



NextEra Energy Inc. (NEE)

Updated November 2nd, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$168	5 Year CAGR Estimate:	2.4%	Volatility Percentile:	1.5%
Fair Value Price:	\$116	5 Year Growth Estimate:	7.0%	Momentum Percentile:	73.5%
% Fair Value:	145%	5 Year Valuation Multiple Estimate:	-7.2%	Growth Percentile:	62.4%
Dividend Yield:	2.6%	5 Year Price Target	\$162	Valuation Percentile:	5.3%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	8.4%

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 \$81 billion.

NextEra Energy reported its third quarter earnings results on October 23. NextEra Energy was able to generate revenues of \$4.4 billion, a decline of 8.1% compared to the prior year's quarter. Earnings growth was much more favorable than the top line performance, as NextEra Energy was able to grow its net income by 16% year over year, to \$654 million for the quarter. Earnings-per-share rose to \$1.37, an increase of 15.1% compared to Q3 2017.

NextEra Energy's financial performance was primarily due to new growth investments causing higher revenues, in combination with slightly lower expenses in its legacy operations. NextEra Energy has increased the growth project backlog at its Energy Resources division substantially, 1,400 MW of new renewable projects were added to the backlog during the quarter, which now totals 9,300 MW. NextEra Energy also closed the acquisition of Florida City Gas during the third quarter of 2018.

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
Shares	409	414	421	416	424	435	443	461	468	471	490	530

Adjusting for a \$1.9 billion gain related to the recent tax reform and a minor non-recurring charge, NextEra Energy generated adjusted earnings-per-share of \$6.70 during 2017. On the back of its reduced tax rate, new growth projects, and a solid operating performance management continues to expect earnings-per-share of \$7.70 in fiscal 2018.

The company's growth will be generated both through organic investments as well as through acquisitions. NextEra Energy plans to acquire Gulf Power, and the Stanton and Oleander natural gas power plants during the coming months. An additional acquisition, the Florida City Gas transaction, was closed during the third quarter. The company has stated that the acquisitions of Gulf Power and the two natural gas plants that NextEra Energy seeks to acquire are progressing well. FERC change of control proceedings are now uncontested, and the FTC granted early termination of the relevant antitrust waiting period. Once fully integrated, these acquisitions are expected to add between \$0.15 and \$0.20 (combined) 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	21.8	15.0
Avg. Yld.	3.0%	3.5%	3.9%	4.0%	3.6%	3.3%	3.0%	3.0%	2.9%	2.8%	2.6%	4.2%

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NextEra Energy trades at close to 22 times this year’s expected earnings-per-share. This is a high valuation both relative to how other utilities are valued, as well as relative to how NextEra Energy’s shares were valued historically. A mid-teens price to earnings multiple, around the median price to earnings multiple of 15, is much more appropriate. It is likely that NextEra Energy’s shares will be impacted by multiple contraction to a significant degree over the coming years.

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%

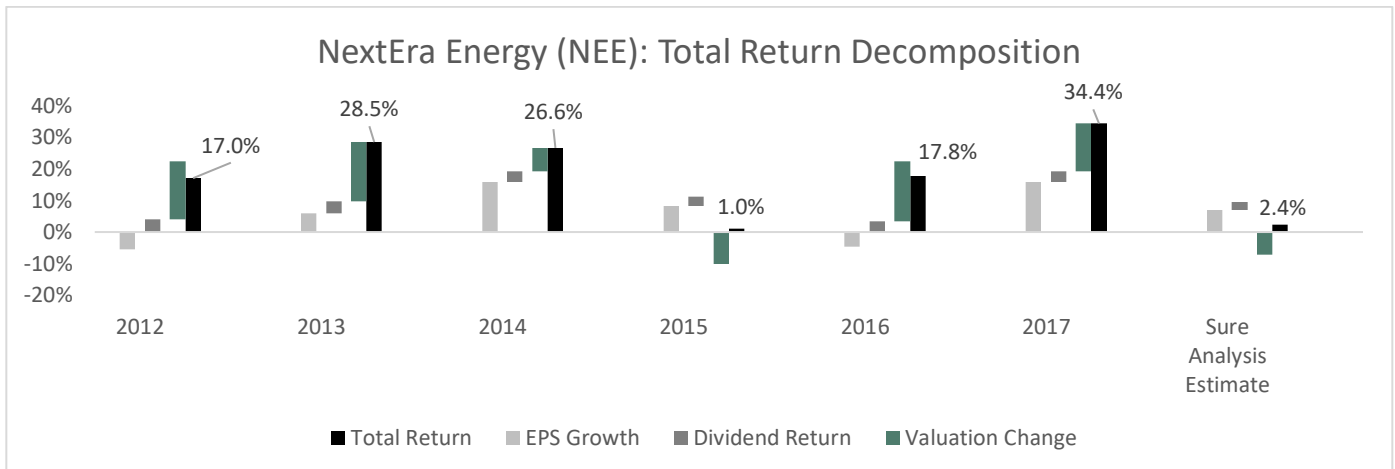
NextEra Energy has a relatively highly leveraged balance sheet, but debt levels are not threatening, as interest coverage remains at a solid level. Due to their regulated nature and the fact that new assets are very costly, utility stocks are generally slow-growth stocks which carry large debt loads due to their great needs for maintenance and expansion of their networks. NextEra Energy is, compared with its peers, a rare high-growth utility stock, which has grown considerably over the last decade. Thanks to excellent execution, it has generated strong free cash flows repeatedly. This performance is in sharp contrast to the vast majority of utilities.

