



# NextEra Energy Inc. (NEE)

Updated January 28<sup>th</sup>, 2023 by Kay Ng

## Key Metrics

<b>Current Price:</b>	\$76	<b>5 Year CAGR Estimate:</b>	8.6%	<b>Market Cap:</b>	\$150B
<b>Fair Value Price:</b>	\$73	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	02/28/23
<b>% Fair Value:</b>	103%	<b>5 Year Valuation Multiple Estimate:</b>	-0.6%	<b>Dividend Payment Date<sup>1</sup>:</b>	03/15/23
<b>Dividend Yield:</b>	2.2%	<b>5 Year Price Target</b>	\$103	<b>Years Of Dividend Growth:</b>	27
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 80% of its revenues from its electric utilities, whereas the remainder comes from NEER.

NextEra Energy reported its Q4 2022 financial results on 1/25/23. For the quarter, the company reported revenues of \$6,164 million, translating to adjusted earnings of \$1,011 million (up 24% year over year). On a per-share basis, adjusted earnings also climbed 24% to \$0.51.

For the full year, revenue growth was 23% to \$20,956 million and adjusted EPS growth was 13.7% to \$2.90, the top end of management’s estimate. During 2022, it commissioned approximately 5,000 MW of new renewables and storage across FPL and NEER. It also added about 8,030 MW of renewables and storage to its backlog. Total backlog stands at about 19,000 MW.

Management initiated its 2023 adjusted EPS guidance range at \$2.98-\$3.13. We use the midpoint of \$3.05 for our 2023 EPS estimate.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$4.83	\$5.60	\$6.06	\$5.78	\$6.70	\$7.70	\$8.37	\$2.31	\$2.55	\$2.90	<b>\$3.05</b>	<b>\$4.28</b>
<b>DPS</b>	\$2.64	\$2.90	\$3.08	\$3.48	\$3.93	\$4.44	\$5.00	\$1.40	\$1.54	\$1.70	<b>\$1.70</b>	<b>\$2.68</b>
<b>Shares<sup>1</sup></b>	435	443	461	468	471	477	491	1,972	1,975	1,993	<b>2,021</b>	<b>2,166</b>

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 2013 and 2022, NextEra Energy grew its EPS by 10.2% a year. 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 ~5,000 MW of renewable and storage projects in 2022. At the end of 2022, its backlog stood at ~19,000 MW. Its renewable projects should drive the segment’s profits going forward. NEE forecasts that its adjusted EPS will rise by about 7.1% a year through 2026. We use a slightly more conservative EPS growth rate of 7.0% and estimate a dividend growth rate of 9.5% through 2028, including a dividend hike of ~10% next month that will increase the 2023’s DPS in the table above.

<sup>1</sup> 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.6	17.3	16.9	20.7	23.3	22.6	25.7	30	32.7	29.2	<b>24.8</b>	<b>24.0</b>
Avg. Yld.	3.3%	3.0%	3.0%	2.9%	2.8%	2.6%	2.3%	2.3%	1.9%	2.0%	<b>2.2%</b>	<b>2.6%</b>

NextEra Energy's valuation has risen persistently over the last ten years. Its valuation rose more than 3/4 between 2013 and 2022. We expect NEE to continue with a good growth rate but slower than in the last decade. We think a multiple of about 24 is fair and the stock is fairly valued based on the estimated EPS for 2023.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

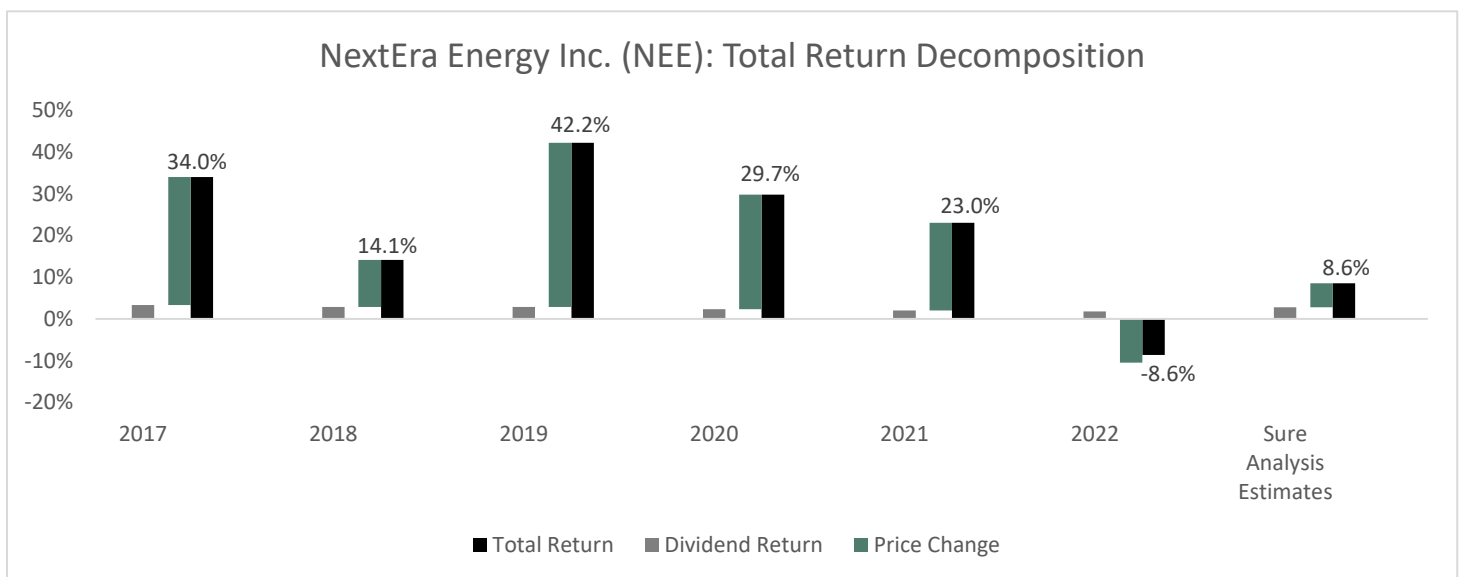
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	55%	52%	51%	60%	59%	58%	60%	61%	60%	59%	<b>56%</b>	<b>63%</b>

