Atlantica Sustainable Infrastructure plc (AY)

Updated November 15th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$27	**5 Year CAGR Estimate:**	9.1%	**Market Cap:**	$3.2 B
Fair Value Price:	$27	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	11/29/22
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.7%	**Dividend Payment Date:**	12/15/22
Dividend Yield:	6.5%	**5 Year Price Target**	$32	**Years Of Dividend Growth:**	7
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

U.K-based Atlantica Sustainable Infrastructure is a sustainable infrastructure company, with the majority of its operations focused on investing and operating renewable energy assets. The company's goal is to be a leading player in the ongoing transition toward a more sustainable world while generating long-term value for its shareholders, primarily in the form of dividend income. The company's asset base currently includes 42 assets supporting 2,121 MW of aggregate renewable energy installed generation capacity. Specifically, Atlantica operates 28 renewable energy sources, including solar and wind farms (70% of cash flows available for distribution), seven transmission and transport projects (12% of CAFD), three efficient natural gas projects (15% of CAFD), and three water projects (3% of CAFD). The company generates around $1.2 billion in annual revenues and is based in Brentford, the United Kingdom.

On November 9th, Atlantica Sustainable Infrastructure reported its Q3 results for the period ending September 30th, 2022. Quarterly results continued to demonstrate the resiliency of the company's portfolio, whose cash flows are contractually locked through long-term PPAs (Power Purchase Agreements). Adjusted EBITDA for the quarter came in at $228.3 million, relatively flat year-over-year. Cash available for distribution rose 5.3% year-over-year to $61.7 million. This metric was boosted by higher dividend income from the company's equity investments in projects and a reduction in non-restricted cash at the project level.

On a per-share basis, CAFD grew by 1.1% to $0.53 during the quarter. The mismatch between the total CAFD and the per-share metric was due to an additional number of shares issued by the company to fund its investments and acquisitions. Based on its current PPA profile, last year's investments, and development pipeline, management expects to achieve an adjusted EBITDA modestly below the low end of its prior guidance, which was $810 million, mainly due to the depreciation of the euro against the U.S. dollar. This depreciation has not affected CAFD guidance (of $230 million to $250 million) as a result of the company's hedging strategy. We now forecast FY2022 CAFD/share to be $2.03.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
CAFD/shr	---	---	$0.70	$1.92	$1.70	$1.70	$1.71	$1.88	$1.97	$2.03	***$2.03***	***$2.47***
DPS	---	---	$0.26	$1.43	$0.45	$1.05	$1.33	$1.57	$1.66	$1.72	***$1.78***	***$2.17***
Shares[1]	---	---	80.0	92.8	100.2	100.2	100.2	101.1	103.4	111.0	***119.3***	***125.0***

Atlantica Sustainable Infrastructure enjoys extremely predictable cash flows. The entirety of revenues produced by its asset portfolio is contracted under long-term PPAs with a weighted average remaining contract life of 15 years. Additionally, 52% of Atlantica's assets have their rates linked to inflation, a formula based on inflation, or are indexed to a fixed number of rate escalations over time. Thus, Atlantica is not only protected but even benefits from the ongoing elevated inflation levels. Combined with its development pipeline and third-party acquisitions, we forecast CAFD/share growth of 4% over the medium-term, remaining mindful shares issuances which could offset CAFD growth. Atlantica has increased its dividend annually for seven years in a row through more than one hike each year which usually amounts to a cent. We expect the company to keep growing the dividend by around 4% per year, in line with CAFD/share growth.

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[1] Share count is in millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/CAFD	---	---	---	14.1	10.6	12.4	12.0	12.8	16.8	19.2	***13.4***	***13.0***
Avg. Yld.	---	---	0.8%	5.3%	2.5%	5.0%	6.5%	6.5%	5.0%	4.4%	***6.5%***	***6.7%***

Atlantica's historical P/CAFD average stands around 14.0. While the company's growth prospects are rather modest, the predictability of its long-term cash flows could attract a slight premium, especially in the current volatile environment. Nonetheless, we believe that a lower P/CAFD of 13 fairly values the stock, as Atlantica is a YieldCo in a rising rates environment. The yield should remain rather substantial amid the company's goal to distribute the majority of its CAFD.

Safety, Quality, Competitive Advantage, & Recession Resiliency

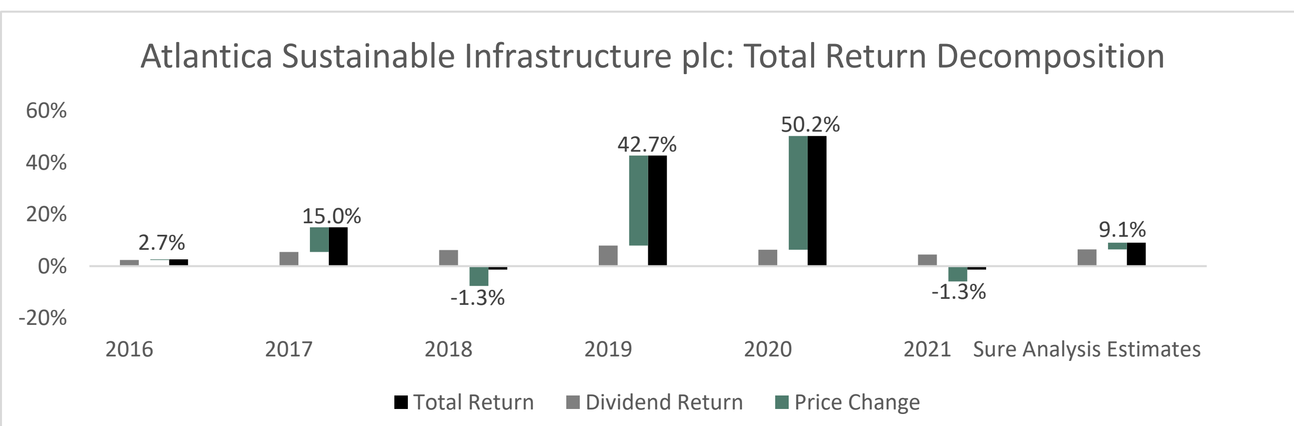
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	37%	74%	27%	62%	78%	84%	84%	84%	***88%***	***88%***

