capacity Prices
Talen employs a robust hedging program that covered 100% of its 2025 generation and roughly 66% of its 2026 generation. Furthermore, surging load demands, driven by artificial intelligence and data centre development, have led to record-high-capacity prices in the PJM market, buffering Talen against minor commodity fluctuations.

Valuation

Exhibit 7: Football Field Analysis

Source: Company reports and estimates

Weightings
We allocate a 40% weighting to our DCF, which reflects our view that Talen occupies a niche position in the US power sector, being the only publicly traded company that sits between power generation and data centre development. We believe our DCF method is a highly reliable indicator of Talen Energy's intrinsic value, capturing its long-term cash flow generation.

We used the 75th percentile values for valuation reference to capture the premium given by the market to power producers with broad power generation assets and data centre partnerships. We believe Talen will eventually grow into this premium valuation tier as it executes its M&A flywheel strategy.

We distribute the remaining 60% weighting to our trading multiples analysis in our blended valuation framework, split between EV/EBITDA (30%), EV/CFO (20%), and P/E (10%). We placed the highest multiples weighting on EV/EBITDA because it is the cleanest metric for capital-intensive power generation that strips out depreciation.

Finally, we applied a 20% weighting to EV/CFO to reflect Talen's strong forward cash generation, which is the primary fuel for its M&A strategy. Finally, P/E receives the lowest weighting of 10% as its short-term net income is distorted due to historical tax credits and the recent $501 million stock-based compensation adjustment.

Comparables Companies Analysis

Exhibit 7: Historical and Forward Comparables

Company	Ticker	Market Cap (mn)	EBITDA (mn) 2025A	EBITDA (mn) 2026E	CFO(mn) 2025A	CFO(mn) 2026E	EPS 2025A	EPS 2026E	EV/EBITDA 2025A	EV/EBITDA 2026E	EV/CFO 2025A	EV/CFO 2026E	Net Debt/EBITDA 2025A	Net Debt/EBITDA 2026E	P/E 2025A	P/E 2026E
Entergy Corporation	NYSE:ETR	$53,305.40	$5,498.50	$6,455.52	$5,150.70	$5,135.44	$3.91	$4.51	15.1x	13.0x	16.1x	16.4x	5.5x	5.5x	28.9x	25.8x
Vistra Corp.	NYSE:VST	$52,569.90	$5,228.00	$7,256.95	$4,070.00	$6,218.58	$2.18	$8.61	14.1x	10.3x	18.1x	12.0x	3.8x	2.8x	74.8x	18.0x
Public Service Enterprise Group Incorporated	NYSE:PEG	$39,974.00	$4,504.00	$4,967.81	$3,298.00	$3,593.63	$4.22	$4.37	13.9x	12.9x	19.0x	17.8x	5.4x	5.2x	17.1x	18.4x
NRG Energy, Inc.	NYSE:NRG	$32,852.70	$2,966.00	$5,567.83	$1,913.00	$3,591.75	$4.01	$9.10	14.1x	8.2x	21.9x	12.6x	4.0x	3.0x	25.4x	16.9x
The AES Corporation	NYSE:AES	$10,182.70	$3,475.00	$3,062.38	$4,385.00	$3,630.00	$1.31	$2.29	13.6x	15.5x	10.8x	13.1x	8.5x	9.3x	11.2x	6.2x
Digital Realty Trust, Inc.	NYSE:DLR	$68,633.10	$2,888.70	$3,767.63	$2,545.47	$2,755.73	$3.80	$2.08	28.3x	23.5x	32.1x	32.1x	5.9x	4.6x	40.1x	94.1x
Mean									16.5x	13.9x	19.7x	17.3x	5.5x	5.1x	32.9x	29.9x
Median									14.1x	13.0x	18.5x	14.7x	5.4x	4.9x	27.2x	18.2x
Talen Energy Corporation	**NASDAQ:TLN**	**$16,894.20**	**$822.00**	**$2,008.65**	**$704.00**	**$1,549.75**	**$6.18**	**$20.46**	**28.03x**	**11.47x**	**32.72x**	**14.87x**	**7.47x**	**3.43x**	**60.22x**	**18.19x**

