NextEra Energy Inc. (NEE)

Updated July 27th, 2018 by Nick McCullum

Key Metrics

Current Price:	$167	**5 Year CAGR Estimate:**	2.6%	**Volatility Percentile:**	N/A
Fair Value Price:	$115	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	N/A
% Fair Value:	145%	**5 Year Valuation Multiple Estimate:**	-7.1%	**Valuation Percentile:**	N/A
Dividend Yield:	2.7%	**5 Year Price Target**	$162	**Total Return 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. NextEra Energy was founded in 1925 and trades with a market capitalization of $79 billion.

In late July, NextEra Energy reported (7/25/18) financial results for the second quarter of fiscal 2018. In the quarter, the company generated $4.1 billion of revenue, which represents a 7.5% year-on-year decline. Bottom line results were far better. NextEra Energy generated adjusted earnings-per-share of $2.11, which represents a 13.4% increase over last year's comparable reporting period. The company's strong performance was driven by robust growth in each of its two operating subsidiaries. At FPL, the company is continuing one of the largest solar power expansions ever completed in the United States. Meanwhile, NextEra Energy Resources added 1,620 megawatts of renewable projects to its backlog in the quarter, including 535 megawatts of wind energy capability and 90 megawatts of battery storage projects. While NextEra Energy missed consensus estimates for revenue in the quarter, the company's stock price remained essentially unchanged following the announcement.

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	$6.70	***$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***	***$7.82***

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 continues to expect the company will 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.

The company's growth will be generated both organically and through acquisitions. More specifically, NextEra Energy is working on closing the acquisition of Gulf Power, Florida City Gas, and the Stanton and Oleandar natural gas power plants. The Florida City Gas transaction is expected to close next week. Separately, the company filed for approval from the Federal Energy Regulatory Commission (FERC) for approval of the Gulf Power and two natural gas plant acquisitions earlier this month. Once integrated, these acquisitions are collectively expected to add $0.15 and $0.20 in earnings-per-share in 2020 and 2021, respectively.

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	***21.7***	***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%***	***4.8%***

Using management's recently-reaffirmed 2018 earnings-per-share guidance of $7.70, NextEra Energy is currently trading at a price-to-earnings ratio of 21.7. This 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 7.1% annualized drag due to P/E contraction until 2023. Make no mistake, NextEra Energy appears quite 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%***	***72.4%***
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%***

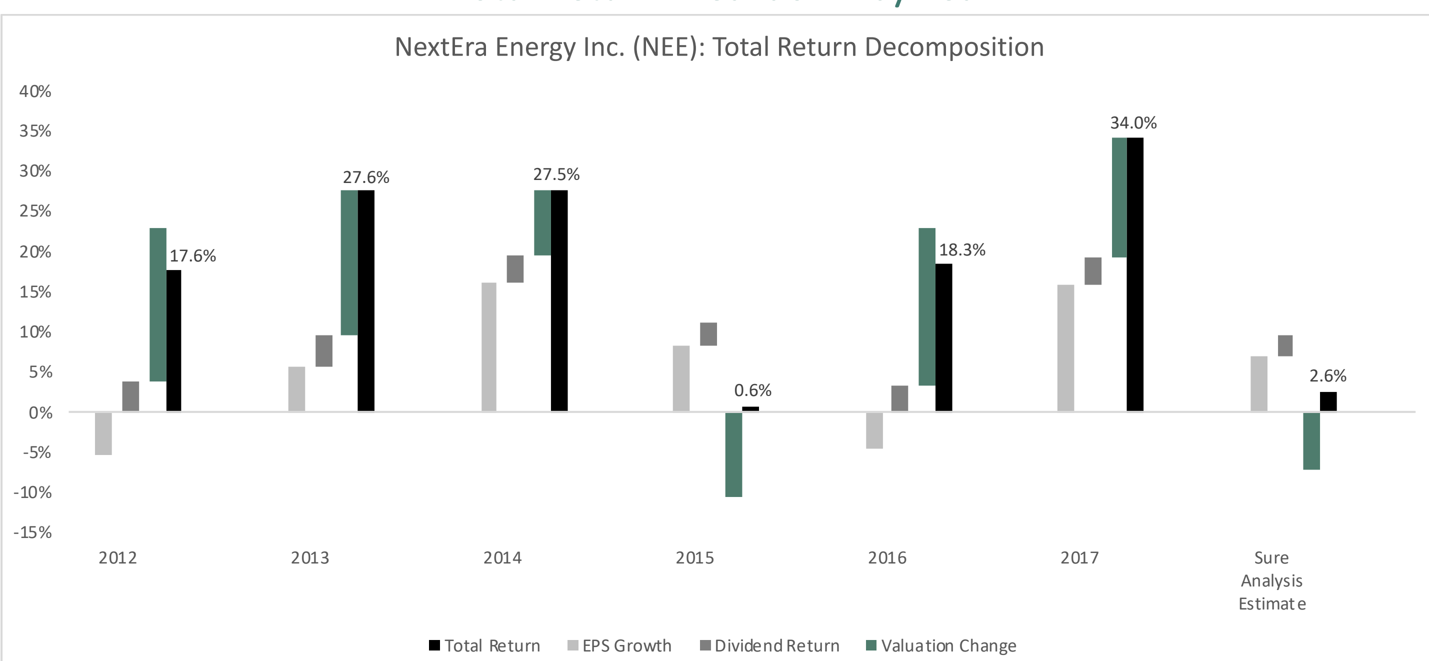
Utility stocks are generally slow-growth stocks which carry large debt loads due to their great needs for maintenance and expansion of their networks. Due to their high capital expenses, most utilities post poor free cash flows. On the contrary, NextEra Energy is a rare high-growth utility stock, which 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 safer payout ratio than most other utilities. NextEra Energy has a payout ratio of 57.7%. Management intends to raise its dividend by 12% per year in the upcoming years.

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. However, the company's surging stock price has eliminated many of the stock's potential for future return generation. NextEra Energy appears priced to deliver low single-digit total returns from its current price. Because of this, the company earns a sell recommendation from Sure Dividend at its current price.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.