NEXTERA ENERGY (NEE)

HIGH GROWTH POTENTIAL

3/3/2021

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THESIS

Because of strong market indicators and a growing renewables market, we are giving NextEra Energy a strong Buy rating, with a target price of $125. An extremely positive growth outlook, coupled with strong fundamentals and a healthy balance sheet all contribute to our confidence in NextEra's continued success as it continues to grow throughout 2021.

INDUSTRY ANALYSIS

NextEra Energy is the largest electric utility company in the United States, with a market value of over $110 billion dollars, almost twice the size of the next leading utility company, Dominion Energy.

While NextEra's revenues are lower than some of their competitors, like Southern and Duke Energy, their profit margins are far higher, at almost 60% vs Duke and Southerns 48%. NextEra also produces far more revenue per customer, at $3200 per customer, while Southern only makes $2200, and Duke makes $3000. NextEra not only extracts more value from its customers than its competitors, and does it while maintaining great customer relationships and growing its reputation, being known as one of the most ethical and admirable electric utility services in the United States.

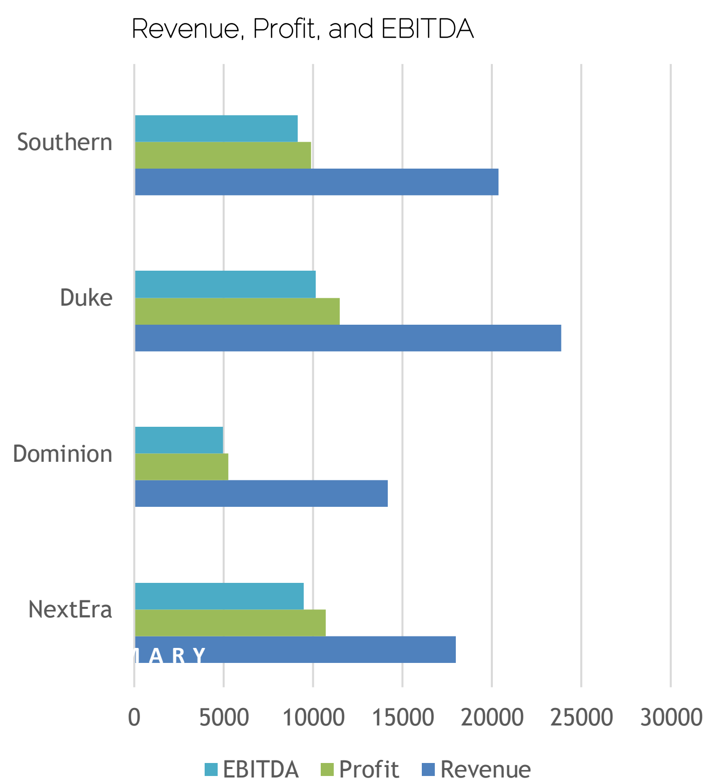

Figure 1. Industry Analysis

PRICE:

US $75.54
Reflects price on 03/02/21

TARGET:

US $125.00

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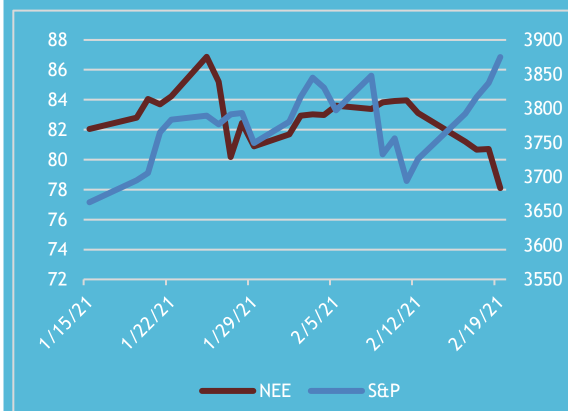
SUMMARY

Annual Rev. (bil)	$17.997
52-week high low	$43.70-$87.69
Shares out. (bil)	1.96
Market Cap. (biil)	153.07
Price/Sale	8.88
EV/EBITDA	23.75
Current Ratio	0.48



CAPACITY

NEE's capacity is 19.06 gigawatts, compromised of a mix of natural gas, nuclear, oil, solar, and wind.

