



# NextEra Energy Partners LP (NEP)

Updated May 12<sup>th</sup>, 2023 by Samuel Smith

## Key Metrics

|                             |        |  |       |                                  |                       |
|-----------------------------|--------|--|-------|----------------------------------|-----------------------|
| <b>Current Price:</b>       | \$60.9 | <b>5 Year CAGR Estimate:</b>               | 12.3% | <b>Market Cap:</b>               | \$5.5B                |
| <b>Fair Value Price:</b>    | \$51.9 | <b>5 Year Growth Estimate:</b>             | 10.3% | <b>Ex-Dividend Date:</b>         | 08/04/23 <sup>1</sup> |
| <b>% Fair Value:</b>        | 117%   | <b>5 Year Valuation Multiple Estimate:</b> | -3.1% | <b>Dividend Payment Date:</b>    | 08/15/23 <sup>2</sup> |
| <b>Dividend Yield:</b>      | 5.5%   | <b>5 Year Price Target</b>                 | \$85  | <b>Years Of Dividend Growth:</b> | 9                     |
| <b>Dividend Risk Score:</b> | C      | <b>Retirement Suitability Score:</b>       | B     | <b>Rating:</b>                   | Buy                   |

## Overview & Current Events

NextEra Energy Partners was formed in 2014 as Delaware Limited Partnership by NextEra Energy to own, operate, and acquire contracted clean energy projects with stable, long-term cash flows. The company's strategy is to capitalize on the energy industry's favorable trends in North America of clean energy projects replacing uneconomic projects. NextEra Energy Partners operates 34 contracted renewable generation assets consisting of wind and solar projects in 12 states across the United States. The company also operates contracted natural gas pipelines in Texas which accounts for about a fifth of NextEra Energy Partners' income. The \$5.5 billion market capitalization company is listed on the New York Stock Exchange under the ticker NEP.

On April 25<sup>th</sup>, 2023, NextEra Energy, Inc. posted its first-quarter financial results. NextEra Energy Partners reported Q1 GAAP EPS of -\$0.17, missing expectations by \$0.61, while revenue of \$301M missed expectations by \$54.92M. The company expects 12-15% growth per year in limited partner distributions per unit through at least 2026 and anticipates a Q4 2023 annualized distribution rate of \$3.64 to \$3.74 per common unit. Additionally, NextEra Energy Partners expects adjusted EBITDA in a range of \$2.220 billion to \$2.420 billion and CAFD in a range of \$770 million to \$860 million by Dec. 31, 2023.

## Growth on a Per-Share Basis

| Year                      | 2013 | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023          | 2028          |
|---------------------------|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>DCF/S</b>              | N/A  | \$3.17 | \$5.53 | \$5.07 | \$4.54 | \$4.54 | \$4.83 | \$8.33 | \$7.55 | \$4.86 | <b>\$4.72</b> | <b>\$7.70</b> |
| <b>DPS</b>                | N/A  | \$0.19 | \$1.02 | \$1.41 | \$1.49 | \$1.77 | \$2.04 | \$2.46 | \$2.60 | \$3.15 | <b>\$3.37</b> | <b>\$6.00</b> |
| <b>Shares<sup>3</sup></b> | N/A  | 18.7   | 30.7   | 54.2   | 54.3   | 56.1   | 65.5   | 75.9   | 83.9   | 86.5   | <b>88.9</b>   | <b>100.0</b>  |

NextEra Energy Partners continues to grow its cashflows at an aggressive clip. Since the company's historic EPS has been very inconsistent, we were unable to use it as the company's primary growth metric, instead we used distributable cash flow per share. The DCF/S metric is used to see a company's cash generation that is available to be distributed back to shareholders as dividends.

From the DCF/S metric we observe excellent growth since 2014, which is noticeable in the company's rising dividend, though it has been declining in recent years due to aggressive equity issuances and investment in projects. We expect growth from further expansion in renewable energy sales and the addition of new infrastructure to drive robust 10.3% annualized per share growth throughout the next half decade to 2028.

## Valuation Analysis

| Year             | 2013 | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | Now         | 2028        |
|------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------------|-------------|
| <b>P/DCF</b>     | N/A  | 11.5  | 9.5   | 6.8   | 7.6   | 7.5   | 8.4   | 10.9  | 12.4  | 15.5  | <b>12.9</b> | <b>11.0</b> |
| <b>Avg. Yld.</b> | N/A  | 0.50% | 2.60% | 4.70% | 4.10% | 3.90% | 3.90% | 3.70% | 3.30% | 4.20% | <b>5.5%</b> | <b>7.1%</b> |

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> 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.



