



NextEra Energy Partners LP (NEP)

Updated September 25th, 2019 by Samuel Smith

Key Metrics

Current Price:	\$52	5 Year CAGR Estimate:	6.0%	Volatility Percentile:	42.9%
Fair Value Price:	\$48	5 Year Growth Estimate:	4.0%	Momentum Percentile:	66.1%
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.4%	Growth Percentile:	28.0%
Dividend Yield:	3.9%	5 Year Price Target	\$59	Valuation Percentile:	47.8%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	85.7%

Overview & Current Events

NextEra Energy Partners was formed in 2014 as Delaware Limited Partnership by NextEra Energy to own, operate, and acquire contracted clean energy projects with stable, long-term cash flows. The company's strategy is to capitalize on the energy industry's favorable trends in North America of clean energy projects replacing uneconomical projects. At the year end of 2018, NextEra Energy Partners operates 34 contracted renewable generation assets consisting of wind and solar projects in 12 states across the United States. The company also operates contracted natural gas pipelines in Texas, which accounted for 18% of NextEra Energy Partners income in 2018. On July 1, 2014, NextEra Energy Partners had its initial public offering at \$25 per share; it is now trading at almost double the IPO share value. Following the IPO, NextEra Energy (the largest utility company in North America) held 82.6% of NextEra Energy Partners. The \$2.9 billion market capitalization company is listed on the New York Stock Exchange under the ticker NEP.

On July 24th, 2019 NextEra Energy released Q2. During the quarter, the company grew its distribution by 15% year-over-year, completed the acquisition of approximately 600 megawatts of wind and solar projects, maintained outstanding growth prospects, and enhanced already strong financial liquidity by completing a \$700 million senior unsecured note offering. The company reaffirmed its intent to avoid issuing new common equity until 2021 at the earliest. NextEra Energy Partners generated adjusted EBITDA of \$284 million during the quarter and cash available for distribution (CAFD) was \$114 million.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Book/S	N/A	N/A	N/A	N/A	N/A	\$29.47	\$30.25	\$32.16	\$40.29	\$41.82	\$43.91	\$53.37
CAD/S	N/A	N/A	N/A	N/A	N/A	\$3.10	\$4.10	\$4.10	\$4.59	\$6.04	\$6.34	\$7.71
Shares¹	N/A	N/A	N/A	N/A	N/A	18.7	30.7	54.2	54.3	56.1	57.1	61.2

In 2018, NextEra Energy Partners had a terrific year in terms of earnings; the company easily outperformed the prior year in every quarter (\$3.05 in 2018; -\$1.29 in 2017). Since the company's historic earnings-per-share has been very inconsistent, we were unable to use it as the company's primary growth metric. Instead, we used book value per share (Book/S). We chose book value per share as the primary growth metric, because it shows how well the company has been obtaining new assets and revenue, while also being diluted by the growth in the shares outstanding during this time. As you can see, their book value per share has been growing consistently since their IPO in 2014, and it has continued this trend thus far in 2019. Another growth metric we used is cash available for distribution (CAD) per share, the CAD metric is used to see a company's cash-on-hand that is available to be distributed back to shareholders as dividends. From the CAD/S metric we observed excellent growth of over 14% since 2014, which is noticeable in the rising dividend. Since 2014, the company has grown its dividend from \$0.19 annually to \$1.71 (in the last three years their dividend has grown 17.5%).

We expect growth from further expansion in renewable energy sales and addition of new infrastructure to drive an average annual growth rate of 4% throughout the next half decade to 2024.

¹ Share count in millions

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/B	N/A	N/A	N/A	N/A	N/A	1.23	1.17	0.91	1.14	1.06	1.18	1.10
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	0.5%	2.6%	4.7%	4.1%	3.9%	3.9%	4.2%

Instead of using the average price-to-earnings ratio, we used the company's price-to-book ratio for the valuation analysis. We decided to use price-to-book ratio instead, because we did not have enough information from the price-to-earnings ratio since the company has had inconsistent earnings over the last half decade. We observed the price-to-book ratio to be generally decreasing since 2014, with an outlier in 2016 where it dipped to 0.91 before bouncing back sharply. The current price-to-book ratio is slightly above the company's historic average of 1.10 resulting in us viewing the company as slightly overvalued at current prices.

