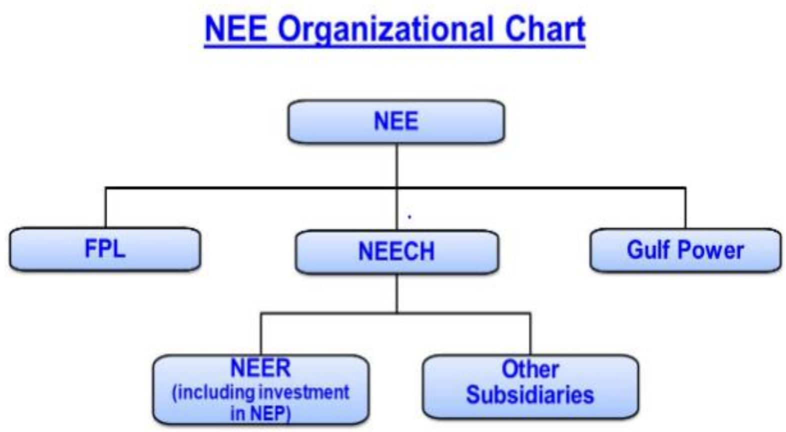
Maren Madsen & Grant Gresens
Senior Analysts: Tanner Thompson & Joel Yang

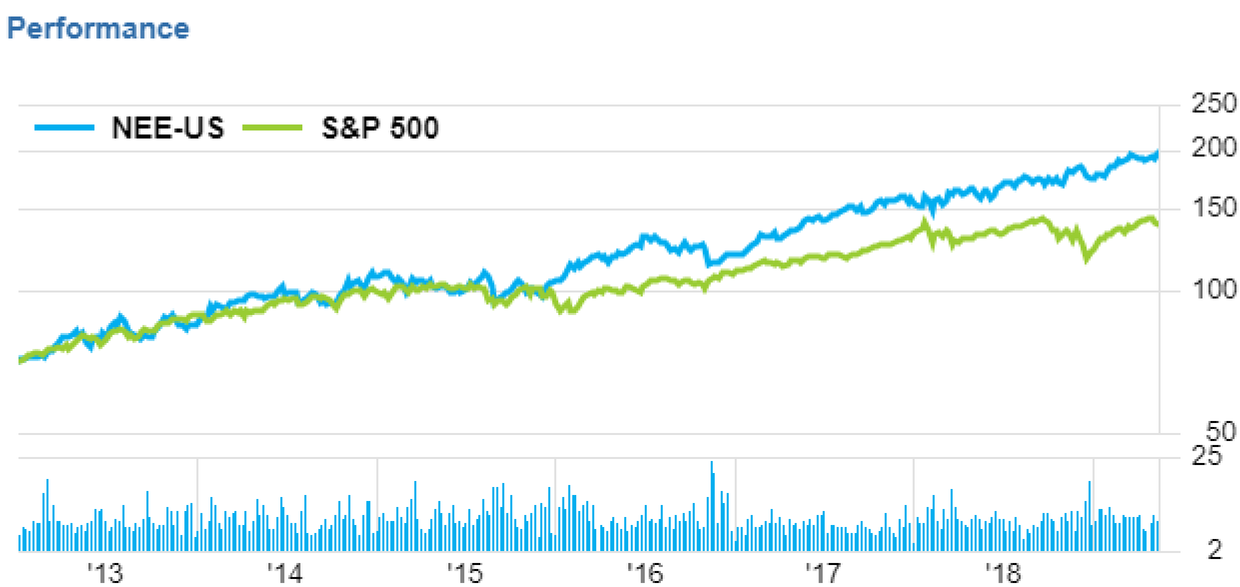
NextEra Energy (NEE)

Business Background

NextEra Energy is primarily composed of two main business segments; Florida Power and Light & NextEra Energy Inc. Florida Power and Light is one of the largest utility providers in the United States and the largest in Florida. Meanwhile, NextEra Energy is focused on delivering clean energy with various renewable energy products. Additionally, on January 1st of 2019, NEE acquired Gulf Power, a rate-regulated electric utility engaged in the generation, transmission, distribution and sale of electric energy in northwest Florida. This report will mainly cover FPL and NEER. Between the two, they account for 97% of NEE's total revenue. They operate 71% in integrated utilities (primarily FPL) and 29% in power generation (primarily in NEER).



