Hannon Armstrong Sustainable Infr. (HASI)

Updated February 22nd, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$60	**5 Year CAGR Estimate:**	6.8%	**Market Cap:**	$4.5B
Fair Value Price:	$50	**5 Year Growth Estimate:**	8.5%	**Ex-Dividend Date:**	04/01/2021
% Fair Value:	119%	**5 Year Valuation Multiple Estimate:**	-3.4%	**Dividend Payment Date:**	04/12/2021
Dividend Yield:	2.3%	**5 Year Price Target**	$76	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	2.94%

Overview & Current Events

Hannon Armstrong is a U.S. public company entirely committed to investments in climate change solutions, providing capital to leading companies in energy efficiency, renewable energy, and other sustainable infrastructure markets. The company's portfolio of assets is worth around $2.9 billion and is split between three market segments: Its Behind-the-Meter business (58% of assets) focuses on the installation of solar power, electric storage, and other heat and power systems. The Grid-Connected segment (33% of assets) involves investments in grid-connected renewable energy projects, such as solar and off/on-shore wind projects, whose generated yield the company then sells on the wholesale energy markets. Finally, while currently occupying around 9% of its portfolio, the company invests in Sustainable Infrastructure projects, enabling the use of natural resources, such as its projects to slow pollution runoff across the Chesapeake Bay region. Hannon Armstrong has around 230 investments, with a weighted average life of 14 years and an investment yield of around 7.6%. The company generates around $85 million in annual revenues, is based in Annapolis, Maryland, and has chosen to qualify itself as a REIT due to the physical nature of its assets.

On February 15th, Hannon Armstrong reported its Q4 results for the period ending December 31st, 2020. Revenues grew by 7.84% to $22.6 million, while EPS[1] came in at $0.37 compared to $0.40 during Q4-2019. The increased top line was primarily the result of HASI's portfolio expansion, as the company keeps on capitalizing on the favorable ESG market conditions. The company's pipeline remains robust, at >$3 billion, growing 20% compared to last quarter, which should guarantee a bright future for HASI's financials in the medium term as corporations and governments worldwide continue allocating capital towards their ESG goals. Management expects to deliver "distributable EPS" CAGR growth of 7% to 10% from 2021 to 2023, which at the midpoint implies a FY2021 distributable EPS of $1.68 vs. a FY2020 distributable EPS of $1.55.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	($0.68)	$0.43	$0.21	$0.32	$0.57	$0.75	$1.40	$1.55	***$1.68***	***$2.53***
DPS	---	---	$0.42	$0.92	$1.08	$1.23	$1.32	$1.32	$1.34	$1.36	***$1.40***	***$1.62***
Shares[2]	---	---	16	21	31	40	50	53	64	84	***100***	***180.0***

HASI's EPS has been growing rapidly, in line with its asset portfolio. We expect the company to keep taking advantage of the cheap financing available for green assets to keep growing rapidly. We apply management's EPS growth guidance midpoint of 8.5% as our medium-term EPS growth estimate. To keep investors satisfied and the stock high enough to successfully issue funds through shares issuances, management would pay shareholders dividends through its debt proceeds, as the company was on its way to profitability. As its past dividend yields of around 4%-6% indicate, its cost of equity was lower than its investment yield (~7.6%), and hence its growth strategy was viable. EPS recently caught up to its distributions, self-funding the dividend. Still, as management still needs to widen its coverage ratio and self-fund future projects, we expect DPS to grow by around 3% in the medium term, in-line with its recent increase.

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[1] While a REIT, HASI's assets are not (yet) subject to any meaningful depreciation/amortization. Hence it reports in EPS over FFOs.

[2] Share count is 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	32.0	90.0	68.0	43.0	35.0	32.0	28.0	***35.7***	***30.0***
Avg. Yld.	---	---	4.8%	6.1%	6.3%	5.7%	6.0%	6.6%	4.6%	4.6%	***2.3%***	***2.1%***

HASI's historical P/E ratio reflects the market's expectations for the company's rapid EPS growth, hence the prolonged premium. We believe that investors' interest in renewables to remain sky-high in the medium-term, and thus we raise our future fair P/E to around 30, though we cannot ignore that shares are slightly overvalued. In terms of its dividend yield, the figure would hover around 4%-6% as payouts were derived out of debt, and the company had yet to prove that its risky strategy would quickly achieve dividend coverage. With profitability snowballing due to the global ESG boost over the past couple of years, dividend coverage has been more secure. Rushing to capture HASI's now safe distributions and juicy growth prospects, shares have undergone a huge rally and currently yield a thin 2.3%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

