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Powered Shell Providers | North America

Midterm Implications for the "Time to Power" Stocks

The Texas Governor election outcome could increase policy uncertainty for data center development, and could increase the US power shortfall facing DC developers. Results suggest growing pushback across much for the US against data center development, driving risk of a compute shortage.

Key Takeaways

- The election of Democrat Hinojosa in the Texas gubernatorial race in our view increases risk of data center delays and cancellations.
- Stocks with largest Texas data center and Behind the Meter power exposure: CIFR, MARA, GLXY, SEI, VST, CEG, AEP, SRE, CNP and NRG, power equipment stocks.
- Relative "time to power" winners: WMB, EQIX, DLR, WULF, APLD, TLN, BE, HUT in Louisiana.
- The Ohio Governor outcome results in greater risks of project delays/ cancellations, with the largest project being the 10 gigawatt project involving NVIDIA.
- The continuing trend towards data center pushback reinforces our concern that there will be insufficient data center capacity in the US by 2028.

Tech Diffusion

A Morgan Stanley Research Key Theme of 2025

We provide midterm thoughts on the "time to power" stocks (Powered Shell Providers and Behind the Meter power generation players) as a result of the midterm election results.

By far, the most important election result, from the perspective of data center development, was the Texas gubernatorial election. **Democrat Gina Hinojosa's victory in the gubernatorial race in Texas could bring greater policy uncertainty and constraint on future supply, increasing the relative value and pricing power of existing, power-secured facilities.** In August, Texas paused portions of its data center interconnection process after Gov. Greg Abbott ordered an audit of all data center projects in ERCOT's queue. Interconnection requests had reached approximately 474 GW, more than 5x ERCOT's record peak electricity demand, with data centers representing roughly 90% of new power requests. Gov. Abbott warned that development on this scale could threaten grid reliability and stability, prompting ERCOT to delay its Batch Zero transmission planning study for the first group of projects entering Texas' new large load interconnection process. The audit was intended in part to distinguish credible projects from speculative requests that may be inflating Texas' demand outlook. **In terms of actions a Texas Governor can take:**

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(1) an executive order to temporarily pause new projects until the legislature can put real guidelines in place (but if a Republican-led legislature acts quickly, this could potentially be a number of months), **(2)** make appointments to the power regulatory body (the PUCT - these are 6-year terms that come up in 2027), (3) provide policy direction to various state agencies on permitting (ie halting permits that an agency hasn't issued yet). Governor-elect Hinojosa has advocated for a a moratorium until laws are passed (applying to new permits, not for those already under construction). **What would require legislation: (1)** more durable changes, including tax changes including ending tax breaks (sales-tax exemption), **(2)** giving localities power to reject projects (Governor-elect Hinojosa has planned to empower local officials to negotiate with developers, which requires a change in the law), **(3)** codifying ratepayer protections, and **(4)** union hiring requirements all will require consent from the state legislature. In Ohio, the election of the Democratic candidate, Dr. Amy Acton, creates significant risk of data center project delays in the state. The largest project at risk in Ohio is the 10 gigawatt project involving NVIDIA and a major US AI lab. Another large project that is under construction is the 1.5 gigawatt Amazon facility in Fayette County. In May, Ohio enacted a moratorium on consideration of new data center tax exemption requests, while the General Assembly studies the growth of data centers in Ohio (tax exemption is a critically important consideration when a data center selects a location).

Exhibit 1: Overview of data center policy dynamics in Ohio, Pennsylvania and Texas

	Ohio (Acton)	Pennsylvania (Shapiro)	Texas (Hinojosa)
Campaign proposals	A "conditional moratorium" unless projects cover 100% of utility costs, use union labor, meet transparency requirements, meet environmental standards and serve former industrial areas. Also bans local NDAs.	GRID standards on energy affordability, environment, workforce, transparency and community engagement, but no moratorium	Moratorium until legislation "protects" communities, plus local veto power, an NDA ban, union hiring and consumer protections. Also ending tax breaks.
Governor can act alone	Appointments: JobsOhio board, one Power Siting Board seat, five PUCO seats. Terms are staggered	Already done via EO. DEP reviews permits only with a binding GRID commitment and local approval, no NDAs, and no Fast Track	Executive-order moratorium, agency directions, possibly emergency water powers (untested) & guidance to reject permits not yet approved
Needs the Legislature	A statutory moratorium, the union-only mandate and siting rules. Republicans opposed to passing the moratorium, and the party holds a majority in the state legislature	Tying the sales tax exemption to GRID certification. Both chambers back repeal in principle, but haven't agreed on a bill. Legislature is split as of publication time	Ending tax breaks, local veto powers, the NDA ban and permanent ratepayer protections. Republican legislature

Source: Morgan Stanley Research

Exhibit 2: Hinojosa's Election Drives Uncertainty for Data Center and Data Center Related Names

