



NRG Energy, Inc. (NRG)

Updated November 8th, 2022, by Ian Bezek

Key Metrics

Current Price:	\$45	5 Year CAGR Estimate:	7.6%	Market Cap:	\$10.8 B
Fair Value Price:	\$41	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	10/31/22
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date:	11/15/22
Dividend Yield:	3.1%	5 Year Price Target	\$57	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 third quarter results on November 7th, 2022. On a GAAP basis, the company earned \$0.29 per share for the quarter, which was down sharply from 2021 when it earned \$6.60 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. As such, any one quarter's earnings are not a perfect reflection of its core earnings power.

Revenues of \$8.5 billion grew 29% year-over-year and easily topped expectations. The company maintained its 2022 guidance and offered an initial 2023 outlook that came in ahead of analyst consensus.

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	\$3.69	\$5.18
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 \$3.69 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. The company just announced an additional 8% dividend hike, which will go into effect in the first quarter of 2023.

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	8.0	---	---	---	---	---	22.2	2.5	16.1	4.4	12.2	11.0
Avg. Yld.	1.0%	1.7%	1.7%	2.8%	1.9%	0.6%	0.4%	0.3%	3.6%	3.3%	3.1%	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 3.1% dividend yield seems attractive compared to the company's overall track record.

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%

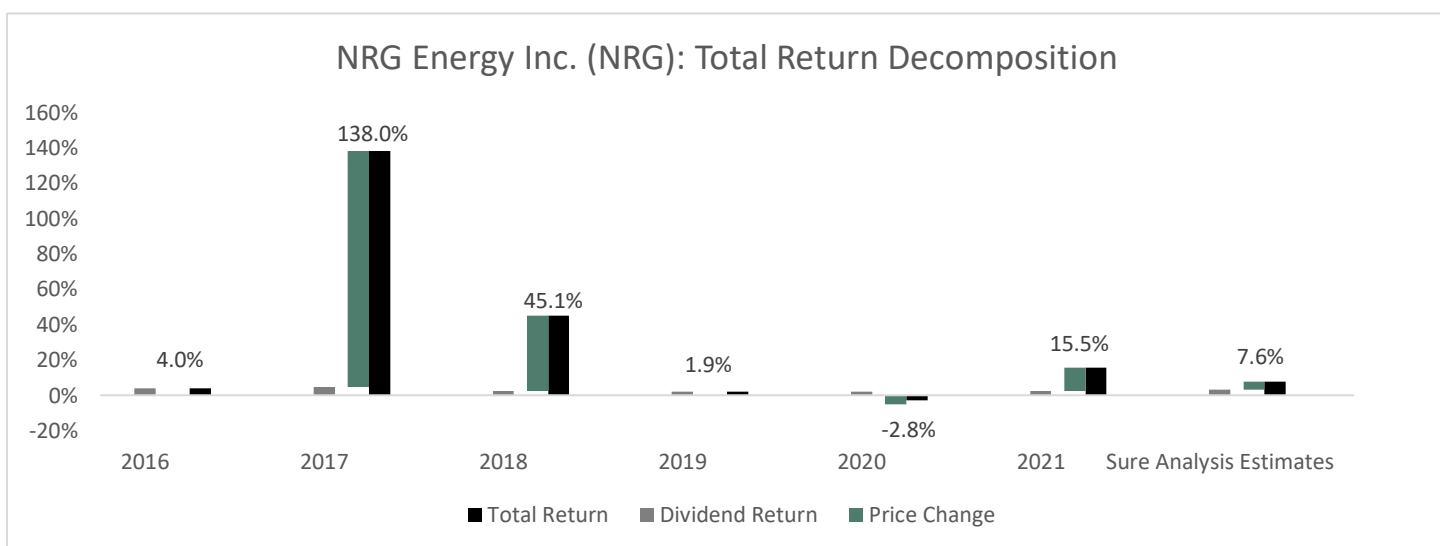
Because NRG Energy is an unregulated power provider, it is subject to the vagaries of the electricity market. This sometimes means dramatic losses, such as when it lost an estimated \$750 million during Texas' unusually cold weather in 2021. The energy hedging program also creates dramatic swings in the company's profitability. With \$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 has generated large profits recently, but investors should monitor its financials closely.

Final Thoughts & Recommendation

NRG Energy has delivered tremendous earnings thanks to energy hedges, though that tailwind faded in Q3. Excluding hedges, the picture is more mixed. NRG has engaged in constant 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 forecast 7.6% annualized total return potential from this starting price. As such, shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	8,422	11,295	15,868	12,328	8,915	9,074	9,478	9,821	9,093	26,989
Gross Profit	2,282	3,165	4,060	3,328	2,239	2,188	2,370	2,518	2,553	6,507
Gross Margin	27.1%	28.0%	25.6%	27.0%	25.1%	24.1%	25.0%	25.6%	28.1%	24.1%
SG&A Exp.	807	895	1,016	1,228	1,032	836	799	760	810	1,293
D&A Exp.	1,135	1,341	1,633	1,547	889	701	540	497	559	942
Operating Profit	457	930	1,433	595	403	734	1,139	1,290	1,200	3,731
Op. Margin	5.4%	8.2%	9.0%	4.8%	4.5%	8.1%	12.0%	13.1%	13.2%	13.8%
Net Profit	295	(386)	134	(6,382)	(774)	(2,153)	268	4,438	510	2,187
Net Margin	3.5%	-3.4%	0.8%	-51.8%	-8.7%	-23.7%	2.8%	45.2%	5.6%	8.1%
Free Cash Flow	(2,248)	(717)	585	320	1,363	1,356	989	1,185	1,597	224
Income Tax	(327)	(282)	3	1,345	25	(44)	7	(3,334)	251	672

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	34,983	33,902	40,466	32,882	30,682	23,355	10,628	12,531	14,902	23,182
Cash & Equivalents	2,087	2,254	2,116	1,518	938	770	563	345	3,905	250
Acc. Receivable	1,061	1,214	1,322	1,157	1,058	900	1,024	1,025	904	3,245
Inventories	903	898	1,247	1,252	721	453	412	383	327	498
Goodwill & Int.	3,166	3,125	5,141	3,309	2,635	1,046	1,164	1,368	1,247	4,306
Total Liabilities	24,465	23,186	28,499	27,146	26,236	21,387	11,862	10,873	13,222	19,582
Accounts Payable	1,172	1,038	1,060	869	782	684	863	722	649	2,274
Long-Term Debt	15,883	16,817	20,175	19,464	16,473	9,384	6,521	5,891	8,692	7,970
Total Equity	9,751	9,602	9,762	2,707	2,041	(346)	(1,234)	1,658	1,680	3,600
LTD/E Ratio	1.59	1.71	2.01	6.47	8.07	(27.12)	(5.28)	3.55	5.17	2.21

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.0%	---	0.4%	---	---	---	1.6%	38.3%	3.7%	11.5%
Return on Equity	3.4%	---	1.4%	---	---	---	---	---	30.6%	82.8%
ROIC	1.3%	---	0.4%	---	---	---	3.2%	69.1%	5.7%	19.9%
Shares Out.	323	322	337	314	315	315	284	249	244	244
Revenue/Share	35.99	34.97	46.81	37.47	28.21	28.62	30.77	37.20	36.96	110.16
FCF/Share	(9.61)	(2.22)	1.73	0.97	4.31	4.28	3.21	4.49	6.49	0.91

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

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