



# HA Sustainable Infrastructure Capital (HASI)

Updated November 18<sup>th</sup>, 2024 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$27	<b>5 Year CAGR Estimate:</b>	10.8%	<b>Market Cap:</b>	\$3.29 B
<b>Fair Value Price:</b>	\$23.09	<b>5 Year Growth Estimate:</b>	9.0%	<b>Ex-Dividend Date:</b>	12/30/2024
<b>% Fair Value:</b>	119%	<b>5 Year Valuation Multiple Estimate:</b>	-3.4%	<b>Dividend Payment Date:</b>	01/10/2025
<b>Dividend Yield:</b>	6.1%	<b>5 Year Price Target</b>	\$36	<b>Years Of Dividend Growth:</b>	6
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Buy

## Overview & Current Events

Hannon Armstrong is a U.S. public company entirely committed to investments in climate change solutions, providing capital to leading companies in energy efficiency, renewable energy, and other sustainable infrastructure markets. The company's portfolio of assets is worth around \$13.1 billion and is split between three market segments: Its Behind-the-Meter business (46% of assets) focuses on the installation of solar power, electric storage, and other heat and power systems. The Grid-Connected segment (30% of assets) involves investments in grid-connected renewable energy projects, such as solar and off/on-shore wind projects, whose generated yield the company then sells on the wholesale energy markets. Finally, occupying the rest of its portfolio (24% of assets), are the company's Fuels, Transport, & Nature projects, enabling the use of natural resources, such as its projects to slow pollution runoff across the Chesapeake Bay region. Hannon Armstrong's investments are currently yielding over 8%. The company generates around \$320 million in annual total revenues, is based in Annapolis, Maryland.

In December 2023, Hannon Armstrong's Board approved a plan to revoke its Real Estate REIT election and become a taxable C-Corporation, effective January 1<sup>st</sup>, 2024.

On November 7<sup>th</sup>, 2024, Hannon Armstrong reported its Q3 results for the period ending September 30<sup>th</sup>, 2024. For the quarter, total revenues fell by 8.5% year-over-year to about \$82 million. The drop in revenues was mainly due to lower rental income due to asset sales as well as lower gains on assets sold compared to last year.

Adjusted EPS fell by 16% to \$0.52 compared to the prior-year period. The drop was mainly due to lower revenues, offset partially by growth in adjusted net investment income due to a larger portfolio.

The company's pipeline remained robust, including \$5.5 billion of asset opportunities.

Management affirmed its prior outlook, expecting to deliver adjusted EPS CAGR between 8% and 10% through 2026 from 2023's \$2.23. We expect FY2023 DEPS of \$2.43, implying a growth of 9% from last year. Management also targets a payout ratio range of 60% to 70% of adjusted EPS over the same period.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>AEPS<sup>1</sup></b>	\$0.43	\$0.21	\$0.32	\$0.57	\$0.75	\$1.40	\$1.55	\$1.88	\$2.08	\$2.23	<b>\$2.43</b>	<b>\$3.72</b>
<b>DPS</b>	\$0.92	\$1.08	\$1.23	\$1.32	\$1.32	\$1.34	\$1.36	\$1.40	\$1.50	\$1.58	<b>\$1.66</b>	<b>\$2.33</b>
<b>Shares<sup>2</sup></b>	20.7	30.8	40.3	50.4	52.8	63.9	72.4	80.0	87.5	101.8	<b>116.6</b>	<b>150.0</b>

HASI's AEPS has been growing rapidly, in line with its asset portfolio. We expect the company to keep taking advantage of the cheap financing available for green assets to maintain this growth. We have applied an AEPS growth rate of 9% through 2029, in line with management's AEPS growth guidance midpoint of 9% through 2026 due to strong investment yields produced by the company's assets. We retain our dividend growth estimate of 7%, which reflects management's target of a payout ratio between 60% and 70%.

<sup>1</sup>Adjusted (formerly distributable) earnings per share

<sup>2</sup> Share count is in millions.

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## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/AEPS	32.5	90.4	65.6	42.1	24.6	20	15.9	29.2	16.3	12.0	<b>11.3</b>	<b>9.5</b>
Avg. Yld.	6.1%	6.3%	5.7%	6.0%	6.6%	4.6%	4.6%	2.6%	4.4%	5.9%	<b>6.1%</b>	<b>6.6%</b>

HASI's historical P/E ratio reflects the market's expectations for the company's rapid AEPS growth, hence the prolonged premium. We have set our fair P/AEPS multiple at 9.5, which reflects both the higher equity risk premium investors ought to require from a YieldCo in the current environment and the company's growth prospects. Thus, at a P/AEPS of 11.3, we believe that HASI is overvalued. The stock yields a notable 6.1%, which income investors are likely to appreciate, considering the bold dividend growth guidance.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

