



NextEra Energy Inc. (NEE)

Updated January 26th, 2019 by Kay Ng

Key Metrics

Current Price:	\$264	5 Year CAGR Estimate:	-0.3%	Market Cap:	\$128.9B
Fair Value Price:	\$161	5 Year Growth Estimate:	7.0%	Ex-Dividend Date¹:	03/16/20
% Fair Value:	164%	5 Year Valuation Multiple Estimate:	-9.4%	Dividend Payment Date¹:	02/26/20
Dividend Yield:	2.1%	5 Year Price Target	\$226	Years Of Dividend Growth:	25
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	12.6%

Overview & Current Events

NextEra Energy (NEE) is an electric utility with three operating segments, Florida Power & Light (“FPL”), NextEra Energy Resources (“NEER”), and Gulf Power. FPL and Gulf Power are rate-regulated electric utilities that serve about 5.5 million customer accounts in Florida, while NEER is the largest generator of wind and solar energy in the world. NEE was founded in 1925.

NextEra Energy reported its fourth-quarter and full-year financial results on January 24. The company reported revenues of nearly \$4.6 billion for the quarter, which represents a revenue growth rate of 4.5% compared to the prior year’s period. NEE’s Q4 adjusted earnings fell 1.7% to \$706 million against the comparable quarter in 2018. On a per-share basis, adjusted earnings fell 3.4% to \$1.44.

NextEra Energy had a productive year, adding about 5,800 MW to its backlog, including storage and repowering projects. Additionally, it commissioned roughly 2,700 MW of wind, solar, storage, and repowering projects. For 2019, NextEra Energy reported revenues of \$19.2 billion, up 15% year over year. Adjusted earnings climbed 10.6% to \$4.06 billion. Adjusted earnings-per-share was \$8.37, which rose 8.7%. Roughly two-thirds of adjusted earnings were generated by NEE’s electric utilities, whereas the remainder was earned by NEER. The acquisition of Gulf Power in January 2019 helped with growth. FPL has also been a major growth driver for NextEra Energy’s top line, primarily due to new investments into FPL’s asset base. Regulatory Capital Employed, which reflects the investments that NextEra Energy made into FPL’s assets, have risen by 8% year over year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$4.74	\$4.82	\$4.56	\$4.83	\$5.60	\$6.06	\$5.78	\$6.70	\$7.70	\$8.37	\$8.95	\$12.55
DPS	\$2.00	\$2.20	\$2.40	\$2.64	\$2.90	\$3.08	\$3.48	\$3.93	\$4.44	\$5.00	\$5.50	\$7.71
Shares¹	421	416	424	435	443	461	468	471	477	491	499	543

NextEra Energy’s EPS rose relatively consistently during the last decade, although there were some years where profits declined sequentially, as they did between 2015 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 2010 and 2019, NextEra Energy grew its earnings-per-share by 6.5% a year on average.

The company’s future growth will be generated both through organic investments as well as through acquisitions. For example, there was NEE’s acquisition of Gulf Power in January 2019, and it has also taken over ownership interests in two natural gas power plants, Stanton and Oleander, from Southern Energy during December 2018. An additional acquisition, the Florida City Gas transaction, was closed in July 2018. 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. NEE’s ongoing investments into its asset base at FPL continue to drive the profits of this segment, which is the base for a solid organic growth rate. NEE forecasts that its EPS will rise by 6%-8% a year through 2022, excluding the impact of the acquisitions that NextEra Energy is pursuing. So, we use the midpoint of the guidance range, 7%, for the longer-term growth rate. The company has also increased its backlog for its NEER segment. NEER added more than 1,609 MW of

1. Estimated dividend dates. Shares 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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renewable energy projects to its backlog in Q4 2019. Its renewable projects should drive the segment's profits going forward.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	10.8	11.5	14.4	16.6	17.3	16.9	20.7	23.3	22.6	25.7	29.5	18.0
Avg. Yld.	3.9%	4.0%	3.6%	3.3%	3.0%	3.0%	2.9%	2.8%	2.6%	2.3%	2.1%	3.4%

NextEra Energy's valuation has risen persistently over the last ten years. The price-to-earnings ratio more than doubled between 2010 and 2019. Due to recent share price increases, shares are now trading at the highest valuation in its history. We believe that multiple normalization will be a huge headwind going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	42%	46%	53%	55%	52%	51%	60%	59%	58%	60%	61%	61%

