



Exeter Student Investment Fund

Learn. Network. Invest.

NextEra Energy [NEE]

Michael Devlin



Recommendation: Buy - current share price: \$73.53 vs. target share price: \$101.10 (37% upside)

- ▶ NextEra Energy, from decades of innovation, has become a global leader in renewable energy and battery storage solutions, it also has successful and growing subsidiaries, that deliver clean, cheap energy to Florida and across North America

Catalysts:

- ▶ A global shift to clean energy, with the support of the Biden administration, could bring significant growth to NextEra, who have massive investments and productive capacity in renewable energy and battery storage
- ▶ Global economic growth out of the pandemic benefitting from fiscal and monetary stimulus, alongside a successful vaccine rollout
- ▶ Attractive dividend growth

Risks:

- ▶ Policy makers and consumers discontinue their passion for renewables, or the economy doesn't recover as well as expected, either of these will impact NextEra Energy and the US stock market, which are at all time highs, potentially causing a significant correction
- ▶ Poor financial results or a dividend cut could suggest to investors NextEra Energy won't be one of the big winners in renewables

Company Overview - History



Founded

- ▶ Predecessor 'Florida Power & Light Company' was founded in 1925
- ▶ FPL Group Inc. was formed in 1984, changing its name to NextEra Energy Inc. in March 2010, incorporated in Florida



Innovated

- ▶ Transitioned into green energy in 2002 - leveraging NASA contracts for satellites and government subsidies in the early days, to finance expensive renewable energy costs and development



Performed

- ▶ Now the worlds largest producer of renewable energy from wind and solar and a world leader in battery storage
- ▶ Capitalised on significant fall in costs from increasing demand, economies of scale, research and innovations



Impact

- ▶ Serves more than 11 million residents across Florida with clean, reliable and affordable electricity
- ▶ Recognized often by third parties for its efforts in sustainability, corporate responsibility, ethics and diversity

Company Overview – Management



James L. Robo

- ▶ Chairman and CEO of NextEra Energy since December 2013 and July 2012 respectively
- ▶ Also chairman of the electric utility subsidiary, Florida Power & Light Company and chairman and CEO of NextEra Energy Partners



John W. Ketchum

- ▶ President and CEO of NextEra Energy Resources (competitive renewable energy supplier owning nearly 21,000 megawatts (MW) of net generating capacity across 36 states and Canada) as of year-end 2018



Rebecca J. Kujawa

- ▶ Executive VP and CFO of NextEra Energy since March 2019
- ▶ Also executive VP and CFO of Florida Power & Light Company and CFO and a member of the board of NextEra Energy Partners

Company Overview – Business Progression & Differentiators



- ▶ **97%** of the power produced by NextEra Energy's facilities was generated from a diverse mix of **clean or renewable sources**, including wind, solar, natural gas and nuclear (2019)
- ▶ **World's largest generator of renewable energy** from the wind and sun
- ▶ Saved customers over **\$10.5 billion** in fossil fuel costs and **prevented 150 million tons of CO2 emissions** since 2002
- ▶ NextEra Energy has **reduced its CO2 rate by 52.2%** while **increasing energy generation 67.5%**, since 2005
- ▶ Over the past decade, NextEra Energy have invested nearly **\$90 billion in clean energy infrastructure**
- ▶ FPL typical **bills are about 30% below the national average** and emit about **30% less CO2 emissions than the national average.**



5 Year chart of NEE
share price

Current share price: \$73.53
Market capitalisation: \$143bn



- ▶ **Market share: 12.77% of US energy market** – safe regulatory (not monopoly) and growing against competitors
- ▶ **Clean energy: Biden re-joined the Paris Climate Agreement** – alongside other policy there will be an increased need for renewable energy and increasing limitations on fossil fuels, of which NextEra Energy are in a considerably better place than competitors to exploit and not be adversely affected
- ▶ **Barriers to entry:** Very high in the renewable energy sphere, significant investment required to compete and NextEra Energy already have a first mover advantage in this, as well as in reusing water and battery storage, meaning their technology and existing investments should put them at an advantage to firms who haven't innovated
- ▶ **Main competitors:** Southern Company and Duke Energy, both rely largely on coal and fossil fuel for their energy mix



