



NextEra Energy Partners LP (NEP)

Updated November 8th, 2024 by Samuel Smith

Key Metrics

| | | | | | |
|-----------------------------|--------|--|-------|----------------------------------|-----------------------|
| Current Price: | \$17.5 | 5 Year CAGR Estimate: | 17.9% | Market Cap: | \$1.6B |
| Fair Value Price: | \$22 | 5 Year Growth Estimate: | 3.8% | Ex-Dividend Date: | 02/05/25 ¹ |
| % Fair Value: | 78% | 5 Year Valuation Multiple Estimate: | 5.1% | Dividend Payment Date: | 02/14/25 ² |
| Dividend Yield: | 20.7% | 5 Year Price Target | \$27 | Years Of Dividend Growth: | 13 |
| 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. While it is structured as a partnership whose majority ownership is held by its parent NextEra Energy, it issues a 1099 tax form instead of a K-1. The \$1.6 billion market capitalization company is listed on the New York Stock Exchange under the ticker NEP.

On October 23, 2024, NextEra Energy Partners, LP (NYSE: NEP) announced its third-quarter 2024 financial results, including a quarterly distribution of \$0.9175 per common unit, an increase of nearly 6% from the previous year. The company has raised its wind repowering target to approximately 1.9 gigawatts (GW) through 2026, incorporating an additional 225 megawatts (MW) of newly announced repowerings. NextEra Energy Partners also plans to complete its convertible equity portfolio financing and cost of capital review by January 2025. For the third quarter of 2024, NextEra Energy Partners reported a net loss attributable to the partnership of \$40 million. However, the company achieved an adjusted EBITDA of \$453 million and generated \$155 million in cash available for distribution (CAFD). CEO John Ketchum highlighted the partnership's robust portfolio of high-quality, long-term contracted clean energy assets and significant organic growth opportunities from repowering existing wind facilities. The total backlog of wind repowerings now stands at approximately 1.6 GW, with the updated target aiming for 1.9 GW by 2026. The company is actively evaluating strategies to optimize its capital structure and enhance cash flow growth, with plans to finalize its financing review by the fourth-quarter 2024 earnings call. These initiatives underscore NextEra Energy Partners' focus on sustainable growth and value creation for its stakeholders.

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 | \$3.67 | \$2.00 |
| Shares³ | 18.7 | 30.7 | 54.2 | 54.3 | 56.1 | 65.5 | 75.9 | 83.9 | 86.5 | 93.4 | 93.5 | 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

¹ Estimate

² Estimate

³ In millions

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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. We also expect NEP to slash its dividend in the near future.

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 | 4.7 | 6.0 |
| Avg. Yld. | 0.5% | 1.9% | 4.1% | 4.3% | 5.2% | 5.0% | 2.7% | 2.8% | 4.2% | 12.1% | 20.7% | 7.4% |

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 6x. The current price-to-DCF ratio of 4.7x is 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.

Safety, Quality, Competitive Advantage, & Recession Resiliency

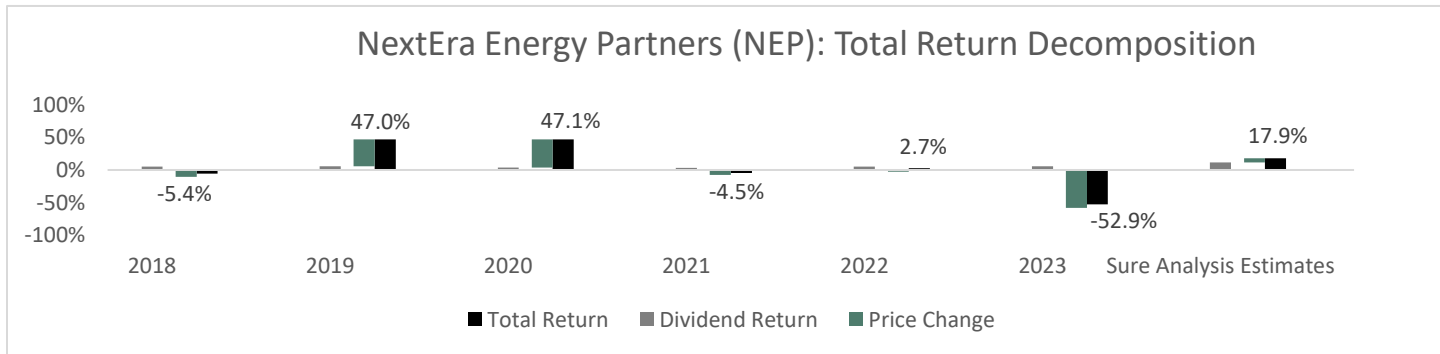
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | 6% | 18% | 28% | 33% | 39% | 42% | 30% | 34% | 65% | 85% | 97% | 44% |

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

The stock currently has a dividend yield of 20.7%, and its payout has been growing very quickly since its first payment in 2014. Overall, we expect a total return of 17.9% annualized over the next half decade as the stock is cheap and the underlying earnings growth outlook remains decent, but the dividend is likely going to get slashed in the near term. As a result of the strong total return potential, we rate NextEra Energy Partners as a speculative 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.

Disclaimer

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