Due to the regulations that are levied upon utilities there are little competitive risks. As one of the biggest utilities in the United States, NextEra Energy also benefits from massive scale, which serves as a competitive advantage. Its focus on higher-growth renewable energy projects will allow NextEra Energy to continue to grow faster than its peers. Utilities are not active in a cyclical industry, which is why economic downturns do not really harm NextEra Energy.

Final Thoughts & Recommendation

NextEra Energy is one of the largest utilities in the US, and the company produces compelling growth rates relative to how its peer group performs. NextEra Energy will continue to deliver high-single-digits earnings-per-share growth over the coming years, but total returns will nevertheless not be attractive. The high valuation will be a major headwind going forward, and the dividend is not high enough to offset this. NextEra Energy earns a sell recommendation from Sure Dividend at current prices, due primarily to its very high valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	16410	15643	15317	15341	14256	15136	17021	17486	16155	17195
Gross Profit	7998	8238	6198	6083	5980	6984	8270	8890	8724	9797
Gross Margin	48.7%	52.7%	40.5%	39.7%	41.9%	46.1%	48.6%	50.8%	54.0%	57.0%
D&A Exp.	1643	2004	2073	1849	1777	2521	2896	3203	3377	2629
Operating Profit	2825	2594	3283	3351	3343	3604	4394	4732	4383	4822
Op. Margin	17.2%	16.6%	21.4%	21.8%	23.4%	23.8%	25.8%	27.1%	27.1%	28.0%
Net Profit	1639	1615	1957	1923	1911	1908	2465	2752	2912	5378
Net Margin	10.0%	10.3%	12.8%	12.5%	13.4%	12.6%	14.5%	15.7%	18.0%	31.3%
Free Cash Flow	882	1525	887	47	-878	1898	2071	2217	2053	968
Income Tax	450	327	532	529	692	777	1176	1228	1383	-653

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	44821	48458	52994	57188	64439	69306	74605	82479	89993	97827
Cash & Equivalents	535	238	302	377	329	438	577	571	1292	1714
Acc. Receivable	1443	1431	1509	1372	1487	1777	1805	1784	1784	2220
Inventories	968	877	857	1074	1073	1153	1292	1259	1289	1273
Total Liabilities	33140	35491	38533	42245	48371	51266	54437	59367	64662	68329
Accounts Payable	1062	992	1124	1191	1281	1200	1354	2529	3447	3235
Long-Term Debt	17086	18889	20822	22967	27359	28426	28701	29687	30840	35081
Total Equity	11681	12967	14461	14943	16068	18040	19916	22574	24341	28208
D/E Ratio	1.46	1.46	1.44	1.54	1.70	1.58	1.44	1.32	1.27	1.24

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	3.9%	3.5%	3.9%	3.5%	3.1%	2.9%	3.4%	3.5%	3.4%	5.7%
Return on Equity	14.6%	13.1%	14.3%	13.1%	12.3%	11.2%	13.0%	13.0%	12.4%	20.5%
ROIC	6.2%	5.3%	5.8%	5.3%	4.7%	4.2%	5.2%	5.4%	5.3%	8.9%
Shares Out.	409	414	421	416	424	435	443	461	468	471
Revenue/Share	40.75	38.42	37.09	36.61	34.01	35.45	38.68	38.52	34.68	36.39
FCF/Share	2.19	3.75	2.15	0.11	-2.09	4.45	4.71	4.88	4.41	2.05

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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