NextEra Energy (NEE)

Updated May 10th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$158	**5 Year CAGR Estimate:**	3.7%	**Quality Percentile:**	N/A
Fair Value Price:	$115	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	N/A
% Fair Value:	137%	**5 Year Valuation Multiple Estimate:**	-6.1%	**Total Return Percentile:**	N/A
Dividend Yield:	2.8%	**5 Year Price Target**	$162	**Valuation Percentile:**	N/A

Overview & Current Events

NextEra Energy is an electric utility with two operating segments, Florida Power & Light (FPL) and NextEra Energy Resources. The former is a rate-regulated utility that serves approximately 5 million customer accounts in Florida while the latter is the largest generator of wind and solar energy in the world.

FPL has managed to meaningfully reduce its operating cost in recent years. The company will heavily invest this and next year in a stronger and smarter grid to further improve the efficiency and reliability of its system and achieve further customer savings. FPL expects its residential bills to remain at significantly lower levels than those of 2006. Its typical residential bill is already nearly 30% below the national average.

NextEra Energy Resources greatly benefits from continuing improvements in the technology of wind and solar energy. Improvements have helped reduce the cost of electricity from these renewable sources by 70% during the last seven years. Thanks to this favorable trend, NextEra Energy has exhibited strong results in recent years and has built a strong backlog of solar and wind projects for the upcoming years.

In its Q1 earnings report, the company reported 11% adjusted EPS growth over last year thanks to the strong performance of both of its operating segments. It commissioned an additional capacity of 600 megawatts of cost-effective solar projects while it added another 1000 megawatts of wind and solar projects to its backlog.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$4.07	$3.97	$4.74	$4.82	$4.56	$4.83	$5.60	$6.06	$5.78	$10.47	***$7.70***	***$10.80***
DPS	$1.78	$1.89	$2.00	$2.20	$2.40	$2.64	$2.90	$3.08	$3.48	$3.93	***$4.44***	***$6.00***

Excluding a $1.925 billion gain related to the recent tax reform and a minor non-recurring charge, NextEra Energy achieved adjusted EPS of $6.70 last year. Thanks to its reduced tax rate this year and its strong performance, management and analysts expect the company to earn $7.70 in fiscal 2018. Moreover, management expects average annual EPS growth between 6% and 8% until at least 2021. Therefore, it is reasonable to assume 7.0% annual EPS growth over the next five years, from $7.70 this year to $10.80 in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.5	13.4	10.8	11.5	14.4	16.6	17.3	16.9	20.7	13.4	***20.5***	***15.0***
Avg. Yld.	3.0%	3.5%	3.9%	4.0%	3.6%	3.3%	3.0%	3.0%	2.9%	2.8%	***2.8%***	***3.7%***

NextEra Energy has pronouncedly outperformed the Utilities Select Sector SPDR ETF (XLU) in the last two years, as it has rallied 33% whereas the ETF has gained only 3%. As a result, NextEra Energy is now trading at a P/E ratio of 20.5, which is much higher than its 10-year average P/E ratio of 15.0. It is reasonable to expect NextEra Energy to revert towards its average valuation level over the next five years. In such a case, the stock will incur a large 6.1% annualized drag due to P/E contraction until 2023. Make no mistake, NextEra Energy appears overvalued at current levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	17.8%	17.0%	11.7%	10.6%	9.3%	10.1%	11.1%	14.7%	13.5%	13.4%	***14.0%***	***15.0%***
Debt/A	73.9%	73.2%	72.7%	73.9%	75.1%	74.0%	73.0%	72.0%	71.9%	69.8%	***70.0%***	***70.0%***
Int. Cov.	3.9	3.6	3.9	3.6	3.8	3.4	4.2	4.6	5.4	4.2	***4.7***	***5.0***
Payout	43.7%	47.6%	42.2%	45.6%	52.6%	54.7%	51.8%	50.8%	60.2%	37.5%	***57.7%***	***55.6%***
Std. Dev.	30.8%	23.5%	17.1%	14.5%	10.4%	15.4%	13.2%	15.7%	14.8%	9.4%	***13.0%***	***15.0%***

Utility stocks are generally slow-growth stocks which carry large debt loads due to their great needs for maintenance and expansion of their networks. Due to their high capital expenses, most utilities post poor free cash flows. On the contrary, NextEra Energy is a rare high-growth utility stock, which has grown its EPS at an 8.1% average annual rate in the last decade. Moreover, thanks to excellent execution, it has achieved strong free cash flows in 9 out of the last 10 years. This performance is in sharp contrast to the vast majority of utilities. For instance, Dominion and Southern have posted negative free cash flows for 10 and 4 consecutive years, respectively.

NextEra Energy also has a much better payout ratio than most other utilities. While most utilities have payout ratios above 80%, NextEra Energy has a payout ratio of 57.7%. As a result, it can raise its dividend at a much faster pace than its peers, particularly given its superior EPS growth. That's why its management has promised to raise its dividend by at least 12% per year in the upcoming years.

Finally, as a recession has not shown up for nine consecutive years and interest rates are on the rise, it is critical to note that NextEra Energy is resilient during recessions. In 2009, when most companies saw their earnings collapse, NextEra Energy's EPS fell only 2.5%.

Final Thoughts & Recommendation

NextEra Energy has performed better than most utilities thanks to its impressive growth rate and its strong free cash flows. In addition, the company has ample room to keep growing at its recent pace for years. On the other hand, thanks to its superior performance, it has rallied 40% during the last one and a half year. As a result, it is unlikely to continue to offer great returns going forward. Over the next five years, it is likely to offer a 3.7% average annual return thanks to 7.0% EPS growth and its 2.8% dividend, which will be partly offset by a 6.1% annualized drag due to P/E contraction.

Total Return Breakdown by Year