High	28.3x	23.5x	32.1x	32.1x			74.8x	94.1x
75th Percentile	14.9x	14.9x	21.1x	17.5x			37.3x	24.0x
Median	14.1x	13.0x	18.5x	14.7x			27.2x	18.2x
Mean	16.5x	13.9x	19.7x	17.3x			32.9x	29.9x
25th Percentile	14.0x	10.9x	16.6x	12.8x			19.2x	17.2x
Low	13.6x	8.2x	10.8x	12.0x			11.2x	6.2x

	EV/EBITDA Implied Price		EV/CFO Implied Price		P/E Implied Price	
High	$377.10	$886.26	$362.72	$943.20	$462.08	$1,925.08
75th Percentile	$133.55	$506.39	$192.53	$444.60	$230.42	$490.22
Median	$119.97	$421.88	$152.29	$350.85	$167.88	$372.27
Mean	$163.73	$462.73	$169.57	$440.02	$203.36	$611.79
25th Percentile	$117.26	$332.39	$122.37	$283.61	$118.36	$350.99
Low	$110.92	$209.27	$31.80	$258.15	$69.22	$127.67

Source: Company reports and estimates

Based on our trading comparables analysis, Talen Energy appears expensive relative to peers on EV/EBITDA, EV/CFO, and P/E on a 2025A basis. However, this is largely because Talen's 2025A EBITDA of $822mn was depressed by a temporary capacity gap following the 2024 sale of its ERCOT portfolio, as well as the fact that the company only received a partial-year earnings contribution from its 2.8 GW Freedom and Guernsey acquisitions, which closed late in the fourth quarter.

Looking at 2026E market expects EV/EBITDA to drop to 11.5x, P/E of 18.2x, which is much more in line with peer median of 13.0x and 18.2x respectively as AWS PPA revenues and a full year contribution from recently acquired gas assets are expected to drive a significant increase in 2026E EBITDA.

On leverage, Talen's 2025A net debt-to-EBITDA of 7.5x looks high compared to the peer median of 5.4x, but as EBITDA is expected to grow to $2bn in 2026E, the ratio falls to 3.4x, which actually comes in below the peer median of 4.9x, suggesting the company should be in a strong financial position as earnings normalize.

TALEN ENERGY

Discounted Cash Flow

Exhibit 8: Discounted Cash Flow

All figures in US$ mn

FYE: December	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E
Revenue	2,554	2,115	2,581	4,227	4,664	4,885	5,145	5,346
YoY Growth %	-	(17.2%)	22.0%	63.8%	10.3%	4.8%	5.3%	3.9%
EBITDA	1,121	770	1,035	2,018	2,474	2,693	2,792	3,079
EBITDA Margin %	43.9%	36.4%	40.1%	47.7%	53.0%	55.1%	54.3%	57.6%
(–) D&A	365	298	279	298	315	329	337	348
EBIT (Operating Income)	**615**	**349**	**(90)**	**1,599**	**1,922**	**2,138**	**2,339**	**2,413**
EBIT Margin %	24.1%	16.5%	(3.5%)	37.8%	41.2%	43.8%	45.5%	45.1%
(–) Taxes on EBIT (@ Marginal Tax Rate)	(154)	(87)	–	(400)	(480)	(534)	(585)	(603)
NOPAT	**461**	**262**	**(90)**	**1,200**	**1,441**	**1,603**	**1,754**	**1,810**
(+) Depreciation & Amortization	365	298	279	298	315	329	337	348
(–) Capital Expenditure	(254)	(177)	(199)	(287)	(289)	(299)	(276)	(95)
(±) Change in Net Working Capital	-	9	(9)	(33)	(9)	(4)	(5)	(4)
Unlevered Free Cash Flow	**572**	**392**	**(19)**	**1,178**	**1,458**	**1,629**	**1,810**	**2,059**
Discount Period (years)				1	2	3	4	5
Discount Factor				0.9043	0.8178	0.7396	0.6688	0.6048
Present Value of UFCF				**1,065**	**1,193**	**1,205**	**1,210**	**1,245**
Sum of Present Value of UFCF								5,918