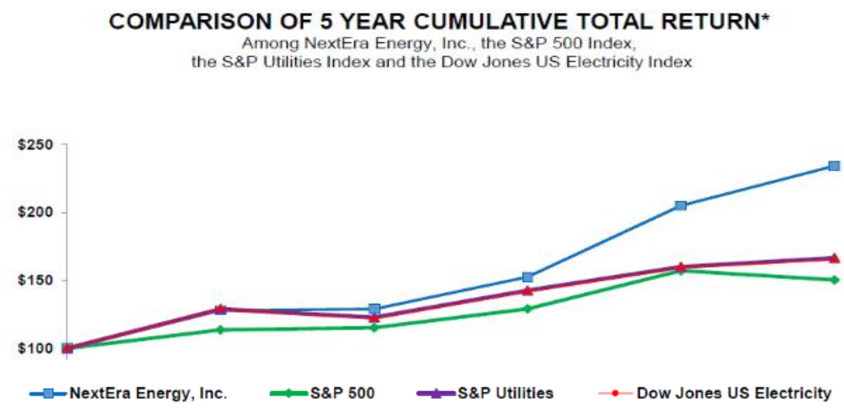
Stock Chart



NEE, as a whole, has the consistency of a utilities company (FPL) but holds the growth potential of a power generation company (NEECH/Gulf Power). Stock price has been increasing over the last 5 years and has been beating the S&P 500 (as shown above). In the last 10 years, NextEra has returned about 221% to their investors. The price is currently $195.63 which is a 3% increase from when the stock was purchased in early March. NEE's finance team has done a fantastic job implementing renewables into the business slowly and consistently to ensure strategy and growth. This strategy of gradual implementation is one that is unlike most of their competitors.

Recommendation

We recommend a **BUY** for this stock due to the following reasons:



- FPL is in the state with the fastest growing population and increase in electric demand, favorable ROE over competitors on their regulated assets. As well as continued infrastructure growth at a lowering cost.
- Renewable energy has a high potential for growth, especially considering impending environmental reforms globally and in the U.S. There is also a very rapidly growing market for solar and wind. Over an existing market, we emphasize a market that is *going* to exist.
- FPL recently announced its plan to build the biggest solar-powered battery in the world that will replace two natural gas power plants. This solves the problem of wind and solar energy being not dependable in bad weather.

Investment Thesis

1. FPL Stability and Lowering Costs

- Florida during 2017 added over 300,000 to their population, the second most of any state in the US. FPL will assume roughly half of this additional market. They also have a great relationship with Florida regulators allowing them a higher ROE than their competitors. They have also done extensive work in lowering costs. Within the last few months, FPL announced they were building one of the largest batteries in the United States that will allow them to store renewable energy to make sure none of it is wasted and renewable power can still be supplied on cloudy, windless days. With these factors the demand for electricity never stops even during recessionary periods. And FPL is in an excellent position to maintain steady earnings.

2. Green Initiatives

- NEE is one of the leading renewable energy producers in the United States focused primarily on wind and solar energy. The way the current energy culture is leaning, investing in renewables is where long-term growth is heading. An article by Mckinsey has solar and wind generation growing by a factor of 60 and 13, respectively.
- NextEra is leading the nation in total renewable energy capacity. This gives them multiple advantages from a cost perspective. With the amount purchased, they have a strong negotiating power over their competitors as well as an extensive history in internal learning that allows them to effectively construct new renewable recourses. They understand how to manage these very long-term assets at a low cost.

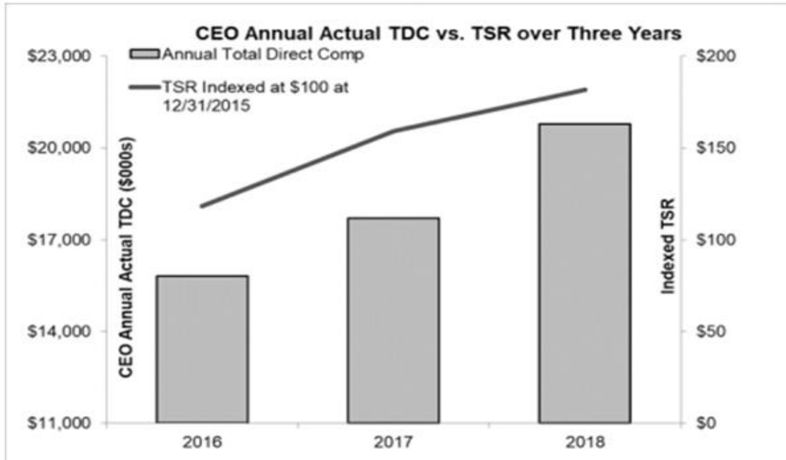
3. Efficiency

- One of the most exciting features of NextEra is their efficiency. Between 2011 and 2018, PPE has grown by 65% while their yearly maintenance costs have grown by only about 11%. This is because renewables are a relatively cheap form of electric production. They have a slow and steady implementation style that allows their analysts to effectively time and place renewable assets. Once renewables are set in place, especially wind, they are very cheap to maintain. Plus, there are large subsidies that incentivizes renewable assets. The table below shows some key ratios against the industry averages over the last 5 years. Where the numbers themselves are impressive, what's more impressive is that NextEra sells its energy on average 17% cheaper than other main competitors in the industry.