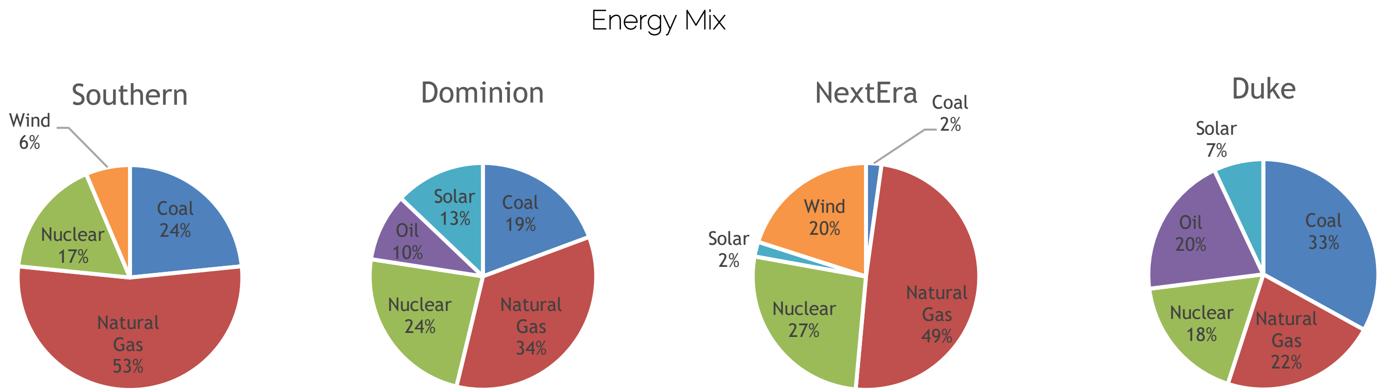


Figure 2. Energy Mix

CATALYSTS

Reactionary Inflows: NextEra Energy is poised to only grow further as the United States moves on from the Coronavirus pandemic. Recently, we have been experiencing extraordinary market conditions, fueled by vaccination efforts and a gradual return to normalcy. Almost $27 billion dollars have been channeled into stocks as the "reflationary" trade has begun to take place, fueling many industries that were hurt during the pandemic, especially energy. There have been inflows of $3.6 billion specifically to the energy industry, the second-highest amount ever. Along with the promise for billions in financial stimulus aid as well as positive growth projections for the market as a whole, we can expect these inflows to continue for the near future. Because of NextEra's competitive advantages, they could become a great beneficiary of these market events.

Renewables Success: NextEra Energy is the world's largest generator of renewable energy from the sun and wind, making them uniquely posed as one of the best investment opportunities in a world increasingly concerned with environmental sustainability and renewables. Under new president Joe Biden and a Democrat supermajority in Congress, environmental regulation is an increasingly popular and likely outcome. And while not all of NextEra's energy is from renewable sources, they are far less likely to be affected by any environmental legislation. Additionally, their sustainability efforts are only growing, with some of their subsidiaries, such as Gulf Power, promising to increase their zero-emissions electricity generated by 70% by 2029. NextEra is going all-in on becoming a global leader in renewable energy, and they are already almost there.

COVID-19 IMPACT

NextEra Energy showed their extreme resiliency to unstable market conditions throughout the depths of the coronavirus pandemic. In early April of 2020, they were very active in deal making and growing their energy capacity, even despite unstable market conditions, stay-at-home orders for their employees, and disruption in other firms in the renewables and energy space. They added nearly 1600 MW of new renewable energy capacity. They also took this opportunity to participate in M&A opportunities for smaller developers that could not survive the pandemic. One such deal that they have made was the acquisition of GridLiance and GridLiance Holdco from Blackstone Energy Partners for $660 Million, which will allow NextEra to increase their coverage and reach more customers. One of the only aspects that NextEra suffered during the pandemic was a small earnings drop for their subsidiary Gulf Power. The chief causes of this drop were an inability for some of their customers to pay their bills, along with abnormal weather conditions. Overall, by Q4, they beat earnings estimates and showed strong growth in their subsidiaries and their values.

