



NextEra Energy Partners LP (NEP)

Updated October 25th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$25.6	5 Year CAGR Estimate:	23.2%	Market Cap:	\$2.4B
Fair Value Price:	\$39	5 Year Growth Estimate:	6.3%	Ex-Dividend Date:	11/03/23
% Fair Value:	66%	5 Year Valuation Multiple Estimate:	8.5%	Dividend Payment Date:	11/14/23
Dividend Yield:	13.6%	5 Year Price Target	\$52	Years Of Dividend Growth:	11
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 contracted renewable generation assets consisting of wind and solar projects 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 \$2.4 billion market capitalization company is listed on the New York Stock Exchange under the ticker NEP.

On October 24, 2023, NextEra Energy Partners released its earnings report for the third quarter of 2023. The company reported quarterly earnings of \$0.57 per share, surpassing the consensus estimate of \$0.48 per share, but falling short of the \$0.93 per share reported a year ago. NEP's stock has been under pressure this year due to concerns about rising interest rates and its significant CPEFs and corporate debt maturities next year. Moreover, there is market concern about whether or not it will be able to get an attractive price for its STX and Meade Pipelines which it is trying to sell in order to buy out its CPEFs in the coming years.

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	\$4.06	\$5.50
DPS	N/A	\$0.19	\$1.02	\$1.41	\$1.49	\$1.77	\$2.04	\$2.46	\$2.60	\$3.15	\$3.47	\$4.50
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. Moreover, the company recently slashed its growth guidance due to a higher cost of capital environment and a need to sell its pipelines in order to fund its CEPF buyouts. As a result, we expect slower growth from further expansion in renewable energy sales and the addition of new infrastructure to drive 6.3% annualized per share growth throughout the next half decade to 2028.

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	6.3	9.5
Avg. Yld.	N/A	0.5%	2.6%	4.7%	4.1%	3.9%	3.9%	3.7%	3.3%	4.2%	13.6%	8.6%

¹ In millions

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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 9.5x. The current price-to-DCF ratio of 5.4x is way below this level as renewable energy assets are suffering from a more pessimistic outlook at the moment and NEP's business model in particular is being frowned upon due to its high level of leverage. As a result, we believe that shares are undervalued right now as the market is likely overly bearish on its future prospects. 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%	85%	82%

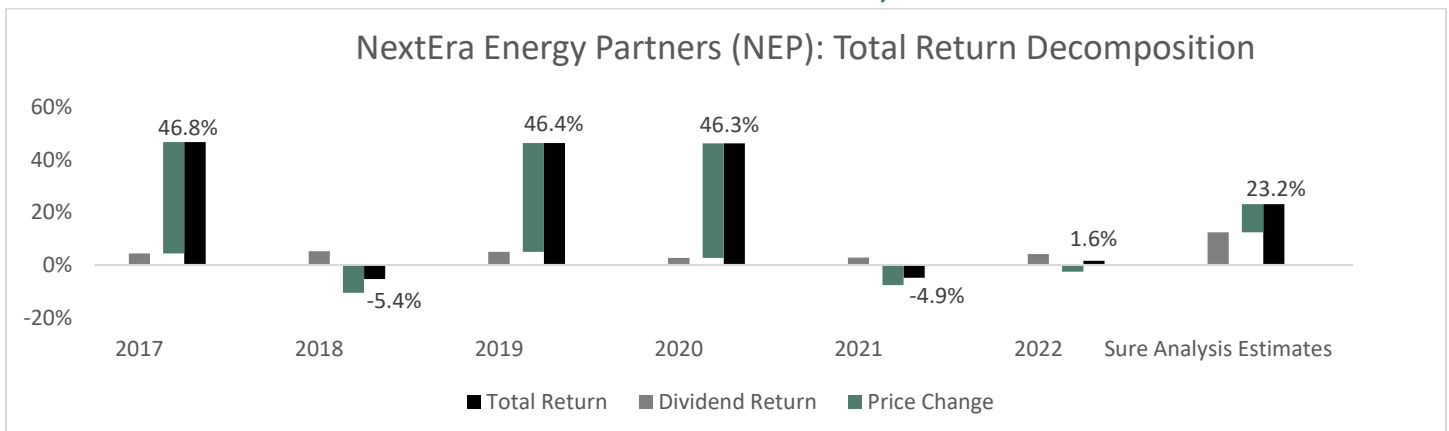
NextEra Energy Partners is trying to become an industry leader in producing renewable energy and simply producing energy with as little carbon output as possible. The company's operations are very proactive for getting ahead of regulations that the utility sector has been getting in the past years on 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

Until recently, NextEra Energy Partners had performed very well since the partnership's IPO in 2014. The stock currently has a dividend yield of 13.6%, and its payout has been growing very quickly since its first payment in 2014. Overall, we expect a total return of 23.2% 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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