	ROE	ROA	Net Margin	ROIC
NextEra US	16%	4.5%	24.9%	7.6%
Industry Average	9.6%	2.6%	10.3%	4.4%

Management

1. *CEO – James L. Robo*
   - James L. Robo is the Chairman, President, and CEO of NextEra Energy Inc. Additionally, he serves as the Chairman of NextEra Energy Resources, LLC, Chairman of FPL, and Chairman and CEO of NextEra Energy Partner, LP. Previously, he was the president and CEO of a major division at GE Capital and served as the chairman and CEO of GE Mexico. He received his undergraduate degree from Harvard College and an MBA from Harvard Business School.
2. *Compensation*
   - NextEra Energy has a strong "pay for performance" philosophy that contributed to great earnings in 2018. NEE earned a Company-record adjusted earnings of $3.67 billion, adjusted EPS of $7.70 and a 1-year TSR of 14%. In the graph to the right, it is evident that the CEO's total direct compensation was well-aligned with TSR for this period. In the long-run, NEE's compensation policy incentivizes management to make decisions that will increase shareholder return.



3. *Awards*
   - As a result of these metrics, NEE has been ranked #1 among U.S. and global utility companies, based on market capitalization. In 2019, NextEra Energy was named by Fortune Magazine as the World's Most Admired Electric & Gas Utility for the twelfth time in thirteen years.

Risks

1. *State and Federal Regulatory, Legislative, and Legal Risks*
   - As a utilities company, NEE is subject to complex and comprehensive federal, state, and other regulations. They have a favorable relationship with the regulators in Florida that allows them to earn a ROE of 11%. These returns are above average, therefore making NEE favorable over competitors. Also, if Trump were to lower the number of subsidies provided for renewable assets it could largely effect costs of PP&E.
2. *FPSC Restrictions*
   - FPL is subject to the jurisdiction of the Florida Public Service Commission (FPSC) concerning the retail rates charged to its customers through base rates and cost recovery clauses, the terms and conditions of its services, distribution systems for the sale of electric energy, and more. The FPSC has the right to disallow recovery of costs by FPL that it considers excessively incurred and determines the level of return that FPL is permitted to earn on invested capital.
3. *Gulf Power Acquisition*
   - NEE may not realize the full benefits from the Gulf Power acquisition if the company is not able to integrate in a timely manner.
4. *Political Landscape, Especially Concerning Environmental Implications*
   - Laws mandating new or additional limits on the production of greenhouse gas emissions could affect the company's operations. While NEE and FPL electric generation emits less CO_2 emissions compared to most competitors within the sector, regulations could create additional costs in the form of taxes or emission allowance. It could also make some electric generation units uneconomical to operate in the long run and would require significant capital investment in new technology to ultimately eliminate its carbon footprint.
5. *Impact of Severe Weather on Operations*
   - Severe weather and natural disasters can cause property damage, power outages, and cause damages to infrastructure. However, NEE provides up to $13.6 billion of liability insurance coverage per incident at any nuclear reactor in the U.S.

It is important to note that the majority of NextEra's **competitors** are subject to the **same or similar risks.**

Valuation

This valuation uses an average of Bloomberg and FactSet's WACCs. There is a high perpetuity growth rate because NEE is in a fast-growing industry with plenty of market opportunities, as well as access to cheap cash with a great credit rating. The analyst predictions, via Bloomberg, of increasing FCF start negative due to the leveling off of capital expenditures. Using the DCF model, the target price comes to $227. Via Dividend Discount Growth Model (DDG), using the ROE and plowback ratio to determine growth rate, the target price comes to be identical to what it is now, at $191. 71% is used for the DDG model because NEE is 71% a retail utilities company, which often rely on dividends for investor support due to low likelihood of rapid growth. The other 29% to be used toward the DCF. After weighing the DDG model and DCF model, the target price comes to $202.30. Since performing this valuation, NextEra announced that they would build one of the largest batteries in the world. This would allow them to supply renewable energy at a much lower cost. This boosts their free cash flow ability and could raise their dividend above what we originally had predicted, boosting their target price above our original prediction.

Peer Analysis

NextEra operates in two different industries; integrated utilities and power generation. In the table below, the median between eight main competitors within each industry is shown, for a total of 15.

	Market Cap	P/E	5 yr. Returns	ROE (past yr.)
NextEra	91.27B	25.81	18.42%	11.39%
Integrated Utilities (median)	10.69B	22.01	14.33%	10.92%
Power Generation (median)	11.68B	23.06	9.03%	8.71%

NextEra is 71% an integrated utilities company (FPL) and 29% a power generation wholesaler (NEER). The Market Capitalization and ROE correlate with each other as they are able to capitalize on new emerging trends, products and ideas more efficiently with their amount of capital. The 5-year returns are reliant upon consistency. The diversification of the company gives them the growth of a renewable energy generation company with the stability of a retail utilities company. The higher P/E ratio has to do with recent large capital investments and expected large future increases in EPS.

Ownership of Shares