NextEra Energy

Utilities
NYSE: NEE
Market Outperform | Hold

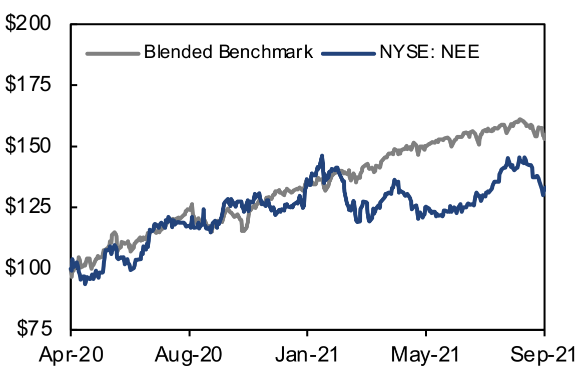
September 30, 2021
Jack Morgan, Portfolio Manager
Emily Chen, Investment Analyst

Return on Investment	
Current Share Price	$78.76
Target Price	$88.00
Dividend Yield	1.58%
Implied Return	13%
Conviction Rating	2

Market Profile	
52-Week Range	$66.79 - $87.69
Market Capitalization (US$mm)	$158,393
Net Debt (US$mm)	$52,438
Enterprise Value (US$mm)	$210,831
Beta (5-Year Monthly)	0.29

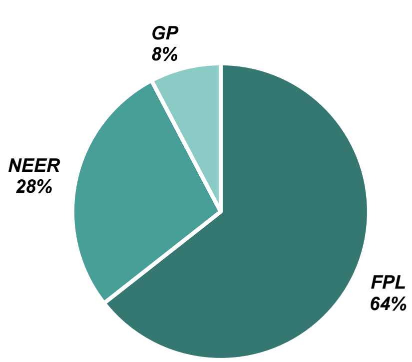
Metrics	2021E	2022E	2023E
Revenue (US$mm)	$19,421	$20,984	$22,876
EBITDA (US$mm)	$11,165	$12,613	$13,355
EPS	$2.41	$2.60	$2.77
EV/EBITDA	18.9x	16.7x	15.8x

Holding Period Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: FY 2020 Revenue by Segment



Source: Company Filings

Business Description

NextEra Energy (NYSE: NEE) is a clean energy company focused on the generation, transmission, distribution, and sale of electric power to retail and wholesale customers in North America. The Company operates via two principal businesses: Florida Power & Light (FPL) which includes the Gulf Power (GP) segment, and NextEra Energy Resources (NEER). FPL is the largest rate-regulated electric utility in Florida and is among the largest in the U.S., possessing ~28,400 MW of net generating capacity. Of its 5.6mm customer accounts, residential accounts comprise of the vast majority (89%) as compared to commercial (11%). NEER is a diversified clean energy business focused on the development and operation of long-term contracted assets for renewables, possessing ~27,300 MW of total generating capacity. Notably, NEER is also the largest generator of wind and solar energy globally, as well as the world's leader in battery storage.

In 2019, NEE acquired GP for US$6.4B for its operations in northwest Florida. It has since merged with FPL in January 2021 but will remain a separate operating segment of NEE.

Industry Overview

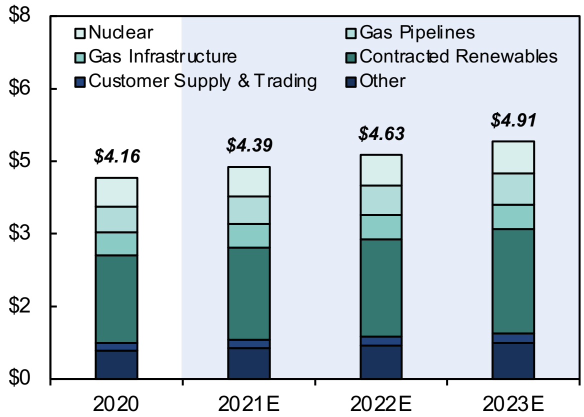
Electricity markets are extensively regulated in North America. In the U.S., various federal and state organizations hold jurisdiction over industry aspects, such as retail rates (FPSC), acquisition and disposition of generation assets (FERC), and reliability standards (NERC). Consequently, NEE's operational efficiencies and cost reduction strategies are key to achieving profitable margins in comparison to other competitors. Wholesale power generation is also a capital-intensive business with a highly fragmented market in each region of service.

