



NextEra Energy Partners LP (NEP)

Updated January 31st, 2022 by Samuel Smith

Key Metrics

Current Price:	\$71.9	5 Year CAGR Estimate:	5.1%	Market Cap:	\$6B
Fair Value Price:	\$39.7	5 Year Growth Estimate:	12.5%	Ex-Dividend Date:	02/03/22
% Fair Value:	181%	5 Year Valuation Multiple Estimate:	-11.2%	Dividend Payment Date:	02/14/22
Dividend Yield:	3.9%	5 Year Price Target	\$72	Years Of Dividend Growth:	7
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	14.9%

Overview & Current Events

NextEra Energy Partners was formed in 2014 as Delaware Limited Partnership by NextEra Energy to own, operate, and acquire contracted clean energy projects with stable, long-term cash flows. The company's strategy is to capitalize on the energy industry's favorable trends in North America of clean energy projects replacing uneconomic projects. NextEra Energy Partners operates 34 contracted renewable generation assets consisting of wind and solar projects in 12 states across the United States. The company also operates contracted natural gas pipelines in Texas which accounts for about a fifth of NextEra Energy Partners' income. On July 1, 2014, NextEra Energy Partners had its initial public offering at \$25 per share; it is now trading at 3X the IPO share value. Following the IPO, NextEra Energy (the largest utility company in North America) held 82.6% of NextEra Energy Partners. The \$6 billion market capitalization company is listed on the New York Stock Exchange under the ticker NEP.

On January 25th, 2022 NextEra Energy released Q4 results. The partnership's revenue increased by 9.4% to \$232 million year-over-year. Meanwhile, Q4 GAAP earnings per share came in at -\$0.12, missing consensus estimates by \$0.83. Adjusted EBITDA and CAFD stood at \$322M and \$164M, respectively. FPL, NextEra's largest business segment, announced \$0.28 earnings per share, up from \$0.25 earnings per share in the year-ago period. Meanwhile, the partnership expects for Dec. 31. 2022 run rate for adjusted EBITDA of \$1.775B to \$1.975B and CAFD of \$675 million to \$765 million. NextEra Energy also continues to expect 12% to 15% per year growth through 2024.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
DCF/S	N/A	N/A	\$3.17	\$5.53	\$5.07	\$4.54	\$4.54	\$4.83	\$8.33	\$7.55	\$3.61	\$6.50
DPS	N/A	N/A	\$0.19	\$1.02	\$1.41	\$1.49	\$1.77	\$2.04	\$2.46	\$2.60	\$2.83	\$5.20
Shares¹	N/A	N/A	18.7	30.7	54.2	54.3	56.1	65.5	75.9	83.9	83.9	90.0

NextEra Energy Partners continues to grow its cashflows at an aggressive clip. Since the company's historic EPS has been very inconsistent, we were unable to use it as the company's primary growth metric, instead we used cash available for distribution per share (CAFD/S). The CAFD metric is used to see a company's cash generation that is available to be distributed back to shareholders as dividends. From the CAFD/S metric we observe excellent growth since 2014, which is noticeable in the company's rising dividend. We expect growth from further expansion in renewable energy sales and addition of new infrastructure to drive an average annual growth rate of 12.5% throughout the next half decade to 2026.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/DCF	N/A	N/A	11.5	9.5	6.8	7.6	7.5	8.4	10.9	12.4	19.9	11.0
Avg. Yld.	N/A	N/A	0.5%	2.6%	4.7%	4.1%	3.9%	3.9%	3.7%	3.3%	3.9%	7.3%

¹ In millions

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Instead of using the average price-to-earnings ratio, we used the company's price-to-CAFD ratio for the valuation analysis. We decided to use a price-to-DCF ratio instead, because we did not have enough information from the price-to-earnings ratio since the company has had inconsistent earnings over the last half decade.

We estimate fair value to be a price-to-DCF ratio of 11x. The current price-to-DCF ratio of 19.9x is above this level as renewable energy assets are enjoying a valuation premium given the bullish outlook on its future and interest rates sitting at historic lows. As a result, we believe that shares remain overvalued as the market is likely overly bullish on green energy. We see green energy as still considerably more expensive to generate than its competitors' natural gas and oil, and therefore is reliant on significant government assistance to make it economical.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	N/A	N/A	6.0%	18%	28%	33%	39%	42%	30%	41%	78%	80%

