



# NextEra Energy Partners LP (NEP)

Updated November 17<sup>th</sup>, 2020 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$65	<b>5 Year CAGR Estimate:</b>	3.5%	<b>Market Cap:</b>	\$4.8B
<b>Fair Value Price:</b>	\$48	<b>5 Year Growth Estimate:</b>	6.1%	<b>Ex-Dividend Date:</b>	2/04/21 <sup>1</sup>
<b>% Fair Value:</b>	136%	<b>5 Year Valuation Multiple Estimate:</b>	-6.0%	<b>Dividend Payment Date:</b>	2/13/21 <sup>2</sup>
<b>Dividend Yield:</b>	3.7%	<b>5 Year Price Target</b>	\$64	<b>Years Of Dividend Growth:</b>	6
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	3%

## 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 uneconomic projects. 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 accounts for about a fifth of NextEra Energy Partners' income. On July 1, 2014, NextEra Energy Partners had its initial public offering at \$25 per share; it is now trading at more than 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 \$4.8 billion market capitalization company is listed on the New York Stock Exchange under the ticker NEP.

On October 21<sup>st</sup>, 2020 NextEra Energy released Q3 results. The partnership generated revenue of \$240M, down by 5.1% compared to last year's same period. Meanwhile, GAAP EPS increased to \$0.76 for the quarter, beating analyst expectations by \$0.16. Year-to-date adjusted EBITDA and CAFD have grown by 16% and 50%, respectively, year-over-year. NEP also completed the successful conversion of ~\$300 million in convertible debt into NEP common units, which meant that they issued 25% fewer units than if they had issued units at the same time, while also generating roughly \$50 million in three-year cash savings.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>CAFD/S</b>	N/A	N/A	N/A	N/A	\$3.10	\$4.10	\$4.10	\$4.59	\$6.04	\$6.34	<b>\$5.96</b>	<b>\$8.02</b>
<b>DPS</b>	N/A	N/A	N/A	N/A	\$0.19	\$0.91	\$1.30	\$1.49	\$1.71	\$2.07	<b>\$2.38</b>	<b>\$2.80</b>
<b>Shares<sup>3</sup></b>	N/A	N/A	N/A	N/A	18.7	30.7	54.2	54.3	56.1	58.8	<b>65.5</b>	<b>70.0</b>

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, instead we used cash flow per share (CAFD/S). 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 since 2014, which is noticeable in their rising dividend.

We expect growth from further expansion in renewable energy sales and addition of new infrastructure to drive an average annual growth rate of 6.1% throughout the next half decade to 2025.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
<b>P/CAFD</b>	N/A	N/A	N/A	N/A	11.5	9.5	6.8	7.6	7.5	8.4	<b>10.9</b>	<b>8.0</b>
<b>Avg. Yld.</b>	N/A	N/A	N/A	N/A	0.5%	2.6%	4.7%	4.1%	3.9%	3.9%	<b>3.7%</b>	<b>4.4%</b>

<sup>1</sup> Estimated date

<sup>2</sup> Estimated date

<sup>3</sup> In millions

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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 have floated around 8 over the past several years. The current price-to-CAFD ratio of 10.9 is above this level as renewable energy assets are enjoying a valuation premium in light of the bullish outlook on its future and interest rates sitting at historic lows. That said, we believe that shares remain slightly overvalued as the market is likely overly bullish on green energy which is still considerably more expensive to generate than its competitors natural gas and oil and therefore reliant on significant government assistance to make economical.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	N/A	N/A	N/A	N/A	6%	22%	32%	32%	28%	33%	40%	35%

