



NEXTERA ENERGY

By

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Company Background



- NextEra Energy Inc (NEE) is an electric power and energy infrastructure company founded in 1925
- HQ: Juno Beach, Florida, US
- The company generates, transmits, and distributes electricity; and holds investments in gas infrastructure assets
- NEE produces power using nuclear, coal, oil, natural gas, wind, and solar sources. The company also purchases electricity for resale and provides risk management services related to power and gas consumption.
- It serves residential, commercial, industrial, wholesale, and other customers in Florida; and owns, develops, constructs, manages and operates electricity generation facilities in the US and Canada wholesale energy markets
- \$28.441B



Environmental

Pioneering in zero carbon emissions with a plan to achieve "Real Zero" emissions by 2045, eliminating carbon emissions without relying on traditional offsets or credits

Transitioning from fossil fuels to renewable energy, closing oil and coal-fired power plants, and aiming to become the largest and cleanest energy provider globally

Enhancing environmental stewardship through managing and mitigating environmental risks, conserving water, reducing waste, and supporting wildlife and habitats

Sources: 2023 ESG Report/2023 Sustainability Report/2023 Zero Carbon Blueprint

Social

Prioritizing safety and promoting diversity and inclusion within the workforce, including efforts to attract and retain diverse talent

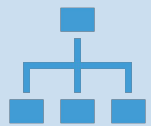
NextEra Energy Foundation supports organization involved with culture, education, health and wildlife

Supporting customers and diversifying the supplier network to include more minority- and women-owned businesses

Governance







NextEra Energy has aligned its reporting with the Sustainability Accounting Standards Board (SASB) framework and the Task Force on Climate-Related Financial Disclosures (TCFD) to ensure transparency and accountability in its ESG effort



The entire NextEra Energy board of directors has oversight of climate-related risks and opportunities, demonstrating a governance structure that prioritizes sustainability and climate change considerations in their strategic planning

ESG – Ratings

ESG				
Environmental	69	95	79	AA
Social	68	78	78	A
Governance	76	88	84	AAA
Total	Best in class (+14) <u>86</u>	<u>87</u>	80	AA

S.W.O.T Analysis



Strength	Weakness
<ul style="list-style-type: none"> • Renewable Energy Leadership • Strong distribution network • Successful track record of integrating complimentary firms through mergers & acquisition 	<ul style="list-style-type: none"> • Regulatory and Compliance Risks • Geographically not well diversified • poor product demand forecasting leading to a higher rate of missed opportunities compare to its competitors
Opportunities	Threats
<ul style="list-style-type: none"> • The new technology provides an opportunity for NextEra Energy to practice a differentiated pricing strategy in the new market • Stable free cash flow provides opportunities to invest in adjacent product segments • Policy Incentives and Market Growth • Technological Advancements and Innovation 	<ul style="list-style-type: none"> • Environmental Regulations and Climate Change • Market Competition and Price Volatility • Consumer tastes are changing, and this puts pressure on companies to constantly change their products to meet the needs of these customers.

Investment Thesis



Our View

Lowering Interest Rates

- NextEra underperformed in 2023, amid a decline in the S&P 500 utilities sector, hinting at a potential rebound in 2024.
- Falling rates stand to benefit NextEra and its operations. They will lower the interest burden on their floating rate debt and decrease the costs associated with refinancing maturing debt.

Florida Power & Light

- Florida has been experiencing net migration for years, leading to a consistent growth in NextEra's customer base.

Renewable Energy

- Projections from the International Energy Agency suggest renewables will drive over 80% of new power generation capacity by 2030
- With a 31-gigawatt operational portfolio, NextEra Energy are well-positioned to capitalize on this anticipated growth.

Valuations Implications

- Even a smaller reduction in rates than anticipated would drastically improve their debt burden, in turn, improving their valuation when using the DCF Model.

- Americans are moving to Florida in record numbers, and not just retirees. Young people are being lured by the weather, a lack of state income tax, and more job opportunities. This increase will improve their EBITDA and their DCF Valuation

- The growth in renewable energy sector stands to significantly benefit NextEra, in the next few years. Allowing for major upside in their stock price.