In 2022, the U.S. Energy Information Administration (EIA) forecasts electricity generation in the U.S. to reach 4,133B kWh, up from the expected 4,104B kWh in 2021. Electricity consumption is similarly forecasted to increase, with retail sales to reach 3,817B kWh in 2022. NEE faces competitive pressures from other large utility companies such as Southern Co (NYSE: SO), Eversource Energy (NYSE: ES), Entergy (NYSE: ETR), and Duke Energy (NYSE: DUK). The Company also faces competition from self-generation options available to its residential, commercial, and industrial customers.

Mandate Fit

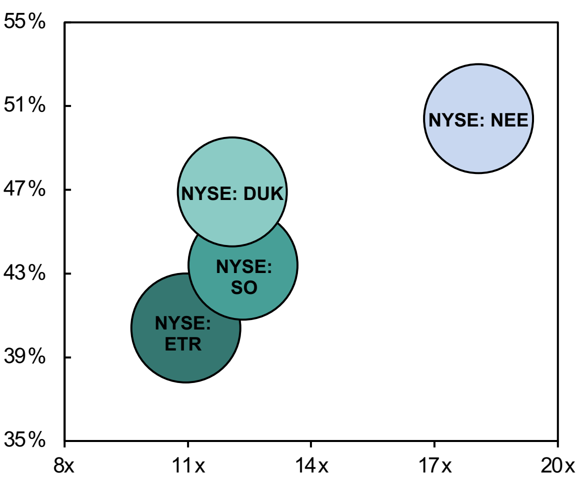
Quality Management: James Robo has been the Chairman and CEO of NEE since 2012. Having joined the Company in 2006, Robo possesses extensive management experience and has held many key leadership roles during his tenure, such as COO of NEE, President of NEER, and VP of Corporate Development and Strategy of NEE. Executive compensation consists mostly of long-term equity and annual incentives, with the CEO and NEOs receiving 91% and 76% of their pay from performance-based metrics, respectively. NEE is also committed to reaching various ESG targets, such as reducing CO_2 emissions by 67% compared to a 2005 baseline. Management has proven their commitment to stakeholders through consistent dividend hikes, reaching a 94% payout ratio in FY 2020.

Figure 2: NEER EBITDA Growth Forecast (US$B)



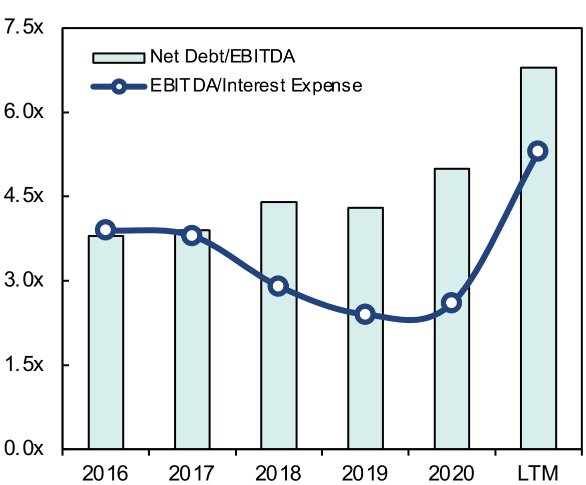
Source: Company Filings, CPMT Estimates

Figure 3: Peer NTM EV/EBITDA vs EBITDA Margin



Source: Bloomberg

Figure 4: Net Debt/EBITDA and Interest Coverage



Source: S&P Capital IQ

Competitive Advantage: NEE continues to benefit from a first-mover advantage in a robust renewables market while exercising a wide scope of regulated operations. As one of the largest electric power and energy infrastructure companies in North America, NEE leverages its size to expand diversified revenue streams into established and growing markets in both its FPL and GP segments. Consistent investments in solar and wind energy have driven NEER to become the largest clean energy producer in the world as well as a leader in battery technology. The Company also offers competitive power pricing in its operating regions which elevates positive consumer sentiment towards the provider.

