Hannon Armstrong Sustainable Infr. (HASI)

Updated February 18th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$44	**5 Year CAGR Estimate:**	14.1%	**Market Cap:**	$3.68 B
Fair Value Price:	$44	**5 Year Growth Estimate:**	11.5%	**Ex-Dividend Date:**	04/03/2022
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	04/11/2022
Dividend Yield:	3.4%	**5 Year Price Target**	$75	**Years Of Dividend Growth:**	4
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	7.1%

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 $3.6 billion and is split between three market segments: Its Behind-the-Meter business (44% of assets) focuses on the installation of solar power, electric storage, and other heat and power systems. The Grid-Connected segment (55% 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 7.5%. 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 February 17th, 2022, Hannon Armstrong reported its Q4 results for the period ending December 31st, 2021. Total revenues grew by 9.8% year-over-year at $53.7 million, primarily driven by higher-yielding assets and a larger portfolio. A change in the volume and mix of previously securitized assets also boosted results. DEPS came in at $0.47 compared to $0.37 during Q4-2020.

The company's pipeline grew significantly, from $3 billion to $4 billion year-over-year. This should guarantee a bright future for HASI's financials in the medium term as corporations and governments worldwide continue allocating capital towards reaching their ESG goals. Management boosted its medium-term outlook, expecting to deliver distributable EPS CAGR between 10% and 13% (previously between 7% and 10%) through 2024. Hence, we expect FY2022 DEPS of $2.09, implying a growth of 11.5% from last year. Management also expects that annual dividends will grow at a CAGR between 5% and 8% (previously between 3% and 5%) through 2024. The quarterly dividend was also increased by 7.1% to $0.375.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
DEPS[1]	---	($0.68)	$0.43	$0.21	$0.32	$0.57	$0.75	$1.40	$1.55	$1.88	***$2.09***	***$3.60***
DPS	---	$0.42	$0.92	$1.08	$1.23	$1.32	$1.32	$1.34	$1.36	$1.40	***$1.50***	***$2.10***
Shares[2]	---	16	21	31	40	50	53	64	74	88	***88***	***120***

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 11.5% 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% to 6% indicate, its cost of equity

[1] Distributable earnings per share

[2] 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.

was lower than its investment yield (~7.5%), and hence its growth strategy was viable. DEPS recently caught up to its distributions, self-funding the dividend. We have hiked our dividend growth estimate to 7% to reflect HASI's official estimates and latest dividend raise.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	32.5	90.4	65.6	42.1	24.6	20.0	15.9	29.2	***20.9***	***20.9***
Avg. Yld.	---	4.8%	6.1%	6.3%	5.7%	6.0%	6.6%	4.6%	4.6%	2.6%	***3.4%***	***2.8%***

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 shares are fairly valued based on HASI's updated growth estimates and expect a stable valuation multiple ahead. In terms of its dividend yield, the figure would hover from 4% to 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 become secure. The stock's yield is now at 3.4% following the stock's correction, which income investors are likely to appreciate considering the updated dividend growth guidance.

Safety, Quality, Competitive Advantage, & Recession Resiliency

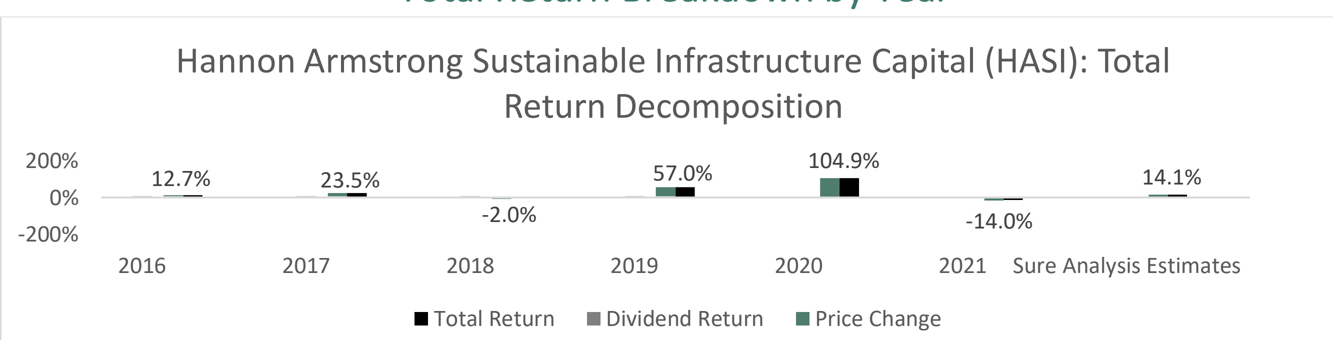
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	214%	514%	384%	232%	176%	96%	88%	74%	***72%***	***58%***

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 significantly. Combined with management's updated medium-term guidance, we now forecast annualized returns of 14.1% through 2027. Shares earn a buy rating.

Total Return Breakdown by Year



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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
LTD/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.

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