



NextEra Energy Inc. (NEE)

Updated October 31st, 2022 by Kay Ng

Key Metrics

Current Price:	\$78	5 Year CAGR Estimate:	7.1%	Market Cap:	\$152B
Fair Value Price:	\$68	5 Year Growth Estimate:	7.5%	Ex-Dividend Date:	11/23/22
% Fair Value:	113%	5 Year Valuation Multiple Estimate:	-2.5%	Dividend Payment Date:	11/25/22
Dividend Yield:	2.2%	5 Year Price Target	\$98	Years Of Dividend Growth:	26
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

NextEra Energy (NEE) is an electric utility with three operating segments, Florida Power & Light (“FPL”), NextEra Energy Resources (“NEER”), and Gulf Power. FPL and Gulf Power are rate-regulated electric utilities that together serve more than 5.7 million customer accounts, supporting more than 11 million residents in Florida, while NEER is the largest generator of wind and solar energy in the world. NEE was founded in 1925. NEE generates roughly 70% of its revenues from its electric utilities, whereas the remainder comes from NEER.

NextEra Energy reported its Q3 2022 financial results on 10/28/22. For the quarter, the company reported revenues of \$6,719 million, translating to adjusted earnings of \$1,683 million (up 13.5% year over year). On a per-share basis, adjusted earnings climbed 13.3% to \$0.85. Driven primarily by the 11% growth in regulatory capital employed, FPL saw a 15% increase in earnings-per-share (EPS). NEER also increased adjusted EPS by 19%. It also added about 2,345 net MW of renewables to its backlog (~1,215 MW of wind, ~965 MW of solar, and ~165 MW of battery storage). Total backlog stands at ~20,000 MW.

Year to date, revenue growth was 23% to \$14,792 million and adjusted EPS growth was 12.7% to \$2.40. Management maintained its 2022 adjusted EPS guidance range at \$2.80-\$2.90. We continue to use the midpoint of \$2.85 for our 2022 EPS estimate.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.56	\$4.83	\$5.60	\$6.06	\$5.78	\$6.70	\$7.70	\$8.37	\$2.31	\$2.55	\$2.85	\$4.09
DPS	\$2.40	\$2.64	\$2.90	\$3.08	\$3.48	\$3.93	\$4.44	\$5.00	\$1.40	\$1.54	\$1.70	\$2.62
Shares¹	424	435	443	461	468	471	477	491	1,972	1,975	1,979	2,125

The stock had a 4:1 stock split in October 2020. This is why its EPS appears to be much lower in 2020 in the table above. We also adjusted its 2020 dividend-per-share (DPS) accordingly. Although there were some years where profits declined sequentially, as they did between 2015 and 2016, NextEra Energy’s EPS rose relatively consistently during the last decade. NextEra Energy’s earnings did not take a significant hit during the last financial crisis, as EPS dropped by just 2% between 2008 and 2009. Between 2012 and 2021, NextEra Energy grew its EPS by 9.3% a year on average. The company’s future growth will be generated through organic investments and acquisitions. For example, there was NEE’s acquisition of Gulf Power in January 2019, and it also acquired GridLiance in Q1 2021 to expand its rate-regulated/long-term contracted business. NEER commissioned ~3,800 MW of renewable and storage projects in 2021. At the end of 2021, its backlog stood at ~16,600 MW. Its renewable projects should drive the segment’s profits going forward. NEE forecasts that its adjusted EPS will rise by 7.8% a year through 2025. We use a slightly more conservative EPS growth rate of 7.5% and estimate a dividend growth rate of 9.0% through 2027.

¹ Projected dividend dates; Shares 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.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.4	16.6	17.3	16.9	20.7	23.3	22.6	25.7	30	32.7	27.2	24.0
Avg. Yld.	3.6%	3.3%	3.0%	3.0%	2.9%	2.8%	2.6%	2.3%	2.3%	1.9%	2.2%	2.7%

NextEra Energy’s valuation has risen persistently over the last ten years. The P/E more than doubled between 2012 and 2021. Despite the recent dip, the valuation remains a little extended in our view. Although the growing renewable portfolio warrants a premium valuation compared to history, we believe that multiple normalization remains the greatest headwind going forward. Although its more recent five-year average P/E from 2017-2021 was 26.9, we think a multiple of about 24 is fair.