Strong Balance Sheet: NEE achieves financial strength through its size and scope of operations, advantageous market positioning, and strong credit quality in regulated segments. Throughout 2020, operating efficiency and reliable interest coverage on high-cost projects during periods of uncertainty earned NEE corporate credit ratings of A- (S&P), Baa1 (Moody's), and A- (Fitch).

NEE's regulated power segments of FPL and GP have proven to be the financial anchor of the Company. These provide credit risk mitigation through long-term contracts and dependable revenues attributable to a wide array of rate base clientele in the Florida area. FPL and GP both earn top-tier corporate credit ratings of A, A1, and A+ from S&P, Moody's, and Fitch, respectively.

Growing Free Cash Flow: Although its FCF has historically been negative due to high capital expenditures, NEE has achieved steady EBITDA and EPS growth in recent years. The Company has increased EBITDA at a five-year CAGR of 3.7%, with its EBIT margin averaging 28.8%. NEE's adjusted EPS was US$2.31 in FY 2020, with management forecasting 6 - 8% growth YoY through 2023. Increases in cash flow are expected to be driven by long-term contracts and strong renewables penetration in the U.S. market.

Acquisitions

The Company's management team has an appetite for acquisitions that have not only expanded its scope of operations, but have also generated additional profits and, congruently, investor attraction. On January 1, 2019, NEE acquired GP from SO in a US$6.4B deal. This deal expanded NEE's combined consumer base in Florida to encompass 51% of the state's population, solidifying the Company as the leading power provider in the southern U.S. In 2017, NEE acquired solar energy assets from Ranger Solar LLC in order to expand its renewables focus in the NEER segment, an addition which has produced four major projects in the state of Maine.

Catalysts and Risks

Major catalysts for NEE include opportunities arising from acquisitions and the development of renewable resources, with a current backlog of signed contracts already standing at ~16,700 MW. The Company recently announced a favourable settlement in their FPL rate case which enables regulatory certainty across the next four years and an above-average authorized ROE at 10.6%. NEE's low customer bills, clean emissions profile, and positive satisfaction ratings will likely result in consistent and stable sales growth from its customer base.

A key risk for NEE is a deceleration in the Company's rate base growth due to adverse regulatory changes in the Florida region. Other risks such as federal policy decisions regarding the wind production tax credit (PTC), commodity price changes for natural gas, and interest rate movements may also negatively impact NEE.

Valuation

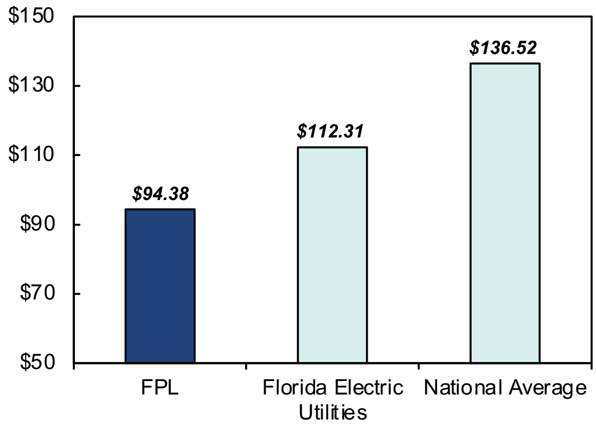
The CPMT reached a target price of $88 through a sum-of-the-parts valuation of NEE's regulated power segments (FPL, GP), energy resources (NEER, NEP), and other operations. With respect to the Company's regulated power segments, the CPMT applied a 24.6x EV/EBITDA exit multiple to the 2023E EBITDA of both FPL and GP, forecasted by rate base growth and authorized ROE guidance to produce implied prices of $48.70 and $3.87, respectively. NEER was valued using a 9.3x average EV/EBITDA exit multiple across its operating divisions, valuing the segment at $35.65 per share. The Fund determined NEP and Other segment prices using consensus estimates. The CPMT applied slightly conservative growth forecasts and exit multiples relative to Street estimates based on recent market developments and expectations.