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 cyclicalities, 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. We estimate a rate of return of 8.6% from a dividend yield of 2.2%, 7.0% EPS growth, and -0.6% from P/E contraction. Sure Dividend rates NEE as a Hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	15,136	17,021	17,486	16,138	17,173	16,727	19,204	17,997	17,069	20,956
<b>Gross Profit</b>	6,984	8,270	8,890	8,617	9,644	9,665	11,201	10,707	8,589	10,139
<b>Gross Margin</b>	46.1%	48.6%	50.8%	53.4%	56.2%	57.8%	58.3%	59.5%	50.3%	48.4%
<b>D&amp;A Exp.</b>	2,521	2,896	3,203	3,428	2,638	4,147	4,478	4,315	4,212	4,790
<b>Operating Profit</b>	3,604	4,394	4,732	4,240	5,924	4,299	5,248	5,039	3,006	3,559
<b>Operating Margin</b>	23.8%	25.8%	27.1%	26.3%	34.5%	25.7%	27.3%	28.0%	17.6%	17.0%
<b>Net Profit</b>	1,908	2,465	2,752	2,906	5,380	6,638	3,769	2,919	35,73	4,147
<b>Net Margin</b>	12.6%	14.5%	15.7%	18.0%	31.3%	39.7%	19.6%	16.2%	20.9%	19.8%
<b>Free Cash Flow</b>	1,898	2,071	2,217	2,129	1,053	634	-2,922	224	-277	-1480
<b>Income Tax</b>	777	1,176	1,228	1,379	-660	1,576	448	44	348	586

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	69,306	74,605	82,479	89,993	97,963	103,702	117,691	127,684	140,912	158,935
<b>Cash &amp; Equivalents</b>	438	577	571	1,292	1,714	638	600	1,105	639	1,601
<b>Accounts Receivable</b>	1,777	1,805	1,784	1,784	2,220	2,302	2,282	2,263	3,378	4,349
<b>Inventories</b>	1,153	1,292	1,259	1,289	1,273	1,223	1,328	1,552	1,561	1,934
<b>Goodwill &amp; Int. Ass.</b>					2,051	1,599	4,204	4,254	4,844	4,854
<b>Total Liabilities</b>	51,266	54,437	59,367	64,662	68,432	66,289	76,331	82,755	95,488	109,499
<b>Accounts Payable</b>	1,200	1,354	2,529	3,447	3,235	2,386	3,631	4,615	6,935	8,312
<b>Long-Term Debt</b>	28,426	28,701	29,687	30,840	35,025	37,712	42,583	48,091	54,827	64,966
<b>Shareholder's Equity</b>	18,040	19,916	22,574	24,341	28,236	34,144	37,005	36,513	37,202	39,229
<b>LTD/E Ratio</b>	1.58	1.44	1.32	1.27	1.24	1.10	1.15	1.32	1.47	1.66

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	2.9%	3.4%	3.5%	3.4%	5.7%	6.6%	3.4%	2.4%	2.7%	2.8%
<b>Return on Equity</b>	11.2%	13.0%	13.0%	12.4%	20.5%	21.3%	10.6%	7.9%	9.7%	10.9%
<b>ROIC</b>	4.2%	5.2%	5.4%	5.3%	8.9%	9.5%	4.7%	3.3%	3.7%	3.9%
<b>Shares Out.</b>	435	443	461	468	471	477	491	1,972	1,975	1,987
<b>Revenue/Share</b>	8.86	9.67	9.63	8.66	9.09	8.77	9.89	9.14	8.65	10.55
<b>FCF/Share</b>	1.11	1.18	1.22	1.14	0.56	0.33	-1.50	0.11	-0.14	-0.74

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

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