Atlantica Sustainable Infrastructure plc (AY)

Updated November 9th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$17.70	**5 Year CAGR Estimate:**	13.1%	**Market Cap:**	$2.06 B
Fair Value Price:	$18.63	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	11/29/2023
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Dividend Payment Date:**	12/15/2023
Dividend Yield:	10.1%	**5 Year Price Target**	$22.67	**Years Of Dividend Growth:**	7
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

U.K-based Atlantica Sustainable Infrastructure is a sustainable infrastructure company, with the majority of its operations focused on investing and operating renewable energy assets. The company's goal is to be a leading player in the ongoing transition toward a more sustainable world while generating long-term value for its shareholders, primarily in the form of dividend income. The company's asset base currently includes 44 assets supporting 2,161 MW of aggregate renewable energy installed generation capacity. Specifically, Atlantica operates 31 renewable energy sources, including solar and wind farms (70% of cash flows available for distribution), seven transmission and transport projects (12% of CAFD), three efficient natural gas projects (15% of CAFD), and three water projects (3% of CAFD). The company generates around $1.1 billion in annual revenues and is based in Brentford, the United Kingdom.

On November 8th, 2023, Atlantica Sustainable Infrastructure reported its Q3 results for the period ending September 30th, 2023. The company's quarterly results continued to demonstrate the resiliency of its portfolio, whose cash flows are contractually locked through long-term PPAs (Power Purchase Agreements). Adjusted EBITDA for the quarter came in at $223.5 million, down 8.0% year-over-year. However, the drop was mostly due to changes in working capital. Cash available for distribution fell 3.4% year-over-year to $59.6 million. CAFD per share fell by 3.8% to $0.5130 due to a larger number of shares compared to last year.

Based on its current PPA profile, last year's investments, and development pipeline, management expects to achieve the lower end of prior CAFD guidance of between $235 million and $260 million for fiscal 2023. Based on this range and our projected share dilution, we forecast FY2023 CAFD/share to be $2.07, stable year-over-year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
CAFD/shr	---	$0.70	$1.92	$1.70	$1.70	$1.71	$1.88	$1.97	$2.03	$2.07	***$2.07***	***$2.52***
DPS	---	$0.26	$1.43	$0.45	$1.05	$1.33	$1.57	$1.66	$1.72	$1.77	***$1.78***	***$2.17***
Shares[1]	---	80.0	92.8	100.2	100.2	100.2	101.1	103.4	111.0	114.7	***119.7***	***145.0***

Atlantica Sustainable Infrastructure enjoys extremely predictable cash flows. The entirety of revenues produced by its asset portfolio is contracted under long-term PPAs with a weighted average remaining contract life of 13 years. Additionally, 47% of Atlantica's assets have their rates linked to inflation, a formula based on inflation, or are indexed to a fixed number of rate escalations over time.

Thus, Atlantica is not only protected but even benefits from the ongoing elevated inflation levels. Combined with its development pipeline and third-party acquisitions, we forecast CAFD/share growth of 4% over the medium-term, remaining mindful shares issuances which could offset CAFD growth.

Atlantica has increased its dividend annually for seven years in a row through more than one hike each year which usually amounts to a cent. We expect the company to keep growing the dividend by around 4% per year, in line with CAFD/share growth.

[1] Share count is 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/CAFD	---	---	14.1	10.6	12.4	12.0	12.8	16.8	19.2	15.5	***8.6***	***9.0***
Avg. Yld.	---	0.8%	5.3%	2.5%	5.0%	6.5%	6.5%	5.0%	4.4%	5.5%	***10.1%***	***9.6%***

Atlantica's historical P/CAFD average stands around 8.6. While the company's growth prospects are rather modest, the predictability of its long-term cash flows could attract a slight premium, especially in the current volatile environment. Nonetheless, we have lowered our fair P/CAFD to 9.0, as we recognize that Atlantica is a YieldCo in a rising rates environment. The yield should remain rather substantial due to the company's goal to pay out the majority of its CAFD.

Safety, Quality, Competitive Advantage, & Recession Resiliency

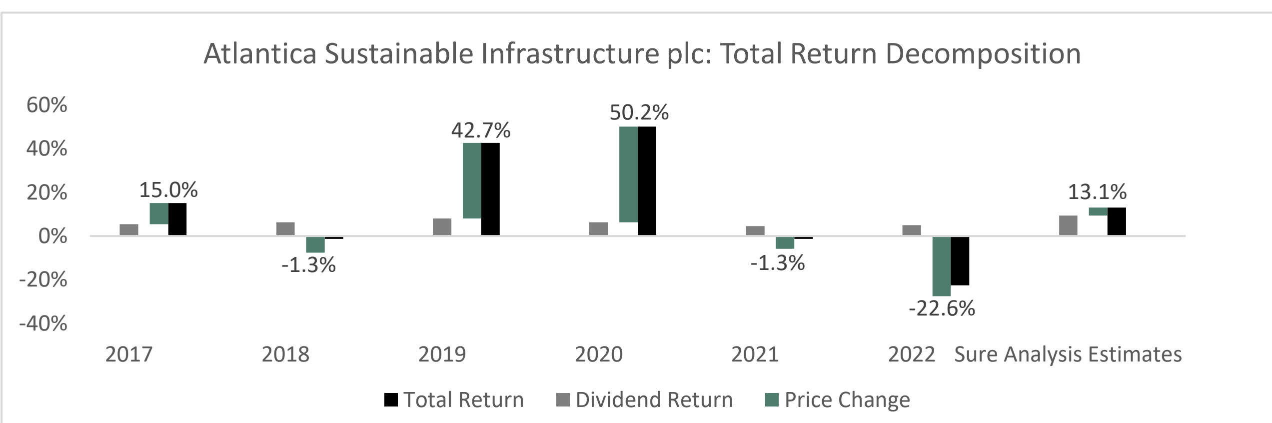
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	37%	74%	27%	62%	78%	84%	84%	84%	85%	***86%***	***86%***

