



# Clearway Energy Inc (CWEN)

Updated August 2<sup>nd</sup>, 2022 by Quinn Mohammed

## Key Metrics

|                             |      |  |       |                                  |            |
|-----------------------------|------|--|-------|----------------------------------|------------|
| <b>Current Price:</b>       | \$36 | <b>5 Year CAGR Estimate:</b>               | 0.9%  | <b>Market Cap:</b>               | \$4.3 B    |
| <b>Fair Value Price:</b>    | \$25 | <b>5 Year Growth Estimate:</b>             | 3.5%  | <b>Ex-Dividend Date:</b>         | 08/31/2022 |
| <b>% Fair Value:</b>        | 146% | <b>5 Year Valuation Multiple Estimate:</b> | -7.3% | <b>Dividend Payment Date:</b>    | 09/15/2022 |
| <b>Dividend Yield:</b>      | 3.9% | <b>5 Year Price Target:</b>                | 30    | <b>Years of Dividend Growth:</b> | 3          |
| <b>Dividend Risk Score:</b> | D    | <b>Retirement Suitability Score:</b>       | C     | <b>Rating:</b>                   | Sell       |

## 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 7,500 net MW of assets. Clearway is a large owner of renewable energy with over 5,000 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 over 5.0 gigawatts of wind, solar and energy storage assets across 26 states and an ongoing development pipeline across the U.S. The group's large renewable power generation offsets about 8 million metric tons of carbon emissions.

On May 1<sup>st</sup>, the company completed the sale of its Thermal Business, resulting in net proceeds of roughly \$1.35 billion.

Clearway Energy released second quarter 2022 results on August 2<sup>nd</sup>. The company generated \$366 million in adjusted EBITDA for the second quarter, about flat compared to \$365 million in the prior year quarter. Cash from operating activities decreased slightly to \$176 million. Cash available for distribution (CAFD) in Q2 was \$176 million, compared to \$155 million in Q2 2021.

The company entered an agreement to acquire the 413 MW Capistrano wind portfolio. This acquisition represents over 55% of the \$750 million of excess proceeds from the Thermal sale.

Clearway also raised the quarterly dividend by 2% to \$0.3604 per share, or \$1.442 per year.

Leadership reaffirmed fiscal 2022 guidance for \$365 million in CAFD as a result of the sale of the Thermal Business and committed growth investments. This equates to roughly \$3.13 per share of CAFD based on our estimate fiscal 2022 share count, which results in an expected 9% year-over-year growth.

## Growth on a Per-Share Basis

| Year                      | 2012 | 2013 | 2014 | 2015   | 2016   | 2017     | 2018   | 2019     | 2020   | 2021   | 2022          | 2027          |
|---------------------------|------|------|------|--------|--------|----------|--------|----------|--------|--------|---------------|---------------|
| <b>CAFDs</b>              | -    | -    | -    | \$2.13 | \$3.17 | \$2.72   | \$2.80 | \$2.70   | \$2.54 | \$2.87 | <b>\$3.13</b> | <b>\$3.72</b> |
| <b>EPS</b>                | -    | -    | -    | \$0.40 | \$0.58 | (\$0.16) | \$0.46 | (\$0.10) | \$0.22 | \$0.44 | <b>\$5.00</b> | <b>\$1.19</b> |
| <b>DPS</b>                | -    | -    | -    | \$0.82 | \$0.95 | \$1.10   | \$1.26 | \$0.80   | \$1.05 | \$1.33 | <b>\$1.44</b> | <b>\$1.84</b> |
| <b>Shares<sup>1</sup></b> | -    | -    | -    | 84.0   | 98.0   | 99.0     | 104.0  | 109.0    | 116.0  | 117.0  | <b>116.5</b>  | <b>125.0</b>  |

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, but it is improving. Clearway's CAFD per share have grown by 5.1% and 0.8% on average over the past six and three years. Such poor growth led to the dividend cut seen in 2019.

<sup>1</sup> In millions

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Despite the poor growth history, we estimate that CWEN can grow CAFD by roughly 3.5% annually over the intermediate term. The Clearway Group will lead the corporation into significant growth opportunities as they have a 20+ GW development pipeline and more to come. Rate increases and further acquisitions of existing renewable energy projects will 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        | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now  | 2027 |
|-------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/CAFD | -    | -    | -    | 8.3  | 5.1  | 6.0  | 5.8  | 6.0  | 6.4  | 5.7  | 11.7 | 8.0  |
| Avg. Yld.   | -    | -    | -    | 4.7% | 5.6% | 5.7% | 6.5% | 6.4% | 3.6% | 3.7% | 3.9% | 6.2% |

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 seven year and three-year average price-to-CAFD is 6.2 and 6.0, respectively. Today, however, shares trade higher than this at 11.7 times estimated 2022 CAFD per share. We estimate this valuation to decline to 8.0 times CAFD per share, which would result in a 7.3% annualized headwind to total returns. Additionally, if this were to occur, the yield would rise significantly, just above its historic range.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

