

Clearway Energy Inc.(CWEN)

\$23.40 (As of 06/08/20)

Price Target (6-12 Months): **\$24.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/19/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

Summary

Clearway Energy's is poised to gain from its long-lived renewable assets. Its strategy of acquiring contracted operating assets and focusing on North American operation will act as tailwinds. Ongoing capital expenditure is assisting the company to maintain and develop new renewable assets. Notably, shares of the company have outperformed the industry in the past 12 months. However, Clearway Energy generates a substantial volume of electricity from renewable sources, subject to favorable weather conditions that could not be assured always. Dependence on performance of third-party transmission lines may impact its performance. High debt level of the company is a concern.

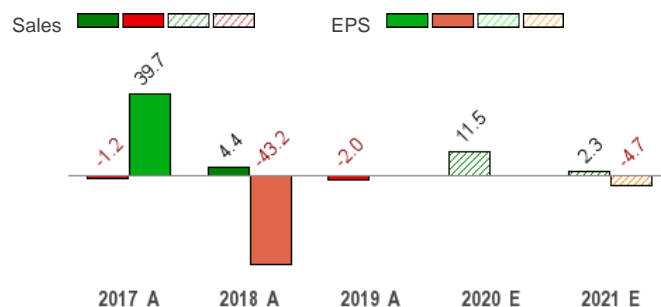
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$23.58 - \$15.75
20 Day Average Volume (sh)	721,259
Market Cap	\$4.7 B
YTD Price Change	17.3%
Beta	0.99
Dividend / Div Yld	\$0.84 / 3.6%
Industry	Alternative Energy - Other
Zacks Industry Rank	Top 25% (64 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-500.0%
Last Sales Surprise	11.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/04/2020
Earnings ESP	14.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,178 E
2020	258 A	339 E	345 E	258 E	1,151 E
2019	217 A	284 A	296 A	235 A	1,032 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.23 E
2020	-\$0.24 A	\$0.63 E	\$0.58 E	\$0.22 E	\$1.29 E
2019	-\$0.18 A	-\$0.22 A	\$0.36 A	-\$0.06 A	-\$0.10 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	18.1
PEG F1	1.8
P/S TTM	4.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/08/2020. The reports text is as of 06/09/2020.

Overview

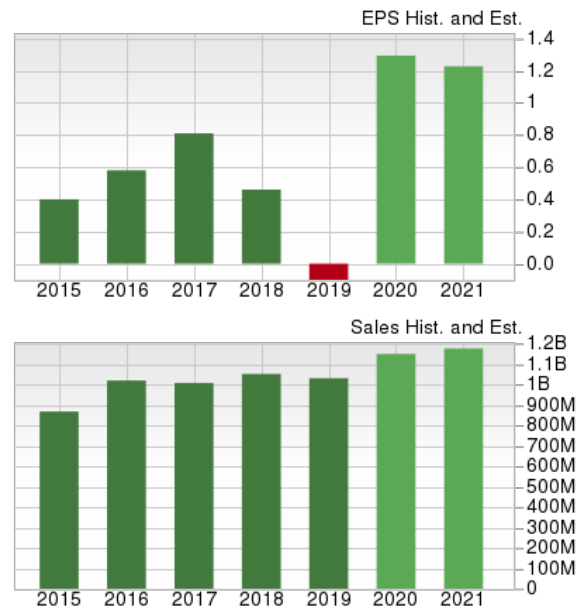
Founded in 2012, Clearway Energy Inc., along with its subsidiaries, owns and operates a diversified portfolio of contracted renewable and conventional generation, along with thermal infrastructure assets in the United States. The company's primary business strategy is to focus on acquisition and ownership of assets that have predictable, long-term cash flows for strengthening its financial position. Clearway Energy's asset portfolio includes nearly 7,000 megawatts ("MW") of wind, solar, thermal and natural gas-fired power generation facilities, as well as district energy systems

The company was formed after Global Infrastructure Partners ("GIP") acquired all the ownership interests of NRG Yield, Inc. from NRG Energy, Inc. Clearway Energy started to trade from Sep 17, 2018.