While Atlantica's payout ratio appears elevated, we consider the dividend rather safe, backed by the numerous qualities attached to the company's cash flows. Besides the weighted average remaining contract life of its portfolio standing at 13 years and the inflation-linked hikes embedded in more than half of its assets, Atlantica also features very creditworthy, investment-grade off-takers. These include The Kingdom of Spain, UTE (Uruguay's National Administration of Power Plants and Electrical Transmissions), The Government of Peru, Sonatrach & ADE (Algeria's state-owned oil company), CNE (National Energy Commission of Chile), Enel Generacion Chile, and Eskom (publicly traded with robust and transparent financials), amongst others. Further, its portfolio is quite diversified, with only 40% of its cash flows sourced from assets outside of North America. Yet, Atlantica has also taken care of any potential FX risks, with USD and USD-hedged inflows exceeding 90% of CAFD. All points considered, we believe that the company's performance would remain unfazed during a recession. That said, Atlantica does not feature any noteworthy competitive advantages.

Final Thoughts & Recommendation

Atlantica Sustainable Infrastructure appears very capable of serving income-oriented investors with growing payouts. Its asset portfolio is set to produce predictable cash for more than a decade, while management has laid out a very clear deleveraging plan through the next few years. Based on its current 10.1% yield, our CAFD/share and DPS growth estimates, and the possibility for a small valuation tailwind, we forecast annualized returns of 13.1% through 2028. We rate the stock a buy. However, shares could remain under pressure while interest rates hover at elevated levels.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	211	363	791	972	1,008	1,044	1,011	1,013	1,212	1,102
Gross Profit	189	304	633	794	841	861	860	867	946	883
Gross Margin	89.5%	83.9%	80.1%	81.7%	83.4%	82.5%	85.0%	85.5%	78.1%	80.1%
SG&A Exp.	29	24	49	74	86	84	100	135	173	176
D&A Exp.	47	125	261	333	311	363	311	409	439	474
Operating Profit	112	173	345	402	458	488	466	333	340	256
Operating Margin	52.9%	47.8%	43.6%	41.4%	45.4%	46.7%	46.1%	32.8%	28.1%	23.2%
Net Profit	(3)	(32)	(209)	(5)	(112)	42	62	12	(30)	(5.4)
Net Margin	-1.6%	-8.7%	-26.4%	-0.5%	-11.1%	4.0%	6.1%	1.2%	(2.5%)	(0.5%)
Free Cash Flow	(364)	(13)	193	328	386	401	364	437	481	510
Income Tax	(12)	4	24	2	120	43	31	25	36	(10)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	5,614	7,964	10,590	10,298	10,492	9,919	9,660	9,938	9,752	9,101
Cash & Equivalents	358	354	515	595	669	335	224	589	368	393
Accounts Receivable	27	79	127	151	187	164	242	258	227	125
Inventories	5	22	15	15	18	19	20	24	30	35
Goodwill & Int. Ass.	4,418	6,725	9,301	8,924	9,084	8,549	8,161	8,155	8,022	7,483
Total Liabilities	4,327	6,124	8,567	8,339	8,597	8,163	7,945	8,197	8,003	7,312
Accounts Payable	120	54	110	122	108	109	52	51	79	84
Long-Term Debt	2,895	4,201	6,135	5,999	6,118	5,775	5,576	6,231	6,059	5,570
Shareholder's Equity	1,218	1,752	1,883	1,833	1,759	1,617	1,508	1,527	1,542	1,600
LTD/E Ratio	2.38	2.40	3.26	3.27	3.48	3.57	3.70	4.08	3.93	3.48

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	-0.1%	-0.5%	-2.3%	0.0%	-1.1%	0.4%	0.6%	0.1%	(0.3%)	(0.1%)
Return on Equity	-0.3%	-2.1%	-11.5%	-0.3%	-6.2%	2.5%	4.0%	0.8%	(2.0%)	(0.4%)
ROIC	-0.1%	-0.6%	-2.9%	-0.1%	-1.4%	0.5%	0.8%	0.2%	(0.4%)	(0.1%)
Shares Out.	---	80.0	92.8	100.2	100.2	100.2	101.1	103.4	111.0	118.5
Revenue/Share	2.67	4.53	8.52	9.70	10.06	10.42	10.01	9.80	10.58	9.30
FCF/Share	(4.61)	(0.17)	2.09	3.28	3.85	4.00	3.60	4.23	4.20	4.31

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