

NextEra Energy (NEE-US)

Sector: Utilities

Company Overview

NextEra Energy (NEE) owns and controls three primary business segments: Florida Power & Light (FPL), Florida's largest electric distribution and generation company; NextEra Energy Resources, one of the world's largest developers of renewable energy; and as the General Partner of NextEra Energy Partners.

Suitability/Ethical Considerations

The company leads industry peers in programs to capitalize on the renewable energy (RE) space. NEE's board remains majority independent from both management and other interests, with fully independent nomination and pay committees. These practices may bolster oversight of management. NEE's corporate governance practices are average compared to those of global peers. NEE increased its RE portfolio from ~23 GW (41% of total capacity) in FY 2021 to ~26 GW (44%) in FY 2022. It also has ~18 GW of wind and solar projects with commercial operations expected to launch over FY 2023-26 and plans to add 33-42 GW of new RE capacity through FY 2023-26. These initiatives may help support the U.S.' (domicile) target to achieve a decarbonized energy sector by 2035. Significant operations in renewables and energy networks (~59% assets in FY 2022) lower NEE's exposure to regulatory risks tied to air pollution and land contamination.

Investment Thesis

NEE falls into BMO Capital Markets' (BMO CM) "thematic" and "quality" bucket, and BMO CM believes it is a core holding for investors. The company's industry-leading profile within the sector, in BMO CM's view, warrants a premium valuation given its fundamental and thematic drivers, including one of the world's largest renewable backlogs and favorable recovery of investments through regulatory recovery mechanisms.

Recent Developments

NEE's better-than-expected 4Q23/FY23 results were slightly offset by a more modest, but largely expected seasonal decline in origination activity and a 4-5% decline in the company's renewable backlog, which BMO CM had expected given the significant projects (5.6GW) placed in-service in 2023. Management reaffirmed their annual guidance ranges for 2024-2026 and their 6-8% annual guidance off the 2024 range of \$3.23-3.43 with the typical commentary they will be disappointed if they are not at or near the top end of the range.

Overall, BMO CM views the company's improving consolidated interest rate exposure (\$18.5bn of interest rate swaps), the return of a deflationary renewables cost environment, moderating interest-rates, and a more diversified supply-chain profile provide investors with increased confidence in management's ability to deliver on their renewable backlog outlook. When coupled with the robust growth outlook at FPL, BMO CM sees an increasingly visible consolidated growth trajectory driving NEE's peer-leading EPS growth.

Price Target & Methodology

BMO CM'S \$77 target price is based on a Sum-Of-The Parts (SOTP) methodology.

Key Risks

1) A deceleration in regulated and / or renewables growth

NextEra Energy, Inc.			
BMO CM Rating	Outperform	Target Price	77.00
Current Price	63.91	Dividend	1.87
52-Week High	79.78	Yield	2.99%
52-Week Low	47.15	BVPS	23.13
Market Cap (\$M)	131,171	P/ BV	2.8x
FYE (MM/ DD) 12/ 31	2023A	2024E	2025E
EPS	3.17	3.40	3.68
P/ E	20.2x	18.8x	17.4x
EPS Growth	-	7.3%	8.1%