# NextEra Energy Partners LP (NEP)

Updated May 12<sup>th</sup>, 2023 by Samuel Smith

Instead of using the average price-to-earnings ratio, we used the company's price-to-DCF ratio for the valuation analysis. We decided to use a price-to-DCF ratio instead, because we did not have enough information from the price-to-earnings ratio since the company has had inconsistent earnings over the last half decade.

We estimate fair value to be a price-to-DCF ratio of 11x. The current price-to-DCF ratio of 12.9x is above this level as renewable energy assets are enjoying a valuation premium given the bullish outlook on its future. As a result, we believe that shares remain overvalued as the market is likely overly bullish on green energy. We see green energy as still considerably more expensive to generate than its competitors' natural gas and oil, and therefore is reliant on significant government assistance to make it economical.

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

| Year   | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | N/A  | 6%   | 18%  | 28%  | 33%  | 39%  | 42%  | 30%  | 34%  | 65%  | 71%  | 78%  |

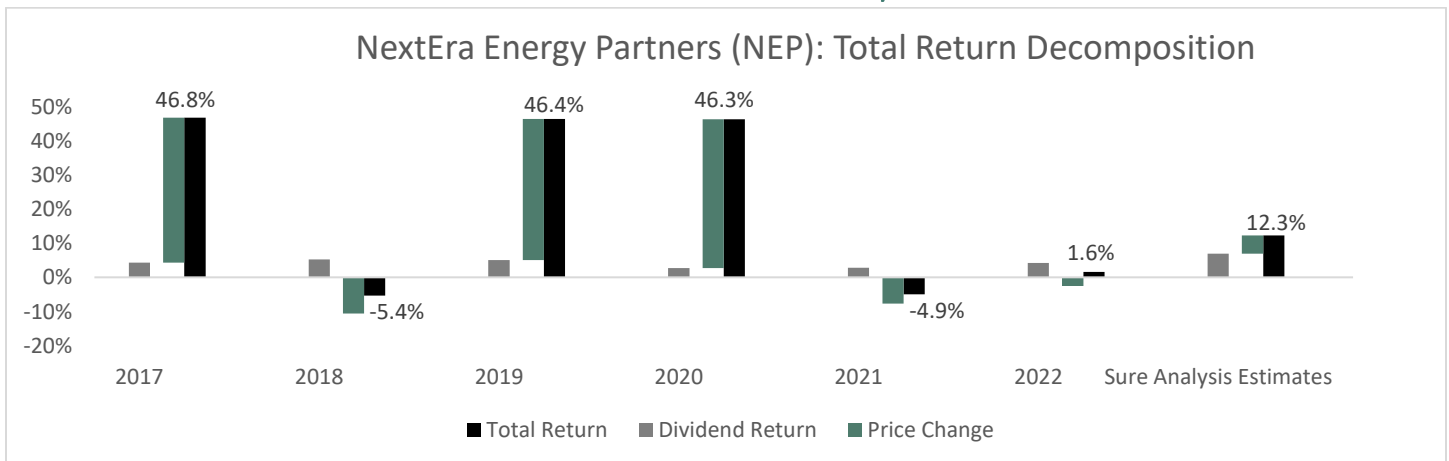
NextEra Energy Partners is trying to become an industry leader in producing renewable energy and simply producing energy with as little carbon output as possible. The company's operations are very proactive for getting ahead of regulations that the utility sector has been getting in the past years on carbon emissions. To calculate the payout ratio above, since the company does not have consistent earnings, instead we used the company's cash available for distribution per share divided by their dividends per share.

Utilities generally have lower competitive risks because of the regulations that are put on them. NextEra Energy Partners has found their own competitive advantage within the sector by producing only renewable energy. This is an advantage because the company can put all their efforts into innovation in the part of the utilities sector with the most growth potential: renewable energy generation. Another advantage that NextEra Energy Partners has over their competition is that the company is a subsidiary of utility giant, NextEra Energy. A benefit of all utilities is that it is not a cyclical industry; in the event of an economic downturn utilities historically outperform the market, due to sheer need of the company's operations.

