Clearway Energy Inc (CWEN)

Updated November 15th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	-2.1%	**Market Cap:**	$4.4 B
Fair Value Price:	$22	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	11/30/2021
% Fair Value:	168%	**5 Year Valuation Multiple Estimate:**	-9.8%	**Dividend Payment Date:**	12/15/2021
Dividend Yield:	3.6%	**5 Year Price Target:**	$26	**Years of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	1.6%

Overview & Current Events

Clearway Energy Inc is a large electric utility company which owns and operates contracted energy generation across three segments: conventional generation, renewables, and thermal. The company possesses over 8,000 net MW of assets. Clearway is a large owner of renewable energy with over 4,200 MW of installed wind and solar generation projects. Approximately 2,500 net MW of the company's energy comes from natural gas generation facilities. The power company trades on the NYSE under the ticker symbol CWEN. They are headquartered in Princeton, New Jersey.

To note, Clearway Energy's controlling investor is Global Infrastructure Partners III, and Clearway Energy Group is the company's portfolio business from which they invest in infrastructure and businesses in OECD and certain emerging market countries. Clearway Energy Group owns or has an interest in 4.7 gigawatts of wind, solar and energy storage assets across 25 states and an ongoing development pipeline across the U.S. The group's large renewable power generation offsets almost 8 million metric tons of carbon emissions.

Clearway released third quarter results on November 4th. CWEN reported net income of $25 million, a 40% decrease from $42 million in the same prior year quarter. The company generated $337 million in adjusted EBITDA< up from $312 million in the prior year. Cash from operating activities grew 12% year-over-year to $288 million. Cash available for distribution (CAFD) in the third quarter was $161 million, compared to $171 million in Q3 2020.

In the quarter, the company agreed to sell their Thermal Business for roughly $1.3 billion in net proceeds. The company will be allocating these funds to existing committed drop downs from their sponsor, the acquisition of the remaining interest in the Uta Solar Portfolio, and the remaining $680 million will be available for future capital deployment.

Leadership reiterated fiscal 2021 guidance for $325 million in CAFD. This equates to roughly $2.80 per share of CAFD based on our estimate fiscal 2021 share count, which results in an expected 10.2% year-over-year growth.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
CAFDS	---	----	---	---	$2.13	$3.17	$2.72	$2.80	$2.70	$2.54	***$2.80***	***$3.25***
EPS	---	----	---	---	$0.40	$0.58	($0.16)	$0.46	($0.10)	$0.22	***$0.57***	***$0.73***
DPS	---	----	---	---	$0.82	$0.95	$1.10	$1.26	$0.80	$1.05	***$1.36***	***$1.74***
Shares[1]	---	----	---	---	84.0	98.0	99.0	104.0	109.0	116.0	***116.0***	***100.0***

Clearway's relevant earnings and cash available for distribution data goes back 2015, when the company was known as NRG Yield, Inc. Earnings have been very choppy historically, and the corporation opts to measure performance and payout using cash available for distribution. However, even when measuring performance using CAFD per share, the company does not have a shining history. Clearway's CAFD per share have grown by 3.6% and -2.2% on average over the past five and three years. Such poor growth has led to the dividend cut seen in 2019.

Despite the poor growth history, we estimate that CWEN can grow earnings by roughly 3% annually over the near term. The Clearway Group will lead the corporation into significant growth opportunities as they have a +10 GW development pipeline and more to come in 2H21. Rate increases and further acquisitions of existing renewable energy projects will

[1] 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.

add to CAFD per share. The corporation will also lower annual interest expenses as they plan to deleverage by $350 million annually. We expect that shares outstanding will continue to grow, and so earnings and CAFD will be spread among more shares, a minor headwind on a per-share basis.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/CAFD	---	----	---	---	8.3	5.1	6.0	5.8	6.0	6.4	***13.4***	***8.0***
Avg. Yld.	---	----	---	---	4.7%	5.6%	5.7%	6.5%	6.4%	3.6%	***3.6%***	***7.1%***

Since earnings is not the primary metric in valuing Clearway Energy given it's volatility, we are valuing the company based on CAFD per share. CWEN's six year and three-year average price-to-CAFD is 6.3 and 6.1, respectively. Today, however, shares trade massively higher than this at 13.4 times estimated 2021 CAFD per share. We expect this valuation to decline to 8.0 times CAFD per share, which would result in a 9.8% annual loss. Additionally, if this were to occur, the yield would rise significantly, just above its historic range.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	----	---	---	38%	30%	40%	45%	30%	41%	***49%***	***53%***