Hinojosa outlined her Texans First Data Center Priorities for the next legislative session, which Abbott could call today:

- **Requiring American union jobs** so operators hire skilled, licensed, union labor, and undoing the fast-track rollbacks that let corporations cut safety corners. When corners get cut on builds this size, workers die.
- **Giving Texans a seat at the table** to decide if and how data centers come to their communities.
- **Creating full transparency** by stopping data center companies from using NDAs.
- **Lowering costs for Texans** by ensuring data center companies prove households won't pay more for electricity or water, including the hidden costs passed through for grid upgrades, transmission, and new capacity.
- **Make data centers pay for themselves** by stopping subsidies. These data centers are owned by the richest men in the world; Texans shouldn't foot the bill.
- **Putting water and power for Texans first** by ensuring any water contract with data centers becomes unenforceable if it threatens a community's water supply.

Source: Gina Hinojosa

Stocks facing policy uncertainty in Texas: CIFR, MARA, GLXY, SEI, VST, DLR, EQIX. We expect the PSPs with significant exposure to Texas could be under pressure. Our initial reaction is that our assumed probabilities of many potential Texas data center projects will likely need to be reduced, especially for projects subject to the Batch process. We will be keenly watching for comments from Governor-elect Hinojosa, particularly as it relates to the potential for freezes on the final classification of proposed data centers subject to the Batch process, including **GLXY**'s Helios II, **CIFR**'s Colchis site and **MARA**'s development project. We would also want to better understand whether projects under construction, including **GLXY** Phase II and III of Helios I, **HUT**'s Beacon Point, and **CIFR**'s multiple projects - we believe these projects are less exposed to policy uncertainty. In our base case valuation of **CIFR**, our valuation of existing leases and Bitcoin mining assets totals $18/share, and we also include a 56% weighted probability of CIFR's additional sites signing data center lease transactions, resulting in our $51.50 Price Target. CIFR's bear case of $5/share assumes zero incremental data center projects, and includes conservative assumptions regarding the value of the company's existing contracts. Regarding **GLXY**, we had only assigned 20% probability to eventual energization of projects beyond Helios II (e.g., Caspian, Selene, etc.). On the other hand we had assigned 95% probability that Helios II (830 MW total) would be contracted and begin to generate revenue as expected (in mid 2028), while we had 100% probability that the CRWV-contracted Helios I, Phases II (~400 MW total) and III (~200 MW total) would energize on-time (Mid-'27 and Mid-'28, respectively). In our overall $43 sum-of-the-parts valuation, we had valued GLXY's Digital Asset Business at ~$3.73/share, Helios I (all 3 phases contracted to CRWV) at $7.39/share, Helios II + Merlin (904 MW total) at $17.58/share, Other DC assets (e.g. Selene, Caspian, Helios III, et al) at $10.65/share. The remainder of the SOTP is the net value of Galaxy

owned digital assets and debt. Regarding **RIOT**, while we believe the secure grid interconnection at the company's two large sites (Corsicana and Rockdale) could increase in value, we do see risk of proposed data center projects at the sites becoming subject to the policy uncertainty we previously discussed.

IPPs:

We expect knee-jerk underperformance across the group, but continue to see valuation support from cash flows on current assets, contracts, and forward curves before considering data center upside. We think underperformance initially would be led by VST and followed by NRG and CEG. TLN and PEG do not have Texas exposure - we would expect pressure on sentiment to impact TLN and PEG shares but would expect relative outperformance. In our view, the stocks currently price in very little if any valuation credit for data center contracting activity or power price upside from tightening markets as a result of data center power demand. We calculate the value of VST's current assets before upside opportunities to be ~$180/share, well above yesterday's $140 level. For CEG we estimate that value to be $249, slightly below the stock's $263 level but that would exclude all potential PJM data center contracting upside, which we still see as significant and supporting our price target. For NRG we estimate that value at $129/share, well above the current $96 price, and for TLN we estimate $430 vs. the $357 stock price

We would expect modest downside in ERCOT forwards. ERCOT power prices are in modest contango through 2029 but absolute power price levels only reach the low-$50s per MWh by that time. This is far too low to incentivize meaningful new fossil plant supply, and battery storage economics have become much less attractive in the market this year. We don't think the curve is pricing in meaningful load growth to begin with, so would only expect a modest near-term decline in the curve

We would expect relative outperformance in the more heavily PJM exposed IPPs, particularly TLN and CEG, and going forward would expect investors to focus on the potential for nuclear contracts (CEG and VST) and TLN's data center contracting efforts.