The Company currently trades at a premium relative to peers on both a P/E and EV/EBITDA basis. However, the CPMT justifies this premium considering NEE's operational strength and competitive advantages in a growing renewables sector.

Investment Thesis

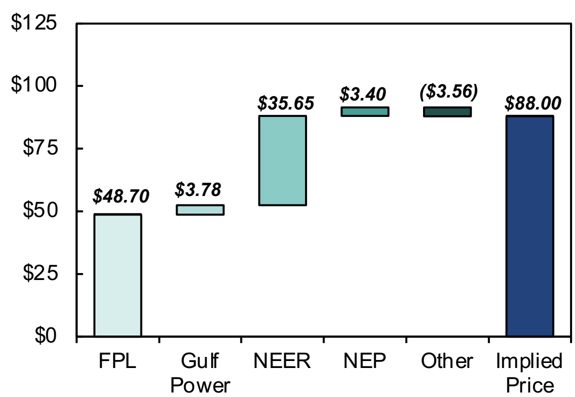
The CPMT believes NEE's scale, lucrative renewables business, and positive regulatory relationships will continue to drive strong earnings growth into FY 2022. Our initial investment thesis was structured on clear satisfaction of mandate points, attractive market profile, and valuable renewables market exposure. This thesis still holds today with the addition of several positive catalysts. The U.S. Senate's recent approval of a US$550B infrastructure bill with US$73B allocated towards electricity grid upgrades serves as a valuable catalyst and is likely to drive notable growth through the sector. Given NEE's foundational strengths in a growing renewables industry, the CPMT is comfortable holding NEE at a conviction rating of 2 and will continue to monitor industry developments for rising opportunities. The CPMT views NEE as a leading operator in the energy-utility industry with a resilient foundation in its regulated operations and a bright future in renewable power development.

Figure 5: Avg. Monthly Residential 1,000 kWh Bill (US$)



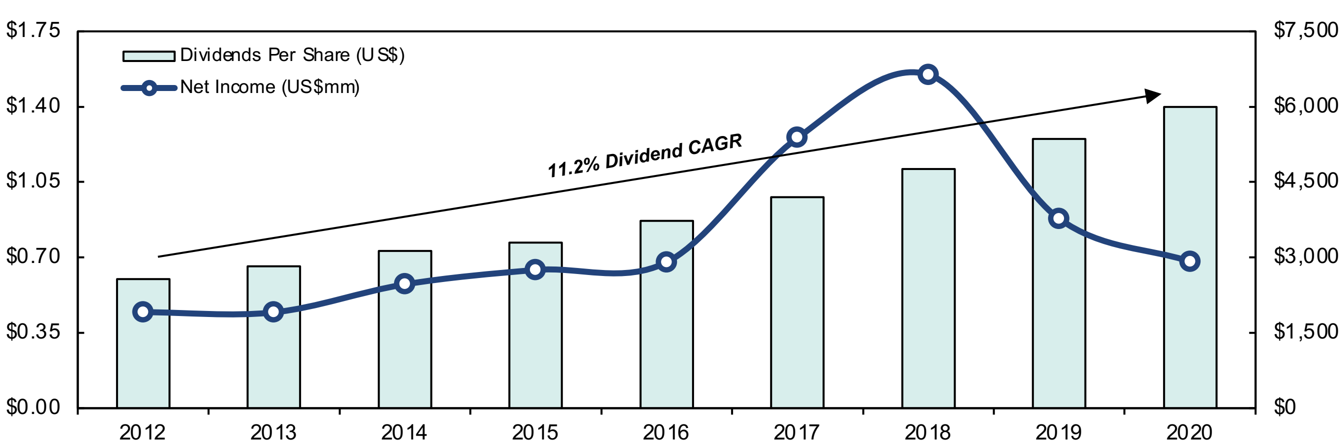
Source: Company Filings

Figure 6: Consolidated Valuation Waterfall



Source: CPMT Estimates

Figure 7: LHS Dividends Per Share vs RHS Net Income



Source: S&P Capital IQ