NelNet Inc. (NNI)

Updated March 1st, 2025, by Ian Bezek

Key Metrics

Current Price:	$122	**5 Year CAGR Estimate:**	6.3%	**Market Cap:**	$4.4 B
Fair Value Price:	$90	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	02/28/25
% Fair Value:	136%	**5 Year Valuation Multiple Estimate:**	-5.9%	**Dividend Payment Date:**	03/14/25
Dividend Yield:	0.9%	**5 Year Price Target**	$159	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

NelNet is a financial services provider most known for managing student loans. As of year-end 2024, NelNet serviced $532 billion in total loan volume for 15.8 million borrowers. Investors might think that this would make NelNet an unattractive investment at present, given the moratorium on many student loan repayments since the onset of the pandemic. However, NelNet's business model includes four pillars, and it has enjoyed growth in other areas to make up for the pause in certain parts of the student loan business. In addition to its student loan ownership, NelNet is a leading online payments processor for universities, working with more than 1,000 academic institutions. It provides investment advisory and insurance services for the education sector. Finally, NelNet has an investment arm which operates in venture capital, renewable energy, and tax equity spaces among others, offering another diversified income stream.

NelNet had a challenging 2023. The company hedged its interest rate exposure during that year's banking sector volatility, which led to higher net interest expenses. In addition, the company took a large write-down related to its operations in the residential solar installation market. These factors led NelNet to report earnings far short of its usual standards. 2024 was a rebound year however, and the outlook seems promising for 2025 as well.

On February 27th, 2025, the company reported its Q4 results. Earnings per share of $1.44 greatly exceeded the analyst consensus of $1.23 per share and jumped from the 2 cent loss reported in the same period of 2023. Revenues of $402 million soared 54% year-over-year and massively beat expectations. That said, the company has several lumpy revenue streams meaning that results can be highly variable on a quarterly basis.

There is some uncertainty around the student loan sector, as there is legal uncertainty around various student loan relief proposals. In addition, the Consumer Finance Protection Bureau recently took regulatory action against NelNet peer Navient (NAVI) for allegedly unscrupulous behavior in the student loan servicing space. However, the new administration is likely to provide more regulatory certainty around student loan repayment going forward. NelNet suffered big write-downs on its renewable energy business in prior quarters, but that headwind appears to have ended.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$5.89	$6.02	$4.14	$5.57	$3.54	$9.02	$10.20	$10.83	$2.45	$5.02	***$6.00***	***$10.57***
DPS	$0.42	$0.50	$0.58	$0.66	$0.74	$0.82	$0.90	$0.98	$1.06	$1.12	***$1.12***	***$1.65***
Shares	46	43	42	41	40	39	39	38	37	36	***36***	***34***

NelNet enjoyed considerable growth over the past few years, with 2021 and 2022 being particularly advantageous for the firm. The company significantly blundered in 2023 but is back on track now.

We expect 12% annualized growth, primarily based on the rapid growth of the firm's payments processing business and venture capital investments. NelNet has grown its dividend at an 6.4% annualized rate over the past five years. We are estimating 8% dividend growth going forward; while the company's earnings have hit a bump in the road recently, its overall low payout ratio and strong balance sheet give it room for considerable dividend increases nonetheless. NelNet has had a consistent share repurchase program over the past decade, and we expect that to continue going forward.

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	5.5	8.3	12.9	9.2	16.3	7.7	9.4	8.3	35.7	20.3	***20.3***	***15.0***
Avg. Yld.	1.0%	1.2%	1.1%	1.0%	1.1%	1.5%	1.1%	1.0%	1.1%	1.1%	***0.9%***	***1.0%***

Excluding 2023, when NelNet's earnings were unusually low, the company has averaged a roughly 12x P/E ratio over the past decade. We believe that valuation is too pessimistic. We understand the market's skepticism toward the company's core student loan business. However, other parts of the firm's business, such as payments processing, have higher margins and less credit risk and deserve a higher valuation multiple. We believe a 15x P/E ratio would be more appropriate. That said, shares are overvalued today even against our more optimistic baseline. The company's 0.9% dividend yield is slightly below its long-term average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

