



NextEra Energy Partners LP (NEP)

Updated February 15th, 2024 by Samuel Smith

Key Metrics

| | | | | | |
|-----------------------------|--------|--|-------|----------------------------------|----------------------|
| Current Price: | \$28.6 | 5 Year CAGR Estimate: | 17.0% | Market Cap: | \$2.7B |
| Fair Value Price: | \$36 | 5 Year Growth Estimate: | 3.8% | Ex-Dividend Date: | 5/05/24 ¹ |
| % Fair Value: | 80% | 5 Year Valuation Multiple Estimate: | 4.4% | Dividend Payment Date: | 5/14/24 ² |
| Dividend Yield: | 12.3% | 5 Year Price Target | \$43 | Years Of Dividend Growth: | 11 |
| Dividend Risk Score: | D | Retirement Suitability Score: | B | 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 \$2.7 billion market capitalization company is listed on the New York Stock Exchange under the ticker NEP.

On January 30th, 2024, NextEra Energy Partners released its earnings report for the fourth quarter of 2023. The company reported that its previously announced STX pipeline sale to Kinder Morgan (KMI) successfully closed, giving them plenty of cash to pay off the STX Midstream CEPF as well as the NEP Renewables II CEPF buyouts in June 2024 and June 2025. This leaves just one final CEPF due in 2025 that will be addressed when the company completes its proposed sale of its Meade Pipeline that year. The company continued to expand its organic growth pipeline, identifying ~985 MW of wind repowering projects to be completed through 2026 at high CAFD yields that are expected to fuel its planned distribution growth rate of 5-8% per year without needing to make any acquisitions/do any dropdowns at all in 2024. Moreover, since these projects will be financed with project-level debt and tax equity, NEP does not anticipate needing any equity to meet its growth objectives other than what is needed to complete its CEPF buyouts until 2027. NEP also removed some uncertainty about its upcoming debt refinancings by issuing \$750 million of debt during the quarter.

Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| DCF/S | \$3.17 | \$5.53 | \$5.07 | \$4.54 | \$4.54 | \$4.83 | \$8.33 | \$7.55 | \$4.86 | \$4.06 | \$3.74 | \$4.50 |
| DPS | \$0.19 | \$1.02 | \$1.41 | \$1.49 | \$1.77 | \$2.04 | \$2.46 | \$2.60 | \$3.15 | \$3.47 | \$3.52 | \$4.35 |
| Shares³ | 18.7 | 30.7 | 54.2 | 54.3 | 56.1 | 65.5 | 75.9 | 83.9 | 86.5 | 93.4 | 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 3.8% annualized per share growth throughout the next half-decade to 2029.

¹ Estimate

² Estimate

³ 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 |
|-----------|------|------|------|------|------|------|------|------|------|-------|-------|-------|
| P/DCF | 11.5 | 9.5 | 6.8 | 7.6 | 7.5 | 8.4 | 10.9 | 12.4 | 15.5 | 7.0 | 7.6 | 9.5 |
| Avg. Yld. | 0.5% | 1.9% | 4.1% | 4.3% | 5.2% | 5.0% | 2.7% | 2.8% | 4.2% | 12.1% | 12.3% | 10.2% |

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 7.6x 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

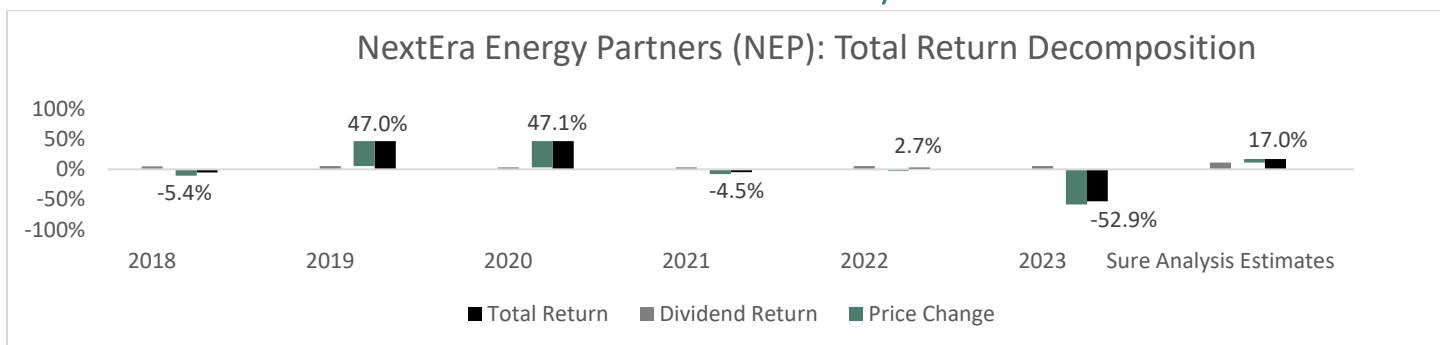
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 6% | 18% | 28% | 33% | 39% | 42% | 30% | 34% | 65% | 85% | 94% | 97% |

