



NextEra Energy Inc. (NEE)

Updated February 7th, 2021 by Kay Ng

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|---|----------|
| Current Price: | \$84 | 5 Year CAGR Estimate: | -0.8% | Market Cap: | \$163.8B |
| Fair Value Price: | \$50 | 5 Year Growth Estimate: | 7.0% | Ex-Dividend Date¹: | 02/27/21 |
| % Fair Value: | 168% | 5 Year Valuation Multiple Estimate: | -9.8% | Dividend Payment Date¹: | 03/16/21 |
| Dividend Yield: | 1.9% | 5 Year Price Target | \$70 | Years Of Dividend Growth: | 25 |
| Dividend Risk Score: | B | Retirement Suitability Score: | C | Last Dividend Increase: | 12.0% |

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. NEE generates roughly 70% of its revenues from its electric utilities, whereas the remainder comes from NEER.

NextEra Energy reported its Q4 and full-year financial results on 01/26/21. NextEra Energy’s business remains resilient to COVID-19 impacts. For the quarter, the company reported revenues of \$4.4 billion, a decline of 4% compared to Q4 2019. NEE’s Q4 adjusted earnings climbed 11% to \$785 million. On a per-share basis, adjusted earnings climbed 11% to \$0.40. For the full year, the company reported revenues of almost \$18 billion, a decline of 6% compared to 2019. Adjusted earnings climbed 12% to \$4,552 million. On a per-share basis, adjusted earnings rose 10.5% to \$2.31. NextEra Energy expects its adjusted EPS to have a compound annual growth rate of 6% to 8% through 2023. The stable utility estimates it’d be able to increase the dividend by 12-15% from 2020 through 2024. Notably, the stock had a 4:1 stock split in October 2020. This is why its earnings-per-share (EPS) appears to be much lower in 2020 in the table below. We also adjusted its 2020 dividend-per-share (DPS) accordingly. For now, we estimate a 2021 EPS of \$2.49. We assume a dividend growth rate of 12% through 2024 and 7% after that through 2026. This equates to a dividend growth rate of ~9.9% through 2026.

Growth on a Per-Share Basis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$4.82 | \$4.56 | \$4.83 | \$5.60 | \$6.06 | \$5.78 | \$6.70 | \$7.70 | \$8.37 | \$2.31 | \$2.49 | \$3.49 |
| DPS | \$2.20 | \$2.40 | \$2.64 | \$2.90 | \$3.08 | \$3.48 | \$3.93 | \$4.44 | \$5.00 | \$1.40 | \$1.56 | \$2.50 |
| Shares¹ | 416 | 424 | 435 | 443 | 461 | 468 | 471 | 477 | 491 | 1,972 | 2,009 | 2,208 |

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 EPS dropped by just 2% between 2008 and 2009. Between 2011 and 2020, NextEra Energy grew its EPS by 7.5% a year on average. The company’s future growth will be generated through organic investments and acquisitions. For example, there was NEE’s acquisition of Gulf Power in January 2019, and it’s in the process of acquiring GridLiance to expand its rate-regulated/long-term contracted business. 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 2023, excluding the impact of the acquisitions that NextEra Energy is pursuing. So, we use the midpoint of the guidance range, 7%, for the long-term growth rate. The company has also increased its backlog for its NEER segment. NEER commissioned ~5,750 MW of renewable projects in 2020, double

1. Projected dividend dates; Shares in millions.

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the amount in 2019. As well, it added almost 7,000 MW of renewable energy projects in 2020, resulting in a backlog that totals roughly 13,500 MW. Its renewable projects should drive the segment's profits going forward.

Valuation Analysis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now | 2026 |
|-----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|------|
| Avg. P/E | 11.5 | 14.4 | 16.6 | 17.3 | 16.9 | 20.7 | 23.3 | 22.6 | 25.7 | 30.0 | 33.6 | 20.0 |
| Avg. Yld. | 4.00% | 3.60% | 3.30% | 3.00% | 3.00% | 2.90% | 2.80% | 2.60% | 2.30% | 2.3% | 1.9% | 3.6% |

NextEra Energy's valuation has risen persistently over the last ten years. The P/E more than doubled between 2011 and 2020. Due to recent share price increases, shares are now trading at the highest valuation in its history. Although the growing renewable portfolio warrants a premium valuation compared to history, we believe that multiple normalization will still be a huge headwind going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

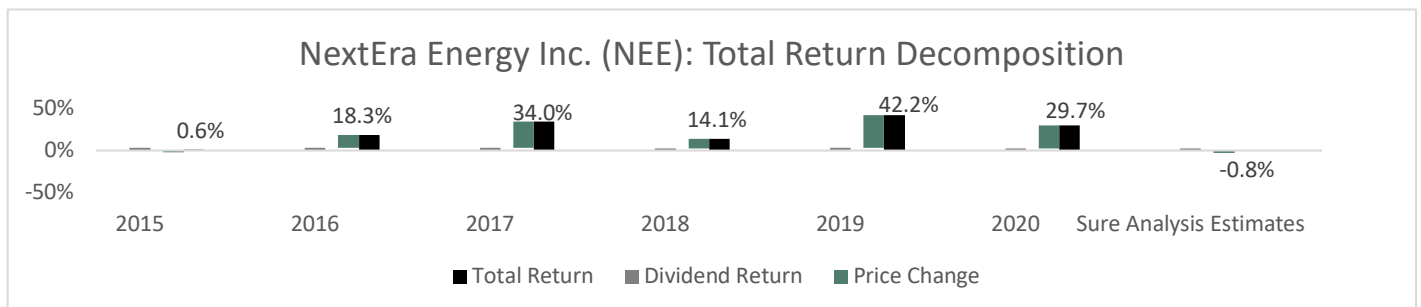
| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 46% | 53% | 55% | 52% | 51% | 60% | 59% | 58% | 60% | 61% | 63% | 72% |

