



# NextEra Energy Partners LP (NEP)

Updated May 11<sup>th</sup>, 2024 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$31.5	<b>5 Year CAGR Estimate:</b>	14.8%	<b>Market Cap:</b>	\$3B
<b>Fair Value Price:</b>	\$36	<b>5 Year Growth Estimate:</b>	3.8%	<b>Ex-Dividend Date:</b>	8/05/24 <sup>1</sup>
<b>% Fair Value:</b>	89%	<b>5 Year Valuation Multiple Estimate:</b>	2.4%	<b>Dividend Payment Date:</b>	8/14/24 <sup>2</sup>
<b>Dividend Yield:</b>	11.3%	<b>5 Year Price Target</b>	\$43	<b>Years Of Dividend Growth:</b>	12
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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 \$3 billion market capitalization company is listed on the New York Stock Exchange under the ticker NEP.

NextEra Energy Partners, LP announced its quarterly earnings results, revealing a decline in revenue compared to the previous year's quarter, a fluctuation typical for the company's top-line performance. However, NextEra Energy Partners surpassed expectations with a significant GAAP profit beat, indicating robust performance. Adjusted EBITDA increased by over 3% year-over-year, attributed mainly to new projects and IDR fees, although the sale of STX Midstream to Kinder Morgan was a headwind to EBITDA generation. Nonetheless, the management's decision to sell the pipeline was deemed beneficial, generating substantial cash to fortify the balance sheet and address Convertible Equity Portfolio Financings (CEPFs). The company's earnings presentation outlines strategies for managing CEPFs. Despite headwinds from the STX Midstream sale and high interest rates, cash available for distribution, after accounting for debt service, saw a \$8 million year-over-year increase, reflecting a growth rate of 5%.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>DCF/S</b>	\$3.17	\$5.53	\$5.07	\$4.54	\$4.54	\$4.83	\$8.33	\$7.55	\$4.86	\$4.06	<b>\$3.74</b>	<b>\$4.50</b>
<b>DPS</b>	\$0.19	\$1.02	\$1.41	\$1.49	\$1.77	\$2.04	\$2.46	\$2.60	\$3.15	\$3.47	<b>\$3.57</b>	<b>\$4.35</b>
<b>Shares<sup>3</sup></b>	18.7	30.7	54.2	54.3	56.1	65.5	75.9	83.9	86.5	93.4	<b>93.5</b>	<b>100.0</b>

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 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.

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> In millions

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	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	8.4	9.5
Avg. Yld.	0.5%	1.9%	4.1%	4.3%	5.2%	5.0%	2.7%	2.8%	4.2%	12.1%	11.3%	10.2%

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 9.5x. The current price-to-DCF ratio of 8.4x 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

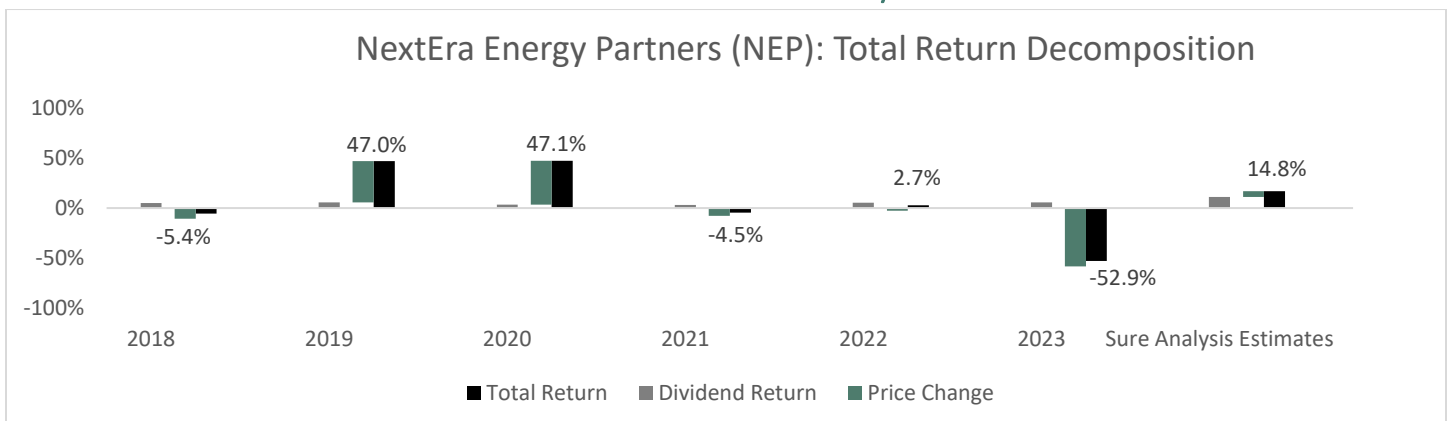
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	6%	18%	28%	33%	39%	42%	30%	34%	65%	85%	95%	97%