The company has plans to provide its investors with stable and growing dividend income. Clearway Energy's Class C common stock is traded on the New York Stock Exchange under the ticker symbol CWEN.

The company is sponsored by its controlling investor, Global Infrastructure Partners, an independent infrastructure fund manager that invests in infrastructure and businesses in both OECD and select emerging market countries through GIP's portfolio company, Clearway Energy Group. Clearway Energy operates as a subsidiary of Clearway Energy Group LLC.

The company has three segments, namely **Renewables**, **Thermal** and **Conventional**. At the end of 2019, these segments contributed \$485 million, \$201 million and \$346 million, respectively, to total operating revenues.



Reasons To Buy:

- ▲ Clearway Energy owns and operates utility scale renewable energy and natural gas-fired generation, as well as thermal and other infrastructure assets having low operating risks and stable cash flows. Focus on the core assets coupled with industry knowledge will enable the company increase its operational efficiency and maximize financial performance. In the past 12 months, shares of Clearway Energy have gained 47% against the industry's 8% decline.

The company sells majority of its output pursuant to long-term offtake agreements. The weighted average remaining contract duration of these long-term offtake agreements were nearly 13 years as of Dec 31, 2019.

- ▲ The company is primarily focused on North America, which saves it from currency fluctuation and sovereign risks. In addition, North America provides an excellent opportunity to expand its operation through acquisition of renewable, natural gas-fired generation and thermal infrastructure assets. Clearway Energy already acquired 80 MW of solar projects from Clearway Group under the Right to First Offer ("ROFO") mode.

The company announced that it has entered into an agreement related to the drop-down offer from Clearway Group to acquire and invest in a portfolio of renewable energy projects. Per the agreement, Clearway Energy — on closure of the acquisition — will invest \$241 million, subject to closing adjustments. Wind projects totaling 482 MW are expected to begin commercial operations by 2020-end. Clearway Energy expects to fund the transactions with the existing corporate liquidity.

- ▲ Courtesy of Clearway Energy's modern nature of the generation portfolio that includes a substantial number of solar and wind generation assets, it expects to achieve high fleet availability and modest maintenance-related capital expenditure. The new and long-lived assets in the portfolio give the company a competitive advantage and boost margins. It needs to incur lower operating expenses to generate electricity.

Clearway Energy's current portfolio of electric generation assets, which are non-emitting sources, consists of more than 7,000 MW of wind, solar and natural gas-fired power generation facilities. The company aims to add more solar and wind assets to its portfolio over the next few years through acquisitions. Clearway Energy completed the buyout of 527-megawatt natural gas fired Carlsbad Energy Center. This is set to expand its clean energy generation portfolio further.

- ▲ Capital expenditure plans of the company will help to further expand its capacity to generate energy from clean sources. For the years ended Dec 31, 2019, 2018, and 2017, the company utilized nearly \$228 million, \$83 million, and \$190 million, respectively, to fund capital expenditures. High-quality renewable assets will continue to support the company's generation portfolio, which in sync with current environmental regulations.

The company continues to carry out operations safely amid the COVID-19 pandemic and does not expect any financial impact of this pandemic on the future results.

Long-lived renewable assets, acquisition of renewable projects, and focus on North American operation are tailwinds for the company.

Reasons To Sell:

- ▼ The company generates a substantial portion of its electricity from solar and wind energy sources, which depends heavily on suitable meteorological conditions. Even though the company's renewable investment decision is based on the findings of wind and solar studies, weather conditions might fluctuate due to potential impact of climate change.

The company's quarterly operating results are impacted by seasonal factors and weather variability, which can further impact renewable energy resources and volumetric sales of steam and chilled water at the Thermal segment. If the company fails to produce the expected volume of energy from renewable sources, the business, financial conditions and cash flow will be adversely impacted.

