



NextEra Energy Inc. (NEE)

Updated January 27th, 2024 by Kay Ng

Key Metrics

Current Price:	\$58	5 Year CAGR Estimate:	13.4%	Market Cap:	\$120B
Fair Value Price:	\$70	5 Year Growth Estimate:	7.0%	Ex-Dividend Date¹:	02/27/24
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.6%	Dividend Payment Date¹:	03/15/24
Dividend Yield:	3.2%	5 Year Price Target	\$98	Years Of Dividend Growth:	28
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

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 Q4 and full-year 2023 financial results on 01/25/24. The utility continues to deliver stable results, but the stock valuation has come down. For the quarter, the company reported revenues of \$6.9 billion (up 11.6% year over year), translating to adjusted earnings of \$1.1 billion (up 5.5% year over year). On a per-share basis, adjusted earnings climbed 2% to \$0.52.

For the full year, the company generated revenues of \$28.1 billion (up 34%) and adjusted earnings of \$6.4 billion (up 12% year over year). Adjusted earnings per share were \$3.17 (up 9.3%), exceeding the top end -- \$3.13 -- of management’s estimate. Particularly, FPL added about 1,200 MW of cost-effective rate base solar projects, while NEER added 9,000 MW worth of new renewables and storage projects, bringing its backlog to over 20 GW. Management initiates its 2024 adjusted EPS guidance range at \$3.23-\$3.43. So, we use the midpoint of \$3.33 for our 2024 EPS estimate.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$5.60	\$6.06	\$5.78	\$6.70	\$7.70	\$8.37	\$2.31	\$2.55	\$2.90	\$3.17	\$3.33	\$4.67
DPS	\$2.90	\$3.08	\$3.48	\$3.93	\$4.44	\$5.00	\$1.40	\$1.54	\$1.70	\$1.87	\$1.87	\$2.68
Shares¹	443	461	468	471	477	491	1,972	1,975	1,993	2,054	2,062	2,206

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 2014 and 2023, NextEra Energy grew its EPS by 9.5% 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 ~5.6 GW of renewable and storage projects in 2023. At the end of 2023, its backlog stood at ~20 GW. Its renewable projects should drive the segment’s profits going forward. NEE forecasts that its adjusted EPS will rise by about 6.4% a year through 2026. We use an EPS growth rate of 7.0% and estimate a dividend growth rate of 7.5% through 2029, believing that if interest rates decrease somewhat, the growth rate can improve.

¹ Projected dividend dates; Shares 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.3	16.9	20.7	23.3	22.6	25.7	30	32.7	29.2	22.7	17.6	21.0
Avg. Yld.	3.0%	3.0%	2.9%	2.8%	2.6%	2.3%	2.3%	1.9%	2.0%	2.7%	3.2%	2.7%

Until 2023, NextEra Energy’s valuation had risen persistently over the past ten years. We expect NEE to continue with a good growth rate but slower than in the last decade. We think a multiple of about 21 is fair given the current higher interest rate environment and the stock appears to be discounted based on our estimated EPS for 2024.

Safety, Quality, Competitive Advantage, & Recession Resiliency

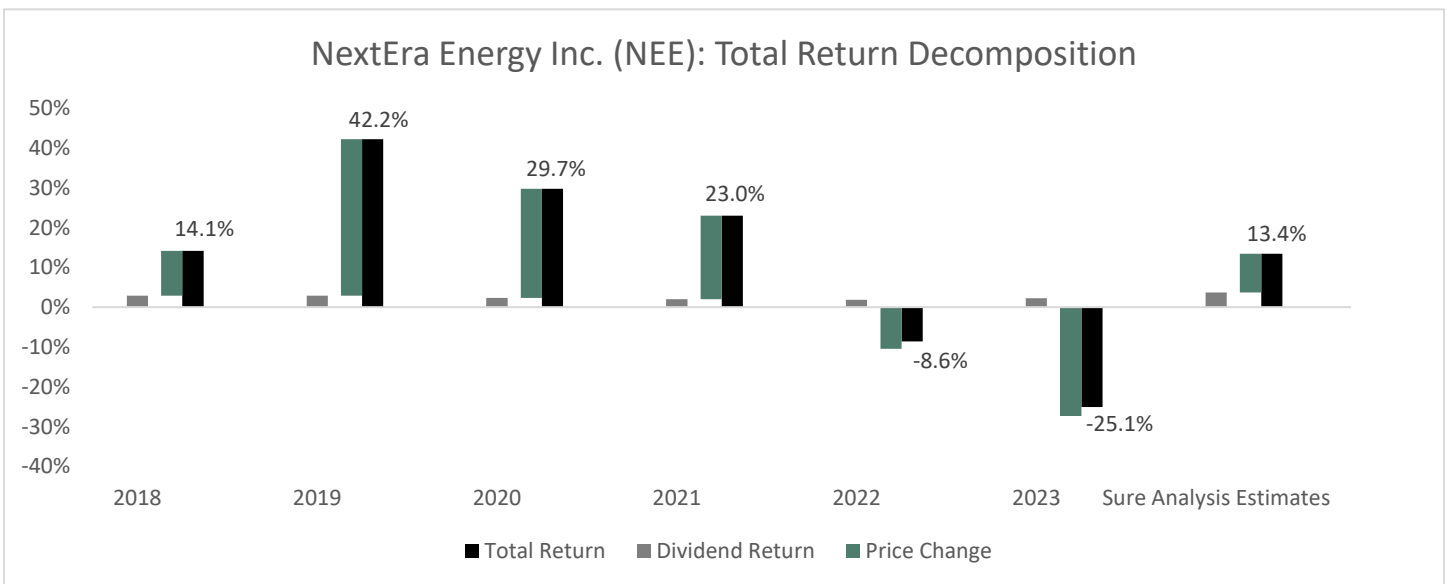
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	52%	51%	60%	59%	58%	60%	61%	60%	59%	59%	56%	57%

