Clearway Energy Inc (CWEN)

Updated November 7th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	1.8%	**Market Cap:**	$6.9 B
Fair Value Price:	$24	**5 Year Growth Estimate:**	4.5%	**Ex-Dividend Date:**	11/30/2022
% Fair Value:	146%	**5 Year Valuation Multiple Estimate:**	-7.4%	**Dividend Payment Date:**	12/15/2022
Dividend Yield:	4.2%	**5 Year Price Target:**	30	**Years of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	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 8,000 net MW of assets. Clearway is a large owner of renewable energy with over 5,500 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 (GIP), 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, and an ongoing development pipeline across the U.S. The group's large renewable power generation offsets about 10 million metric tons of carbon emissions.

On May 1st, 2022, the company completed the sale of its Thermal Business for net proceeds of roughly $1.35 billion.

On September 12th, 2022, GIP completed a transaction resulting in TotalEnergies (NYSE: TTE) acquiring half of GIP's interest in Clearway Group. The benefit to Clearway is that TotalEnergies will provide Clearway with a right of first offer on its U.S. onshore renewable assets, and provide marketing and corporate relationships to aid in the commercial value of Clearway's development and operating projects.

On November 2nd, 2022, Clearway raised its quarterly dividend again by 2% to $0.3672 per share, or $1.4688 per year.

Clearway Energy reported third quarter 2022 results on November 2nd. The company generated $322 million in adjusted EBITDA for the third quarter, down from $337 million in the prior year quarter. Cash from operating activities rose 14% to $328 million, as a result of the company's growth investments. Cash available for distribution (CAFD) in Q3 was $154 million, compared to $161 million in Q3 2021.

Leadership reduced fiscal 2022 guidance for CAFD to $350 million ($365 million previously) as a result of forced outages at its Conventional segment. This equates to roughly $3.13 per share of CAFD based on our estimate fiscal 2022 share count, which is down from our prior estimate of $2.99 per share, and results in an expected 4.2% year-over-year growth.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
CAFDS	-	-	-	$2.13	$3.17	$2.72	$2.80	$2.70	$2.54	$2.87	***$2.99***	***$3.73***
EPS	-	-	-	$0.40	$0.58	($0.16)	$0.46	($0.10)	$0.22	$0.44	***$1.99***	***$2.09***
DPS	-	-	-	$0.82	$0.95	$1.10	$1.26	$0.80	$1.05	$1.33	***$1.47***	***$1.87***
Shares[1]	-	-	-	84.0	98.0	99.0	104.0	109.0	116.0	117.0	***117.0***	***125.0***

Clearway's relevant earnings and cash available for distribution data goes back to 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

[1] 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.

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.

Despite the poor growth history, we estimate that CWEN can grow CAFD by roughly 4.5% annually over the intermediate term. The Clearway Group will lead the corporation into significant growth opportunities as they have a 26+ 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%	***4.2%***	***6.3%***

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 7.4% annualized headwind to total returns. Additionally, if this were to occur, the yield would rise significantly, well above its historic range.

Safety, Quality, Competitive Advantage, & Recession Resiliency

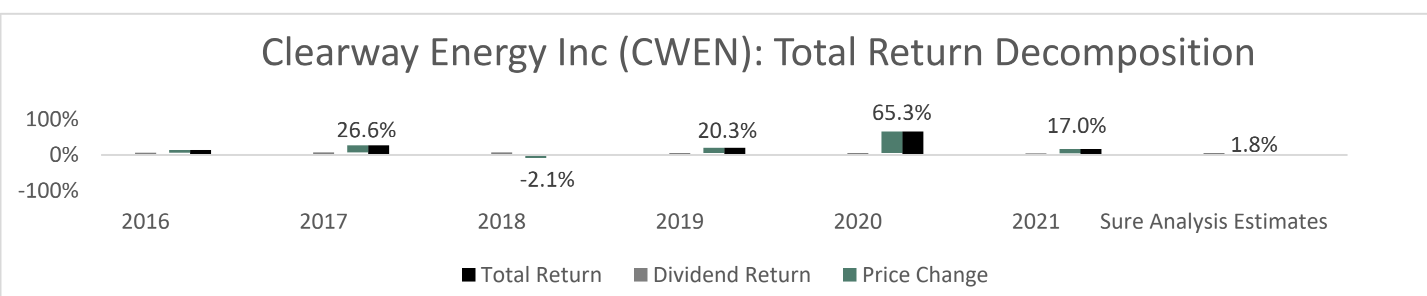
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	-	-	-	-	30%	40%	45%	30%	41%	46%	***49%***	***50%***

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 pay out 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 1.8% 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.