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 12.3%, and its payout has been growing very quickly since its first payment in 2014. Overall, we expect a total return of 17% 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 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 359 | 501 | 772 | 807 | 771 | 855 | 917 | 722 | 969 | 1,078 |
| Gross Profit | 280 | 388 | 557 | 559 | 514 | 519 | 554 | 348 | 442 | 558 |
| Gross Margin | 78.0% | 77.4% | 72.2% | 69.3% | 66.7% | 60.7% | 60.4% | 48.2% | 45.6% | 51.8% |
| D&A Exp. | 99 | 163 | 235 | 226 | 203 | 331 | 374 | 405 | 573 | 635 |
| Operating Profit | 176 | 209 | 302 | 312 | 290 | 233 | 255 | 69 | 8 | (28) |
| Operating Margin | 49.0% | 41.7% | 39.1% | 38.7% | 37.6% | 27.3% | 27.8% | 9.6% | 0.8% | -2.6% |
| Net Profit | 3 | 10 | 83 | (61) | 192 | (71) | (50) | 137 | 477 | 200 |
| Net Margin | 0.8% | 2.0% | 10.8% | -7.6% | 24.9% | -8.3% | -5.5% | 19.0% | 49.2% | 18.6% |
| Free Cash Flow | (532) | 87 | (446) | 64 | 337 | 253 | 331 | 579 | 586 | 525 |
| Income Tax | (14) | 33 | 57 | 167 | 6 | (26) | (19) | 37 | 161 | (25) |

Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|----------------------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------|
| Total Assets | 4,337 | 7,227 | 8,661 | 8,425 | 9,405 | 12,256 | 12,562 | 18,976 | 23,052 | 22,511 |
| Cash & Equivalents | 106 | 164 | 150 | 154 | 147 | 128 | 108 | 147 | 226 | 274 |
| Accounts Receivable | 41 | 80 | 87 | 85 | 63 | 79 | 83 | 112 | 117 | 114 |
| Inventories | 10 | 14 | 18 | | | 20 | 24 | 41 | 49 | 82 |
| Goodwill & Int. Ass. | | 1,318 | 1,306 | 1,296 | 1,845 | 2,891 | 2,791 | 3,659 | 2,822 | 2,820 |
| Total Liabilities | 2,704 | 5,335 | 6,095 | 6,201 | 3,867 | 5,190 | 4,855 | 7,817 | 8,280 | 8,454 |
| Accounts Payable | 152 | 303 | 331 | 26 | 10 | 122 | 143 | 982 | 867 | 72 |
| Long-Term Debt | 1,893 | 3,447 | 3,586 | 4,317 | 3,435 | 4,144 | 3,388 | 5,327 | 5,288 | 6,289 |
| Shareholder's Equity | 548 | 929 | 1,743 | 2,190 | 2,346 | 2,183 | 2,354 | 2,977 | 3,325 | 3,569 |

Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------------|---------|-------|---------|-------|-------|-------|-------|------|-------|-------|
| Return on Assets | 0.1% | 0.2% | 1.0% | -0.7% | 2.2% | -0.7% | -0.4% | 0.9% | 2.3% | 0.9% |
| Return on Equity | 0.3% | 0.6% | 3.7% | -2.5% | 4.9% | -1.1% | -0.7% | 1.5% | 3.7% | 1.4% |
| Shares Out. | 18.7 | 30.7 | 54.2 | 54.3 | 56.1 | 65.5 | 75.9 | 83.9 | 86.5 | 93.4 |
| Revenue/Share | 19.20 | 21.97 | 17.63 | 14.89 | 10.34 | 14.54 | 13.41 | 9.33 | 11.41 | 11.77 |
| FCF/Share | (28.45) | 3.82 | (10.18) | 1.18 | 4.52 | 4.30 | 4.84 | 7.48 | 6.90 | 5.73 |

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

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