# NRG Energy, Inc. (NRG)

*Updated March 28th, 2023 by Ian Bezek*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $32 | **5 Year CAGR Estimate:** | 11.6% | **Market Cap:** | $7.3 B |
| **Fair Value Price:** | $41 | **5 Year Growth Estimate:** | 3.0% | **Ex-Dividend Date:** | 04/28/23[1] |
| **% Fair Value:** | 79% | **5 Year Valuation Multiple Estimate:** | 4.9% | **Dividend Payment Date:** | 05/12/23[1] |
| **Dividend Yield:** | 4.7% | **5 Year Price Target** | $47 | **Years Of Dividend Growth:** | 4 |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | A | **Rating:** | Buy |

## 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. The company unveiled the next stage of its transformation in December when it announced plans to acquire Vivint Smart Home for $5.2 billion. NRG believes adding Vivint to its business will improve its retail platform and improve its customer experience.

NRG reported its fourth quarter results on February 16th, 2023. The company's adjusted earnings per share of 47 cents fell far short of expectations for $1.51 per share. However, NRG's earnings are exceptionally volatile as the company earns or loses vast quantities of money due to its energy price hedges. On an adjusted EBITDA basis, which may be more reflective of its underlying operations, NRG reported $435 million for this past quarter, which was up 1% from the prior year. For the full year, though, NRG missed its original EBITDA forecast, primarily due to outages and winter storms. NRG doesn't believe this weakness will be ongoing; it has guided to more than 20% EBITDA growth in 2023.

## Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | -$1.22 | -$0.23 | -$19.46 | -$2.22 | -$4.87 | $1.49 | $16.81 | $2.07 | $8.93 | $5.17 | ***$5.43*** | ***$6.29*** |
| **DPS** | $0.45 | $0.54 | $0.58 | $0.24 | $0.12 | $0.12 | $0.12 | $1.20 | $1.30 | $1.40 | ***$1.51*** | ***$1.75*** |
| **Shares** | 322 | 337 | 314 | 315 | 315 | 284 | 249 | 244 | 244 | 230 | ***240*** | ***300*** |

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. Its M&A activities also create large one-time adjustments to earnings.

For the 2023 and on earnings estimates, we are forecasting the company's core earnings power, which excludes the effects of energy hedges.

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 announced an additional 8% dividend hike for 2023; the increase went into effect this quarter.

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[1] Estimated date.

*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** | --- | 67.7 | --- | --- | --- | 41.9 | 2.2 | 17.8 | 4.8 | 6.0 | ***5.9*** | ***7.5*** |
| **Avg. Yld.** | 1.0% | 1.7% | 1.7% | 2.8% | 1.9% | 0.6% | 0.4% | 0.3% | 3.6% | 3.3% | ***4.7%*** | ***3.7%*** |

NRG's uneven track record in terms of both earnings and dividend has led to a complicated valuation picture. Shares have traded between low single digit P/Es and ratios far higher than that. We expect the firm's P/E ratio to remain low given its unpredictable earnings and the added uncertainty from the massive Vivint purchase.

On a dividend basis, the stock has had a highly variable yield of between 0.3% and the nearly 5% it is offering today. We expect the yield to decline moderately over time.

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

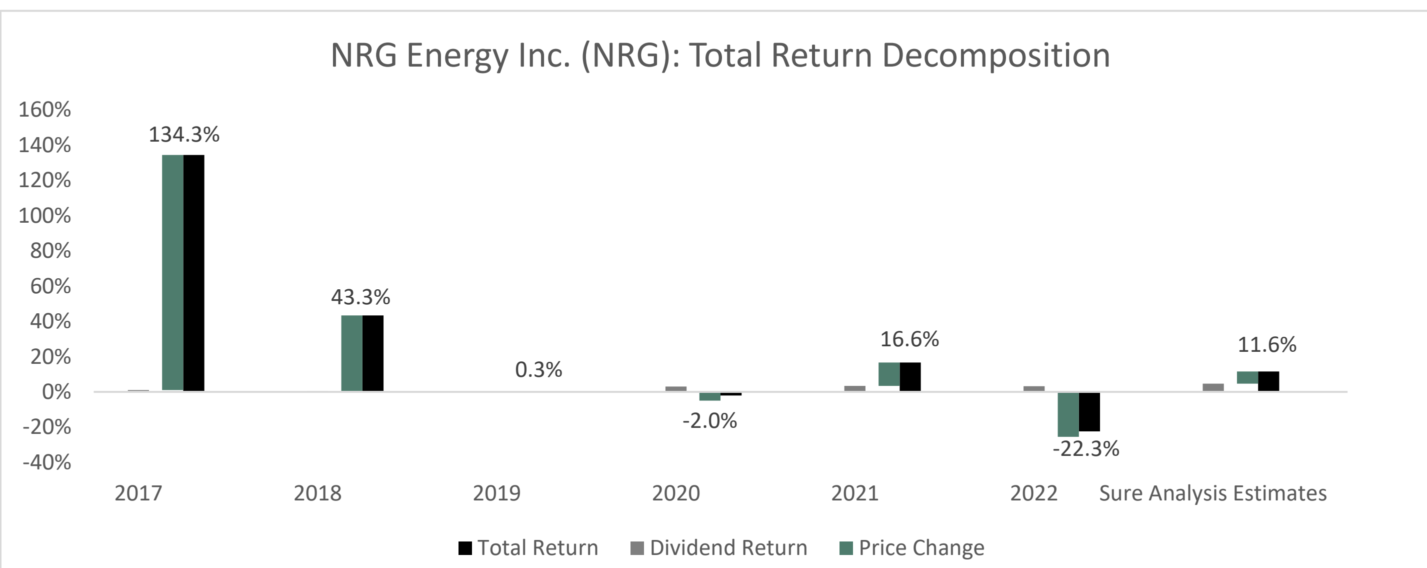
| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | --- | 235% | --- | --- | --- | 8% | 1% | 58% | 15% | 27% | ***28%*** | ***28%*** |

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. NRG had $8 billion in debt prior to completing its Vivint acquisition, and the firm doesn't have an investment-grade credit rating. The company has generated large profits recently, but investors should monitor its financials closely.

## Final Thoughts & Recommendation

NRG Energy had delivered tremendous earnings thanks to energy hedges, though that tailwind has now faded. Excluding hedges, the picture is more mixed. NRG has engaged in constant wheeling and dealing to reshape its asset portfolio. To that point, NRG's move to acquire Vivint has scared investors; shares plunged following the deal's announcement. We have trimmed our estimates as a result of the acquisition. Even so, given the sharp drop in NRG's share price thanks to the deal, shares appear substantially undervalued. We project 11.6% annualized returns; shares earn a buy 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.*