Clearway Energy Inc (CWEN)

Updated August 16th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$25	**5 Year CAGR Estimate:**	9.9%	**Market Cap:**	$5.0 B
Fair Value Price:	$27	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	08/31/2023
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.4%	**Dividend Payment Date:**	09/15/2023
Dividend Yield:	6.3%	**5 Year Price Target:**	$31	**Years of Dividend Growth:**	4
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Clearway Energy Inc is a large electric utility company which owns and operates contracted energy generation across two segments: conventional generation, and renewables. The company possesses over 8,000 net MW of assets. Clearway is a large owner of renewable energy with over 5,500 MW of installed wind and solar generation projects. Approximately 2,500 net MW of the company's energy comes from natural gas generation facilities. The power company trades on the NYSE under the ticker symbol CWEN. They are headquartered in Princeton, New Jersey.

To note, Clearway Energy's controlling investor is Global Infrastructure Partners III (GIP), and Clearway Energy Group is the company's portfolio business from which they invest in infrastructure and businesses in OECD and certain emerging market countries. Clearway Energy Group owns or has an interest in more than 7 gigawatts of wind, solar and energy storage assets, and an ongoing development pipeline across the U.S. The group's large renewable power generation offsets about 10.5 million metric tons of carbon emissions.

On May 1st, 2022, the company completed the sale of its Thermal Business for net proceeds of roughly $1.35 billion.

On August 7th, 2022, GIP completed a transaction resulting in TotalEnergies (NYSE: TTE) acquiring half of GIP's interest in Clearway Group. The benefit to Clearway is that TotalEnergies will provide Clearway with a right of first offer on its U.S. onshore renewable assets, and provide marketing and corporate relationships to aid in the commercial value of Clearway's development and operating projects.

On May 3rd, 2023, Clearway raised its quarterly dividend again by 2% to $0.3891 per share, or $1.5564 per year.

Clearway Energy reported second quarter 2023 results on August 8th, 2023. The company generated $316 million in adjusted EBITDA for the quarter, down from $366 million in the prior year quarter. Cash from operating activities declined by 28% to $134 million, due largely to the sale of the Thermal Business. Cash available for distribution (CAFD) in Q2 was 137 million, compared to 176 million in Q2 2022.

Leadership updated its fiscal 2023 guidance for CAFD to $330 million to $360 million (down from $410 million at prior guidance). This equates to roughly $2.95 per share of CAFD (down from $3.50 at our last research report) based on our estimated fiscal 2023 share count.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
CAFDS	-	-	$2.13	$3.17	$2.72	$2.80	$2.70	$2.54	$2.87	$2.79	***$2.95***	***$3.42***
EPS	-	-	$0.40	$0.58	($0.16)	$0.46	($0.10)	$0.22	$0.44	$4.99	***$0.90***	***$1.04***
DPS	-	-	$0.82	$0.95	$1.10	$1.26	$0.80	$1.05	$1.33	$1.43	***$1.56***	***$1.99***
Shares[1]	-	-	84.0	98.0	99.0	104.0	109.0	116.0	117.0	117.0	***117.0***	***125.0***

Clearway's relevant earnings and cash available for distribution data goes back to 2015, when the company was known as NRG Yield, Inc. Earnings have been very choppy historically, and the corporation opts to measure performance and

[1] 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.

payout using cash available for distribution. However, even when measuring performance using CAFD per share, the company does not have an exemplary history, but it appears to be improving.

Clearway's CAFD per share have grown by 3.9% and 1.1% on average over the past seven and three years. This small level of growth was one reason for the dividend cut in 2019.

Despite the poor growth history, we estimate that CWEN can grow CAFD by roughly 3.0% annually over the intermediate term. The Clearway Group will lead the corporation into significant growth opportunities as they have a 30+ GW development pipeline and more to come. Rate increases and further acquisitions of existing renewable energy projects will add to CAFD per share. The corporation also aims to lower annual interest expenses as they plan to deleverage by about $350 million annually. We expect that shares outstanding will continue to grow, and so earnings and CAFD will be spread among more shares, a minor headwind on a per-share basis.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/CAFD	-	-	8.3	4.8	6.6	6.5	6.3	9.5	10.7	12.4	***8.4***	***9.0***
Avg. Yld.	-	-	4.7%	5.6%	5.7%	6.5%	6.4%	3.6%	3.7%	3.8%	***6.3%***	***6.5%***

Since earnings is not the primary metric in valuing Clearway Energy given its volatility, we are valuing the company based on CAFD per share. CWEN's eight-year and three-year average price-to-CAFD is 8.1 and 10.9, respectively. Today, shares trade within this range at 8.4 times estimated 2023 CAFD per share. We estimate this valuation could rise slightly to 9.0 times CAFD per share, which would result in a 1.4% annualized tailwind to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

