



NextEra Energy Partners LP (NEP)

Updated August 20th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$25.3	5 Year CAGR Estimate:	14.2%	Market Cap:	\$2.4B
Fair Value Price:	\$36	5 Year Growth Estimate:	3.8%	Ex-Dividend Date:	11/05/24 ¹
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date:	11/14/24 ²
Dividend Yield:	14.3%	5 Year Price Target	\$32	Years Of Dividend Growth:	13
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	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 \$2.4 billion market capitalization company is listed on the New York Stock Exchange under the ticker NEP.

NextEra Energy Partners, LP reported second-quarter 2024 financial results, delivering a solid financial performance with net income attributable to NextEra Energy Partners of \$62 million. The company also reported adjusted EBITDA of \$560 million and cash available for distribution (CAFD) of \$220 million. John Ketchum, chairman and chief executive officer, noted the strong financial results and reiterated that NextEra Energy Partners does not anticipate needing an acquisition this year to achieve its targeted limited partner distribution per unit growth rate. Looking ahead, NextEra Energy Partners projects 5% to 8% growth per year in limited partner distributions per unit from the fourth-quarter 2023 distribution base of \$3.52 per unit, with a target of 6% annual growth through at least 2026. The partnership does not expect to need acquisitions in 2024 to achieve this growth target. For the fourth quarter of 2024, the partnership expects an annualized distribution rate of \$3.73 per common unit, payable in February 2025. NextEra Energy Partners continues to expect run-rate contributions for adjusted EBITDA and CAFD from its forecasted portfolio at December 31, 2024, to be in the ranges of \$1.9 billion to \$2.1 billion and \$730 million to \$820 million, respectively. The partnership is also evaluating alternatives to improve its cost of capital and address the remaining convertible equity portfolio financing obligations.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
DCF/S	\$3.17	\$5.53	\$5.07	\$4.54	\$4.54	\$4.83	\$8.33	\$7.55	\$4.86	\$4.06	\$3.74	\$4.50
DPS	\$0.19	\$1.02	\$1.41	\$1.49	\$1.77	\$2.04	\$2.46	\$2.60	\$3.15	\$3.47	\$3.62	\$3.50
Shares³	18.7	30.7	54.2	54.3	56.1	65.5	75.9	83.9	86.5	93.4	93.5	100.0

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

¹ Estimate

² Estimate

³ In millions

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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.

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	6.8	7.0
Avg. Yld.	0.5%	1.9%	4.1%	4.3%	5.2%	5.0%	2.7%	2.8%	4.2%	12.1%	14.3%	11.1%

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 7x. The current price-to-DCF ratio of 6.8x 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

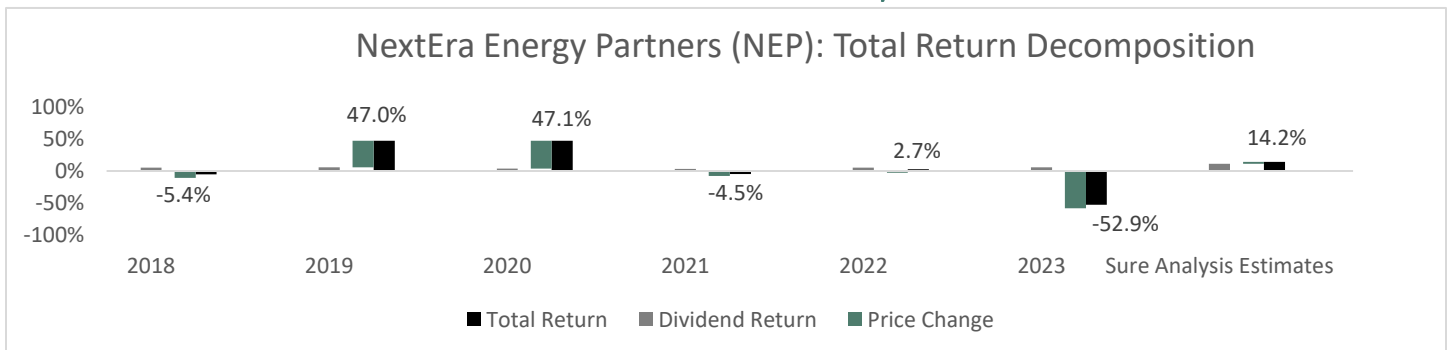
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	6%	18%	28%	33%	39%	42%	30%	34%	65%	85%	97%	78%

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 14.3%, and its payout has been growing very quickly since its first payment in 2014. Overall, we expect a total return of 14.2% 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
Revenue	359	501	772	807	771	855	917	722	969	1,078
Gross Profit	280	388	557	559	514	519	554	348	442	558
Gross Margin	78.0%	77.4%	72.2%	69.3%	66.7%	60.7%	60.4%	48.2%	45.6%	51.8%
D&A Exp.	99	163	235	226	203	331	374	405	573	635
Operating Profit	176	209	302	312	290	233	255	69	8	(28)
Operating Margin	49.0%	41.7%	39.1%	38.7%	37.6%	27.3%	27.8%	9.6%	0.8%	-2.6%
Net Profit	3	10	83	(61)	192	(71)	(50)	137	477	200
Net Margin	0.8%	2.0%	10.8%	-7.6%	24.9%	-8.3%	-5.5%	19.0%	49.2%	18.6%
Free Cash Flow	(532)	87	(446)	64	337	253	331	579	586	525
Income Tax	(14)	33	57	167	6	(26)	(19)	37	161	(25)

Balance Sheet Metrics

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