## Final Thoughts & Recommendation

NextEra Energy Partners has performed very well since the partnership's IPO in 2014. The stock currently has a dividend yield of 5.5%, and its payout has been growing very quickly since its first payment in 2014. Overall, we expect a total return of 12.3% annualized over the next half decade. As a result of the strong total return potential, we rate NextEra Energy Partners as a Buy at current prices.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# NextEra Energy Partners LP (NEP)

Updated May 12<sup>th</sup>, 2023 by Samuel Smith

## Income Statement Metrics

| Year                    | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Revenue</b>          | 179   | 359   | 501   | 772   | 807   | 771   | 855   | 917   | 982   | 1,211 |
| <b>Gross Profit</b>     | 133   | 280   | 388   | 557   | 559   | 514   | 519   | 554   | 563   | 640   |
| <b>Gross Margin</b>     | 74.3% | 78.0% | 77.4% | 72.2% | 69.3% | 66.7% | 60.7% | 60.4% | 57.3% | 52.8% |
| <b>D&amp;A Exp.</b>     | 54    | 99    | 163   | 235   | 226   | 203   | 331   | 374   | 405   | 573   |
| <b>Operating Profit</b> | 72    | 176   | 209   | 302   | 312   | 290   | 233   | 253   | 234   | 161   |
| <b>Operating Margin</b> | 40.2% | 49.0% | 41.7% | 39.1% | 38.7% | 37.6% | 27.3% | 27.6% | 23.8% | 13.3% |
| <b>Net Profit</b>       | 20    | 3     | 10    | 83    | (61)  | 192   | (71)  | (50)  | 137   | 477   |
| <b>Net Margin</b>       | 11.2% | 0.8%  | 2.0%  | 10.8% | -7.6% | 24.9% | -8.3% | -5.5% | 14.0% | 39.4% |
| <b>Free Cash Flow</b>   | (545) | (532) | 87    | (446) | 64    | 337   | 253   | 331   | 564   | 586   |
| <b>Income Tax</b>       | 8     | (14)  | 33    | 57    | 167   | 6     | (26)  | (19)  | 48    | 171   |

## Balance Sheet Metrics

| Year                            | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019   | 2020   | 2021   | 2022   |
|---------------------------------|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|
| <b>Total Assets</b>             | 2,633 | 4,337 | 7,227 | 8,661 | 8,425 | 9,405 | 12,256 | 12,562 | 18,948 | 23,054 |
| <b>Cash &amp; Equivalents</b>   | 27    | 106   | 164   | 150   | 154   | 147   | 128    | 108    | 147    | 235    |
| <b>Accounts Receivable</b>      | 203   | 41    | 80    | 87    | 85    | 63    | 79     | 83     | 112    | 137    |
| <b>Inventories</b>              | 4     | 10    | 14    | 18    |       |       | 20     | 24     | 41     | 51     |
| <b>Goodwill &amp; Int. Ass.</b> |       |       | 1,318 | 1,306 | 1,296 | 1,845 | 2,891  | 2,791  | 3,691  | 3,427  |
| <b>Total Liabilities</b>        | 1,920 | 2,704 | 5,335 | 6,095 | 6,201 | 3,867 | 5,190  | 4,855  | 7,789  | 8,265  |
| <b>Accounts Payable</b>         | 43    | 152   | 303   | 331   | 26    | 10    | 122    | 143    | 982    | 868    |
| <b>Long-Term Debt</b>           | 1,799 | 1,893 | 3,447 | 3,586 | 4,317 | 3,435 | 4,144  | 3,388  | 5,327  | 5,288  |
| <b>Shareholder's Equity</b>     | 713   | 548   | 929   | 1,743 | 2,190 | 2,346 | 2,183  | 2,354  | 2,977  | 3,325  |

## Profitability & Per Share Metrics

| Year                    | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 0.8%  | 0.1%  | 0.2%  | 1.0%  | -0.7% | 2.2%  | -0.7% | -0.4% | 0.9%  | 2.3%  |
| <b>Return on Equity</b> | 2.8%  | 0.5%  | 1.4%  | 6.2%  | -3.1% | 8.5%  | -3.1% | -2.2% | 5.1%  | 15.1% |
| <b>Shares Out.</b>      | 1.2%  | 0.1%  | 0.3%  | 1.9%  | -1.4% | 3.5%  | -0.9% | -0.6% | 1.2%  | 3.2%  |
| <b>Revenue/Share</b>    | N/A   | 18.7  | 30.7  | 54.2  | 54.3  | 56.1  | 65.5  | 75.9  | 83.9  | 86.5  |
| <b>FCF/Share</b>        | 11.02 | 19.20 | 21.97 | 17.63 | 14.89 | 10.34 | 14.54 | 13.41 | 12.69 | 14.26 |

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.