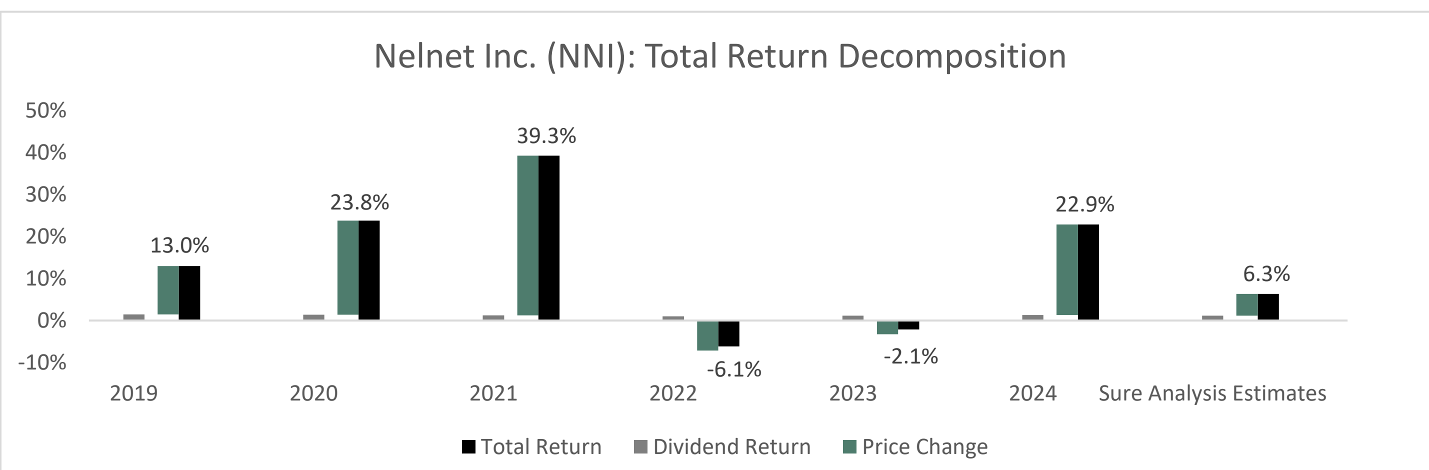
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	7%	8%	14%	12%	21%	9%	9%	9%	43%	22%	***19%***	***16%***

NelNet has $9 billion in total debt, but this is offset by its $12 billion in gross loans and investments that it holds on the balance sheet. Notably, its long-term debt load has shrunk by more than half over the past decade as it has reduced its student loan exposure while increasing its investments in other assets and businesses. Student loans are a political hot potato. Regardless, NelNet has remained profitable even during the COVID-19 era loan payments hiatus. Some of NelNet's other business ventures have high risk in isolation, but NelNet has so many irons in the fire that diversification can protect it from downturns in any one line of business operations. The company's dividend is well-covered out of earnings and the payout ratio should remain under 25% on a long-term basis.

Final Thoughts & Recommendation

NelNet has generated a tremendous track record of shareholder value creation over the years, with its book value per share rising from $37/share in 2014 to $92/share today. We believe investors should give the company the benefit of the doubt for its 2023 earnings stumble and that it will return to its positive long-term trajectory going forward. That said, the share price has run well ahead of fundamentals. Despite 12% long-term growth expectations, we see more modest 6.3% annualized returns due to multiple compression. Shares earn a hold rating today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	835	808	806	713	1,010	978	1,043	1,242	1,405	1,031
SG&A Exp.	228	248	256	302	436	464	502	507	590	592
D&A Exp.	108	124	123	138	185	193	198	132	176	145
Net Profit	308	268	257	173	228	142	352	393	407	92
Net Margin	36.9%	33.1%	31.9%	24.3%	22.6%	14.5%	33.8%	31.7%	29.0%	8.9%
Free Cash Flow	331	375	233	166	146	206	236	421	625	359
Income Tax	160	152	141	65	59	35	101	116	113	20

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	30,098	30,419	27,193	23,964	25,221	23,709	22,646	21,678	19,374	16,737
Cash & Equivalents	130	64	70	67	121	134	121	126	118	168
Acc. Receivable	402	435	435	468	739	115	76	163	195	196
Goodwill & Int.	169	197	195	177	271	238	217	194	240	203
Total Liabilities	28,372	28,527	25,122	21,799	22,906	21,318	20,018	18,725	16,174	13,515
Accounts Payable	26	32	46	50	62	47	29	5	36	35
Long-Term Debt	28,027	28,106	24,668	21,357	22,219	20,529	19,321	17,147	14,070	11,620
Total Equity	1,725	1,884	2,062	2,150	2,304	2,387	2,632	2,951	3,199	3,263
LTD/E Ratio	16.24	14.91	11.97	9.94	9.64	8.60	7.34	5.81	4.40	3.56

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.1%	0.9%	0.9%	0.7%	0.9%	0.6%	1.5%	1.8%	2.0%	0.5%
Return on Equity	19.4%	14.8%	13.0%	8.2%	10.2%	6.0%	14.0%	14.1%	13.2%	2.9%
ROIC	1.1%	0.9%	0.9%	0.7%	0.9%	0.6%	1.6%	1.9%	2.2%	0.6%
Shares Out.	46	46	43	42	41	40	39	39	38	37
Revenue/Share	17.96	17.76	18.88	17.06	24.70	24.43	26.69	32.19	37.35	27.56
FCF/Share	7.12	8.23	5.45	3.98	3.57	5.15	6.04	10.92	16.61	9.59

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