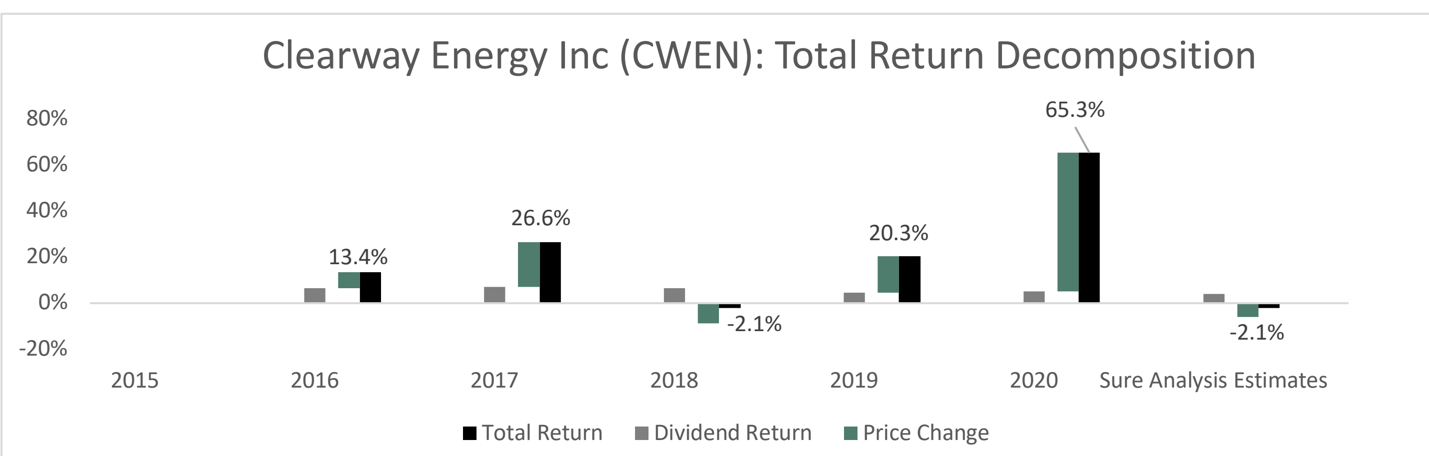
The company's payout has remained conservative on a CAFD per share basis; however, this includes one dividend cut in the recent history. The company aims to payout a large portion of earnings to shareholders and targets a payout ratio of 80 – 85%. We don't have operating results dating back to the great financial crisis so we can't say for certain how CWEN would have performed, but we believe utilities businesses are generally one of the safer industries during a recession. Results were not highly impacted by the COVID pandemic as power generation is essential. CWEN believes their knowledge and operating expertise to be their prime competitive advantage in the industry, as it allows them to make strong energy acquisitions, which they can utilize to grow CAFD.

Final Thoughts & Recommendation

Clearway Energy is backed by one of the largest infrastructure funds in the world, which gives it an advantage in accessing deals and building out its power portfolio, yet the company has not yet achieved meaningful growth.

We rate the shares a Sell as the company trades at 168% our estimated fair value, and total annual returns are expected to be a negative (2.1%) loss due to the overvaluation.

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.

Clearway Energy Inc (CWEN)

Updated November 15th, 2021 by Quinn Mohammed

Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	164	175	387	828	968	1,035	1,009	1,053	1,032	1,199
Gross Profit	61	61	239	551	645	727	683	726	695	833
Gross Margin	37.2%	34.9%	61.8%	66.5%	66.6%	70.2%	67.7%	68.9%	67.3%	69.5%
SG&A Exp.	11	7	7	8	12	16	19	20	29	34
D&A Exp.	23	25	75	263	358	379	404	405	479	522
Operating Profit	28	29	158	310	330	408	330	367	260	366
Op. Margin	17.1%	16.6%	40.8%	37.4%	34.1%	39.4%	32.7%	34.9%	25.2%	30.5%
Net Profit	15	12	13	16	33	57	(16)	48	(11)	25
Net Margin	9.1%	6.9%	3.4%	1.9%	3.4%	5.5%	-1.6%	4.6%	-1.1%	2.1%
Free Cash Flow	(99)	(508)	(233)	302	396	557	327	415	249	421
Income Taxes	9	10	8	4	12	(1)	72	62	(8)	8

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	874	1,964	3,238	7,860	8,689	8,962	8,489	8,500	9,700	10,592
Cash & Equivalents	24	22	59	429	111	322	148	407	155	268
Accts. Recv.	24	22	56	118	101	95	95	104	118	143
Inventories	5	5	15	32	36	39	39	40	40	42
Goodwill & Int.	31	30	103	1,424	1,362	1,303	1,228	1,156	1,428	1,370
Total Liabilities	487	1,124	1,986	5,235	5,951	6,363	6,330	6,276	7,437	7,877
Accounts Payable	32	166	42	22	23	23	46	45	74	72
Long-Term Debt	345	807	1,783	4,921	5,593	6,049	5,998	5,982	6,780	6,969
Total Equity	387	840	629	1,234	1,841	1,850	1,747	1,822	1,849	1,824
D/E Ratio	0.89	0.96	2.83	3.99	3.04	3.27	3.43	3.28	3.67	3.82

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets		0.8%	0.5%	0.3%	0.4%	0.6%	-0.2%	0.6%	-0.1%	0.2%
Return on Equity		2.0%	1.8%	1.7%	2.1%	3.1%	-0.9%	2.7%	-0.6%	1.4%
ROIC		1.0%	0.6%	0.3%	0.4%	0.7%	-0.2%	0.6%	-0.1%	0.3%
Shares Out.					84.0	98.0	99.0	104.0	109.0	116.0
Revenue/Share	2.51	2.68	8.41	14.79	11.52	10.56	10.19	10.13	9.47	10.34

Clearway Energy Inc (CWEN)

Updated November 15th, 2021 by Quinn Mohammed

FCF/Share	(1.52)	(7.79)	(5.07)	5.39	4.71	5.68	3.30	3.99	2.28	3.63

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