CAPITAL STRUCTURE

NextEra Energy projects incredible growth potential through their resilient capital structure. Relative to their peers, NextEra Energy's debt-to-equity ratio was 1.07; significantly lower than the industry average of 1.54. This demonstration of their conservative use of debt is further supported when adjusting debt as a percentage of total capitalization from their book values. NextEra Energy unveils a minimum 10% differential, sitting at a solid 40% usage debt in comparison to its next 10 competitors. While their strong capital structure mix is implicative of their ability to pay off debts and continue operations.

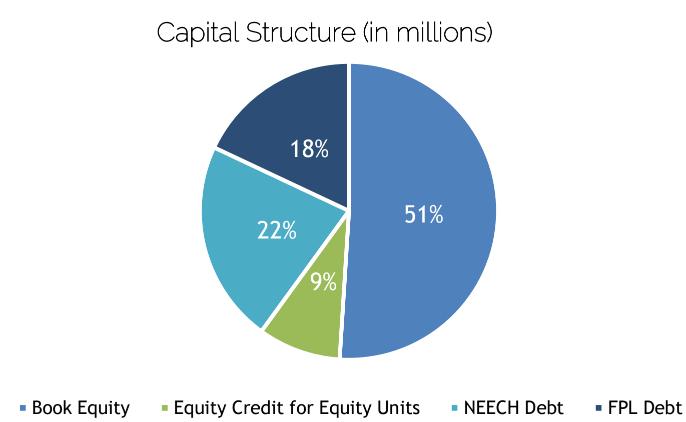


Figure 3. Capital Structure

NextEra Energy's continual outperformance of peers, while simultaneously minimizing debts signifies that they will have no problem with expansion as they look to have a potential breakout year.