- ▼ A significant portion of electric power generated is sold under long-term offtake agreements to different buyers. If, for any reason, any of the purchasers of power under these agreements are unable or unwilling to fulfill their related contractual obligations or otherwise terminate such agreements prior to the expiration thereof, the company's business, financial condition, results of operations and cash flows will be adversely impacted.
- ▼ Clearway Energy relies on certain electric interconnection and transmission facilities that are not owned or controlled by it. If these facilities fail to provide the company with adequate transmission capacity, Clearway Energy's ability to deliver electric power to customers may be restricted and it may either incur additional costs or forego revenues.
- ▼ The high debt level of Clearway Energy could adversely affect its ability to raise additional capital to fund the capital projects or pay distributions. Although interest rates have declined to near zero level, servicing the existing debts will lower the company's profitability and reduce margins. The current debt to capital is 74.98%, much higher than the industry average of 43.72% and the Zacks S&P 500 composite group's 49.04%. Long-term debt of the company at the end of first-quarter 2020 were \$5,303 million, up from \$5,183 million at the end of fourth-quarter 2019.

The company's times interest earned ratio has been declining over the years. It came in at 0.6 at the end of first-quarter 2020, down from 0.7 at 2019-end. The decline in this ratio indicates that the company might find it difficult to meet debt obligations in the near future. At a time when every entity is looking forward to preserve liquidity amid uncertainty created by the outbreak of COVID-19, this declining ratio will not be reassuring for investors.

Fluctuating weather patterns can disrupt renewable power generation, high debt levels and dependence on third party assets for electric transmission could hurt margins.

Last Earnings Report

Clearway Energy Q1 Loss Wider Than Expected, Sales Top

Clearway Energy Inc. reported first-quarter 2020 loss of 24 cents per share, wider than the Zacks Consensus Estimate of a loss of 4 cents.

Total Revenues

The company's total revenues in first-quarter 2020 were \$258 million, beating the Zacks Consensus Estimate of \$232 million by 11.2%. Total revenues also improved 18.9% year over year.

Highlights of the Release

On Apr 20, Clearway Energy announced that it has entered into binding agreements with Clearway Group (CEG) that will enable the company to acquire and invest in a portfolio of renewable energy projects, as well as expand the clean power generation portfolio.

Total operating expenses in the first quarter amounted to \$206 million, increasing 17% from the year-ago period.

Operating income was \$52 million, up 26.8% from the year-ago level.

Interest expenses in the quarter were \$167 million, increasing 65.3% year over year.

Financial Position

Clearway Energy had cash and cash equivalents of \$110 million as of Mar 31, 2020, down from \$155 million on Dec 31, 2019. Total liquidity as of Mar 31, 2020 was \$633 million, which was \$209 million lower than the Dec 31, 2019 level. The decline due to growth investments and redemption of the remaining balance of the 2024 senior notes in January 2020.

Long-term debt as of Mar 31, 2020 was \$5,081 million, reflecting an increase of 2.5% from \$4,956 million on Dec 31, 2019.

The company's net cash flow from operating activities during first-quarter 2020 was \$84 million compared with \$61 million in the comparable prior-year period.

Guidance

Clearway Energy reaffirmed its 2020 Cash Available for Distribution (CAFD) guidance of \$310 million.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	11.21%
EPS Surprise	-500.00%
Quarterly EPS	-0.24
Annual EPS (TTM)	-0.16

Valuation

Clearway Energy shares are up 17.3% in the year to date period and up 47% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 10.6% and 25.4% respectively in the year to date period. Over the past year, the Zacks sub-industry and Zacks sector are down 8% and 27% respectively.

The S&P 500 index is up 0.2% in the year-to-date period but up 11.9% in the past year .

The stock is currently trading at 18.51X of forward 12 months earnings, which compares to 22.62X for the Zacks sub-industry, 74.37X for the Zacks sector and 23.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.82X and as low as 7.4X, with a 5-year median of 14.92X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$24 price target reflects 19.04X of forward 12 months earnings.