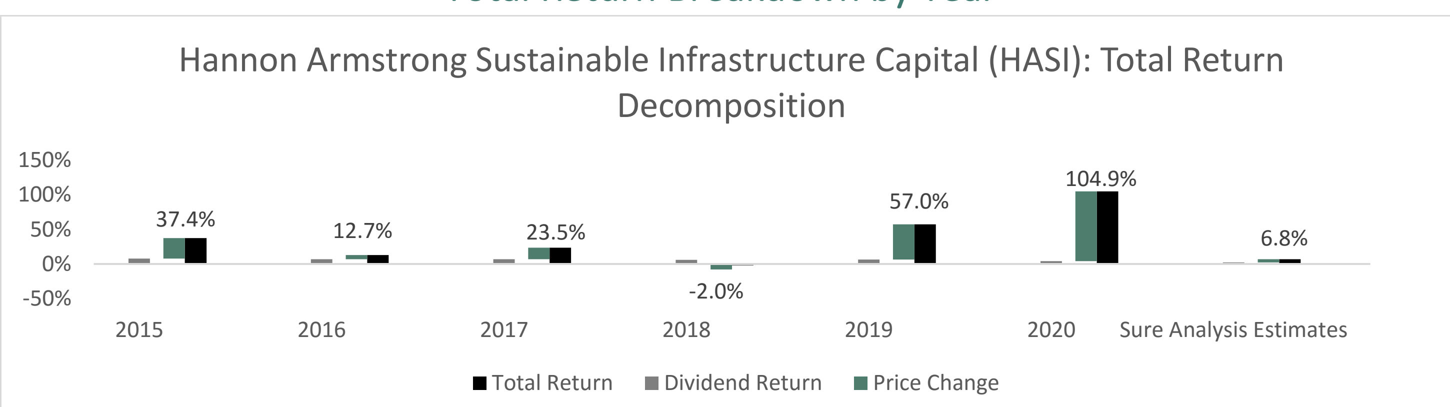
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	214%	514%	384%	232%	176%	96%	88%	***83%***	***64%***

HASI's risky distribution strategy has paid off, and the dividend should now be quite safe, though not growing as fast. The company's competitive advantage includes a leading market position in a relatively new and booming industry and a global push for renewables, which should ensure a long-term rich backlog and ultra-low financing, further boosting its ROI. It's also worth mentioning that 86% of its Board of Directors is independent, while its management is not composed of just the usual Ivy League MBA executives, but also holds various distinctions such as CPAs and CFAs, equipped with the skills to pull off some complex financial engineering, including HASI's early financing strategy. Based on an extremely favorable industry outlook and HASI's robust pipeline and cheap financing, we believe that the company will keep performing well and is unlikely to face any challenges correlated to the underlying economy.

Final Thoughts & Recommendation

Hannon Armstrong is one of the leading diversified renewable energy asset operators, despite its small market cap. Management has proven its skills in rapidly growing HASI's infrastructure portfolio, while its backlog stands at an all-time high. Despite its qualities, the stock's extended rally has overvalued the stock and shrank the dividend yield. Due to its lower tangible capital returns and the possibility of a medium-term valuation compression, we forecast annualized returns of around 6.8%. Hence, we rate shares a Hold at their current levels.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2.0	15.4	14.3	26.2	32.2	42.1	62.8	84.7	141.5
SG&A Exp.	2.5	3.9	3.8	5.9	7.3	8.3	11.2	15.1	14.7
D&A Exp.	1.0	0.4	1.1	2.6	4.0	7.7	3.6	4.5	3.6
Net Profit	-5.0	3.8	-10.5	9.6	8.0	14.7	30.9	41.6	81.6
Net Margin	-257%	24.7%	-73.3%	36.7%	24.7%	34.8%	49.1%	49.1%	57.6%
Free Cash Flow	1.5	9.7	-10.8	5.1	18.5	56.9	11.7	58.8	29.5
Income Tax	0.0	0.0	-0.3	0.0	0.1	0.1	0.9	2.1	8.1

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	2.0	15.4	14.3	26.2	32.2	42.1	62.8	84.7	141.5
Cash & Equivalents	2.5	3.9	3.8	5.9	7.3	8.3	11.2	15.1	14.7
Total Liab.	1.0	0.4	1.1	2.6	4.0	7.7	3.6	4.5	3.6
Accounts Payable	-5.0	3.8	-10.5	9.6	8.0	14.7	30.9	41.6	81.6
Long-Term Debt	-257%	24.7%	-73.3%	36.7%	24.7%	34.8%	49.1%	49.1%	57.6%
Total Equity	1.5	9.7	-10.8	5.1	18.5	56.9	11.7	58.8	29.5
D/E Ratio	0.0	0.0	-0.3	0.0	0.1	0.1	0.9	2.1	8.1

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	---	1.9%	-2.6%	1.2%	0.6%	0.9%	1.5%	1.9%	3.6%
Return on Equity	---	21.5%	-12.6%	4.6%	2.3%	2.9%	5.1%	5.8%	9.4%
ROIC	---	1.9%	-2.9%	1.4%	0.7%	1.0%	1.7%	2.0%	3.7%
Shares Out.	15.1	15.1	15.7	20.7	30.8	40.3	50.4	52.8	64.8
Revenue/Share	0.13	1.02	0.91	1.27	1.05	1.04	1.25	1.60	2.18
FCF/Share	0.10	0.64	-0.68	0.25	0.60	1.41	0.23	1.11	0.46

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

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