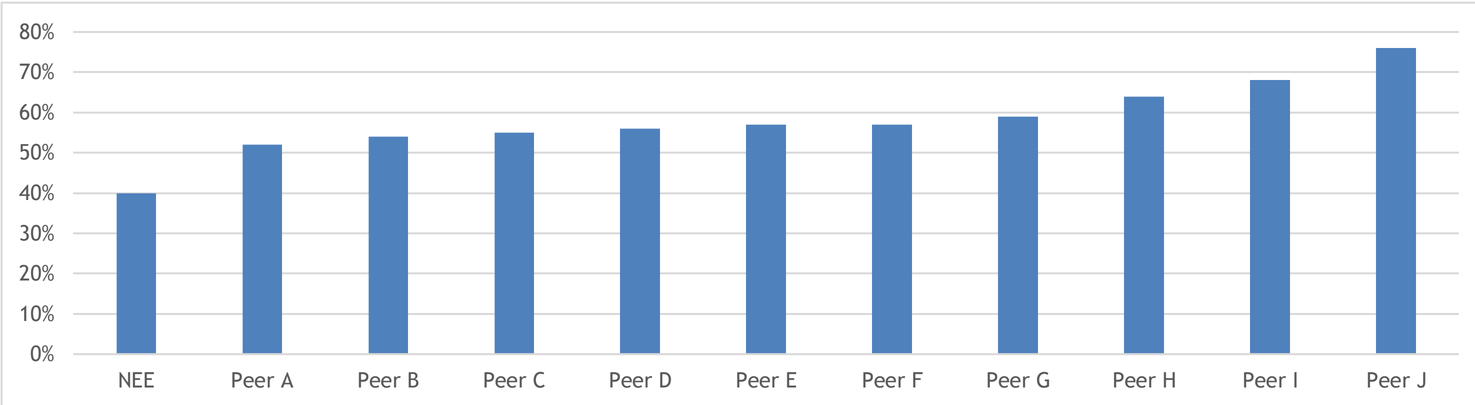


Figure 4. Usage Debt

CAPITAL EXPENDITURE EXPANSION

NextEra Energy projected an increase in Capital Expenditure from 2019 through 2022, expecting to drive their overall net income and garner a larger market share in the renewable energy market. Through these increased capital expenditures, NextEra Energy holds the largest projected capital expenditures in the renewable energy market. With the recent COVID market relapse, many energy companies were expected to slash their capital expenditures and experience a nosedive in earnings due to the lack of expansion. However, NextEra Energy persisted through the market conditions, spending approximately $14.6 billion in capex, and are projected to continue through their initial propagation by expanding further into 2022. While increasing capital expenditures may be implicative of further debt obligation, NextEra Energy maintains a solid balance sheet with minimal leverage and by funding capex with approximately 57% from free cash flows. NextEra Energy's utilization of capex directly correlates to their capability of taking a considerable market share in the renewable energy market and consistent beating of net income projections; contributing to their tremendous upside. Their expansion through capital expenditures will be a key factor in their development as renewable energy titans.

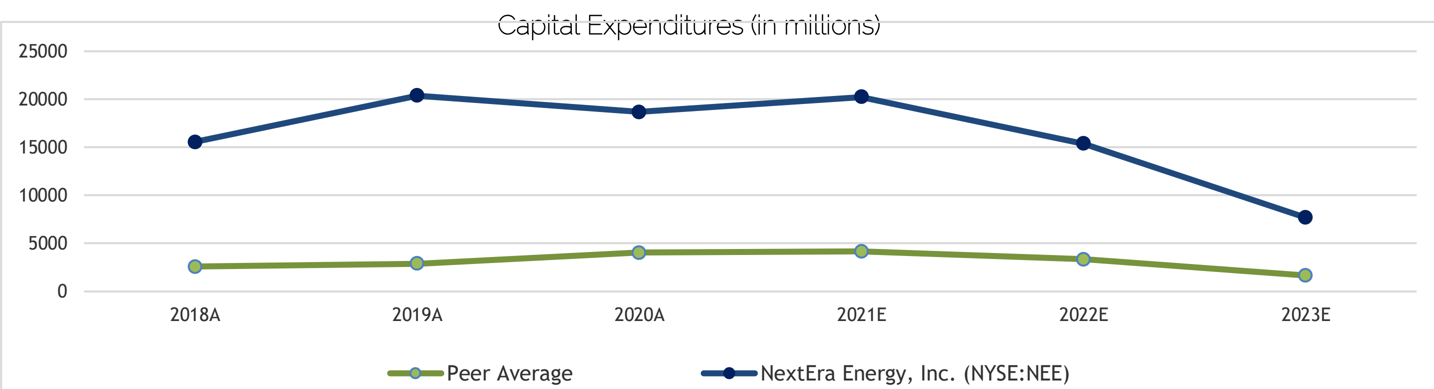


Figure 4. Capital Expenditures

0REVENUE AND EBITDA

Prior to the downturn of the pandemic, NextEra Energy was already pushing towards expansion with a consistent revenue growth rate averaging approximately 7%. Through the huge overhaul of capex in 2019, revenues grew 14.8%. This growth was hindered by market conditions, leading to a 7.3% decrease in revenues in 2020. However, most notably, NextEra Energy's resilience was unveiled in pandemic with their EBITDA essentially untouched despite decreased revenues. Going into 2022 and beyond, we expect NextEra Energy to have a substantial increase in profitability that will serve as another segway to expand and dominate the renewable energy industry capitalization from their book values. NextEra Energy unveils a minimum 10% differential, sitting at a solid 40% usage debt in comparison to its next 10 competitors. While their strong capital structure mix is implicative of their ability to pay off debts and continue operations.