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

Until recently, NextEra Energy Partners had performed very well since the partnership's IPO in 2014. The stock currently has a dividend yield of 11.3%, and its payout has been growing very quickly since its first payment in 2014. Overall, we expect a total return of 14.8% annualized over the next half decade. 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
<b>Revenue</b>	359	501	772	807	771	855	917	722	969	1,078
<b>Gross Profit</b>	280	388	557	559	514	519	554	348	442	558
<b>Gross Margin</b>	78.0%	77.4%	72.2%	69.3%	66.7%	60.7%	60.4%	48.2%	45.6%	51.8%
<b>D&amp;A Exp.</b>	99	163	235	226	203	331	374	405	573	635
<b>Operating Profit</b>	176	209	302	312	290	233	255	69	8	(28)
<b>Operating Margin</b>	49.0%	41.7%	39.1%	38.7%	37.6%	27.3%	27.8%	9.6%	0.8%	-2.6%
<b>Net Profit</b>	3	10	83	(61)	192	(71)	(50)	137	477	200
<b>Net Margin</b>	0.8%	2.0%	10.8%	-7.6%	24.9%	-8.3%	-5.5%	19.0%	49.2%	18.6%
<b>Free Cash Flow</b>	(532)	87	(446)	64	337	253	331	579	586	525
<b>Income Tax</b>	(14)	33	57	167	6	(26)	(19)	37	161	(25)

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	4,337	7,227	8,661	8,425	9,405	12,256	12,562	18,976	23,052	22,511
<b>Cash &amp; Equivalents</b>	106	164	150	154	147	128	108	147	226	274
<b>Accounts Receivable</b>	41	80	87	85	63	79	83	112	117	114
<b>Inventories</b>	10	14	18			20	24	41	49	82
<b>Goodwill &amp; Int. Ass.</b>		1,318	1,306	1,296	1,845	2,891	2,791	3,659	2,822	2,820
<b>Total Liabilities</b>	2,704	5,335	6,095	6,201	3,867	5,190	4,855	7,817	8,280	8,454
<b>Accounts Payable</b>	152	303	331	26	10	122	143	982	867	72
<b>Long-Term Debt</b>	1,893	3,447	3,586	4,317	3,435	4,144	3,388	5,327	5,288	6,289
<b>Shareholder's Equity</b>	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
<b>Return on Assets</b>	0.1%	0.2%	1.0%	-0.7%	2.2%	-0.7%	-0.4%	0.9%	2.3%	0.9%
<b>Return on Equity</b>	0.3%	0.6%	3.7%	-2.5%	4.9%	-1.1%	-0.7%	1.5%	3.7%	1.4%
<b>Shares Out.</b>	18.7	30.7	54.2	54.3	56.1	65.5	75.9	83.9	86.5	93.4
<b>Revenue/Share</b>	19.20	21.97	17.63	14.89	10.34	14.54	13.41	9.33	11.41	11.77
<b>FCF/Share</b>	(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.

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