Hannon Armstrong Sustainable Infr. (HASI)

Updated November 12th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$63	**5 Year CAGR Estimate:**	5.7%	**Market Cap:**	$5.35 B
Fair Value Price:	$50	**5 Year Growth Estimate:**	8.5%	**Ex-Dividend Date:**	12/27/2021
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.5%	**Dividend Payment Date:**	01/11/2022
Dividend Yield:	2.2%	**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 $3.2 billion and is split between three market segments: Its Behind-the-Meter business (54% of assets) focuses on the installation of solar power, electric storage, and other heat and power systems. The Grid-Connected segment (45% 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, occupying around 1% of its portfolio, are the company's 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 300 investments, with a weighted average contract life of 17 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 November 4th, 2021, Hannon Armstrong reported its Q3 results for the period ending September 30th, 2021. Total revenue was relatively unchanged year-over-year at $48.8 million, as higher interest income driven by a larger portfolio and higher average rates was offset by lower gain on sale and fee income due to a change in the company's securitized asset mix and lower advisory fee generating opportunities. DEPS came in at $0.41 compared to $0.36 during Q3-2020.

The company's pipeline remained robust, at more than $3 billion and 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 of 7%-10% from 2021 to 2023, which at the midpoint implies FY2021 DEPS of $1.68 vs. FY2020's DEPS of $1.55. Management also expects that annual DPS will grow at a CAGR of 3%-5% from 2021 to 2023, relative to the 2020 baseline of $1.36 per share, which is equivalent to a 2023 midpoint of $1.53 per share.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DEPS[1]	---	---	($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***	***$1.70***
Shares[2]	---	---	16	21	31	40	50	53	64	74	***82***	***120.0***

HASI's DEPS 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 DEPS growth guidance midpoint of 8.5% as our medium-term DEPS 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

[1] Distributable earnings per share
[2] Share count is in millions.

was lower than its investment yield (~7.6%), and hence its growth strategy was viable. DEPS recently caught up to its distributions, self-funding the dividend. We retain our DPS growth estimate at 4% to reflect HASI's official estimates.

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	***37.7***	***30.0***
Avg. Yld.	---	---	4.8%	6.1%	6.3%	5.7%	6.0%	6.6%	4.6%	4.6%	***2.2%***	***2.2%***

HASI's historical P/E ratio reflects the market's expectations for the company's rapid DEPS 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 of 30. Shares have gained since our last report, increasing 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

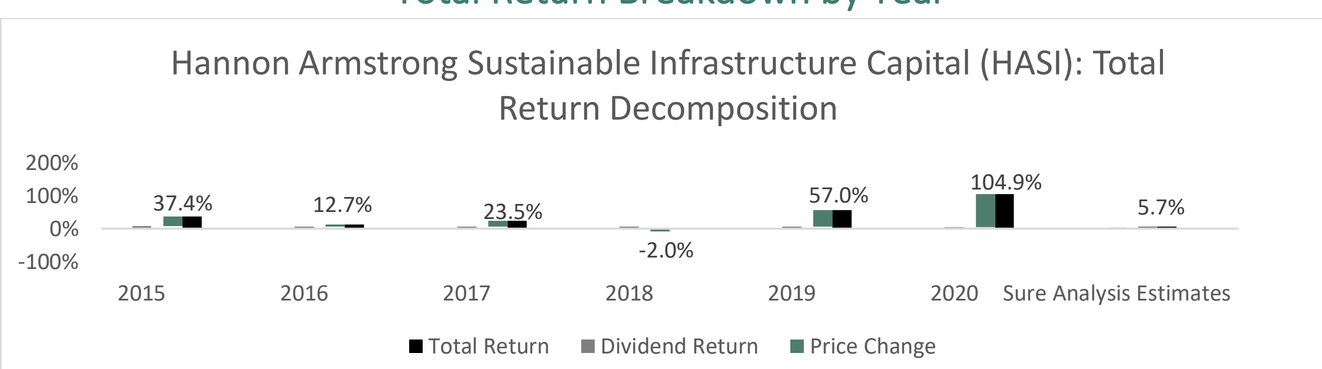
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	214%	514%	384%	232%	176%	96%	88%	***83%***	***67%***

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 rallied further, however, while expectations have remained the same. Hence, our forecasted annualized returns have declined to 5.7% in the medium term. Shares earn a hold rating.

Total Return Breakdown by Year



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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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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.