NextEra Energy has established a compelling dividend growth track record over the last decade. This was possible due to 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 of at least 12% through 2024, whereas EPS will not grow as quickly. The payout ratio is not low, but we believe the dividend is still relatively safe due to NEE's stable profits. Because of 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 growing faster than its peers. Utilities have low cyclicalities, which is why economic downturns will do little harm (if at all) to 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 renewable portfolio. Unfortunately, its shares are substantially overvalued, which will pressure total returns to a large degree. We estimate a rate of return of -0.8% from a forward dividend yield of 1.9%, 7% EPS growth, and -9.8% 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 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 15341 | 14256 | 15136 | 17021 | 17486 | 16138 | 17173 | 16727 | 19204 | 17997 |
| Gross Profit | 6083 | 5980 | 6984 | 8270 | 8890 | 8617 | 9644 | 9665 | 11201 | 10707 |
| Gross Margin | 39.7% | 41.9% | 46.1% | 48.6% | 50.8% | 53.4% | 56.2% | 57.8% | 58.3% | 59.5% |
| D&A Exp. | 1849 | 1777 | 2521 | 2896 | 3203 | 3428 | 2638 | 4147 | 4478 | 4315 |
| Operating Profit | 3312 | 3276 | 3541 | 4357 | 4662 | 4154 | 4577 | 4243 | 5054 | 4763 |
| Operating Margin | 21.6% | 23.0% | 23.4% | 25.6% | 26.7% | 25.7% | 26.7% | 25.4% | 26.3% | 26.5% |
| Net Profit | 1923 | 1911 | 1908 | 2465 | 2752 | 2906 | 5380 | 6638 | 3769 | 2919 |
| Net Margin | 12.5% | 13.4% | 12.6% | 14.5% | 15.7% | 18.0% | 31.3% | 39.7% | 19.6% | 16.2% |
| Free Cash Flow | 47 | -878 | 1898 | 2071 | 2217 | 2129 | 1053 | 634 | 2243 | 1236 |
| Income Tax | 529 | 692 | 777 | 1176 | 1228 | 1379 | -660 | 1576 | 448 | 44 |

Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|
| Total Assets | 57188 | 64439 | 69306 | 74605 | 82479 | 89993 | 97963 | 103702 | 117691 | 127684 |
| Cash & Equivalents | 377 | 329 | 438 | 577 | 571 | 1292 | 1714 | 638 | 600 | 1105 |
| Accounts Receivable | 1372 | 1487 | 1777 | 1805 | 1784 | 1784 | 2220 | 2302 | 2282 | 2263 |
| Inventories | 1074 | 1073 | 1153 | 1292 | 1259 | 1289 | 1273 | 1223 | 1328 | 1552 |
| Goodwill & Int. Ass. | | | | | | | 2051 | 1599 | 4756 | 4254 |
| Total Liabilities | 42245 | 48371 | 51266 | 54437 | 59367 | 64662 | 68432 | 66289 | 76331 | 82755 |
| Accounts Payable | 1191 | 1281 | 1200 | 1354 | 2529 | 3447 | 3235 | 2386 | 3631 | 4615 |
| Long-Term Debt | 22967 | 27359 | 28426 | 28701 | 29687 | 30840 | 35025 | 37712 | 42583 | 48091 |
| Shareholder's Equity | 14943 | 16068 | 18040 | 19916 | 22574 | 24341 | 28236 | 34144 | 37005 | 36513 |
| D/E Ratio | 1.54 | 1.70 | 1.58 | 1.44 | 1.32 | 1.27 | 1.24 | 1.10 | 1.15 | 1.32 |

Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| Return on Assets | 3.5% | 3.1% | 2.9% | 3.4% | 3.5% | 3.4% | 5.7% | 6.6% | 3.4% | 2.4% |
| Return on Equity | 13.1% | 12.3% | 11.2% | 13.0% | 13.0% | 12.4% | 20.5% | 21.3% | 10.6% | 7.9% |
| ROIC | 5.3% | 4.7% | 4.2% | 5.2% | 5.4% | 5.3% | 8.9% | 9.5% | 4.7% | 3.3% |
| Shares Out. | 416 | 424 | 435 | 443 | 461 | 468 | 471 | 477 | 491 | 1972 |
| Revenue/Share | 9.15 | 8.50 | 8.86 | 9.67 | 9.63 | 8.66 | 9.09 | 8.77 | 9.89 | 9.14 |
| FCF/Share | 0.03 | -0.52 | 1.11 | 1.18 | 1.22 | 1.14 | 0.56 | 0.33 | 1.16 | 0.63 |

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

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