Safety, Quality, Competitive Advantage, & Recession Resiliency

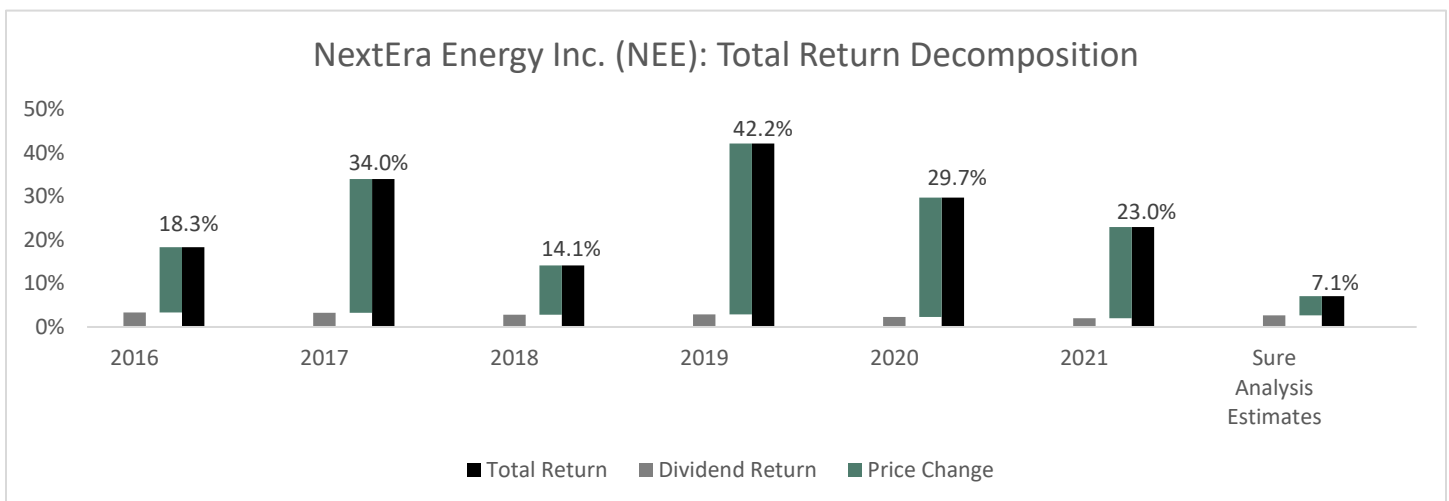
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	53%	55%	52%	51%	60%	59%	58%	60%	61%	60%	60%	64%

NextEra Energy has established a compelling dividend growth track record over the last decade. This was possible due to earnings growth and a rising payout ratio. NEE plans to raise the dividend payout ratio further over the coming years, as the company targets a dividend growth rate of ~10% through at least 2024, whereas EPS will not grow as quickly. We believe the dividend is safe due to NEE’s stable profits and a sustainable payout ratio. Because of the regulations that are levied upon utilities, there are little competitive risks. As one of the biggest utilities in the United States, NEE also benefits from massive scale, which serves as a competitive advantage. Its focus on higher-growth renewable energy projects will allow NextEra Energy to continue growing faster than its peers. Utilities have low cyclicality, which is why economic downturns will do little harm (if at all) to NextEra Energy’s bottom line.

Final Thoughts & Recommendation

NextEra Energy looks more attractive than many of its peers in terms of its earnings growth track record, its earnings growth outlook, its dividend growth projections, and the strength of its renewable portfolio. Unfortunately, the stock is a little expensive. We estimate a rate of return of 7.1% from a dividend yield of 2.2%, 7.5% EPS growth, and -2.5% from P/E contraction. Sure Dividend rates NEE as a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	14,256	15,136	17,021	17,486	16,138	17,173	16,727	19,204	17,997	17,069
Gross Profit	5,980	6,984	8,270	8,890	8,617	9,644	9,665	11,201	10,707	8,589
Gross Margin	41.9%	46.1%	48.6%	50.8%	53.4%	56.2%	57.8%	58.3%	59.5%	50.3%
D&A Exp.	17,77	2,521	2,896	3,203	3,428	2,638	4,147	4,478	4,315	4,212
Operating Profit	3,343	3,604	4,394	4,732	4,240	5,924	4,299	5,248	5,039	3,006
Operating Margin	23.4%	23.8%	25.8%	27.1%	26.3%	34.5%	25.7%	27.3%	28.0%	17.6%
Net Profit	1,911	1,908	2,465	2,752	2,906	5,380	6,638	3,769	2,919	3573
Net Margin	13.4%	12.6%	14.5%	15.7%	18.0%	31.3%	39.7%	19.6%	16.2%	20.9%
Free Cash Flow	-878	1,898	2,071	2,217	2,129	1,053	634	-2,922	224	-277
Income Tax	692	777	1,176	1,228	1,379	-660	1,576	448	44	348

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	64,439	69,306	74,605	82,479	89,993	97,963	103,702	11,7691	12,7684	14,0912
Cash & Equivalents	329	438	577	571	1,292	1,714	638	600	1,105	639
Accounts Receivable	1,487	1,777	1,805	1,784	1,784	2,220	2,302	2,282	2,263	3,378
Inventories	1,073	1,153	1,292	1,259	1,289	1,273	1,223	1,328	1,552	1,561
Goodwill & Int. Ass.						2,051	1,599	4,204	4,254	4,844
Total Liabilities	48,371	51,266	54,437	59,367	64,662	68,432	66,289	76,331	82,755	95,488
Accounts Payable	1,281	1,200	1,354	2,529	3,447	3,235	2,386	3,631	4,615	6,935
Long-Term Debt	27,359	28,426	28,701	29,687	30,840	35,025	37,712	42,583	48,091	54,827
Shareholder's Equity	16,068	18,040	19,916	22,574	24,341	28,236	34,144	37,005	36,513	37,202
LTD/E Ratio	1.70	1.58	1.44	1.32	1.27	1.24	1.10	1.15	1.32	1.47

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.1%	2.9%	3.4%	3.5%	3.4%	5.7%	6.6%	3.4%	2.4%	2.7%
Return on Equity	12.3%	11.2%	13.0%	13.0%	12.4%	20.5%	21.3%	10.6%	7.9%	9.7%
ROIC	4.7%	4.2%	5.2%	5.4%	5.3%	8.9%	9.5%	4.7%	3.3%	3.7%
Shares Out.	424	435	443	461	468	471	477	491	1,972	1,975
Revenue/Share	8.50	8.86	9.67	9.63	8.66	9.09	8.77	9.89	9.14	8.65
FCF/Share	-0.52	1.11	1.18	1.22	1.14	0.56	0.33	-1.50	0.11	-0.14

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

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