



NextEra Energy Partners LP (NEP)

Updated July 31st, 2023 by Samuel Smith

Key Metrics

Current Price:	\$54.0	5 Year CAGR Estimate:	15.0%	Market Cap:	\$5.1B
Fair Value Price:	\$51.9	5 Year Growth Estimate:	10.3%	Ex-Dividend Date:	8/03/23
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Dividend Payment Date:	8/14/23
Dividend Yield:	6.2%	5 Year Price Target	\$85	Years Of Dividend Growth:	10
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	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 \$5.1 billion market capitalization company is listed on the New York Stock Exchange under the ticker NEP.

On July 25th, 2023, NextEra Energy, Inc. posted its second-quarter financial results. The partnership reported a GAAP EPS of \$0.53, missing expectations by \$0.23. Revenue for the quarter was \$350 million, which is a decrease of 3.3% compared to the previous year and missed expectations by \$39.46 million. Despite the miss in Q2, NextEra Energy Partners remains optimistic about its future growth. They anticipate 12% to 15% annual growth in limited partner distributions per unit, starting from a base of \$3.25 per common unit at an annualized rate from Q4 2022. They expect to achieve growth near the bottom end of this range through at least 2026. Looking ahead to the fourth quarter of 2023, the partnership expects the annualized rate of the distribution payable in February 2024 to be in a range of \$3.64 to \$3.74 per common unit. NextEra Energy Partners also maintains its run-rate expectations for adjusted EBITDA in the range of \$2.220 billion to \$2.420 billion and CAFD in the range of \$770 million to \$860 million by December 31, 2023. These figures reflect the portfolio's expected performance for the calendar year 2024 at year-end 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
DCF/S	N/A	\$3.17	\$5.53	\$5.07	\$4.54	\$4.54	\$4.83	\$8.33	\$7.55	\$4.86	\$4.72	\$7.70
DPS	N/A	\$0.19	\$1.02	\$1.41	\$1.49	\$1.77	\$2.04	\$2.46	\$2.60	\$3.15	\$3.42	\$6.00
Shares¹	N/A	18.7	30.7	54.2	54.3	56.1	65.5	75.9	83.9	86.5	93.4	100.0

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.

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.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/DCF	N/A	11.5	9.5	6.8	7.6	7.5	8.4	10.9	12.4	15.5	11.4	11.0
Avg. Yld.	N/A	0.5%	2.6%	4.7%	4.1%	3.9%	3.9%	3.7%	3.3%	4.2%	6.2%	7.1%

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 11.4x is slightly 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%

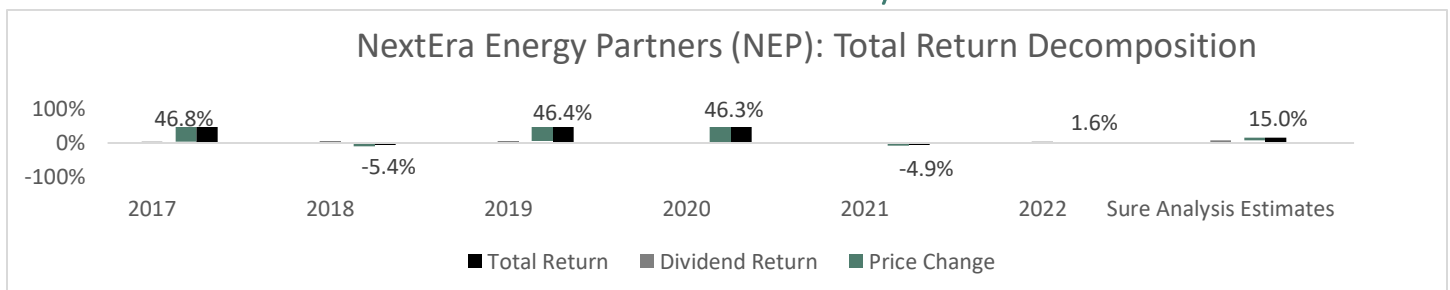
NextEra Energy Partners is trying to become an industry leader in producing renewable energy and simply producing energy with as little carbon output as possible. The company's operations are very proactive for getting ahead of regulations that the utility sector has been getting in the past years on 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 6.2%, and its payout has been growing very quickly since its first payment in 2014. Overall, we expect a total return of 15.0% 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



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2,633	4,337	7,227	8,661	8,425	9,405	12,256	12,562	18,948	23,052
Cash & Equivalents	27	106	164	150	154	147	128	108	147	235
Accounts Receivable	203	41	80	87	85	63	79	83	112	137
Inventories	4	10	14	18	---	---	20	24	41	51
Goodwill & Int. Ass.	---	---	1,318	1,306	1,296	1,845	2,891	2,791	3,691	3,427
Total Liabilities	1,920	2,704	5,335	6,095	6,201	3,867	5,190	4,855	7,789	8,280
Accounts Payable	43	152	303	331	26	10	122	143	982	868
Long-Term Debt	1,799	1,893	3,447	3,586	4,317	3,435	4,144	3,388	5,327	5,288
Shareholder's Equity	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
Return on Assets	0.8%	0.1%	0.2%	1.0%	-0.7%	2.2%	-0.7%	-0.4%	0.9%	2.3%
Return on Equity	2.8%	0.5%	1.4%	6.2%	-3.1%	8.5%	-3.1%	-2.2%	5.1%	15.1%
Shares Out.	---	18.7	30.7	54.2	54.3	56.1	65.5	75.9	83.9	86.5
Revenue/Share	11.02	19.20	21.97	17.63	14.89	10.34	14.54	13.41	12.69	14.26
FCF/Share	(33.54)	(28.45)	3.82	(10.18)	1.18	4.52	4.30	4.84	7.48	6.90

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

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