Atlantica Sustainable Infrastructure plc (AY)

Updated November 20th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$22.13	**5 Year CAGR Estimate:**	7.5%	**Market Cap:**	$2.57 B
Fair Value Price:	$22.00	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	11/29/2024
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Dividend Payment Date:**	12/12/2024
Dividend Yield:	4.0%	**5 Year Price Target**	$27	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Rating:**	Hold

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 46 assets supporting 2,203 MW of total renewable energy installed generation capacity. These include renewable energy sources, including solar and wind farms (69% of cash flows available for distribution), efficient natural gas projects (14% of CAFD), transmission and transport projects (13% of CAFD), and water projects (4% of CAFD). The company generates around $1.1 billion in annual revenues and is based in Brentford, the United Kingdom.

On May 27th, 2024, Atlantica Sustainable Infrastructure entered into agreement to be acquired by Energy Capital Partners and Co-Investors for $22 per share in cash. The transaction is expected to close December 12th, 2024.

On November 14th, 2024, the company reduced its dividend by 50%, setting it at a quarterly rate of $0.2225, likely as part of its transition toward winding down as a public company.

On the same day, the company posted its Q3 results for the period ending September 30th, 2024. Its quarterly results continued to demonstrate the resiliency of its portfolio, whose cash flows are contractually locked through long-term PPAs (Power Purchase Agreements).

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 $220 million and $270 million for fiscal 2024. Based on this range and our projected share dilution, we forecast FY2024 CAFD/share to be $2.00, slightly lower year-over-year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
CAFD/shr	$0.70	$1.92	$1.70	$1.70	$1.71	$1.88	$1.97	$2.03	$2.07	$2.03	***$2.00***	***$2.43***
DPS	$0.26	$1.43	$0.45	$1.05	$1.33	$1.57	$1.66	$1.72	$1.77	$1.78	***$0.89***	***$1.08***
Shares[1]	80.0	92.8	100.2	100.2	100.2	101.1	103.4	111.0	114.7	116.2	***116.2***	***135.0***

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, about half 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 had increased its dividend annually for seven years in a row prior to the recent cut.

[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.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/CAFD	---	14.1	10.6	12.4	12.0	12.8	16.8	19.2	15.5	11.8	***11.1***	***11.0***
Avg. Yld.	0.8%	5.3%	2.5%	5.0%	6.5%	6.5%	5.0%	4.4%	5.5%	7.4%	***4.0%***	***4.0%***

Atlantica's historical P/CAFD average stands around 14. While the company's growth prospects are rather modest, it seems that the market appreciates the predictability of its long-term cash. The stock's multiple has been compressed in in the past couple of years as investors' required rate of return from a YieldCo has increased in the face of rising interest rates. We believe that Atlantica is fairly valued at its current levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

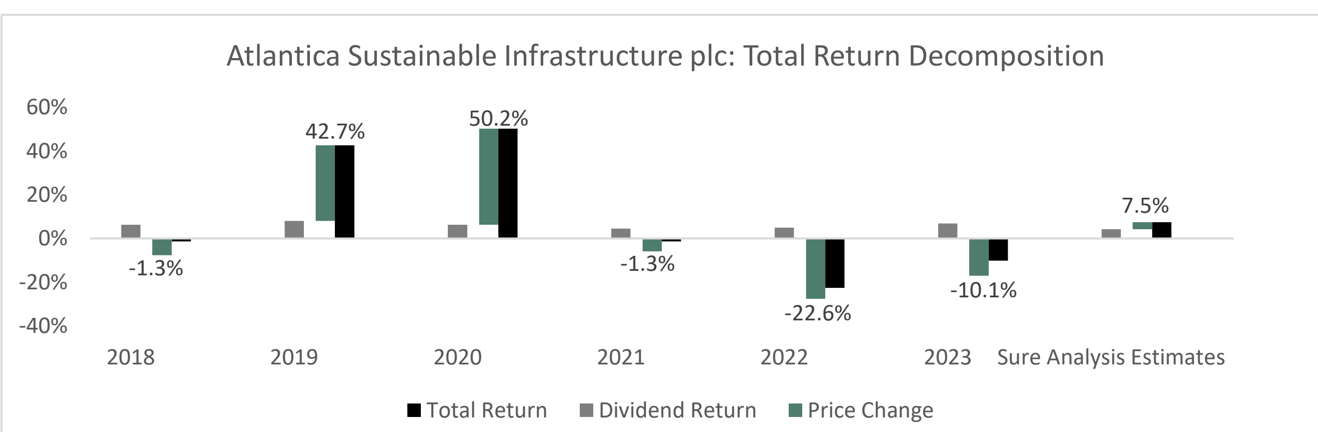
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	37%	74%	27%	62%	78%	84%	84%	84%	85%	88%	***45%***	***45%***