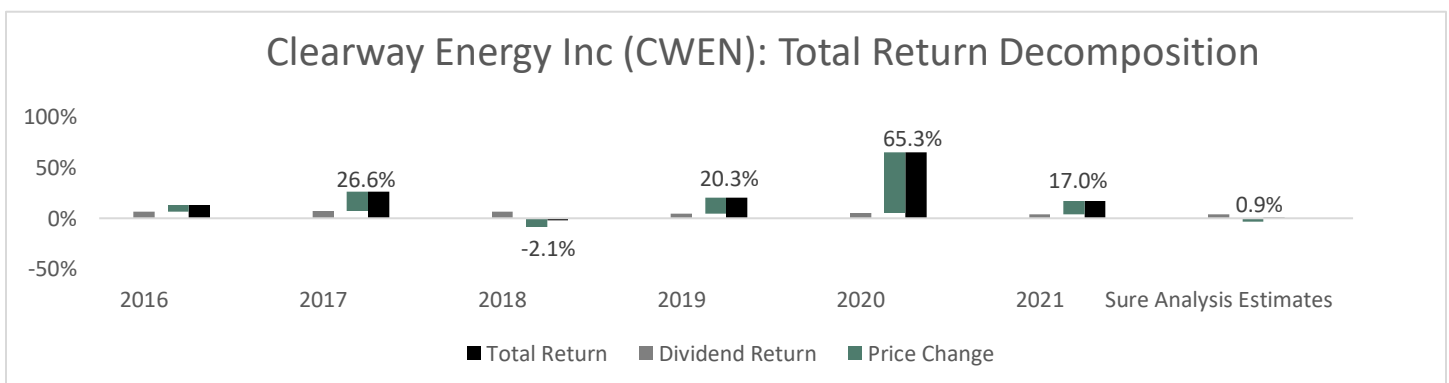
| Year   | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | -    | -    | -    | -    | 30%  | 40%  | 45%  | 30%  | 41%  | 46%  | 46%  | 49%  |

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, and the company is turning a corner on achieving meaningful growth. We rate the shares as a sell as the company trades at 146% our estimated fair value and the forecasted annualized total return of 0.9% is not enticing.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue          | 175   | 387   | 828   | 968   | 1,035 | 1,009 | 1,053 | 1,032 | 1,199 | 1,286 |
| Gross Profit     | 61    | 239   | 551   | 645   | 727   | 683   | 726   | 695   | 833   | 835   |
| Gross Margin     | 34.9% | 61.8% | 66.5% | 66.6% | 70.2% | 67.7% | 68.9% | 67.3% | 69.5% | 64.9% |
| SG&A Exp.        | 7     | 7     | 8     | 12    | 16    | 19    | 20    | 29    | 34    | 40    |
| D&A Exp.         | 25    | 75    | 263   | 358   | 379   | 404   | 405   | 479   | 522   | 655   |
| Operating Profit | 29    | 158   | 310   | 330   | 408   | 330   | 367   | 260   | 366   | 280   |
| Op. Margin       | 16.6% | 40.8% | 37.4% | 34.1% | 39.4% | 32.7% | 34.9% | 25.2% | 30.5% | 21.8% |
| Net Profit       | 12    | 13    | 16    | 33    | 57    | (16)  | 48    | (11)  | 25    | 51    |
| Net Margin       | 6.9%  | 3.4%  | 1.9%  | 3.4%  | 5.5%  | -1.6% | 4.6%  | -1.1% | 2.1%  | 4.0%  |
| Free Cash Flow   | (508) | (233) | 302   | 396   | 557   | 327   | 415   | 249   | 421   | 550   |
| Income Taxes     | 10    | 8     | 4     | 12    | (1)   | 72    | 62    | (8)   | 8     | 12    |

## Balance Sheet Metrics

| Year               | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020   | 2021   |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| Total Assets       | 1,964 | 3,238 | 7,860 | 8,689 | 8,962 | 8,489 | 8,500 | 9,700 | 10,592 | 12,813 |
| Cash & Equivalents | 22    | 59    | 429   | 111   | 322   | 148   | 407   | 155   | 268    | 179    |
| Accts. Recv.       | 22    | 56    | 118   | 101   | 95    | 95    | 104   | 118   | 143    | 144    |
| Inventories        | 5     | 15    | 32    | 36    | 39    | 39    | 40    | 40    | 42     | 37     |
| Goodwill & Int.    | 30    | 103   | 1,424 | 1,362 | 1,303 | 1,228 | 1,156 | 1,428 | 1,370  | 2,499  |
| Total Liabilities  | 1,124 | 1,986 | 5,235 | 5,951 | 6,363 | 6,330 | 6,276 | 7,437 | 7,877  | 9,513  |
| Accounts Payable   | 166   | 42    | 22    | 23    | 23    | 46    | 45    | 74    | 72     | 181    |
| Long-Term Debt     | 807   | 1,783 | 4,921 | 5,593 | 6,049 | 5,998 | 5,982 | 6,780 | 6,969  | 7,711  |
| Total Equity       | 840   | 629   | 1,234 | 1,841 | 1,850 | 1,747 | 1,822 | 1,849 | 1,824  | 1,834  |
| LTD/E Ratio        | 0.96  | 2.83  | 3.99  | 3.04  | 3.27  | 3.43  | 3.28  | 3.67  | 3.82   | 4.20   |

## Profitability & Per Share Metrics

| Year             | 2012   | 2013   | 2014 | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  |
|------------------|--------|--------|------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 0.8%   | 0.5%   | 0.3% | 0.4%  | 0.6%  | -0.2% | 0.6%  | -0.1% | 0.2%  | 0.4%  |
| Return on Equity | 2.0%   | 1.8%   | 1.7% | 2.1%  | 3.1%  | -0.9% | 2.7%  | -0.6% | 1.4%  | 2.8%  |
| ROIC             | 1.0%   | 0.6%   | 0.3% | 0.4%  | 0.7%  | -0.2% | 0.6%  | -0.1% | 0.3%  | 0.5%  |
| Shares Out.      |        |        |      |       | 84.0  | 98.0  | 99.0  | 104.0 | 109.0 | 117.0 |
| Revenue/Share    | 2.51   | 2.68   | 8.41 | 14.79 | 11.52 | 10.56 | 10.19 | 10.13 | 9.47  | 10.99 |
| FCF/Share        | (7.79) | (5.07) | 5.39 | 4.71  | 5.68  | 3.30  | 3.99  | 2.28  | 3.63  | 4.70  |

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

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