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 probably 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 fewer 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 cyclicalities, 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 13.4% from a dividend yield of 3.2%, 7.0% EPS growth, and 3.6% from P/E expansion. Sure Dividend rates NEE as a Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	17,021	17,486	16,138	17,173	16,727	19,204	17,997	17,069	20,956	28,110
Gross Profit	8,270	8,890	8,617	9,644	9,665	11,201	10,707	8,589	10,139	17,980
Gross Margin	48.6%	50.8%	53.4%	56.2%	57.8%	58.3%	59.5%	50.3%	48.4%	64.0%
D&A Exp.	2,896	3,203	3,428	2,638	4,147	4,478	4,315	4,212	4,790	6,151
Operating Profit	4,394	4,732	4,240	5,924	4,299	5,248	5,039	3,006	3,559	9,832
Operating Margin	25.8%	27.1%	26.3%	34.5%	25.7%	27.3%	28.0%	17.6%	17.0%	35.0%
Net Profit	2,465	2,752	2,906	5,380	6,638	3,769	2,919	35,73	4,147	7,310
Net Margin	14.5%	15.7%	18.0%	31.3%	39.7%	19.6%	16.2%	20.9%	19.8%	26.0%
Free Cash Flow	2,071	2,217	2,129	1,053	634	-2,922	224	-277	-1480	1,753
Income Tax	1,176	1,228	1,379	-660	1,576	448	44	348	586	1,006

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	74,605	82,479	89,993	97,963	103,702	117,691	127,684	140,912	158,935	177,490
Cash & Equivalents	577	571	1,292	1,714	638	600	1,105	639	1,601	2,690
Accounts Receivable	1,805	1,784	1,784	2,220	2,302	2,282	2,263	3,378	4,349	3,609
Inventories	1,292	1,259	1,289	1,273	1,223	1,328	1,552	1,561	1,934	2,106
Goodwill & Int. Ass.				2,051	1,599	4,204	4,254	4,844	4,854	5,091
Total Liabilities	54,437	59,367	64,662	68,432	66,289	76,331	82,755	95,488	109,499	118,460
Accounts Payable	1,354	2,529	3,447	3,235	2,386	3,631	4,615	6,935	8,312	8,504
Long-Term Debt	28,701	29,687	30,840	35,025	37,712	42,583	48,091	54,827	64,966	73,210
Shareholder's Equity	19,916	22,574	24,341	28,236	34,144	37,005	36,513	37,202	39,229	47,470
LTD/E Ratio	1.44	1.32	1.27	1.24	1.10	1.15	1.32	1.47	1.66	1.54

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.4%	3.5%	3.4%	5.7%	6.6%	3.4%	2.4%	2.7%	2.8%	4.3%
Return on Equity	13.0%	13.0%	12.4%	20.5%	21.3%	10.6%	7.9%	9.7%	10.9%	16.9%
ROIC	5.2%	5.4%	5.3%	8.9%	9.5%	4.7%	3.3%	3.7%	3.9%	5.9%
Shares Out.	443	461	468	471	477	491	1,972	1,975	1,987	2,031
Revenue/Share	9.67	9.63	8.66	9.09	8.77	9.89	9.14	8.65	10.55	13.84
FCF/Share	1.18	1.22	1.14	0.56	0.33	-1.50	0.11	-0.14	-0.74	0.86

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

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