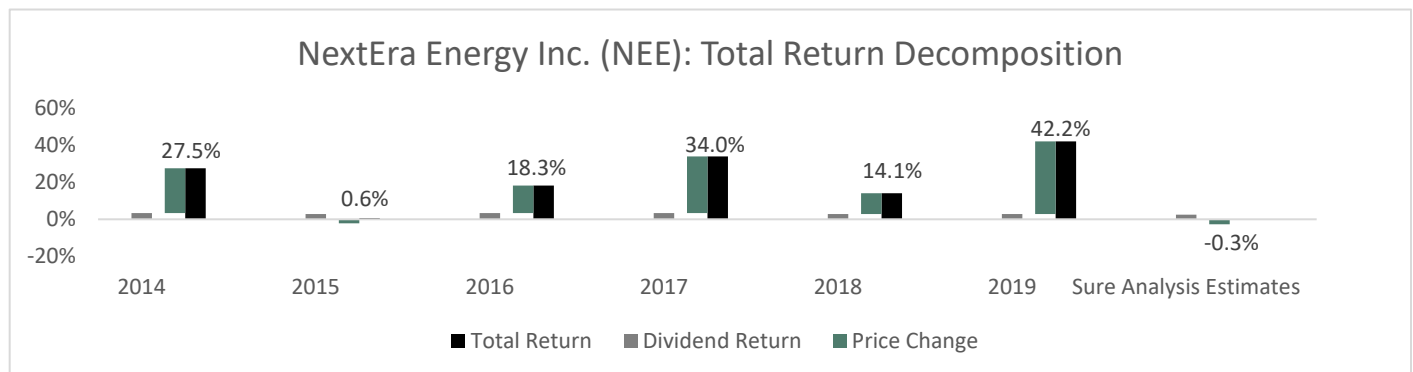
NextEra Energy has established a compelling dividend growth track record over the last decade. This was possible due to a combination of earnings growth and a rising payout ratio. NEE plans to raise the dividend payout ratio further over the coming years, as the company targets a dividend growth rate in the double digits through at least 2020, whereas EPS will not grow as quickly. The payout ratio is not low, but we believe the dividend is still relatively safe due to the very low cyclicity of NEE'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, NEE 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's bottom line. However, the high valuation will be detrimental to future returns for current shareholders.

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. Unfortunately, its shares are substantially overvalued, which will pressure total returns to a large degree. We estimate a rate of return of -0.3% from a 2.1% dividend yield, 7% EPS growth, and -9.4% from P/E contraction. The very high valuation is why Sure Dividend rates NEE as a sell at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	15,643	15,317	15,341	14,256	15,136	17,021	17,486	16,138	17,173	16,727
Gross Profit	8,238	6,198	6,083	5,980	6,984	8,270	8,890	8,617	9,644	9,665
Gross Margin	52.7%	40.5%	39.7%	41.9%	46.1%	48.6%	50.8%	53.4%	56.2%	57.8%
D&A Exp.	2,004	2,073	1,849	1,777	2,521	2,896	3,203	3,428	2,638	4,147
Operating Profit	2,594	3,246	3,312	3,276	3,541	4,357	4,662	4,154	4,577	4,243
Operating Margin	16.6%	21.2%	21.6%	23.0%	23.4%	25.6%	26.7%	25.7%	26.7%	25.4%
Net Profit	1,615	1,957	1,923	1,911	1,908	2,465	2,752	2,906	5,380	6,638
Net Margin	10.3%	12.8%	12.5%	13.4%	12.6%	14.5%	15.7%	18.0%	31.3%	39.7%
Free Cash Flow	1,525	887	47	(878)	1,898	2,071	2,217	2,129	1,013	583
Income Tax	327	532	529	692	777	1,176	1,228	1,379	(660)	1,576

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	48,458	52,994	57,188	64,439	69,306	74,605	82,479	89,993	97,963	103,702
Cash	238	302	377	329	438	577	571	1,292	1,714	638
Accts Rec.	1,431	1,509	1,372	1,487	1,777	1,805	1,784	1,784	2,220	2,302
Inventories	877	857	1,074	1,073	1,153	1,292	1,259	1,289	1,273	1,223
Goodwill									2,051	1,599
Tot. Liab.	35,491	38,533	42,245	48,371	51,266	54,437	59,367	64,662	68,432	66,289
Accts Pay.	992	1,124	1,191	1,281	1,200	1,354	2,529	3,447	3,235	2,386
LT Debt	18,889	20,822	22,967	27,359	28,426	28,701	29,687	30,840	35,025	37,712
Sh. Equity	12,967	14,461	14,943	16,068	18,040	19,916	22,574	24,341	28,236	34,144
D/E Ratio	1.46	1.44	1.54	1.70	1.58	1.44	1.32	1.27	1.24	1.10

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.5%	3.9%	3.5%	3.1%	2.9%	3.4%	3.5%	3.4%	5.7%	6.6%
Return on Equity	13.1%	14.3%	13.1%	12.3%	11.2%	13.0%	13.0%	12.4%	20.5%	21.3%
ROIC	5.3%	5.8%	5.3%	4.7%	4.2%	5.2%	5.4%	5.3%	8.9%	9.5%
Shares Out.	421	416	424	435	443	461	468	471	477	491
Revenue/Share	38.42	37.09	36.61	34.01	35.45	38.68	38.52	34.65	36.35	35.07
FCF/Share	3.75	2.15	0.11	(2.09)	4.45	4.71	4.88	4.57	2.14	1.22

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

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