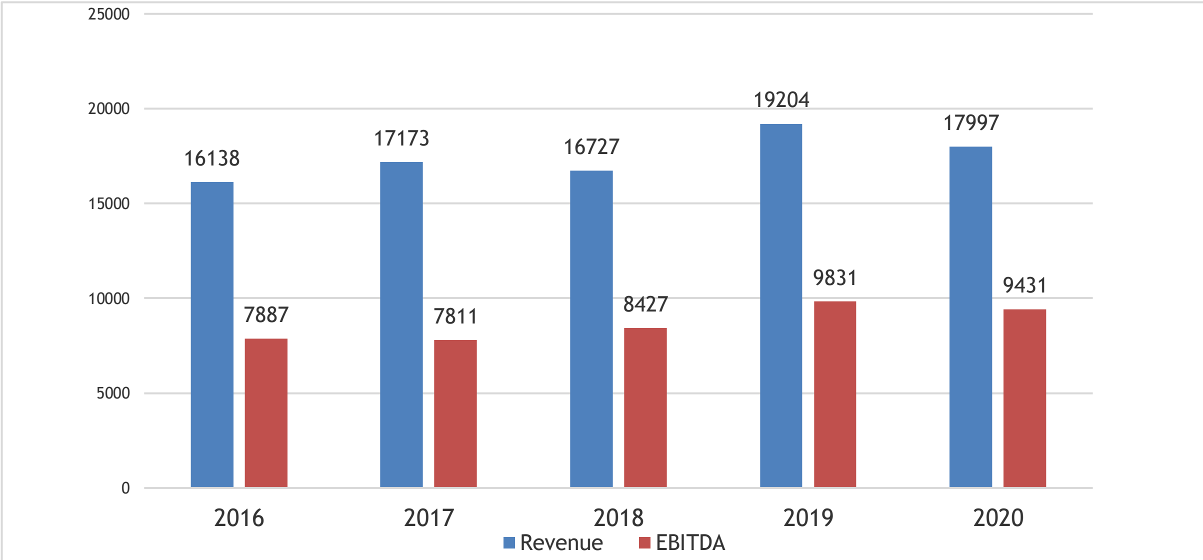


Figure 5. Revenue and EBITDA

DCF ANALYSIS

We arrived at our $125 target price for NEE through the use of a 5 year discounted cash flow model. After projecting revenues and expenses over a 5 year time period and using a WACC of 14%, we were able to arrive at our fair value of $125 per share, a $45.73 increase over the current stock price of $80.73 as of 2/20/2021.

We projected revenue growth at 20% for the first two years of our projections, followed by 15% for the next too, followed by 10%. According to Bank of America on CNBC, the renewables energy market is projected to increase 20 fold by 2050, an opportunity that we see NEE definitely capitalizing on. A conservative model would say that 20% is a fair estimate for revenue growth rate based on this prediction, and also taking into consideration NEE's past growth and lucrative future prospects and growth drivers.

NEE has a track record of consistent, impressive growth which is supplemented by a strong management team. This makes us confident that NEE will be able to meet our projections and reach our target price of $125, which is a 56% increase from the current stock price per share.

RISKS

The renewable energy sphere poses a potential risk to the company. Renewable energy remains on the rise in the United States. Its rise also means that the government must catch up with these new form of energy, and may impose regulations on the industry and the company, resulting in unexpected and higher costs. However, we believe that NextEra energy will continue to remain profitable due to the high demand the company fulfills.

COVID-19 is a risk factor, as the danger extends to the delay of construction and engineering projects to improve the power grids. While NextEra Energy is working to remain safe during the pandemic, infections at a plant or other expansion projects have the capacity to slow down developments. The company's expansion efforts will be limited by the number of people who can be on the projects due to the fear of spreading COVID-19.

Other risks include rising sea levels and natural disasters damaging energy systems, as is often faced in Florida, especially during the summer hurricane season. Both expansion projects and current energy grids can be affected adversely by hurricanes and tropical storms. The plants run by NextEra are reinforced due to the common nature of hurricanes in Florida, and the company has a hurricane preparedness plan that features bringing in additional personnel to restore power and proactively reaching out to customers, mitigating the long term impacts of this risk. This danger also extends to the nuclear power plants run by NextEra, which could pose harm to both employees and citizens of nearby areas if these plants were to not operate properly.

Cybersecurity remains incredibly important, as the loss of facility or customer information could prove damaging to the company's reputation and stock.