NRG Energy, Inc. (NRG)

Updated August 14th, 2022, by Ian Bezek

Key Metrics

Current Price:	$42	**5 Year CAGR Estimate:**	8.8%	**Market Cap:**	$10 B
Fair Value Price:	$40	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	10/29/22[1]
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.0%	**Dividend Payment Date:**	11/15/22[1]
Dividend Yield:	3.2%	**5 Year Price Target**	$56	**Years Of Dividend Growth:**	3
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

Northern States Power created NRG Energy in 1992 as its non-regulated subsidiary. NRG subsequently went bankrupt in 2003 amid the energy industry turmoil that followed from Enron's collapse. However, NRG has had a highly successful second act and has become a leading player in the independent utility landscape. Today, NRG Energy is one of the United States' largest retail energy providers. It serves more than 7 million customers directly and produces approximately 16 gigawatts of power. It generates power largely from nuclear, natural gas and coal, though the company is quickly moving to reduce its exposure to coal.

The company has been a constant whirlwind of acquisitions and divestments. Since 2016 alone, NRG has unloaded half of its prior generating capacity, pushed its GenOn Energy subsidiary into bankruptcy, and sold off its sizable stake in the NRG Yield renewable energy business. Following up on that, NRG Energy acquired retail electricity distribution company Direct Energy for $3.6 billion in 2021. This added more than 3 million customers to NRG's business, while extending its reach to all 50 states and several Canadian provinces.

NRG reported its second quarter results on August 4th, 2022. The company earned $2.16 per share for the quarter, which was down sharply from 2021 when it earned $4.40 per share for the same period. However, NRG's earnings are exceptionally volatile as the company earns or loses vast quantities of money due to its energy price hedges. The company sometimes goes from making massive profits to losing money and then back on a quarter-to-quarter basis.

As such, it makes more sense to back out hedging profits and look at a yearly rather than quarterly basis. On that front, NRG maintained its prior EBITDA and free cash flow guidance for 2022 in its second quarter earnings release.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.35	-$1.22	$0.23	-$19.46	-$2.22	-$4.87	$1.49	$16.81	$2.07	$8.93	***$3.65***	***$5.11***
DPS	$0.18	$0.45	$0.54	$0.58	$0.24	$0.12	$0.12	$0.12	$1.20	$1.30	***$1.40***	***$1.70***
Shares	323	322	337	314	315	315	284	249	244	244	***240***	***235***

NRG Energy has produced an astonishingly uneven earnings track record over the past decade. This is in large part due to the aforementioned energy hedging program, which can produce billions of dollars in gains or losses when energy prices quickly move. Additionally, the company's unceasing M&A activities create a series of one-time gains and losses along with restructuring expenses which further cloud the company's overall earnings picture.

For the 2022 and on earnings estimates, we are forecasting the company's core earnings power, which excludes the effects of energy hedges. This year, for example, the company will earn far more than $3.65 per share on a GAAP basis, but the gains from higher prices are unlikely to reoccur in such a dramatic fashion in future years.

The company's dividend policy has also been uneven. Following 2015's massive earnings shortfall, the company slashed its dividend to just 12 cents per share. It remained there until 2020, when the company increased its dividend tenfold. More modest dividend hikes now appear probable, though there is a high degree of uncertainty to that forecast.

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[1] Estimated date.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	8.0	---	---	---	---	---	22.2	2.5	16.1	4.4	***11.5***	***11.0***
Avg. Yld.	1.0%	1.7%	1.7%	2.8%	1.9%	0.6%	0.4%	0.3%	3.6%	3.3%	***3.3%***	***3.0%***

NRG's uneven track record in terms of both earnings and dividend has led to a complicated valuation picture. Shares have traded for as low as 2.5x earnings in 2019 and as high as 22.2x in 2018. That's not including the numerous years where the company was not profitable at all.

