



NextEra Energy Inc. (NEE)

Updated October 29th, 2021 by Kay Ng

Key Metrics

Current Price:	\$85	5 Year CAGR Estimate:	2.1%	Market Cap:	\$167B
Fair Value Price:	\$61	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	11/24/21
% Fair Value:	141%	5 Year Valuation Multiple Estimate:	-6.6%	Dividend Payment Date:	12/15/21
Dividend Yield:	1.8%	5 Year Price Target	\$85	Years Of Dividend Growth:	25
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	10.0%

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 together serve more than 5.6 million customer accounts, supporting more than 11 million residents 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 Q3 2021 financial results on 10/20/21. For the quarter, the company reported revenues of \$4.4 billion. Its adjusted earnings climbed 13% to \$1,483 million. On a per-share basis, adjusted earnings climbed 12% to \$0.75. The growth was primarily driven by investments. New investments contributed to 8% of FPL’s earnings-per-share (EPS) growth. NEER saw growth primarily driven by new investment contributions, and it added ~2,160 MW of renewables and storage projects to its backlog, totaling ~18,100 MW of signed contracts.

NextEra Energy’s 2021 adjusted EPS estimate remains unchanged at \$2.40-\$2.54. Management expects results to come in at or near the top of the estimate range, but we are keeping a conservative stance and continue to use the midpoint of \$2.47 for our 2021 EPS estimate.

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	\$2.47	\$3.46
DPS	\$2.20	\$2.40	\$2.64	\$2.90	\$3.08	\$3.48	\$3.93	\$4.44	\$5.00	\$1.40	\$1.54	\$2.30
Shares¹	416	424	435	443	461	468	471	477	491	1,972	2,009	2,208

The stock had a 4:1 stock split in October 2020. This is why its EPS appears to be much lower in 2020 in the table above. We also adjusted its 2020 dividend-per-share (DPS) accordingly. 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 also acquired GridLiance in Q1 2021 to expand its rate-regulated/long-term contracted business. NEE’s ongoing investments into its asset base at FPL continue to drive the profits of this segment, which is the base for solid organic growth. NEE forecasts that its adjusted EPS will rise by 6%-8% a year for 2022 and 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 the amount in 2019. In Q3 2021, it increased its backlog to roughly ~18,100 MW. Its renewable projects should drive the segment’s profits going forward. We estimate a dividend growth rate of about 8.4% through 2026.

¹ Shares 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	11.5	14.4	16.6	17.3	16.9	20.7	23.3	22.6	25.7	30.0	34.5	24.5
Avg. Yld.	4.0%	3.6%	3.3%	3.0%	3.0%	2.9%	2.8%	2.6%	2.3%	2.3%	1.8%	2.7%

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 a much high valuation versus in the past. Although the growing renewable portfolio warrants a premium valuation compared to history, we believe that multiple normalization remains the greatest headwind going forward. Even now that we use its more recent five-year average P/E from 2016 to 2020 of 24.5, the stock remains highly valued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

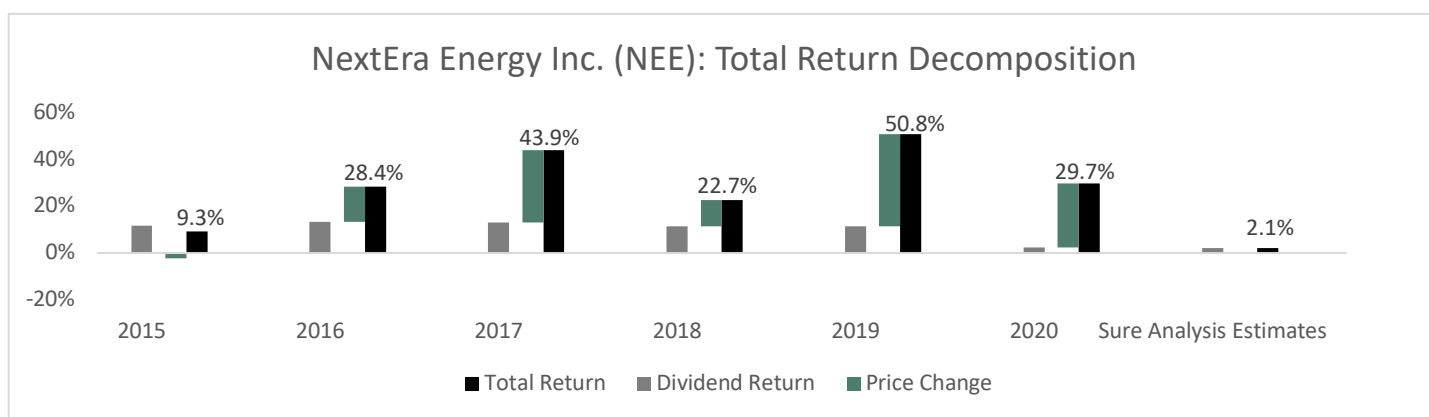
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	46%	53%	55%	52%	51%	60%	59%	58%	60%	61%	62%	67%

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 10% through 2022, whereas EPS will not grow as quickly. We believe the dividend is safe due to NEE's stable profits and a sustainable payout ratio. 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 cyclicality, 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 2.1% from a dividend yield of 1.8%, 7% EPS growth, and -6.6% 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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