Global move toward renewable energy

Effect of WFH on Florida population

Energy storage capacity

Analysis

- NextEra Energy is the world's largest producer of renewable energy from wind and solar
- Climate change has never been such a critical issue and renewable energy is one of the biggest solutions
- Significant proportion of revenue derived from FPL, which is NEE's largest subsidiary, they currently supply 11 million customers in Florida (of 20 million total) and Florida's population is expected to reach 26 million by 2030, possibly sooner as a result of COVID
- Critical issue, more important with renewable energy than fossil fuels
- NextEra Energy has more energy storage capacity than any other company in the U.S

Valuation Implications

- Having been early adopters and developing this technology for decades, NextEra Energy are in a great position to benefit from the explosive growth expected in the sector over the next decade, therefore causing a rise in earnings and likely share price
- WFH could increase the speed and magnitude of migration into the state due to COVID progressions
- Currently FPL's bills are 30% below average, so they will likely capture the new market share and could then further lower costs due to increasing efficiencies
- Ensures reliability of energy, as NEE can store energy when demand is low and supply energy when demand is high
- Ahead of the curve on energy storage innovation



#1

Joe Biden getting the \$1.9tn 'Green New Deal' through

NextEra Energy is in one of the best positions to capitalise on a 'new era' of renewable energy with strong investment in the sector and decades of experience

#2

Dividend growth

It is expected dividend growth for 2022-2024 will be 10%+ per year, improving on the already high average rise of 10% a year NEE has provided the last decade, it is not as likely other large energy companies will be able to do this so NEE may appear even more attractive an investment

#3

Successful rollout of COVID-19 vaccines

Leading to strong global economic growth, especially in areas that require energy, therefore increasing demand, it is also likely there will be a consumer preference for cleaner, renewable energy so they may benefit disproportionately from this increase in demand

Valuation – DCF



FYE 31 December (USD \$m)	Historical				Forecast				Terminal Value
	2017A	2018A	2019A	2020A	2021P	2022P	2023P	2024P	
Unlevered Free Cash Flows									
Revenue	17,195	16,727	19,204	17,997	21,200	23,433	25,499	29,288	-
Revenue Growth		-2.7%	14.8%	-6.3%	17.8%	10.5%	8.8%	14.9%	-
Less: Cost of Goods Sold	7,398	7,062	8,003	7,290	8,182	8,398	8,765	8,975	-
Gross Income	9,797	9,665	11,201	10,707	13,018	15,035	16,734	20,313	-
Less: SG&A	4,765	4,838	5,337	5,436	-	-	-	-	-
Less: R&D	-	-	-	-	-	-	-	-	-
EBIT	5,032	4,827	5,864	5,271	6,823	7,405	8,243	9,016	-
Plus/ Less: Other Income/ Expense	1,414	4,556	977	-438	1,627	1,681	962	958	-
Less: Interest Expense	1,558	1,498	2,249	1,950	1,814	1,878	1,973	1,904	-
Less: Tax	-653	1,576	448	44	354	605	363	341	-
Net Income	5,541	6,309	4,144	2,839	6,283	6,603	6,869	7,729	-
Plus: Depreciation and Amortization	2,357	3,911	4,216	4,565	4,231	4,337	4,378	4,315	-
Less: Capex	5,540	6,010	11,080	7,760	7,536	6,118	5,462	4,632	-
Less: Change in working capital	-605	377	-223	-604	-264	-178	-317	-341	-
Unlevered Free Cash Flows	2,963	3,833	-2,497	248	3,241	5,000	6,103	7,753	-
Terminal Value	-	-	-	-	-	-	-	-	197,305
Discount rate					1.04	1.08	1.12	1.17	1.17
Discount year					1	2	3	4	4
Net Present Value of Free Cash Flows	-	-	-	-	3,116.55	4,622.63	5,425.10	6,627.36	168,656.86

EV/EBITDA:	15	(5 year average)
Discount Rate: *	1.04	(WACC)
Shares (m)	1,864	
Current Share Price	74	
Fair Value Share Price	101	
Upside	37%	

WACC rounded up to 4% *
Beta of 0.19 gives cost of equity of 2.8 which makes the WACC unrealistically low

NPV of Eneterpirse	Fair Value Per Share
188,448.51	101.10

Fair value share price: \$101 vs. current share price \$74 = **37% upside** - (bull case +15% = **\$116**, bear case -15% = **\$88**)