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 38% 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 4.0% yield, our CAFD/share and DPS growth estimates, and relatively stable valuation assumptions, we would forecast annualized returns of 7.5% through 2029 and rate the stock a hold. However, with the buyout expected to close by the end of the year, investors are likely to only enjoy any accrued dividends in the meantime.

Total Return Breakdown by Year



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.

Atlantica Sustainable Infrastructure plc (AY)

Updated November 20th, 2024 by Nikolaos Sismanis

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	363	791	972	1,008	1,044	1,011	1,013	1,212	1,102	1,100
Gross Profit	304	633	794	841	861	860	867	946	883	896
Gross Margin	83.9%	80.1%	81.7%	83.4%	82.5%	85.0%	85.5%	78.1%	80.1%	81.5%
SG&A Exp.	24	49	74	86	84	100	135	173	176	190
D&A Exp.	125	261	333	311	363	311	409	439	474	418
Operating Profit	173	345	402	458	488	466	333	340	256	306
Operating Margin	47.8%	43.6%	41.4%	45.4%	46.7%	46.1%	32.8%	28.1%	23.2%	27.8%
Net Profit	(32)	(209)	(5)	(112)	42	62	12	(30)	(5.4)	43
Net Margin	-8.7%	-26.4%	-0.5%	-11.1%	4.0%	6.1%	1.2%	(2.5%)	(0.5%)	3.9%
Free Cash Flow	(13)	193	328	386	401	364	437	481	510	304
Income Tax	4	24	2	120	43	31	25	36	(10)	0.8

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	7,964	10,590	10,298	10,492	9,919	9,660	9,938	9,752	9,101	8,714
Cash & Equivalents	354	515	595	669	335	224	589	368	393	271
Accounts Receivable	79	127	151	187	164	242	258	227	125	213
Inventories	22	15	15	18	19	20	24	30	35	30
Goodwill & Int. Ass.	6,725	9,301	8,924	9,084	8,549	8,161	8,155	8,022	7,483	7,204
Total Liabilities	6,124	8,567	8,339	8,597	8,163	7,945	8,197	8,003	7,312	7,126
Accounts Payable	54	110	122	108	109	52	51	79	84	77
Long-Term Debt	4,201	6,135	5,999	6,118	5,775	5,576	6,231	6,059	5,570	5,404
Shareholder's Equity	1,752	1,883	1,833	1,759	1,617	1,508	1,527	1,542	1,600	1,423
LTD/E Ratio	2.40	3.26	3.27	3.48	3.57	3.70	4.08	3.93	3.48	3.80

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-0.5%	-2.3%	0.0%	-1.1%	0.4%	0.6%	0.1%	(0.3%)	(0.1%)	0.5%
Return on Equity	-2.1%	-11.5%	-0.3%	-6.2%	2.5%	4.0%	0.8%	(2.0%)	(0.4%)	2.6%
ROIC	-0.6%	-2.9%	-0.1%	-1.4%	0.5%	0.8%	0.2%	(0.4%)	(0.1%)	0.6%
Shares Out.	80.0	92.8	100.2	100.2	100.2	101.1	103.4	111.0	118.5	120
Revenue/Share	4.53	8.52	9.70	10.06	10.42	10.01	9.80	10.58	9.30	9.19
FCF/Share	(0.17)	2.09	3.28	3.85	4.00	3.60	4.23	4.20	4.31	2.54

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