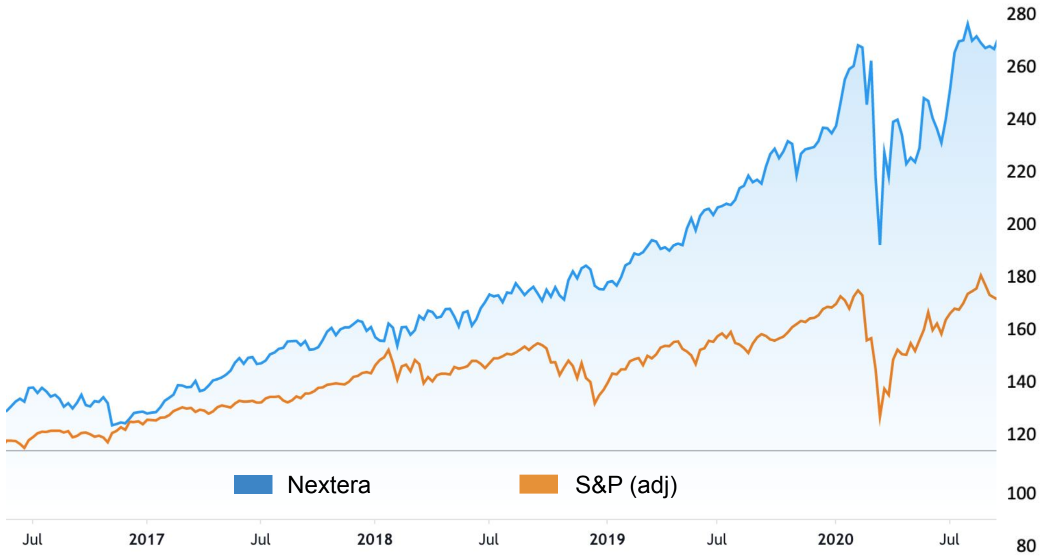
Recommendation: Buy
NEE

Price: $277.56
Price Target: $317
Upside: 14.2%

NextEra Energy (NEE)

Recommending a BUY Rating for NEE

Harrison Fish, MSF Candidate
(315) 608-1551 | fishha@bc.edu
Boston College



Valuation Highlights

Industry	Utilities
Market Cap	$135.907B
52 Week Range	174.80 - 299.30
AVG Volume	1,764,742
Dividend (yield)	5.60
P/E (ttm)	38.34
P/E (fwd 1yr)	28.09
P/Sales (ttm)	7.17
P/B (mrq)	3.67
EV	$193.28B

Financial Highlights

Revenue (ttm) Gross	$18.977B
Profit (ttm)	$11.444B
Gross Margin	60.30%
EBITDA (ttm)	$10.150B
EBITDA Margin	53.49%
Net Income (ttm)	$3.769B
Net Margin	18.71%
Diluted EPS (ttm)	$1.82
Total Cash (mrq)	$1.442B
Total Debt (mrq)	$48.2B
Debt / Equity (mrq)	1.03
Current Ratio (mrq)	0.61
BV per/share (mrq)	75.71
ROE (ttm)	8.66%
ROA (ttm)	2.99%

Operating Revenues ($ Millions)

	Q1	Q2	Q3	Q4	FY
2017	3,972	4,404	4,808	3,989	17,173
y/y	–	–	–	–	–
2018	3,857	4,063	4,416	4,391	16,727
y/y	*-3.0%*	*-8.4%*	*-8.9%*	*9.2%*	*-2.7%*
2019	4,075	4,970	5,572	4,587	19,204
y/y	*5.3%*	*18.2%*	*20.7%*	*4.3%*	*12.9%*
2020	4,613	4,204	6,365	4,752	19,935
y/y	*11.7%*	*-18.2%*	*12.5%*	*3.5%*	*3.7%*
2021	4,779	4,356	6,595	4,924	20,654
y/y	*12.0%*	*-5.9%*	*3.5%*	*3.5%*	*3.5%*
2022	4,952	4,513	6,833	5,101	21,399
y/y	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*

Note: values in red represent analyst estimates

Diluted EPS

	Q1	Q2	Q3	Q4	FY
2017	$ 3.37	$ 1.68	$ 1.79	$ 4.55	$11.39
y/y	–	–	–	–	–
2018	$ 9.32	$ 1.61	$ 2.10	$ 0.85	$13.88
y/y	*63.8%*	*-4.3%*	*14.8%*	*-435.3%*	*17.9%*
2019	$ 1.41	$ 2.56	$ 1.81	$ 1.98	$ 7.76
y/y	*-561.0%*	*37.1%*	*-16.0%*	*57.1%*	*-78.9%*
2020	$ 0.86	$ 2.59	$ 1.86	$ 2.05	$ 7.36
y/y	*-64.0%*	*1.2%*	*2.5%*	*3.5%*	*-5.5%*
2021	$ 0.89	$ 2.68	$ 1.92	$ 2.13	$ 7.62
y/y	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*
2022	$ 0.93	$ 2.79	$ 2.00	$ 2.21	$ 7.93
y/y	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*

Note: values in red represent analyst estimates

Market Dominance: NextEra is the largest producer of both solar and wind power, and has a strong grip on the market. Their market cap is 15x larger than their biggest competitor, and they continue to grow revenues.