This investment does come with moderately high risk in the short term, this is not reflected well in the discount rate in the DCF due to the very low beta of the stock, bringing down the WACC significantly, please see the historic dividend yield graph

- ▶ **Risk #1: Company cuts dividend** – If NextEra Energy cut or don't raise dividends considerably, alongside strong financial performance over the next few years, there will be concerns they won't emerge as the 'winner' they are expected to be in renewable energy, this could lead to a sell off and fall in share price
- ▶ **Risk #2: Political/Economic Risk** – If renewable energy isn't prioritised by the Biden administration and by global leaders over the next ten years, or COVID vaccinations and the following economic growth does not reach the targets the market has priced in, there could be a global and certainly US market sell-off, considering we are buying at the top this does pose significant risk and this could be triggered even by raising interest rates or rising inflation
- ▶ **Other options/ diversification:** The US market is likely overheating, with renewable energy stocks very much at the center of overvaluations, it could be worth waiting for a correction, but at the same time if growth in this sector is to fix climate change as fast as we need, the share price could just as easily rally away from us



Here we can see that despite rising dividend pay-outs, the yield is at an all time low, well below average, in the energy and utilities sector this can suggest a company is overvalued



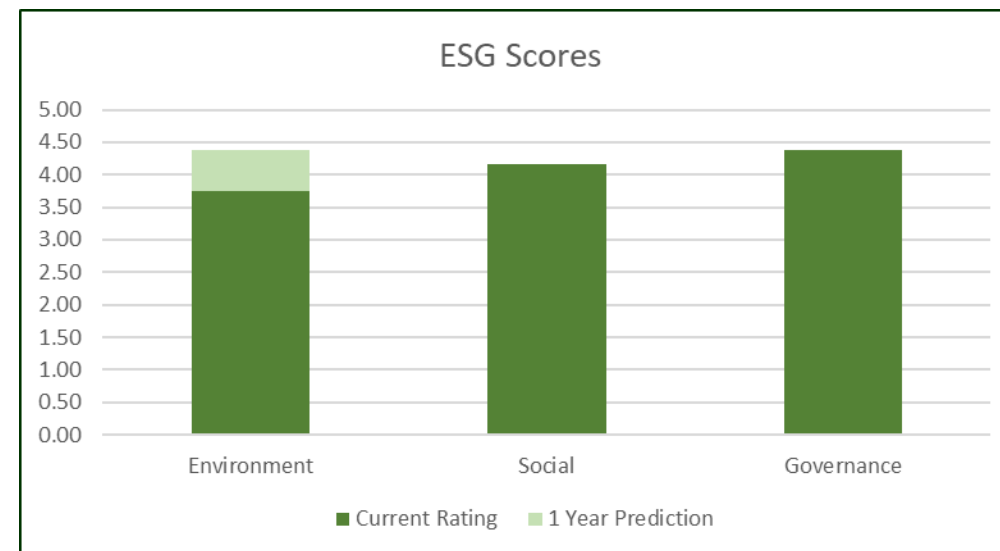
NextEra Energy has been recognized often by third parties for its efforts in sustainability, corporate responsibility, ethics and compliance, and diversity

NextEra Energy is ranked **No. 1** in the electric and gas utilities industry on Fortune's 2019 list of "**World's Most Admired Companies**" and ranked among the **top 25** on Fortune's 2018 list of companies that "**Change the World**"

NextEra Energy was also named by Forbes in 2019 as one of **America's Best Employers**, as well as recognized for the **12th time** by Ethisphere Institute as one of its **World's Most Ethical Companies**

Key reasons for ESG successes

- ▶ Excellent shareholder **and** customer value
- ▶ Innovations that have massively reduced environmental impact, setting an important precedent to the industry, which is the worlds most polluting



ExSIF Rating System

Closing Summary



I recommend going long
on NextEra Energy

NextEra Energy is a global leader in renewable energy that also has successful subsidiaries providing energy and utility services to a growing market in Florida and North America

Substantial catalysts

It is very likely Joe Biden will pass this huge stimulus and continue to prioritise renewable energy in the US, also, global COVID cases are falling and vaccinations are rising - there is a strong likelihood for a bullish case to play out for NextEra Energy in the short and long term due to its strong market positioning

Thank you for listening

Opportunity for Q&A