Safety, Quality, Competitive Advantage, & Recession Resiliency

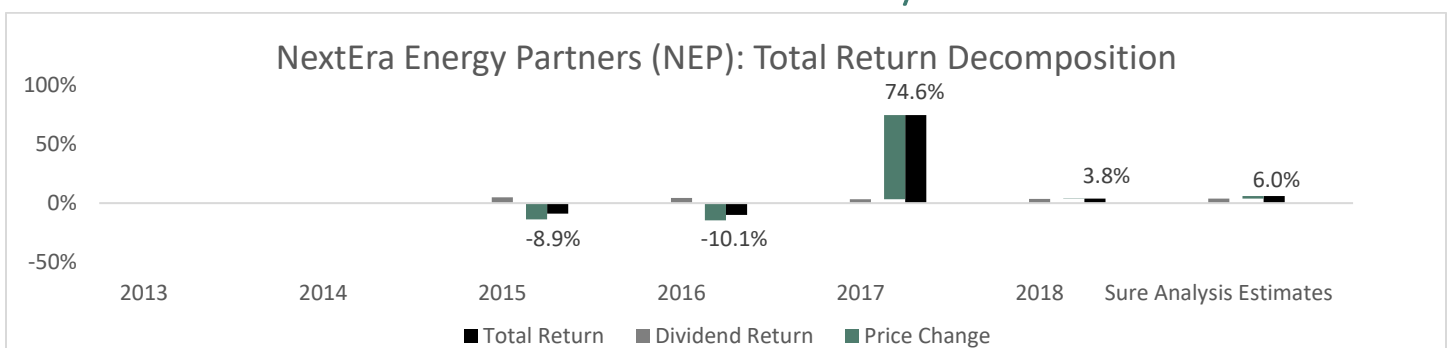
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
CAD/DPS	N/A	N/A	N/A	N/A	N/A	6%	22%	32%	32%	28%	31%	29%

NextEra Energy Partners is trying to become an industry leader in producing renewable energy and simply producing energy with as little carbon output as possible. The company's operations are very proactive for getting ahead of regulations that the utility sector has been getting in the past years on carbon emissions. To calculate the payout ratio above, since the company does not have consistent earnings, instead we used the company's cash available for distribution per share divided by dividends per share. Utilities generally have lower competitive risks, because of the regulations that are put on them. NextEra Energy Partners has found their own competitive advantage within the sector, by producing only renewable energy. This is an advantage because the company can put all their efforts into innovation in the part of the utilities sector with the most growth potential, renewable energy generation. Another advantage that NextEra Energy Partners have over their competition is that the company is a subsidiary of utility giant, NextEra Energy. A benefit of all utilities is that it is not a cyclical industry; in the event of an economic downturn utilities historically outperform the market, due to sheer need of the company's operations.

Final Thoughts & Recommendation

NextEra Energy Partners has been performing very well since the company's IPO in 2014, generating massive investor outperformance relative to the broader market and other renewable energy stocks. The company has a dividend yield of 3.9%, which has been growing very quickly since the first payment in 2014. Overall, we expect annualized total returns of 6.0% over the coming half decade. As a result, we rate NextEra Energy Partners as a hold at current prices, with higher than normal risk.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	N/A	N/A	N/A	N/A	N/A	359	501	772	807	771
Gross Profit	N/A	N/A	N/A	N/A	N/A	280	388	557	559	514
Gross Margin	N/A	N/A	N/A	N/A	N/A	78.0%	77.4%	72.2%	69.3%	66.7%
D&A Exp.	N/A	N/A	N/A	N/A	N/A	99	163	235	226	203
Operating Profit	N/A	N/A	N/A	N/A	N/A	176	209	302	312	290
Operating Margin	N/A	N/A	N/A	N/A	N/A	49.0%	41.7%	39.1%	38.7%	37.6%
Net Profit	N/A	N/A	N/A	N/A	N/A	3	10	83	-61	192
Net Margin	N/A	N/A	N/A	N/A	N/A	0.8%	2.0%	10.8%	-7.6%	24.9%
Free Cash Flow	N/A	N/A	N/A	N/A	N/A	-532	87	-446	64	337
Income Tax	N/A	N/A	N/A	N/A	N/A	-14	33	57	167	6

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	N/A	N/A	N/A	N/A	N/A	4337	7227	8661	8425	9405
Cash & Equivalents	N/A	N/A	N/A	N/A	N/A	106	164	150	154	147
Accounts Receivable	N/A	N/A	N/A	N/A	N/A	41	80	87	85	80
Inventories	N/A	N/A	N/A	N/A	N/A	10	14	18	N/A	N/A
Goodwill & Int. Ass.	N/A	N/A	N/A	N/A	N/A	N/A	1318	1306	1296	1845
Total Liabilities	N/A	N/A	N/A	N/A	N/A	2704	5335	6095	6201	3867
Accounts Payable	N/A	N/A	N/A	N/A	N/A	152	303	331	26	10
Long-Term Debt	N/A	N/A	N/A	N/A	N/A	1893	3447	3586	4317	3435
Shareholder's Equity	N/A	N/A	N/A	N/A	N/A	548	929	1743	2190	2346
D/E Ratio	N/A	N/A	N/A	N/A	N/A	4337	7227	8661	8425	9405

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	N/A	N/A	N/A	N/A	N/A	0.1%	0.2%	1.0%	-0.7%	2.2%
Return on Equity	N/A	N/A	N/A	N/A	N/A	0.5%	1.4%	6.2%	-3.1%	8.5%
Shares Out.	N/A	N/A	N/A	N/A	N/A	18.7	30.7	54.2	54.3	56.1
Revenue/Share	N/A	N/A	N/A	N/A	N/A	19.20	21.97	17.63	14.89	14.04
FCF/Share	N/A	N/A	N/A	N/A	N/A	-28.45	3.82	-10.18	1.18	6.14

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

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