



NextEra Energy Inc. (NEE)

Updated Jul 28th, 2023 by Kay Ng

Key Metrics

Current Price:	\$73	5 Year CAGR Estimate:	9.4%	Market Cap:	\$148B
Fair Value Price:	\$73	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	08/29/23
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.1%	Dividend Payment Date:	09/15/23
Dividend Yield:	2.6%	5 Year Price Target	\$103	Years Of Dividend Growth:	27
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

NextEra Energy (NEE) is an electric utility with two operating segments, Florida Power & Light (“FPL”) and NextEra Energy Resources (“NEER”). FPL is the largest U.S. electric utility by retail megawatt hour sales and customer numbers. The rate-regulated electric utility serves about 5.8 million customer accounts in Florida. 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 FPL.

NextEra Energy reported its Q2 2023 financial results on 7/25/23. For the quarter, the company reported revenues of \$7,349 million, translating to adjusted earnings of \$1,777 million (up 11.6% year over year). On a per-share basis, adjusted earnings climbed 8.6% to \$0.88. Particularly, FPL continued to execute on capital investments in solar and transmission and distribution infrastructure, while NEER placed ~1.8 GW into service. Additionally, NEER added ~1.7 GW of new renewables and storage projects to its backlog that totals ~20 GW.

Year to date, the company generated revenues of \$14,065 million and adjusted earnings of \$3,455 million (up 13.3% year over year). Adjusted earnings per share was \$1.71 (up 11.0%).

Management maintains its 2023 adjusted EPS guidance range at \$2.98-\$3.13. So, we continue to 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
EPS	\$4.83	\$5.60	\$6.06	\$5.78	\$6.70	\$7.70	\$8.37	\$2.31	\$2.55	\$2.90	\$3.05	\$4.28
DPS	\$2.64	\$2.90	\$3.08	\$3.48	\$3.93	\$4.44	\$5.00	\$1.40	\$1.54	\$1.70	\$1.87	\$2.68
Shares¹	435	443	461	468	471	477	491	1,972	1,975	1,993	2,005	2,149

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 GW of renewable and storage projects in 2022. At the end of 2022, its backlog stood at ~19 GW. 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 7.5% through 2028.

¹Shares 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	23.9	24.0
Avg. Yld.	3.3%	3.0%	3.0%	2.9%	2.8%	2.6%	2.3%	2.3%	1.9%	2.0%	2.6%	2.6%

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

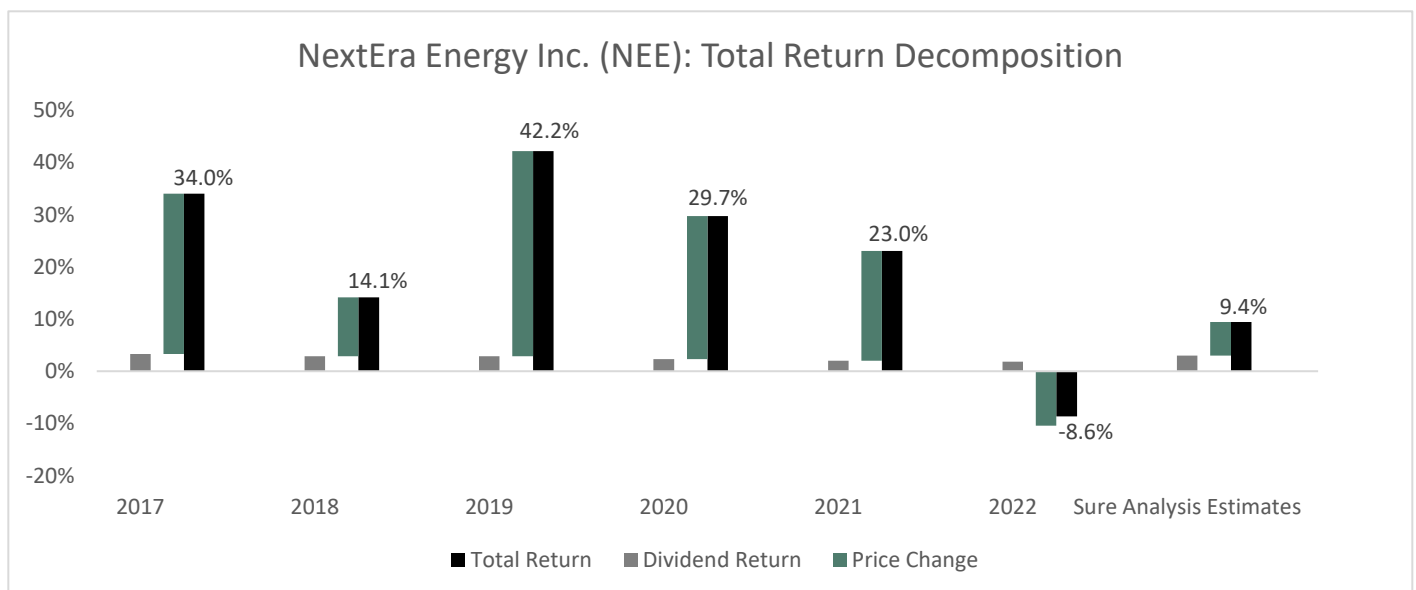
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	55%	52%	51%	60%	59%	58%	60%	61%	60%	59%	61%	63%