Valuation

Perpetuity Growth Rate	
Final-year UFCF (2030E)	2,059
× (1 + g)	2,120
÷ (WACC – g)	27,980
Terminal Value at 2030	**27,980**
× Discount Factor (Year 5)	0.6048
PV of Terminal Value (Perpetuity)	**16,923**

Exit Multiple	
Final-year EBITDA (2030E)	3,079
× Exit EBITDA Multiple	43,099
Terminal Value at 2030	43,099
× Discount Factor (Year 5)	0.6048
PV of Terminal Value (Exit Mult)	**26,068**

Weight on Exit Multiple	50%
Weight on Perpetuity Growth	50%
Weighted PV of Terminal Value	**21,496**

PV of Forecast UFCF (2026E–2030E)	5,918
PV of Terminal Value (weighted)	21,496
Enterprise Value	27,413
(–) Net Debt (2025A)	(6,059)
Equity Value	21,354
Shares Outstanding (mn)	45.4
Implied Share Price	**$470.36**
Current Market Price	$372.16
Total Return	26%

Source: Company reports and estimates

We conducted a Discounted Cash Flow (DCF) analysis to estimate an intrinsic equity value and arrive at an implied share price of $470.36, representing 26% total return from the current market price of $372.16. Our DCF framework anchors Talen's value to its long-run free cash flow generation capacity across two distinct but complementary business dimensions: its nuclear fleet as a zero-carbon baseload generator, and its evolving position as a behind-the-meter power supplier to hyperscale data centre operators. Given Talen's status as an independent power producer (IPP) with no directly comparable publicly traded peer set that replicates its nuclear plus data-centre profile, we view a DCF as the most appropriate methodology to capture its intrinsic value.

We used Perpetuity Growth and Exit Multiple methods, weighted at 50% each. For the Perpetuity Growth method, we apply a 3.0% growth rate to our 2030E UFCF of $2,059M. We think this is justified given that AI and data centre power will continue to be highly demanded in the long-term, and Talen's Susquehanna nuclear plant and its broader fossil fuel portfolio plant is licensed well into the 2050s (check for natural gas plants too) to fully capitalize on the trend. For the Exit Multiple method, we apply 14.0x 2030E EBITDA of $3,079M, which is in line with median of peer comparisons (See Exhibit. 7).

Finally, we expect UFCF to increase sharply to $1,178M in 2026E as Talen recognises its first full year of contracted nuclear revenue under the AWS agreement, alongside growing cash contributions from its recently acquired plants as they become operational. From there, UFCF compounds to $2,059M by 2030E, driven by declining Capex intensity as Talen transitions from an acquisition phase into a more stable, cash-generating business.

Exhibit 9: Assumptions for Discounted Cash Flow

Key Assumptions

WACC Inputs	
Risk-free Rate (10-yr Treasury)	4.5%
Equity Risk Premium	5.5%
Beta	1.67
Cost of Equity	**13.7%**
Pre-tax Cost of Debt	6.5%
Marginal Tax Rate	25.0%
Cost of Debt	**4.9%**
Target % Debt	35.0%
Target % Equity	65.0%
WACC	**10.6%**

Terminal Value & Other	
Perpetuity Growth Rate	3.0%
Exit EBITDA Multiple	14.0x
TV Perpetuity Weight	50.0%
TV Method Weight	50.0%
Shares Outstanding (mn)	45.4
Current Share Price ($)	$372.16

Source: Company reports and estimates

Recommendation

We believe that Talen Energy Corporation is undervalued at its current price of $372.16 and initiate a BUY rating with a price target of $478, implying a 28.4% upside. The weighting of our valuation techniques is as follows:

- 40% weighting on our Discounted Cash Flow analysis, returning an implied price of $470.36
- 30% weighting on the EV/EBITDA comparable company analysis, returning an implied price of $506.39
- 20% weighting on the EV/CFO comparable company analysis, returning an implied price of $444.60
- 10% weighting on the P/E comparable company analysis, returning an implied price of $490.22

Acknowledgements: Claude was used solely for language correction and wording refinement. All research, analysis, and conclusions in this report are the author's own.