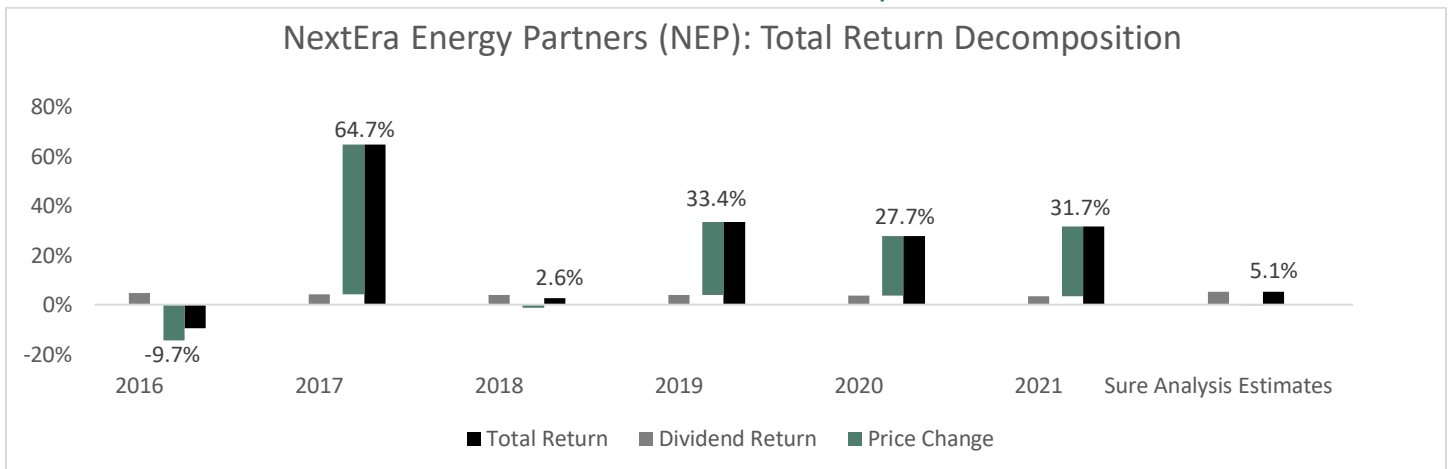
NextEra Energy Partners is trying to become an industry leader in producing renewable energy and simply producing energy with as little carbon output as possible. The company's operations are very proactive for getting ahead of regulations that the utility sector has been getting in the past years on carbon emissions. To calculate the payout ratio above, since the company does not have consistent earnings, instead we used the company's cash available for distribution per share divided by their dividends per share.

Utilities generally have lower competitive risks because of the regulations that are put on them. NextEra Energy Partners has found their own competitive advantage within the sector by producing only renewable energy. This is an advantage because the company can put all their efforts into innovation in the part of the utilities sector with the most growth potential: renewable energy generation. Another advantage that NextEra Energy Partners has over their competition is that the company is a subsidiary of utility giant, NextEra Energy. A benefit of all utilities is that it is not a cyclical industry; in the event of an economic downturn utilities historically outperform the market, due to sheer need of the company's operations.

Final Thoughts & Recommendation

NextEra Energy Partners has performed very well since the partnership's IPO in 2014. The stock currently has a dividend yield of 3.9%, and its payout has been growing very quickly since its first payment in 2014. Overall, we expect a total return of 5.1% annualized over the next half decade. As a result, we rate NextEra Energy Partners as a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	93	179	359	501	772	807	771	855	917	982
Gross Profit	76	133	280	388	557	559	514	519	554	563
Gross Margin	81.7%	74.3%	78.0%	77.4%	72.2%	69.3%	66.7%	60.7%	60.4%	57.3%
D&A Exp.	23	54	99	163	235	226	203	331	374	405
Operating Profit	49	72	176	209	302	312	290	233	253	234
Operating Margin	52.7%	40.2%	49.0%	41.7%	39.1%	38.7%	37.6%	27.3%	27.6%	23.8%
Net Profit	16	20	3	10	83	(61)	192	(71)	(50)	137
Net Margin	17.2%	11.2%	0.8%	2.0%	10.8%	-7.6%	24.9%	-8.3%	-5.5%	14.0%
Free Cash Flow	(490)	(545)	(532)	87	(446)	64	337	253	331	564
Income Tax	(9)	8	(14)	33	57	167	6	(26)	(19)	48

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,320	2,633	4,337	7,227	8,661	8,425	9,405	12,256	12,562	18,948
Cash & Equivalents	21	27	106	164	150	154	147	128	108	147
Accounts Receivable	91	203	41	80	87	85	63	79	83	112
Inventories	3	4	10	14	18			20	24	41
Goodwill & Int. Ass.				1,318	1,306	1,296	1,845	2,891	2,791	3,691
Total Liabilities	1,619	1,920	2,704	5,335	6,095	6,201	3,867	5,190	4,855	7,789
Accounts Payable	153	43	152	303	331	26	10	122	143	982
Long-Term Debt	1,403	1,799	1,893	3,447	3,586	4,317	3,435	4,144	3,388	5,327
Shareholder's Equity	701	713	548	929	1,743	2,190	2,346	2,183	2,354	2,977

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets		0.8%	0.1%	0.2%	1.0%	-0.7%	2.2%	-0.7%	-0.4%	0.9%
Return on Equity		2.8%	0.5%	1.4%	6.2%	-3.1%	8.5%	-3.1%	-2.2%	5.1%
Shares Out.		1.2%	0.1%	0.3%	1.9%	-1.4%	3.5%	-0.9%	-0.6%	1.2%
Revenue/Share	N/A	N/A	18.7	30.7	54.2	54.3	56.1	65.5	75.9	83.9
FCF/Share	5.72	11.02	19.20	21.97	17.63	14.89	10.34	14.54	13.41	12.69

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

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