NRG Energy, Inc. (NRG)

Updated September 3rd, 2023 by Ian Bezek

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	10.0%	**Market Cap:**	$8.7 B
Fair Value Price:	$48	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	11/01/23[1]
% Fair Value:	79%	**5 Year Valuation Multiple Estimate:**	4.8%	**Dividend Payment Date:**	11/15/23[1]
Dividend Yield:	4.0%	**5 Year Price Target**	$53	**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.

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 while selling its 44% stake in the South Texas Project for $1.75 billion in May 2023. The company's biggest move was its recent and controversial $5.2 billion Vivint Smart Home purchase. NRG believes adding Vivint to its business will improve its retail platform and improve its customer experience. Others disagree. Well-known activist investor Elliot Investment Management is moving to force Vivint to replace its CEO. This would be another management shake-up, as the company just installed a new CFO on June 1st, 2023.

NRG reported its second quarter results on August 8th, 2023. The company's GAAP earnings per share of $1.25 were down year-over-year, but represented a massive improvement sequentially. NRG's earnings are exceptionally volatile as the company gains or loses vast sums due to its energy price hedges. On an adjusted EBITDA basis, which may be more reflective of its underlying operations, NRG reported an $819 million profit for this past quarter, which was up from $386 million for the same period of last year. Management's guidance for the remainder of 2023 was upbeat. Regardless, NRG remains a battleground stock. Activists still want a total reboot of NRG's strategy, which led to CEO Mauricio Gutierrez addressing the critics in August, declaring that: "I'm not going anywhere".

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	***$6.40***	***$7.07***
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	***230***	***230***

NRG Energy has produced an astonishingly uneven earnings track record. 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.

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 seen fluctuations. 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 gave investors an additional 8% dividend hike for 2023.

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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%	***4.0%***	***3.3%***

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 depressed given its unpredictable earnings and the added uncertainty from the controversial purchase of Vivint.

On a dividend basis, the stock has had a highly variable yield of between 0.3% and the 4.0% that it is offering today. We expect the yield to decline moderately over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

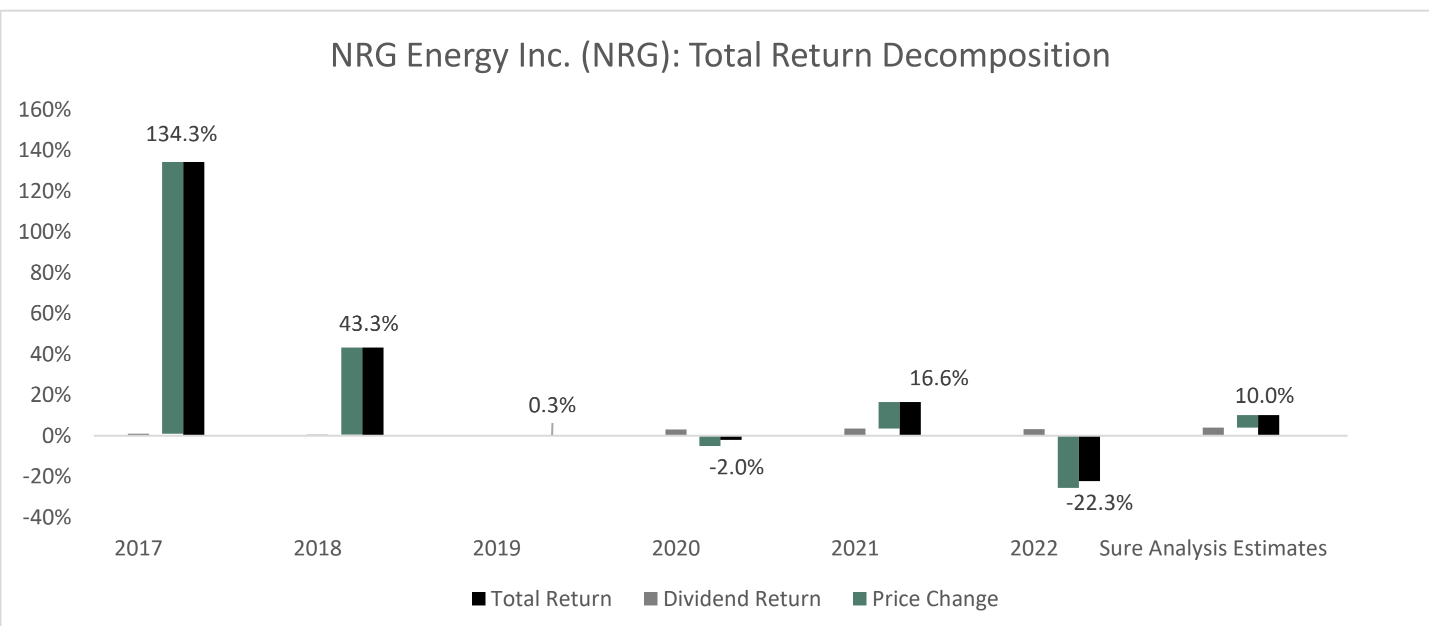
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	235%	---	---	---	8%	1%	58%	15%	27%	***24%***	***25%***

