NRG Energy, Inc. (NRG)

Updated December 2nd, 2024 by Ian Bezek

Key Metrics

Current Price:	$100	**5 Year CAGR Estimate:**	-1.7%	**Market Cap:**	$20.7B
Fair Value Price:	$68	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	01/31/25[1]
% Fair Value:	147%	**5 Year Valuation Multiple Estimate:**	-7.4%	**Dividend Payment Date:**	02/14/25[1]
Dividend Yield:	1.6%	**5 Year Price Target**	$83	**Years Of Dividend Growth:**	5
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Sell

Overview & Current Events

Northern States Power created NRG Energy in 1992 as its non-regulated subsidiary. NRG subsequently went bankrupt in 2003 amid the energy industry turmoil that followed from Enron's collapse. However, NRG has had a highly successful second act and has become a leading player in the independent utility landscape. Today, NRG Energy is one of the United States' largest retail energy providers. It serves more than 8 million customers directly and produces approximately 16 gigawatts of power. It generates power largely from nuclear, natural gas and coal.

The company has been a constant whirlwind of acquisitions and divestments. Since 2016 alone, NRG has unloaded half of its prior generating capacity, pushed its GenOn Energy subsidiary into bankruptcy, and sold off its sizable stake in the NRG Yield renewable energy business. Following up on that, NRG Energy acquired retail electricity distribution company Direct Energy for $3.6 billion in 2021 while selling its 44% stake in the South Texas Project for $1.75 billion in May 2023. The company's biggest move was its recent and controversial $5.2 billion Vivint Smart Home purchase. NRG replaced much of its senior management team following that deal, and its fortunes have turned upward over the past year.

NRG reported its third quarter results on November 8th, 2024. Diluted earnings per share of $1.90 rose from $1.57 last year, but missed expectations. Revenues of $7.2 billion fell 9% year-over-year, and also missed expectations. It is important to realize that the company's earnings are exceptionally volatile due to its energy hedging program. Investors should be cautious about assigning too much importance to any one quarter's results. Our earnings estimate is based on core earnings power excluding the impact of its commodity hedging program. We have trimmed our 2024 earnings outlook slightly based on this earnings report, but we don't believe this shortfall will harm the company's long-term growth trajectory.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.23	-$19.46	-$2.22	-$4.87	$1.49	$16.81	$2.07	$8.93	$5.17	-$1.12	***$6.80***	***$8.27***
DPS	$0.54	$0.58	$0.24	$0.12	$0.12	$0.12	$1.20	$1.30	$1.40	$1.51	***$1.63***	***$1.89***
Shares[2]	337	314	315	315	284	249	244	244	230	228	***207***	***195***

NRG Energy has produced an astonishingly uneven earnings track record. This is in large part due to the aforementioned energy hedging program. For 2024 and on earnings estimates, we are forecasting the company's core earnings power, which excludes the effects of energy hedges. We expect 4% annualized earnings growth over the longer-term on average, as growing interest in nuclear power along with the opportunity in data centers offer some upside for NRG's business outlook.

The company's dividend policy has also seen fluctuations. Following 2015's massive loss, the company slashed its dividend to just 12 cents per share. It remained there until 2020, when the company increased its dividend tenfold. The company gave investors an additional 8% dividend hike for 2024. NRG's plans for a large share buyback may limit further near-term dividend growth.

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[1] Estimated date.

[2] Share count is in millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	67.7	---	---	---	41.9	2.2	17.8	4.8	6.0	---	***14.7***	***10.0***
Avg. Yld.	1.7%	1.7%	2.8%	1.9%	0.6%	0.4%	0.3%	3.6%	3.3%	3.3%	***1.6%***	***2.3%***

NRG's uneven track record in terms of both earnings and dividend has led to a complicated valuation picture. Shares have traded between low single digit P/Es and ratios far higher than that. Despite trading at a very low P/E multiple in 2019, 2021, and 2022, we have raised our forecast to a long-term P/E of 10 thanks to growing electricity demand and an improving profit margin picture.

On a dividend basis, the stock has had a highly variable yield of between 0.3% and 4.0%. Today's 1.6% yield is a reduction from what was on offer over the past three years, and we expect the yield to rise to 2.3% over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