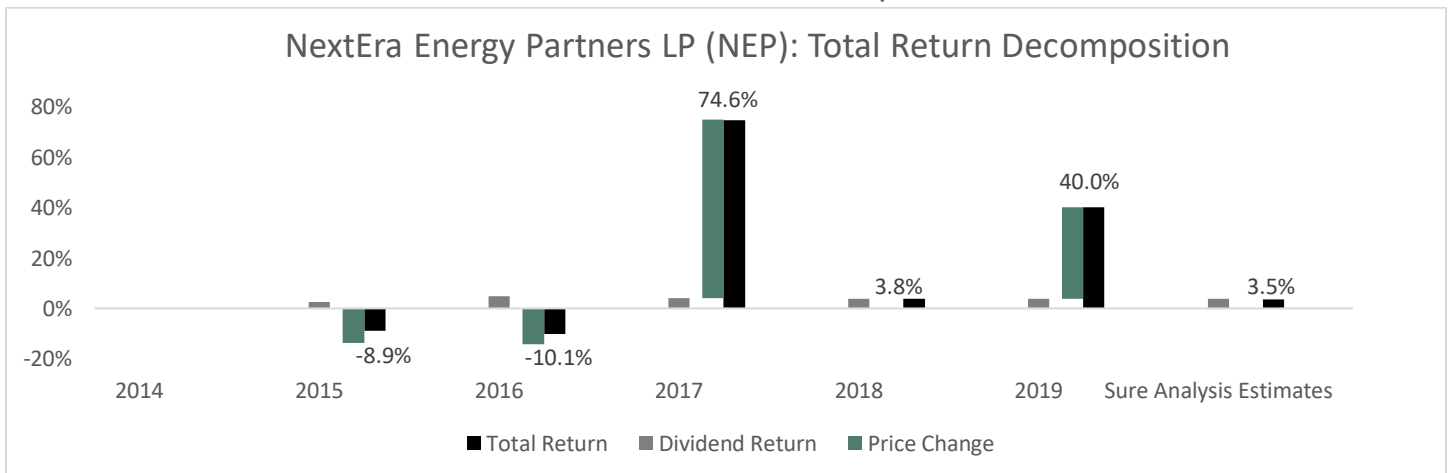
NextEra Energy Partners is trying to become an industry leader in producing renewable energy and simply producing energy with as little carbon output as possible. The company's operations are very proactive for getting ahead of regulations that the utility sector has been getting in the past years on 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 their 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 has 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 partnership's IPO in 2014. The stock currently has a dividend yield of 3.7%, and its payout has been growing very quickly since their first payment in 2014. Overall, we expect a total return of 3.5% 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue			93	179	359	501	772	807	771	855
Gross Profit			76	133	280	388	557	559	514	519
Gross Margin			81.7%	74.3%	78.0%	77.4%	72.2%	69.3%	66.7%	60.7%
D&A Exp.			23	54	99	163	235	226	203	331
Operating Profit			49	72	176	209	302	312	290	233
Operating Margin			52.7%	40.2%	49.0%	41.7%	39.1%	38.7%	37.6%	27.3%
Net Profit			16	20	3	10	83	(61)	192	(71)
Net Margin			17.2%	11.2%	0.8%	2.0%	10.8%	-7.6%	24.9%	-8.3%
Free Cash Flow			(490)	(545)	(532)	87	(446)	64	337	253
Income Tax			(9)	8	(14)	33	57	167	6	(26)

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets			2,320	2,633	4,337	7,227	8,661	8,425	9,405	12,256
Cash & Equivalents			21	27	106	164	150	154	147	128
Accounts Receivable			91	203	41	80	87	85	63	79
Inventories			3	4	10	14	18			
Goodwill & Int. Ass.						1,318	1,306	1,296	1,845	2,891
Total Liabilities			1,619	1,920	2,704	5,335	6,095	6,201	3,867	5,190
Accounts Payable			153	43	152	303	331	26	10	122
Long-Term Debt			1,403	1,799	1,893	3,447	3,586	4,317	3,435	4,144
Shareholder's Equity			701	713	548	929	1,743	2,190	2,346	2,183

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets				0.8%	0.1%	0.2%	1.0%	-0.7%	2.2%	-0.7%
Return on Equity				2.8%	0.5%	1.4%	6.2%	-3.1%	8.5%	-3.1%
Shares Out.					18.7	30.7	54.2	54.3	56.1	58.8
Revenue/Share			5.72	11.02	19.20	21.97	17.63	14.89	10.34	14.54
FCF/Share			(30.15)	(33.54)	(28.45)	3.82	(10.18)	1.18	4.52	4.30

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

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