On a dividend basis, the stock has yielded anywhere between 0.3% in 2019 and 3.6% in 2020. The current 3.3% dividend yield seems attractive compared to the company's overall track record. However, there is no guarantee that the dividend yield will remain near current levels in the future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	8%	---	---	---	---	---	8%	1%	58%	15%	***38%***	***33%***

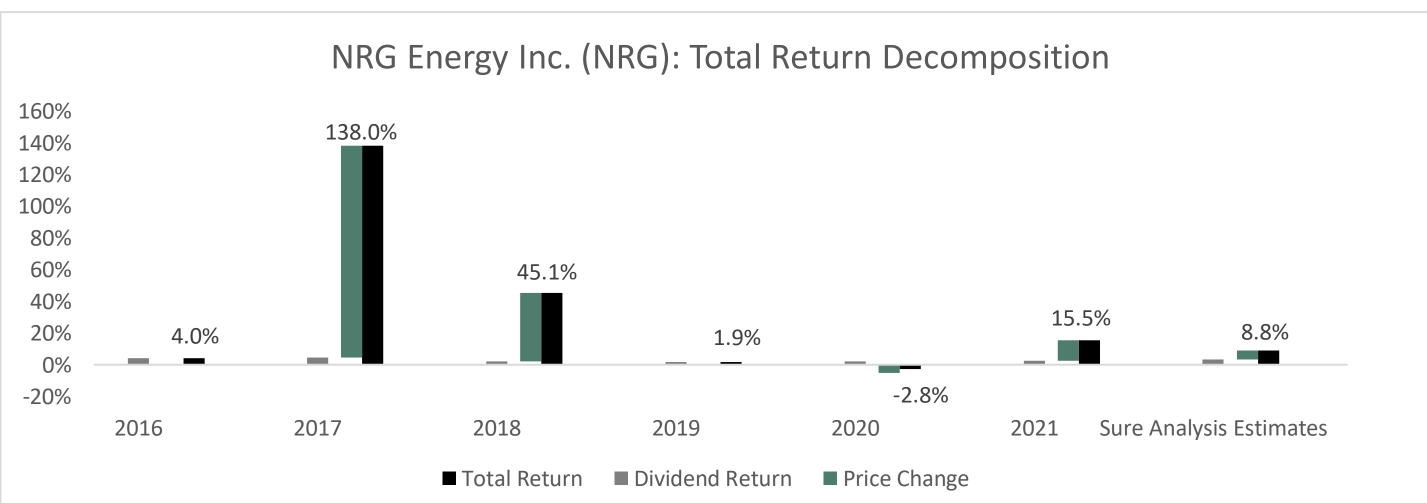
Because NRG Energy is an unregulated power provider, it is subject to the vagaries of the electricity market. This sometimes means dramatic losses, such as when it lost an estimated $750 million during Texas' unusually cold weather in 2021. The energy hedging program also creates dramatic swings in the company's profitability. With more than $8 billion in long-term debt, NRG's balance sheet has some weakness, and the company is currently below an investment grade credit rating. The company is currently generating large profits, but investors should monitor its financials closely.

Final Thoughts & Recommendation

NRG Energy appears to be an exceptionally cheap stock based on its current GAAP earnings. On a core earnings basis, however, the picture is more mixed. NRG has engaged in a tremendous amount of wheeling and dealing to reshape its asset portfolio. These moves make strategic sense but need more time to be proven out amid shifting energy markets.

For dividend investors, there is reason for caution. The company's business is volatile, and the balance sheet is less robust than many utility peers. Additionally, the firm's past dividend track record is spotty. All that being said, we do see nearly 9% annualized total return potential from this starting price. As such, 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	2021
Revenue										
Gross Profit										
Gross Margin										
SG&A Exp.										
D&A Exp.										
Operating Profit										
Op. Margin										
Net Profit										
Net Margin										
Free Cash Flow										
Income Tax										

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets										
Cash & Equivalents										
Acc. Receivable										
Inventories										
Goodwill & Int.										
Total Liabilities										
Accounts Payable										
Long-Term Debt										
Total Equity										
LTD/E Ratio										

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets										
Return on Equity										
ROIC										
Shares Out.										
Revenue/Share										
FCF/Share										

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