Catalysts



- Interest rates proposed to fall three times this year each by 0.25%, with further proposals for four falls in 2025 and three in 2026 with an aimed interest rate of 2% by 2026. Lower interest rates spark investment interest in renewable energy and as NextEra Energy is recognised as a leader in the clean energy sector this presents promising opportunities.
- NextEra Energy outperformed its peers in the fourth quarter of 2023 and over the past 10 years they have delivered the highest compound annual growth in adjusted EPS (10%) among all top 10 power companies, the remaining top 10 power companies on average achieved a 2% annual growth. NextEra Energy fully expects to continue growing at a strong rate in the coming years which should reflect in its stock price in the coming years
- The Federal Election Commission cleared a NextEra Energy subsidiary (Florida Power & Light Company) of violating the Federal Election Campaign. This is big news for NextEra Energy as they had been fighting this complaint since late 2022 and it will restore faith in the company and thus lead to increases in the stock price of NextEra Energy.
- It is estimated that the US will need to invest \$4trillion to decarbonize the economy by 2050 by building 7000 gigawatts (GW) of renewable energy capacity which will put NextEra Energy in an excellent position to receive some of this investment and in the long term produce exceptional returns on Oakwood's investment.

Valuation

NextEra Is currently trading at \$58.98. However, our DCF Valuation implies it should be around \$27.96. Other sources also place their valuation around \$27. This implies the stock price is overvalued by over 100%. However, the share price model and the dividend model place the valuation at \$79.45 and \$62.16 respectively. Therefore overall, we take the view that the stock is fairly-valued, and that the overvaluation using the DCF model is due to the higher interest rates, impairing their costs.

NextEra Energy	Current
Years	0
Assumed Growth In Cashflow	34%
Cash Flow/ Adjusted EBITDA	\$1.875
DCF - PV Discounted Cash Flow	\$5.688
DCF of Post-Planning Cash Flow Year 4 to Infinity	
PV Of The Post-Planning DCF(C)	\$49.567
Value Of The Firm	\$55.255
Less Long Term Debt (> 1 Year)	\$27.96
DCF Share Valuation	\$ 27.627

Dividend Discount Model	
Expected Dividend Per Share	\$ 2.30
Cost of Capital Equity	6.00%
Dividend Growth Rate	2.30%
Value of Stock	\$ 62.16

Risk Factors and Mitigation



Regulatory & Policy Changes

In 2023 NextEra suffered from deflationary policies specifically higher interest rates. Investment becomes more expensive, stunting potential growth. NextEra were forced to dilute by providing additional shares, to fund additional investment, depressing share price.

Policy Participation

- NextEra Energy actively collaborates with industry partners, policymakers, and communities to foster a supportive environment for clean energy development.
- By engaging in constructive dialogue and forging strategic alliances, the company aims to accelerate the adoption of renewable energy technologies and drive positive change on a global scale.

Dependency On Non-Mainstream Energy

- Plans to sell natural gas pipeline and capitalise on clean energy transition, reaching Real Zero carbon emissions by 2025.
- Despite growth in renewables, the field is incomplete. Technological advancements may leave current power plants obsolete.
- Clean energy infrastructure requires significant upfront investment.

. Diversification

- As NextEra Energy capitalise on renewable energy, this reduces the impact of volatile oil and gas prices on its profitability.
- Transitioning focus solely on wind and solar power plants

Risk Factors & Mitigation



Competitors

Non-regulated utility, vying with other competitors for market share.
Competition increases difficulty to obtain financing, secure contracts and maintain market position.
Requires continuous research and development to stay at the forefront of green energy

Strategic Investment

The company's strategic investments in renewable energy projects have not only helped diversify the energy mix but also created job opportunities and economic growth in the communities it serves.

Energy & Environmental Regulation

- As governments increase focus on transitioning to cleaner energy sources, changes in policies could reduce incentives and subsidies for renewable projects, affecting revenue streams.
- More stringent environment policies can increase compliance costs, impacting profitability.

Long-Term Contracts

- Higher risk profile is mitigated by long-term power contracts largely with investment grade counterparties.
- This provides stable revenue streams and reduces exposure to short-term market fluctuations.

Final Recommendation



- Overall, we recommend taking a long position in NextEra, and feel very confident that over 2-3 years, the stock will perform very well. Due to the key 4 factors:
- Lowering Interest Rates
- High Dividend
- Growing Customer Base
- Growing Renewable Sector

**THANK
YOU!**