Power equipment and on-site power companies

We would expect underperformance across the group due to the risk of slower data center industry growth rather than Texas-specific exposure, with engine suppliers potentially most sensitive (INIO). Equipment suppliers GEV, INIO, and BE have growth outlooks that are heavily driven by data center power demand and Texas is clearly a large and important market for data center industry growth. Of these players, GEV has the most diversified customer base and regional exposure and we would expect limited impacts to earnings forecasts (given visibility to 2030+ with significant contracted volumes) but downside in multiples across the group. Investors have debated the supply-demand balance for engine manufacturers like INIO, and Texas has been a meaningful market for onsite power with engines so INIO could potentially be exposed to slower bookings activity in 2029+. We don't see strong exposure for Bloom to Texas specifically though there are several large projects (Hedgehog, Yellowbox) seeking air permits that investors may discount more heavily.

We would call out Solaris as having attractive valuation support based on its current contracts. The company's four key long-term contracts with hyperscalers and major data center operators support an $81 valuation level assuming no future growth or contracting activity (vs. the stock at $69/share). We see risk reward skewed to the upside as a result.

Utilities

Texas exposed utilities: CNP most sensitive to downside in our view, while other TX utilities already trade at cheaper relative valuations. Potential implications could be both a slowdown in data center activity, along with the possibility that new regulatory commissioners get appointed as terms expire (two in 2027), with the prospects of utility treatment that is less favorable to investors. CNP has the highest exposure to Texas, trades at an ~11% premium, and is well-owned so could be most exposed to a downside correction. SRE, AEP, XEL, and ETR all have Texas exposure as well, and we would expect underperformance on potential earnings revisions modestly downward along with multiple compression

For gas utilities we don't see a direct impact since the Texas Railroad Commission (which oversees the group) is elected and data center activity has not meaningfully impacted companies like OGS and ATO.

We would expect investors to shift into more defensive utilities like AEE, ED, DUK, and remain in ETR (given Louisiana exposure)

EQIX should be well positioned in this environment given its nine operating Texas facilities, although the company-level benefit may be limited by the modest size of its Texas footprint (~3% of 280 global data centers) and the availability of capacity within those facilities. **DLR** has a more measurable Texas exposure - Dallas metro represented 4.2% of total annualized rent as of 3Q26. DLR's 80 MW, $300 million Digital Garland project remains exposed to the incoming administration's treatment of ERCOT's verification process, but a slower or more restrictive approval environment could increase the scarcity value of DLR's stabilized, power-secured assets. Shares for both operators have exhibited a higher beta to broader AI-related headline volatility, creating risk of short-term price volatility - however we remain positive on colocation data centers and believe incumbent operators should see further pricing power.

WULF is insulated against Texas data center regulatory uncertainty, and its likely next data center project is, in our view, in Kentucky, where we see significant support for WULF's data center development in the state. WULF navigated a moratorium at Lake Mariner and a potential moratorium at Justified and neither event materially affected site delivery or overall scheduling. WULF's experience building power projects and managing moratoriums could favor the company and reinforce our view that WULF's management is one of the strongest in the sector. **APLD** is also a relative beneficiary, given lack of exposure in Texas and a focus on growth in states that we view as politically favorable.

We view Bloom Energy (**BE**) as well positioned in an environment in which Democrats may increasingly push back against the environmental and noise impacts from natural gas turbines. Given Bloom Energy's lack of harmful pollutants such as

sulfur dioxide and nitrous oxide, the lack of water usage, and lack of noise generation, we see Bloom Energy's fuel cells as an attractive alternative in some states, relative to natural gas turbines.

We continue to have a high level of conviction that WMB is materially mispriced relative to BTM data center power growth that is likely to become more clearly visible over the next 12-24 months. As a provider of BTM power solutions that leverage its natural gas pipeline footprint, WMB offers geographic flexibility and gas turbine access through large pre-orders that allow it to provide gas-fired power to hyperscalers inside of 18-24 months of contract signing. We see an attractive asymmetry at current levels, with significant upside if further data center projects materialize. Subsequent positive growth capex and EBITDA estimate revisions, should they materialize, both (1) lower forward consensus multiples and (2) justify further re-rating to account for widening above-sector growth and out-year sustainability, in our view.

We expect terminal value concerns with WMB's power projects to diminish as the competitive benefits and long-term optionality of WMB's power infrastructure become clearer. We continue to believe the most likely post-contract outcome for these power generation assets will be customer renewal, with decade+ operational histories at that point to inform the renewal decision, complexities with grid access that are not easily resolved and revenue share agreements that can co-exist with grid access (sale of excess power to the grid) all supporting factors. Longer duration PPAs (15+ years) and use of combined cycle turbines in future site designs should further improve asset longevity. To the extent not renewed, WMB has options in what likely will be power short markets and could then look to sell/contract the power with other offtake, divest the assets, or repurpose and rate base the turbines (60-70% of project capex) in interstate pipeline compressor stations. Within the first contract, WMB will have earned full return of and on capital.