Vertical Integration: NextEra is involved at all segments of the market; from production, to transmission, to distribution. They control a majority of alternative energy grids globally and leverage economies of scale to great benefit.

Growth Opportunities: The market for 'green hydrogen,' a portable sustainable fuel source NextEra has invested heavily in, is expected to become a $12 trillion market.

Short-term Undervaluation: Recent dips in revenue have caused market consensus to undervalue the firm; however, this cash decrease is largely if not wholly due to COVID 'forced service' regulations, and will increase following the pandemic.

Expansion Strategy: NEE is seeking to grow their service capabilities through sizeable acquisitions and massive capital expenditures, increasing and upgrading their tangible assets.

Valuation: NextEra Energy is relatively undervalued at their current P/E, with consistently growing EBITDA. Earnings growth analysis implies fair value at $317/share.

Sources: Bloomberg, Yahoo Finance, Macrotrends

Figure 1: Competitor Breakdown

Vendor	Rev	Mkt Share
Exelon	$34.4B	4.1%
Duke Energy	$25.1B	3.4%
Nextera Energy Inc.	$19.2B	2.4%
American Water Works Co	$3.61B	0.5%

Figure 2: LCOE Wind

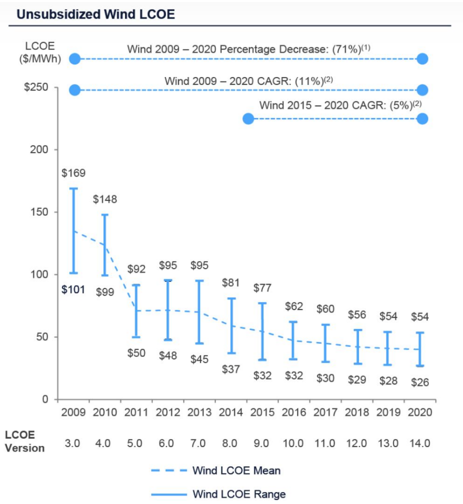
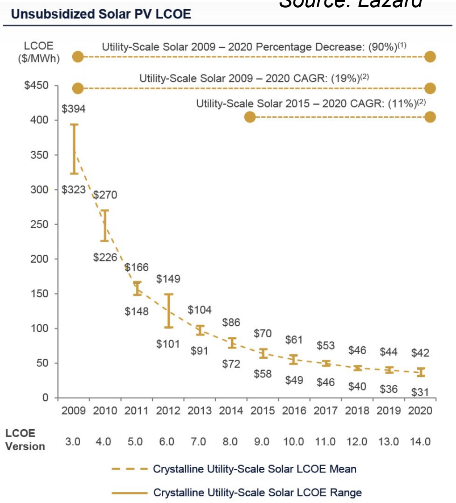


Figure 3: LCOE Solar

Source: Lazard



Company Overview

NextEra Energy (NEE) is an energy utility corporation focused on creating innovative renewable solutions for power generation. The company employs solar, wind power, geothermal, nuclear, and traditional power generation techniques, which has allowed them to grow and diversify their portfolio even further. Founded in 1984 and headquartered in Juno Beach, FL, NEE employs 14,000 workers globally.

NextEra is a conglomerate made up of two main subsidiaries, the Florida Power & Light group (FPL) and NextEra Energy Resources (NEER). FPL is the operational side, focusing on generating and transmitting power through mainly the continental US. NEER operates more strategically, developing new infrastructure and assets and investing heavily in R&D. This two-pronged approach has led NEE to become the world's largest producer of solar and wind power, capable of generating 45,550 megawatts, or enough power for over 36 million US homes.

NextEra's management team consists largely of seasoned industry veterans. The conglomerate's CEO, James Robo, has been with the group since 2002, and both subsidiary heads (John Ketchum and Eric Silagy) have even longer tenures. The CFO, Rebecca Kujawa, handles financial strategy for both subsidiaries. Insider sales have outweighed purchases for the past 3 years, but management owns a mere 0.4% of outstanding shares, so actual trading volume is relatively low.