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 cyclicality, 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 9.4% from a dividend yield of 2.6%, 7.0% EPS growth, and 0.1% from P/E expansion. 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
Revenue	15,136	17,021	17,486	16,138	17,173	16,727	19,204	17,997	17,069	20,956
Gross Profit	6,984	8,270	8,890	8,617	9,644	9,665	11,201	10,707	8,589	10,139
Gross Margin	46.1%	48.6%	50.8%	53.4%	56.2%	57.8%	58.3%	59.5%	50.3%	48.4%
D&A Exp.	2,521	2,896	3,203	3,428	2,638	4,147	4,478	4,315	4,212	4,790
Operating Profit	3,604	4,394	4,732	4,240	5,924	4,299	5,248	5,039	3,006	3,559
Operating Margin	23.8%	25.8%	27.1%	26.3%	34.5%	25.7%	27.3%	28.0%	17.6%	17.0%
Net Profit	1,908	2,465	2,752	2,906	5,380	6,638	3,769	2,919	35,73	4,147
Net Margin	12.6%	14.5%	15.7%	18.0%	31.3%	39.7%	19.6%	16.2%	20.9%	19.8%
Free Cash Flow	1,898	2,071	2,217	2,129	1,053	634	-2,922	224	-277	-1480
Income Tax	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
Total Assets	69,306	74,605	82,479	89,993	97,963	103,702	117,691	127,684	140,912	158,935
Cash & Equivalents	438	577	571	1,292	1,714	638	600	1,105	639	1,601
Accounts Receivable	1,777	1,805	1,784	1,784	2,220	2,302	2,282	2,263	3,378	4,349
Inventories	1,153	1,292	1,259	1,289	1,273	1,223	1,328	1,552	1,561	1,934
Goodwill & Int. Ass.					2,051	1,599	4,204	4,254	4,844	4,854
Total Liabilities	51,266	54,437	59,367	64,662	68,432	66,289	76,331	82,755	95,488	109,499
Accounts Payable	1,200	1,354	2,529	3,447	3,235	2,386	3,631	4,615	6,935	8,312
Long-Term Debt	28,426	28,701	29,687	30,840	35,025	37,712	42,583	48,091	54,827	64,966
Shareholder's Equity	18,040	19,916	22,574	24,341	28,236	34,144	37,005	36,513	37,202	39,229
LTD/E Ratio	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
Return on Assets	2.9%	3.4%	3.5%	3.4%	5.7%	6.6%	3.4%	2.4%	2.7%	2.8%
Return on Equity	11.2%	13.0%	13.0%	12.4%	20.5%	21.3%	10.6%	7.9%	9.7%	10.9%
ROIC	4.2%	5.2%	5.4%	5.3%	8.9%	9.5%	4.7%	3.3%	3.7%	3.9%
Shares Out.	435	443	461	468	471	477	491	1,972	1,975	1,987
Revenue/Share	8.86	9.67	9.63	8.66	9.09	8.77	9.89	9.14	8.65	10.55
FCF/Share	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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