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 has $10.7 billion in long-term debt and leases, and the firm currently doesn't have an investment-grade credit rating.

Final Thoughts & Recommendation

NRG Energy had delivered tremendous earnings growth thanks to energy hedges, though that sharply reversed in 2023. NRG has engaged in constant wheeling and dealing to reshape its asset portfolio. To that point, NRG's move to acquire Vivint has upset investors. We believe shares would trade at a higher valuation if it weren't for the Vivint deal. Regardless, NRG may currently be overly penalized for its unorthodox capital allocation decisions. We project 10.0% annualized returns; shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	11,295	15,868	12,328	8,915	9,074	9,478	9,821	9,093	26,989	31,540
Gross Profit	3,165	4,060	3,328	2,239	2,188	2,370	2,518	2,553	6,507	4,097
Gross Margin	28.0%	25.6%	27.0%	25.1%	24.1%	25.0%	25.6%	28.1%	24.1%	13.0%
SG&A Exp.	895	1,016	1,228	1,032	836	799	760	810	1,293	1,228
D&A Exp.	1,341	1,633	1,547	889	701	540	497	559	942	846
Operating Profit	930	1,433	595	403	734	1,139	1,290	1,200	3,731	2,224
Op. Margin	8.2%	9.0%	4.8%	4.5%	8.1%	12.0%	13.1%	13.2%	13.8%	7.1%
Net Profit	(386)	134	(6,382)	(774)	(2,153)	268	4,438	510	2,187	1,221
Net Margin	-3.4%	0.8%	-51.8%	-8.7%	-23.7%	2.8%	45.2%	5.6%	8.1%	3.9%
Free Cash Flow	(717)	585	320	1,363	1,356	989	1,185	1,597	224	(13)
Income Tax	(282)	3	1,345	25	(44)	7	(3,334)	251	672	442

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	33,902	40,466	32,882	30,682	23,355	10,628	12,531	14,902	23,182	29.150
Cash & Equivalents	2,254	2,116	1,518	938	770	563	345	3,905	250	430
Acc. Receivable	1,214	1,322	1,157	1,058	900	1,024	1,025	904	3,245	4,773
Inventories	898	1,247	1,252	721	453	412	383	327	498	751
Goodwill & Int.	3,125	5,141	3,309	2,635	1,046	1,164	1,368	1,247	4,306	3,782
Total Liabilities	23,186	28,499	27,146	26,236	21,387	11,862	10,873	13,222	19,582	25,320
Accounts Payable	1,038	1,060	869	782	684	863	722	649	2,274	3,643
Long-Term Debt	16,817	20,175	19,464	16,473	9,384	6,521	5,891	8,692	7,970	8,039
Total Equity	9,602	9,762	2,707	2,041	(346)	(1,234)	1,658	1,680	3,600	3,828
LTD/E Ratio	1.71	2.01	6.47	8.07	(27.12)	(5.28)	3.55	5.17	2.21	2.10

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	0.4%	---	---	---	1.6%	38.3%	3.7%	11.5%	4.7%
Return on Equity	---	1.4%	---	---	---	---	---	30.6%	82.8%	32.9%
ROIC	---	0.4%	---	---	---	3.2%	69.1%	5.7%	19.9%	10.4%
Shares Out.	322	337	314	315	315	284	249	244	244	236
Revenue/Share	34.97	46.81	37.47	28.21	28.62	30.77	37.20	36.96	110.16	133.66
FCF/Share	(2.22)	1.73	0.97	4.31	4.28	3.21	4.49	6.49	0.91	(0.06)

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