Revenues have been strong for the past 10 years, as adoption of renewable energy has accelerated; while costs have been decreasing due to the increase in technological efficiency. This has allowed them to maintain a historical 10 year profit margin of over 15.6%, with current figures hovering around 30%. The company's initiatives include pushing sustainability boundaries through development and deployment of new 'green hydrogen' technology, which has massive implications for future long-term power generation.

Industry Overview

NextEra operates in the utilities sector, ranked 3rd in the US with a 2.4% market share according to IBISWorld. This industry is extremely competitive and highly decentralized, with the largest 4 players making up a mere 10.4% of the total market. NextEra competes mainly against large electric companies, such as Exelon, PG&E, and American Water Works; however, as grid infrastructure is relatively localized, most of these firms operate free of direct consumer competition. This gives the major players pricing power, which is limited only by niche utilities firms in highly-contested cities. High barriers to entry, such as the large infrastructure investment, prevent new competitors from arising, so most firms prefer to grow through acquisition of niche players or expansion of their own grid.

Bottom line growth has been strong over the past 10 years, as cost of energy production has dropped substantially (Fig 1&2). However, as photovoltaic and turbine efficiency plateaus, we are unlikely to see substantial decrease in production costs unless a new technology arises. Thus, all growth will likely come from top-line increases in volume, due mainly to infrastructure expansion and aforementioned urbanization.

NEXTera ENERGY®

Industry Overview (cont.)

The sector overall is expected to grow by 3.6% annually between 2020-2025. While the price of natural gas, the primary utility substitute, has fallen over the past decade, growing global environmental concerns are expected to bolster the demand for sustainable power. Increased national urbanization further improves growth prospects, as large corporations can leverage their preexisting urban infrastructure while taking market share from the rural-dominant natural gas.

Financial Analysis

NextEra had a relatively flat second quarter due largely to the COVID-19 pandemic. They managed to raise EPS slightly, by 1.2% year-over-year, but 'utility assistance' measures put in place due to COVID dropped operating revenue by 18.2%. For the third quarter ending October 2020 we predict strong revenues of $6.3 billion, as the Q3 revenues have historically rose by 14.2% from Q2 due to seasonal energy demands. EPS growth is expected to be more modest, at 2.6%. For the fiscal year ending December 2020, we predict revenue will grow by 3.5% to $19.9 billion and EPS will fall by 5.5% to $7.36.

In the past year, debt has been rising slightly, and FCF appeared to decline. (Fig 4&5). Normally, this would signify problems for the firm's financial health; however, we believe the firm maintains a reasonable debt level. Some of this additional debt was taken on to fund an acquisition, and the remainder came from reinvesting cash. Thus, we expect strong FCF and lowered debt once the COVID crisis has ended.

NEE has been investing heavily in infrastructure expansions and green hydrogen R&D. They have increased their Capex by 73% over the past 3 years, funded partially through a debt increase of 9.3%, or $6.1 billion. The remainder comes from their strength of operating activities, which has also allowed them to bolster cash-on-hand by 59% over 3 years, up to $1 billion.

Future Growth Opportunities

Sustainability Environment: As knowledge of climate change has become more widespread over the past few decades, public opinion has swayed away from non-renewables and towards more sustainable methods of power generation. Pew Research shows that 89% of Americans support expanded power production from solar, with global sentiment looking even better. For the first time ever, in April 2019, renewable energy outpaced coal by providing 23% of US power generation, compared to coal's 20 percent share. Corporations and cities have been signing a record number of deals with renewable energy companies to provide power to their businesses. In addition to market growth, production capabilities are also growing, with 98.8% expected to come from renewable sources. We believe this will continue for the foreseeable future, increasing the overall market size for NEE and other firms.

Earnings Surprise

QTR	Est.	Actual	% Surp
Q2 20	$ 2.50	$ 2.61	4.4%
Q1 20	$ 2.26	$ 2.38	5.3%
Q4 19	$ 1.54	$ 1.44	-6.5%
Q3 19	$ 2.27	$ 2.39	5.3%
Q2 19	$ 2.28	$ 2.35	3.1%
Q1 19	$ 2.01	$ 2.20	9.5%
Q4 18	$ 1.51	$ 1.49	-1.3%
Q3 18	$ 2.15	$ 2.18	1.4%
Q2 18	$ 2.06	$ 2.11	2.4%
Q1 18	$ 1.78	$ 1.94	9.0%
Q4 17	$ 1.31	$ 1.25	-4.6%
Q3 17	$ 1.77	$ 1.85	4.5%
Q2 17	$ 1.76	$ 1.86	5.7%
Q1 17	$ 1.51	$ 1.75	15.9%