While Atlantica's payout ratio appears elevated, we consider the dividend rather safe, backed by the numerous qualities attached to the company's cash flows. Besides the weighted average remaining contract life of its portfolio standing at 15 years and the inflation-linked hikes embedded in more than half of its assets, Atlantica also features very creditworthy, investment-grade off-takers. These include The Kingdom of Spain, UTE (Uruguay's National Administration of Power Plants and Electrical Transmissions), The Government of Peru, Sonatrach & ADE (Algeria's state-owned oil company), CNE (National Energy Commission of Chile), Enel Generacion Chile, and Eskom (publicly traded with robust and transparent financials), amongst others. Further, its portfolio is quite diversified, with only 46% of its cash flows sourced from assets outside of North America. Yet, Atlantica has also taken care of any potential FX risks, with USD and USD-hedged inflows exceeding 90% of CAFD. All points considered, we believe that the company's performance would remain unfazed during a recession. That said, Atlantica does not feature any noteworthy competitive advantages.

Final Thoughts & Recommendation

Atlantica Sustainable Infrastructure appears very capable of serving income-oriented investors with growing payouts. Its asset portfolio is set to produce predictable cash for more than a decade, while management has laid out a very clear deleveraging plan through the next few years. Based on its current 6.5% yield, our CAFD/share and DPS growth estimates, and the possibility for a small valuation headwind, we forecast annualized returns of 9.1% through 2027. While this barely assigns the stock a buy rating, we do so due to future returns being within quite a predictable range.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	107	211	363	791	972	1,008	1,044	1,011	1,013	1,212
Gross Profit	101	189	304	633	794	841	861	860	867	946
Gross Margin	94.6%	89.5%	83.9%	80.1%	81.7%	83.4%	82.5%	85.0%	85.5%	78.1%
SG&A Exp.	12	29	24	49	74	86	84	100	135	173
D&A Exp.	20	47	125	261	333	311	363	311	409	439
Operating Profit	68	112	173	345	402	458	488	466	333	340
Operating Margin	63.2%	52.9%	47.8%	43.6%	41.4%	45.4%	46.7%	46.1%	32.8%	28.1%
Net Profit	1	(3)	(32)	(209)	(5)	(112)	42	62	12	(30)
Net Margin	1.2%	-1.6%	-8.7%	-26.4%	-0.5%	-11.1%	4.0%	6.1%	1.2%	-2.5%
Free Cash Flow	(471)	(364)	(13)	193	328	386	401	364	437	481
Income Tax	4	(12)	4	24	2	120	43	31	25	36

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,198	5,614	7,964	10,590	10,298	10,492	9,919	9,660	9,938	9,752
Cash & Equivalents	97	358	354	515	595	669	335	224	589	368
Accounts Receivable	11	27	79	127	151	187	164	242	258	227
Inventories	-	5	22	15	15	18	19	20	24	30
Goodwill & Int. Ass.	2,059	4,418	6,725	9,301	8,924	9,084	8,549	8,161	8,155	8,022
Total Liabilities	2,058	4,327	6,124	8,567	8,339	8,597	8,163	7,945	8,197	8,003
Accounts Payable	112	120	54	110	122	108	109	52	51	79
Long-Term Debt	1,369	2,895	4,201	6,135	5,999	6,118	5,775	5,576	6,231	6,059
Shareholder's Equity	1,081	1,218	1,752	1,883	1,833	1,759	1,617	1,508	1,527	1,542
LTD/E Ratio	1.27	2.38	2.40	3.26	3.27	3.48	3.57	3.70	4.08	3.93

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets		-0.1%	-0.5%	-2.3%	0.0%	-1.1%	0.4%	0.6%	0.1%	-0.3%
Return on Equity	0.2%	-0.3%	-2.1%	-11.5%	-0.3%	-6.2%	2.5%	4.0%	0.8%	-2.0%
ROIC		-0.1%	-0.6%	-2.9%	-0.1%	-1.4%	0.5%	0.8%	0.2%	-0.4%
Shares Out.	---	---	80.0	92.8	100.2	100.2	100.2	101.1	103.4	111.0
Revenue/Share	1.34	2.67	4.53	8.52	9.70	10.06	10.42	10.01	9.80	10.58
FCF/Share	(5.88)	(4.61)	(0.17)	2.09	3.28	3.85	4.00	3.60	4.23	4.20

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

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