



NextEra Energy Partners LP (NEP)

Updated January 10th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$53	5 Year CAGR Estimate:	6.7%	Market Cap:	\$3.2B
Fair Value Price:	\$51	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	2/5/20 ¹
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-1.0%	Dividend Payment Date:	2/14/20 ²
Dividend Yield:	3.9%	5 Year Price Target	\$62	Years Of Dividend Growth:	5
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	15%

Overview & Current Events

NextEra Energy Partners was formed in 2014 as a 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 uneconomic projects. As of year-end 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 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 \$3.2 billion market capitalization company is listed on the New York Stock Exchange under the ticker NEP.

On October 22nd, 2019 NextEra Energy released Q3 results for the period ending September 30th, 2019. The business achieved adjusted EBITDA and CAFD growth of 55% and 81%, respectively. This continued robust growth enabled leadership to hike the distribution by 15% on a year-over-year basis. The company also announced an agreement to acquire the Meade Pipeline Company during the quarter. With a fixed-payment minimum 14-year contract with an investment grade caliber counterparty and an expected 14% CAFD yield on investment, it presents an excellent risk-adjusted return for investors.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
CAFD/S	---	---	---	---	---	\$3.10	\$4.10	\$4.10	\$4.59	\$6.04	\$6.34	\$7.71
DPS	---	---	---	---	---	\$0.19	\$0.91	\$1.30	\$1.49	\$1.71	\$2.07	\$2.52
Shares³	---	---	---	---	---	18.7	30.7	54.2	54.3	56.1	57.1	61.2

NextEra Energy Partners continues to grow its cashflows at an aggressive clip. Since the company's historic EPS has been very inconsistent, we were unable to use it as the company's primary growth metric, so 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. 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 (CAFD) per share, the CAFD metric is used to see a company's cash generation that is available to be distributed back to shareholders as dividends. From the CAFD/S metric we observed excellent growth of over 14% annually since 2014, which is noticeable in their rising dividend. Since 2014, the company has grown their dividend from \$0.19 annually to \$2.07.

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 Estimate

² Estimate

³ 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
P/CAFD	---	---	---	---	---	11.5	9.5	6.8	7.6	7.5	8.4	8.0
Avg. Yld.	---	---	---	---	---	0.5%	2.6%	4.7%	4.1%	3.9%	3.9%	4.1%

Instead of using the average price-to-earnings ratio we used the company's price-to-CAFD ratio for the valuation analysis. We decided to use price-to-CAFD 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-CAFD ratio to be generally decreasing since 2014 until this year. The current price-to-CAFD ratio is slightly above where we see its long-term average settling, resulting in us considering the company to be slightly overvalued at current prices.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	6%	22%	32%	32%	28%	33%	33%

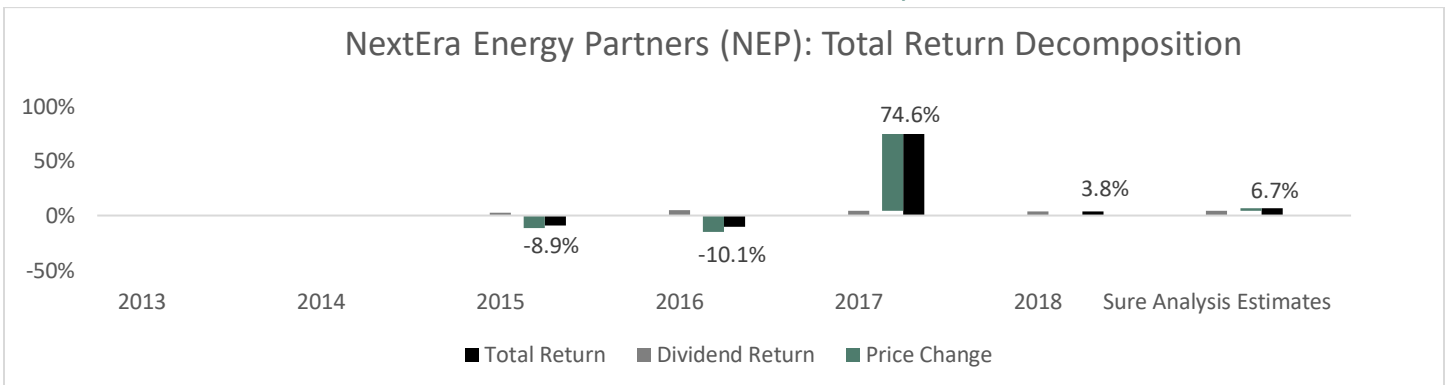
NextEra Energy Partners is trying to become an industry leader in producing renewable energy and simply producing energy with as little carbon output as possible. The company's operations are very proactive for getting ahead of regulations that the utility sector has been getting in the past years on 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 its 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 a return of about 100% from the share price alone. The company currently has a dividend yield of 3.9%, which has been growing very quickly since their first payment in 2014. Overall, we expect a total return of 6.7% annualized over the next half decade. As a result, we rate NextEra Energy Partners as a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

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

Profitability & Per Share Metrics

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

Disclaimer

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