Figure 4: Balance Sheet Analysis

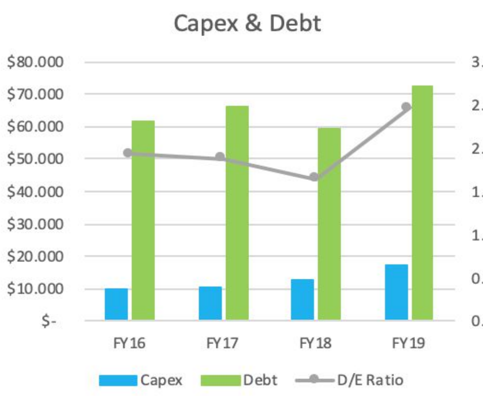
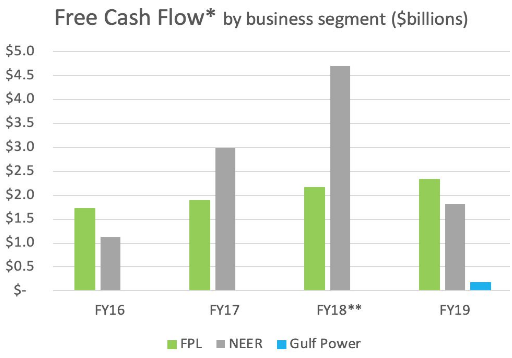


Figure 5: Free Cash Flow



* NEER's results reflect an allocation of interest expense from NEECH based on a deemed capital structure of 70% debt and differential membership interests sold by NextEra Energy Resources' subsidiaries.
** NEP was deconsolidated from NEER in January 2018.

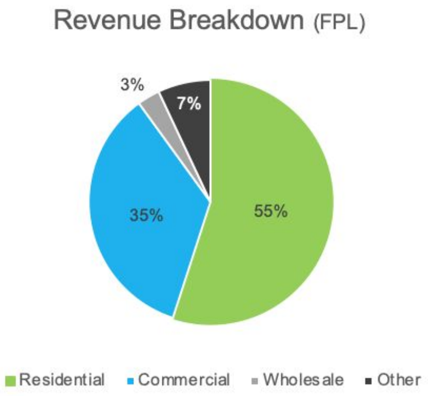
Future Growth Opportunities (cont.)

M&A Events: NextEra has had several recent acquisitions. In May of 2018, they bought Gulf Power Company, which expanded their southern customer base by 400k. They have recently approached Duke Energy, their largest competitor, with an acquisition proposal, which is expected to be declined. Additionally, they are in talks to buy eIQ mobility, a firm that develops electric car chargers, to capitalize on the expected uptick in demand for automotive electric power.

Corporate ESG Trends: Revenue from corporations makes up 35% of NEE's portfolio (Fig 6). Recently, corporations have been under immense pressure from both the public and shareholders to develop ESG initiatives. Current estimates state that over 80% of the world's largest companies have some form of ESG guidelines in place, a large portion of which encourages sustainable energy use. With businesses utilizing over three quarters of US energy, this represents a massive market that will, at shareholder behest, potentially switch to renewable energy sources.

Potential For Explosive Growth: NextEra is well positioned to capture the majority of the market for a speculated future energy source; green hydrogen. According to analyst estimates, green hydrogen represents a potential $12 trillion market as a storable clean power source, capable of running everything from generators to jetliners. As one of the industry frontrunners, with a massive $30 billion R&D budget over the next 4 years, NextEra is primed to capitalize on the technology once development is completed.

Figure 6: Revenue Breakdown



Valuation Analysis

NEE is currently trading 7% below their 52-week high, compared to 12% below for comparables. They trade relatively evenly to peers on EBITDA, but at a discount on revenue and earnings multiples. Their forward P/E of 28.09x is well below industry average of 39.18x, and PEG is of 3.8x is just below comparable average of 3.9x. They also have extremely strong EBITDA margins of 52.4%, compared to 28.2% for industry subsector.

Valuing NEE using cash comparables proves to be a challenge, as most other firms in this sector have negative FCFs. Therefore, we derived our target using 2 year average quarterly change in P/E, as we believe the market's forward P/E fails to account for seasonal shifts and upward revenue trends. Our current price target of $317 represents a potential 14.2% upside to the current price. We believe this upside is attractive and rate the company Buy.

Recommendation Risks

The potentially volatile nature of the future cash flows bring a considerable amount of risk. With 'green hydrogen' as a largely speculative future technology, it brings the potential for sizable upside and downside risk depending on the technology's adoption. Additionally, there is exposure to political risk; while macroeconomic trends have been showing a tendency towards renewable energy and conservation, the 2016 election was a reminder that conservative ideologies remain prevalent. In the short term, political risks like the 2020 presidential race will likely have a sizeable effect on the stock, as it may result in legislative changes that create an unfavorable environment for NEE. Other considerations are tariffs and tax breaks, as these two tools have had a significant impact on the price of renewable energy (particularly solar), which will likely continue for the foreseeable future.