



NextEra Energy Inc. (NEE)

Updated January 29th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$172	5 Year CAGR Estimate:	4.5%	Volatility Percentile:	1.6%
Fair Value Price:	\$132	5 Year Growth Estimate:	7.0%	Momentum Percentile:	86.1%
% Fair Value:	130%	5 Year Valuation Multiple Estimate:	-5.1%	Growth Percentile:	65.0%
Dividend Yield:	2.6%	5 Year Price Target	\$185	Valuation Percentile:	11.7%
Dividend Risk Score:	B	Retirement Suitability Score:	C	Total Return Percentile:	13.8%

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 \$82 billion.

NextEra Energy reported its fourth quarter and full year earnings results on January 25. The company reported revenues of \$4.39 billion for the fourth quarter, which represents a revenue growth rate of 9.5% compared to the prior year's period. Florida Power & Light has been a major growth driver for NextEra Energy's top line, primarily due to new investments into Florida Power & Light's asset base. Regulatory Capital Employed, which reflects the investments that NextEra Energy has made into Florida Power & Light's assets, have risen by 12.4%, to close to \$34 billion during 2018.

NextEra Energy's earnings-per-share totaled \$1.49 during the fourth quarter, which was below the analyst consensus, but which still represented a substantial increase of 20% over the prior year's level. Roughly 55% of profits were generated by Florida Power & Light, whereas the remainder was earned by NextEra Energy's Energy Resources segment.

NextEra Energy has earned a total of \$7.70 per share during 2018, which represents an earnings-per-share growth rate of 15%. The company expects earnings-per-share of \$8.00 to \$8.50 for 2019, which we use as the base for our estimate for this year's profits.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.97	\$4.74	\$4.82	\$4.56	\$4.83	\$5.60	\$6.06	\$5.78	\$6.70	\$7.70	\$8.25	\$11.57
DPS	\$1.89	\$2.00	\$2.20	\$2.40	\$2.64	\$2.90	\$3.08	\$3.48	\$3.93	\$4.44	\$4.93	\$7.40
Shares	414	421	416	424	435	443	461	468	471	477	480	520

NextEra Energy's earnings-per-share rose relatively consistently during the last decade, although there were some years where profits declined sequentially, e.g. 2012 and 2016. NextEra Energy's earnings did not take a significant hit during the last financial crisis, as earnings-per-share dropped by just 2% between 2008 and 2009. Between 2009 and 2018 NextEra Energy has grown its earnings-per-share by 7.6% a year on average.

The company's future growth will be generated both through organic investments as well as through acquisitions. NextEra Energy closed the acquisition of Gulf Power during the fourth quarter, and NextEra Energy has also taken over ownership interests in two natural gas power plants, Stanton and Oleander, from Southern Energy during December. An additional acquisition, the Florida City Gas transaction, was closed during the third quarter. 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. NextEra Energy's ongoing investments into its asset base at Florida Power & Light continue to drive the profits of this segment, which is the base for a solid organic growth rate. NextEra Energy forecasts that its earnings-per-share will rise by 6%-8% a year through 2021, excluding the impact of the acquisitions that NextEra Energy is pursuing. The company has also increased its backlog for its Energy Resources segment. NextEra Energy has added 6,500 MW of renewable energy projects to its backlog during 2018, which should drive the segment's profits over the coming years.

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.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.4	10.8	11.5	14.4	16.6	17.3	16.9	20.7	23.3	22.6	20.8	16.0
Avg. Yld.	3.5%	3.9%	4.0%	3.6%	3.3%	3.0%	3.0%	2.9%	2.8%	2.6%	2.6%	4.0%

NextEra Energy's valuation has risen relatively consistently over the last ten years. The price to earnings ratio more than doubled between 2010 and 2017. Shares got a little less expensive since, but they still look massively overvalued compared to our fair value estimate of an earnings multiple of 16, which would be more in line with the historic norm.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	47.6%	42.2%	45.6%	52.6%	54.7%	51.8%	50.8%	60.2%	58.7%	57.7%	59.8%	64.0%

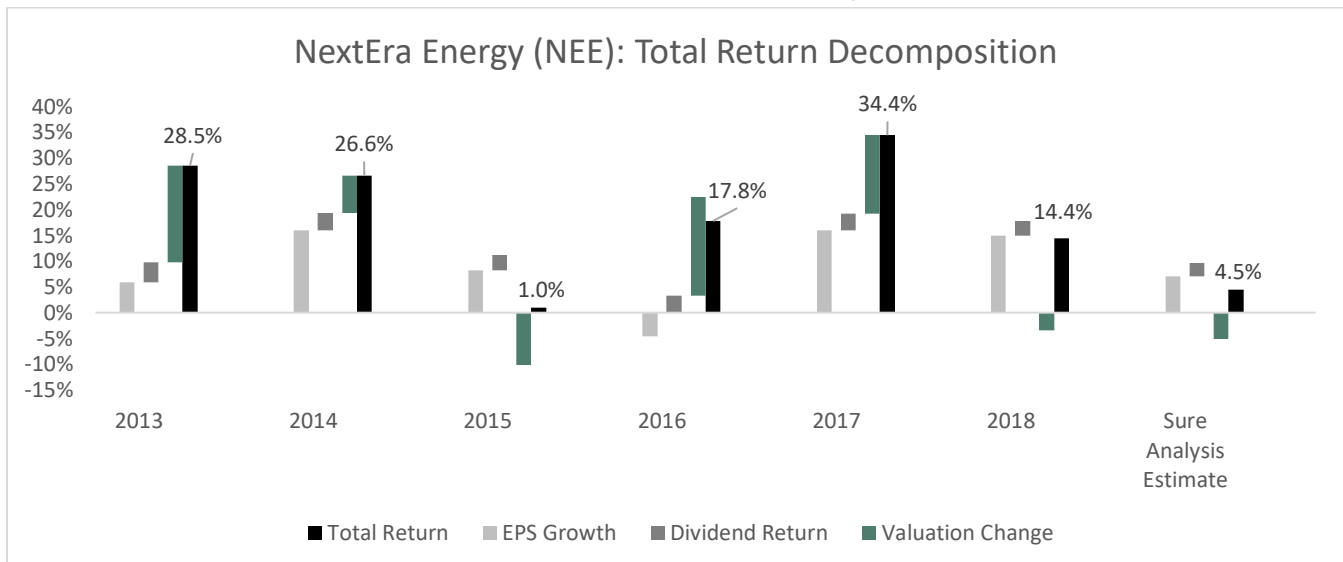
NextEra Energy has established a compelling dividend growth track record over the last decade. This was possible due to a combination of earnings growth and an increase in the company's payout ratio. NextEra Energy plans to raise the dividend payout ratio further over the coming years, as the company targets a dividend growth rate in the double digits through at least 2020, whereas earnings-per-share will not grow that fast. The payout ratio is not low, but we believe the dividend is still relatively safe due to the very low cyclicality of NextEra Energy's profits.

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 looks more attractive than many of its peers in terms of its earnings growth track record, its earnings growth outlook, its dividend growth projections and the strength of its renewables portfolio. NextEra Energy also trades well above fair value, though, as we believe it is not sustainable at all that NextEra Energy trades at a price to earnings multiple in the 20s. The very high valuation is why we rate NextEra Energy a sell at the current price.

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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