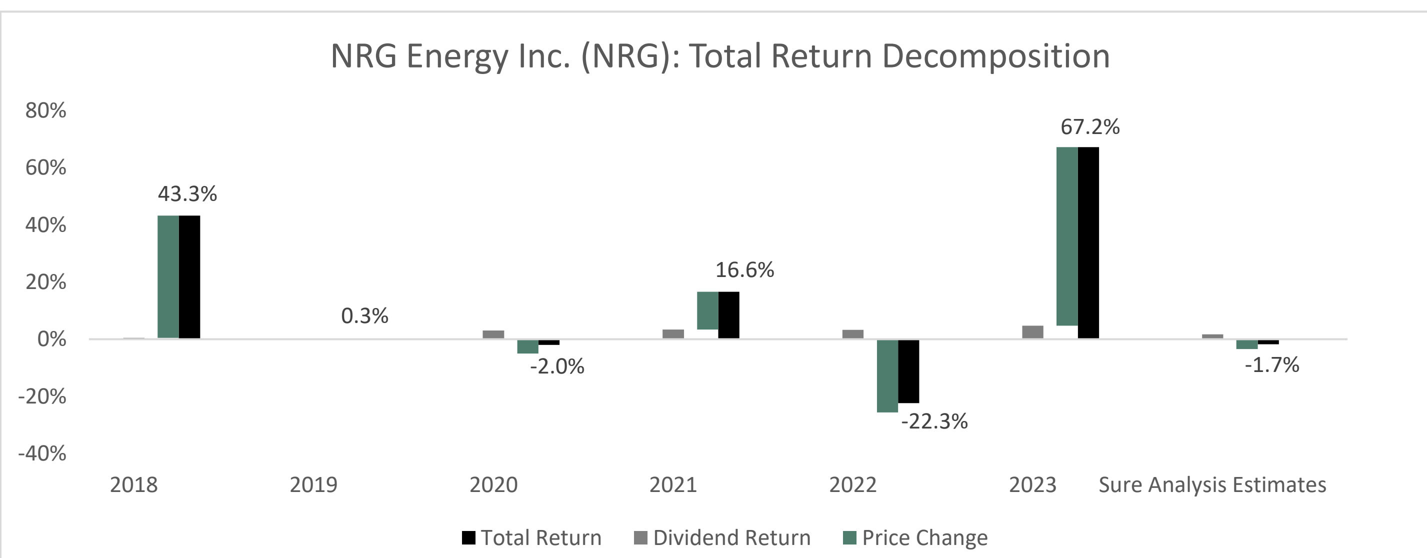
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	235%	---	---	---	8%	1%	58%	15%	27%	---	***24%***	***23%***

Because NRG Energy is an unregulated power provider, it is subject to the vagaries of the electricity market. This sometimes means dramatic losses, such as when it lost an estimated $750 million during Texas' unusually cold weather in 2021. The energy hedging program also creates dramatic swings in the company's profitability. NRG has $10.4 billion in long-term debt and leases, and the firm currently does not have an investment-grade credit rating though management intends to obtain one over time as it strengthens its balance sheet.

Final Thoughts & Recommendation

NRG Energy has delivered earnings growth well ahead of its utility peers over the past decade. It has also engaged in constant wheeling and dealing to reshape its portfolio. Shares have surged over the past year as activist investors made numerous changes at the firm. Investors are also assigning high valuation multiples to less regulated utility companies as they cash in on growing power demand from AI-enabled data centers. We have increased our long-term growth outlook and P/E ratio assumptions accordingly. Even so, NRG's stock price has more than doubled over the past year and shares remain significantly overvalued, earning a sell rating today.

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.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	15,868	12,328	8,915	9,074	9,478	9,821	9,093	26,989	31,540	28,820
Gross Profit	4,060	3,328	2,239	2,188	2,370	2,518	2,553	6,507	4,097	2,297
Gross Margin	25.6%	27.0%	25.1%	24.1%	25.0%	25.6%	28.1%	24.1%	13.0%	8.0%
SG&A Exp.	1,016	1,228	1,032	836	799	760	810	1,293	1,228	1,968
D&A Exp.	1,633	1,547	889	701	540	497	559	942	846	1,174
Operating Profit	1,433	595	403	734	1,139	1,290	1,200	3,731	2,224	(1,049)
Op. Margin	9.0%	4.8%	4.5%	8.1%	12.0%	13.1%	13.2%	13.8%	7.1%	(3.6%)
Net Profit	134	(6,382)	(774)	(2,153)	268	4,438	510	2,187	1,221	(202)
Net Margin	0.8%	-51.8%	-8.7%	-23.7%	2.8%	45.2%	5.6%	8.1%	3.9%	(0.07%)
Free Cash Flow	585	320	1,363	1,356	989	1,185	1,597	224	(13)	(843)
Income Tax	3	1,345	25	(44)	7	(3,334)	251	672	442	(11)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	40,466	32,882	30,682	23,355	10,628	12,531	14,902	23,182	29,150	26,040
Cash & Equivalents	2,116	1,518	938	770	563	345	3,905	250	430	541
Acc. Receivable	1,322	1,157	1,058	900	1,024	1,025	904	3,245	4,773	3,542
Inventories	1,247	1,252	721	453	412	383	327	498	751	607
Goodwill & Int.	5,141	3,309	2,635	1,046	1,164	1,368	1,247	4,306	3,782	9,006
Total Liabilities	28,499	27,146	26,236	21,387	11,862	10,873	13,222	19,582	25,320	23,130
Accounts Payable	1,060	869	782	684	863	722	649	2,274	3,643	2,325
Long-Term Debt	20,175	19,464	16,473	9,384	6,521	5,891	8,692	7,970	8,039	10,750
Total Equity	9,762	2,707	2,041	(346)	(1,234)	1,658	1,680	3,600	3,828	2,256
LTD/E Ratio	2.01	6.47	8.07	(27.12)	(5.28)	3.55	5.17	2.21	2.10	3.70

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.4%	---	---	---	1.6%	38.3%	3.7%	11.5%	4.7%	(0.7%)
Return on Equity	1.4%	---	---	---	---	---	30.6%	82.8%	32.9%	(6.0%)
ROIC	0.4%	---	---	---	3.2%	69.1%	5.7%	19.9%	10.4%	(1.6%)
Shares Out.	337	314	315	315	284	249	244	244	236	228
Revenue/Share	46.81	37.47	28.21	28.62	30.77	37.20	36.96	110.16	133.66	126.42
FCF/Share	1.73	0.97	4.31	4.28	3.21	4.49	6.49	0.91	(0.06)	(3.70)

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