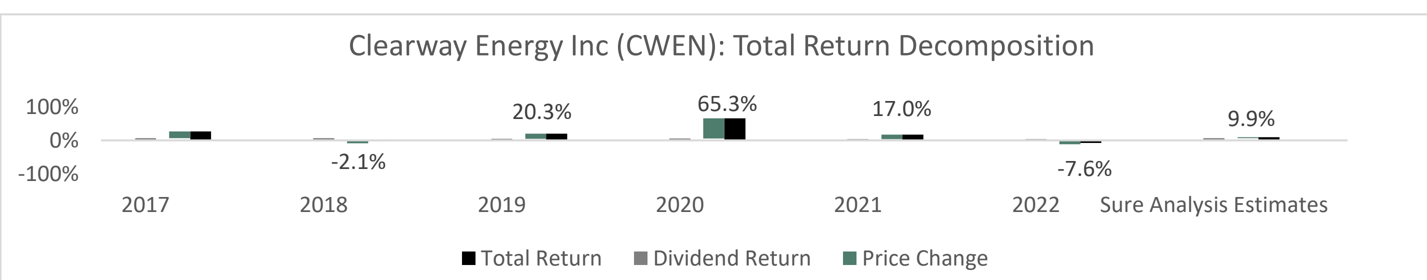
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	-	-	38%	30%	40%	45%	30%	41%	46%	51%	***53%***	***58%***

The company's payout has remained conservative on a CAFD per share basis; however, this includes one dividend cut in recent history. We don't have operating results dating back to the great financial crisis so we can't say for certain how CWEN would have performed, but we believe utilities businesses are generally one of the safer industries during a recession. Results were not highly impacted by the COVID pandemic as power generation is essential. CWEN believes their knowledge and operating expertise to be their prime competitive advantage in the industry, as it allows them to make strong energy acquisitions, which they can utilize to grow CAFD.

Final Thoughts & Recommendation

Clearway Energy is backed by one of the largest infrastructure funds in the world, which gives it an advantage in accessing deals and building out its power portfolio, and the company is turning a corner on achieving meaningful growth. We rate the shares as a hold with the company trading at 93% of our estimated fair value and forecast an annualized total return of 9.9%.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	387	828	968	1,035	1,009	1,053	1,032	1,199	1,286	1190
Gross Profit	239	551	645	727	683	726	695	833	835	755
Gross Margin	61.8%	66.5%	66.6%	70.2%	67.7%	68.9%	67.3%	69.5%	64.9%	63.4%
SG&A Exp.	7	8	12	16	19	20	29	34	40	40
D&A Exp.	75	263	358	379	404	405	479	522	655	684
Operating Profit	158	310	330	408	330	367	260	366	280	201
Op. Margin	40.8%	37.4%	34.1%	39.4%	32.7%	34.9%	25.2%	30.5%	21.8%	16.9%
Net Profit	13	16	33	57	(16)	48	(11)	25	51	582
Net Margin	3.4%	1.9%	3.4%	5.5%	-1.6%	4.6%	-1.1%	2.1%	4.0%	48.9%
Free Cash Flow	(233)	302	396	557	327	415	249	421	550	675
Income Taxes	8	4	12	(1)	72	62	(8)	8	12	222

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,238	7,860	8,689	8,962	8,489	8,500	9,700	10,592	12,813	12312
Cash & Equivalents	59	429	111	322	148	407	155	268	179	657
Accts. Recv.	56	118	101	95	95	104	118	143	144	153
Inventories	15	32	36	39	39	40	40	42	37	47
Goodwill & Int.	103	1,424	1,362	1,303	1,228	1,156	1,428	1,370	2,499	2565
Total Liabilities	1,986	5,235	5,951	6,363	6,330	6,276	7,437	7,877	9,513	8279
Accounts Payable	42	22	23	23	46	45	74	72	181	77
Long-Term Debt	1,783	4,921	5,593	6,049	5,998	5,982	6,780	6,969	7,711	6813
Total Equity	629	1,234	1,841	1,850	1,747	1,822	1,849	1,824	1,834	2234
LTD/E Ratio	2.83	3.99	3.04	3.27	3.43	3.28	3.67	3.82	4.20	3.05

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.5%	0.3%	0.4%	0.6%	-0.2%	0.6%	-0.1%	0.2%	0.4%	4.6%
Return on Equity	1.8%	1.7%	2.1%	3.1%	-0.9%	2.7%	-0.6%	1.4%	2.8%	28.6%
ROIC	0.6%	0.3%	0.4%	0.7%	-0.2%	0.6%	-0.1%	0.3%	0.5%	5.3%
Shares Out.				84.0	98.0	99.0	104.0	109.0	117.0	117
Revenue/Share	2.68	8.41	14.79	11.52	10.56	10.19	10.13	9.47	10.99	10.17
FCF/Share	(5.07)	5.39	4.71	5.68	3.30	3.99	2.28	3.63	4.70	5.77

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