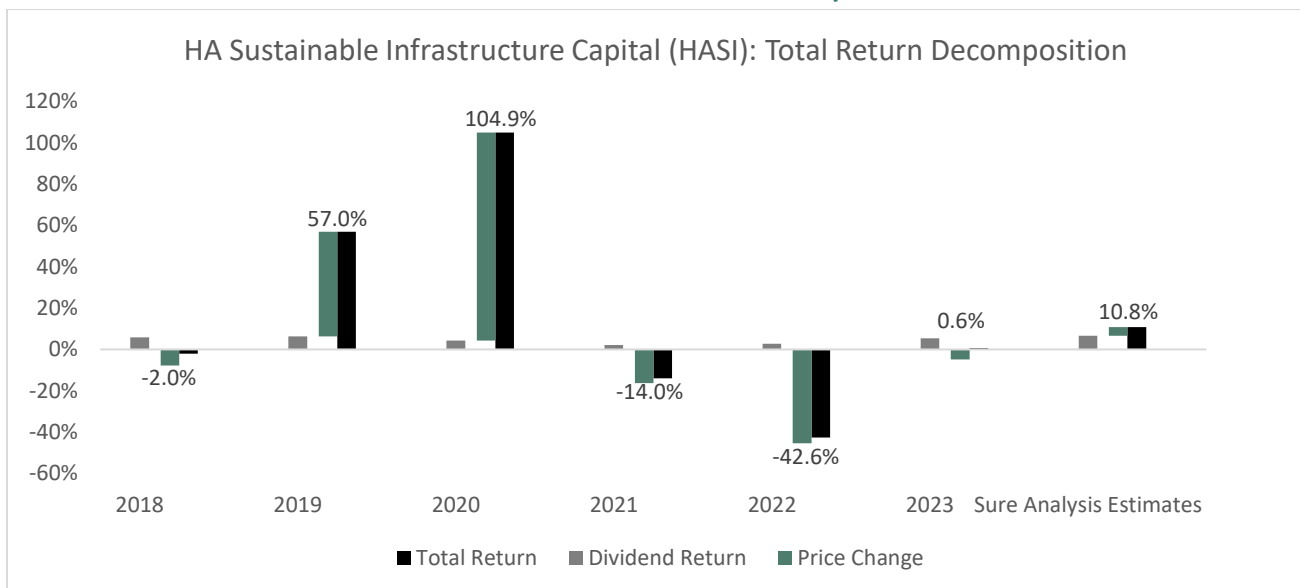
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	214%	514.3%	384%	232%	176%	96%	88%	74%	72%	71%	<b>68%</b>	<b>62%</b>

The dividend should now be safe, sufficiently covered by AEPS. Hannon Armstrong's competitive advantage includes a leading market position in a relatively new and booming industry and a global push for renewables, which should ensure a long-term rich backlog and cheap financing, further boosting its ROI. It's also worth mentioning that 86% of its Board of Directors is independent, while its management is not composed of just the usual Ivy League MBA executives but also holds various distinctions such as CPAs and CFAs, equipped with the skills to pull off some complex financial engineering, including HASI's early financing strategy (see past reports). Based on an extremely favorable industry outlook and HASI's robust pipeline, we believe that the company will keep performing well. A rising cost of capital amid rising rates could keep suppressing its bottom line growth prospects, nonetheless.

## Final Thoughts & Recommendation

Despite its small market cap, Hannon Armstrong is one of the leading diversified renewable energy asset operators. Management has proven its skills in rapidly growing HASI's infrastructure portfolio while its backlog stands at an all-time high. We now forecast annualized returns of 10.8% through 2029, powered by the stock's 6.1% yield, our AEPS and DPS growth estimates, offset by the possibility of valuation headwinds. Shares earn a speculative buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	26.2	32.2	42.1	62.8	84.7	141.5	142.7	218	155.5	290
SG&A Exp.	5.9	7.3	8.3	11.2	15.1	14.7	14.9	20	30	31
D&A Exp.	2.6	4.0	7.7	3.6	4.5	3.6	3.6	3.8	4	3
Net Profit	9.6	8.0	14.7	30.9	41.6	81.6	82.4	127	41.5	149
Net Margin	36.7%	24.7%	34.8%	49.1%	49.1%	57.6%	57.7%	58.3%	26.7%	51.4%
Free Cash Flow	5.1	18.5	56.9	11.7	58.8	29.5	72.3	13.3	0.2	100
Income Tax	0.0	0.1	0.1	0.9	2.1	8.1	-2.8	17.2	7.4	32

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	26.2	32.2	42.1	62.8	84.7	141.5	3459	4148	4760	6552
Cash & Equivalents	5.9	7.3	8.3	11.2	15.1	14.7	286.3	226	156	63
Total Liab.	2.6	4.0	7.7	3.6	4.5	3.6	2249	2582	3095	4411
Accounts Payable	9.6	8.0	14.7	30.9	41.6	81.6	59.9	---	---	---
Long-Term Debt	337	635	911	975	1428	1242	1393	2189	2493	4247
Total Equity	5.1	18.5	56.9	11.7	58.8	29.5	1203	1545	1629	2092
LTD/E Ratio	0.0	0.1	0.1	0.9	2.1	8.1	1.8	1.61	1.83	2030

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.2%	0.6%	0.9%	1.5%	1.9%	3.6%	2.8%	3.3%	0.9%	2.6%
Return on Equity	4.6%	2.3%	2.9%	5.1%	5.8%	9.4%	7.7%	9.2%	2.6%	7.8%
ROIC	1.4%	0.7%	1.0%	1.7%	2.0%	3.7%	2.9%	3.4%	1.0%	2.7%
Shares Out.	20.7	30.8	40.3	50.4	52.8	64.8	74.4	87.7	90.6	109.5
Revenue/Share	1.27	1.05	1.04	1.25	1.60	2.18	1.92	2.49	1.72	2.65
FCF/Share	0.25	0.60	1.41	0.23	1.11	0.46	0.99	0.15	0.00	0.91

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

### Disclaimer

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