The table below shows summary valuation data for CWEN

Valuation Multiples -CWEN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.51	22.62	74.37	23.35
	5-Year High	29.82	22.8	74.37	23.35
	5-Year Low	7.4	11.41	11.27	15.23
	5-Year Median	14.92	16.17	18.5	17.49
P/S F12M	Current	4.01	1.04	0.87	3.63
	5-Year High	5.03	31.25	1.46	3.63
	5-Year Low	1.86	0.71	0.58	2.53
	5-Year Median	2.94	5.21	0.99	3.02
P/B TTM	Current	2.06	1.66	1.05	4.41
	5-Year High	2.06	2.28	1.54	4.56
	5-Year Low	0.73	1.01	0.52	2.83
	5-Year Median	1.44	1.69	1.32	3.65

As of 6/8/2020

Industry Analysis Zacks Industry Rank: Top 25% (64 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Avista Corporation (AVA)	Neutral	3
Covanta Holding Corporation (CVA)	Neutral	3
IDACORP, Inc. (IDA)	Neutral	3
NorthWestern Corporation (NWE)	Neutral	4
Ormat Technologies, Inc. (ORA)	Neutral	3
PNM Resources, Inc. Holding Co. (PNM)	Neutral	3
Portland General Electric Company (POR)	Neutral	4
TerraForm Power, Inc. (TERP)	Neutral	3

Industry Comparison Industry: Alternative Energy - Other				Industry Peers		
	CWEN	X Industry	S&P 500	IDA	NWE	PNM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	B	-	-	D	C	B
Market Cap	4.67 B	159.31 M	23.56 B	4.83 B	3.20 B	3.44 B
# of Analysts	3	2	14	1	1	1
Dividend Yield	3.59%	0.00%	1.8%	2.80%	3.80%	2.85%
Value Score	B	-	-	D	C	C
Cash/Price	0.08	0.11	0.06	0.03	0.02	0.00
EV/EBITDA	12.12	7.64	13.19	12.35	11.85	12.26
PEG Ratio	1.77	3.94	3.18	8.00	5.57	3.28
Price/Book (P/B)	2.06	1.56	3.19	1.95	1.55	2.04
Price/Cash Flow (P/CF)	9.69	9.57	12.52	11.87	9.08	7.25
P/E (F1)	17.71	21.20	23.31	21.04	18.88	20.07
Price/Sales (P/S)	4.35	1.22	2.51	3.75	2.65	2.28
Earnings Yield	5.51%	1.29%	4.15%	4.75%	5.30%	4.98%
Debt/Equity	2.34	0.55	0.76	0.74	1.09	1.52
Cash Flow (\$/share)	2.41	0.74	7.01	8.07	6.97	5.95
Growth Score	C	-	-	D	D	B
Hist. EPS Growth (3-5 yrs)	31.16%	18.79%	10.87%	3.82%	5.65%	6.38%
Proj. EPS Growth (F1/F0)	1,393.30%	-0.10%	-10.76%	-1.30%	-2.05%	-0.46%
Curr. Cash Flow Growth	1.48%	1.48%	5.48%	2.71%	0.63%	8.83%
Hist. Cash Flow Growth (3-5 yrs)	10.60%	10.66%	8.55%	4.23%	8.19%	7.55%
Current Ratio	0.32	1.14	1.29	1.91	0.95	0.26
Debt/Capital	70.08%	38.67%	44.75%	42.62%	52.27%	60.15%
Net Margin	-1.86%	-1.86%	10.59%	17.69%	14.89%	2.92%
Return on Equity	-0.82%	-5.94%	16.26%	9.27%	9.25%	9.98%
Sales/Assets	0.12	0.29	0.55	0.20	0.21	0.21
Proj. Sales Growth (F1/F0)	11.54%	0.00%	-2.62%	0.00%	0.00%	0.00%
Momentum Score	C	-	-	A	B	B
Daily Price Chg	2.09%	1.02%	1.55%	1.81%	0.68%	1.53%
1 Week Price Chg	4.61%	2.93%	7.51%	0.88%	4.47%	4.12%
4 Week Price Chg	8.89%	16.75%	15.61%	5.95%	10.06%	13.58%
12 Week Price Chg	40.88%	33.90%	38.10%	17.27%	10.99%	27.70%
52 Week Price Chg	47.08%	-15.74%	3.66%	-8.14%	-12.93%	-13.09%
20 Day Average Volume	721,259	66,856	2,648,536	273,891	377,982	626,814
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-4.20%	-33.19%	-15.97%	-0.22%	-5.10%	0.45%
(Q1) EPS Est Mthly Chg	8.05%	0.00%	0.00%	NA	NA	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	C
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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