



Hannon Armstrong Sustainable Infr. (HASI)

Updated May 8th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$48	5 Year CAGR Estimate:	11.7%	Market Cap:	\$3.77B
Fair Value Price:	\$50	5 Year Growth Estimate:	8.5%	Ex-Dividend Date:	07/01/2021
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	07/09/2021
Dividend Yield:	2.9%	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 292 investments, with a weighted average contract life of 24 years and an investment yield of around 7.6%. The company generates around \$200 million in annual total revenues, is based in Annapolis, Maryland, and has chosen to qualify itself as a REIT due to the physical nature of its assets.

On May 4th, Hannon Armstrong reported its Q1 results for the period ending March 31st, 2021. Total revenues grew by 27% to \$51.6 million, while EPS came in at \$0.61 compared to \$0.35 during Q1-2020. The increased top and bottom lines were primarily the results of HASI's portfolio expansion and a change in the volume and mix of assets being securitized, partially offset by fewer fee generating opportunities. The company's pipeline remains robust, at >\$3 billion, stable quarter-over-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. FY2020's 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
Shares¹	---	---	16	21	31	40	50	53	64	74	77	120.0

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 maintain this growth. 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, HASI would pay shareholders dividends through its debt proceeds while it 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 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.

¹ 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.



Hannon Armstrong Sustainable Infr. (HASI)

Updated May 8th, 2021 by Nikolaos Sismanis

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	28.6	30.0
Avg. Yld.	---	---	4.8%	6.1%	6.3%	5.7%	6.0%	6.6%	4.6%	4.6%	2.9%	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 retain our future fair P/E to around 30. Shares have declined since our last report, reducing their previous valuation headwind risk. 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 secure. The stock's yield has been pushed near its all-time lows, with shares soaring over the past few years, as investors rushed to HASI's safer dividend.

Safety, Quality, Competitive Advantage, & Recession Resiliency

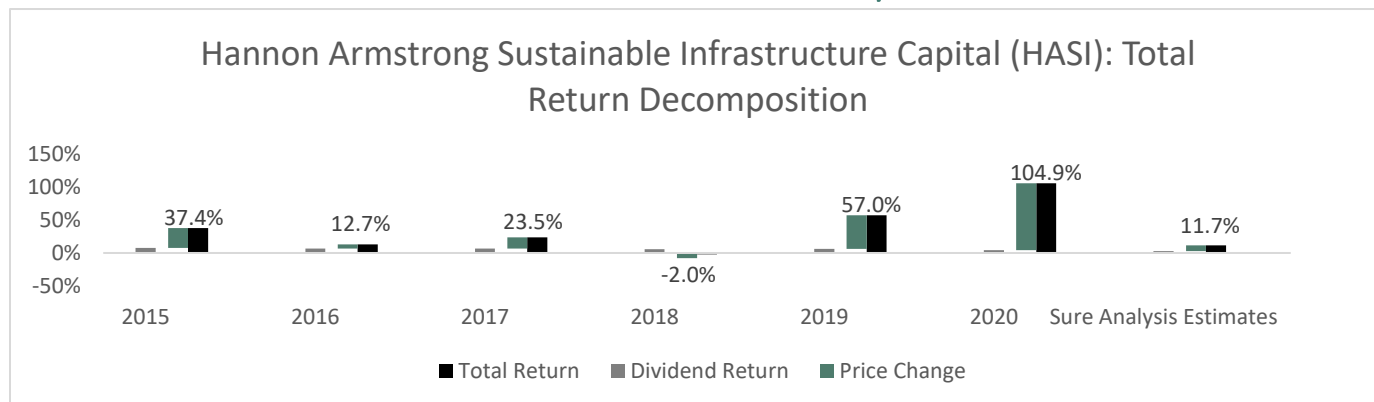
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	214%	514%	384%	232%	176%	96%	88%	83%	64%

HASI's risky dividend strategy has paid off. Current payouts should now be quite safe, though they will likely not grow 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. Since our last report, shares have corrected, increasing our forecasted annualized returns to 11.7% in the medium-term, even though the dividend yield remains somewhat compressed. Hence, we rate shares a buy at their current levels.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Hannon Armstrong Sustainable Infr. (HASI)

Updated May 8th, 2021 by Nikolaos Sismanis

Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	15.4	14.3	26.2	32.2	42.1	62.8	84.7	141.5	142.7
SG&A Exp.	3.9	3.8	5.9	7.3	8.3	11.2	15.1	14.7	14.9
D&A Exp.	0.4	1.1	2.6	4.0	7.7	3.6	4.5	3.6	3.6
Net Profit	3.8	-10.5	9.6	8.0	14.7	30.9	41.6	81.6	82.4
Net Margin	24.7%	-73.3%	36.7%	24.7%	34.8%	49.1%	49.1%	57.6%	57.7%
Free Cash Flow	9.7	-10.8	5.1	18.5	56.9	11.7	58.8	29.5	72.3
Income Tax	0.0	-0.3	0.0	0.1	0.1	0.9	2.1	8.1	-2.8

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	15.4	14.3	26.2	32.2	42.1	62.8	84.7	141.5	3459
Cash & Equivalents	3.9	3.8	5.9	7.3	8.3	11.2	15.1	14.7	286.3
Total Liab.	0.4	1.1	2.6	4.0	7.7	3.6	4.5	3.6	2249
Accounts Payable	3.8	-10.5	9.6	8.0	14.7	30.9	41.6	81.6	59.9
Long-Term Debt	24.7%	-73.3%	36.7%	24.7%	34.8%	49.1%	49.1%	57.6%	2189
Total Equity	9.7	-10.8	5.1	18.5	56.9	11.7	58.8	29.5	1203
D/E Ratio	0.0	-0.3	0.0	0.1	0.1	0.9	2.1	8.1	1.8

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.9%	-2.6%	1.2%	0.6%	0.9%	1.5%	1.9%	3.6%	2.8%
Return on Equity	21.5%	-12.6%	4.6%	2.3%	2.9%	5.1%	5.8%	9.4%	7.7%
ROIC	1.9%	-2.9%	1.4%	0.7%	1.0%	1.7%	2.0%	3.7%	2.9%
Shares Out.	15.1	15.7	20.7	30.8	40.3	50.4	52.8	64.8	74.4
Revenue/Share	1.02	0.91	1.27	1.05	1.04	1.25	1.60	2.18	1.92
FCF/Share	0.64	-0.68	0.25	0.60	1.41	0.23	1.11	0.46	0.99

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.