

## Clearway Energy Inc.(CWEN)

**\$26.24** (As of 08/14/20)

Price Target (6-12 Months): **\$27.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 08/12/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

### Summary

Clearway Energy is primarily focused on North American operations, and operates utility-scale renewable as well as natural gas-fired power generation units having low operational risks. New generation fleet ensures high fleet availability and modest maintenance-related expenditures, in turn boosting margins. Resolving of the PG&E bankruptcy provided additional cash to the company to fund growth investments. Its shares 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 cannot be always assured. Underperformance of third-party transmission lines that are used to supply electricity may negatively impact the company. Its high debt level and low times interest earned ratio are concerns.

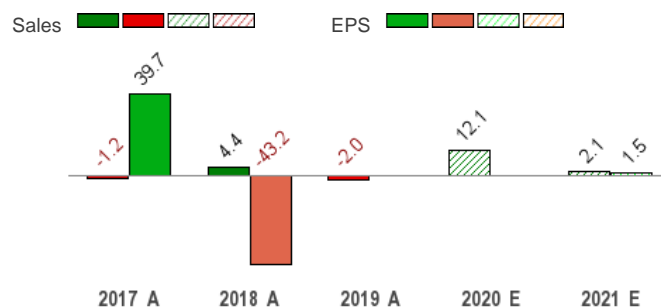
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$27.12 - \$16.12
20 Day Average Volume (sh)	462,559
Market Cap	\$5.2 B
YTD Price Change	31.5%
Beta	0.97
Dividend / Div Yld	\$1.25 / 3.2%
Industry	<a href="#">Alternative Energy - Other</a>
Zacks Industry Rank	Top 50% (126 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-42.3%
Last Sales Surprise	-3.0%
EPS F1 Est- 4 week change	-12.1%
Expected Report Date	NA
Earnings ESP	16.2%
P/E TTM	55.8
P/E F1	19.6
PEG F1	2.0
P/S TTM	4.7

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,181 E
2020	258 A	329 A	352 E	286 E	1,157 E
2019	217 A	284 A	296 A	235 A	1,032 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.16 E	\$0.25 E	\$0.43 E	\$0.40 E	\$1.36 E
2020	-\$0.24 A	\$0.41 A	\$0.74 E	\$0.43 E	\$1.34 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/14/2020. The reports text is as of 08/17/2020.

## Overview

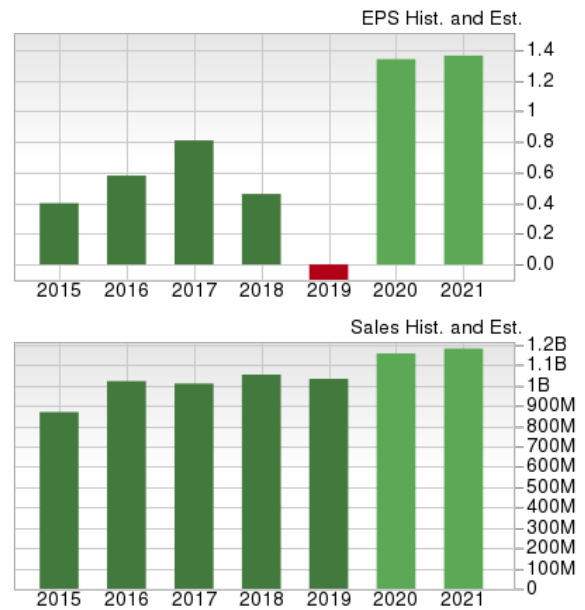
Founded in 2012, Clearway Energy Inc., along with its subsidiaries, owns and operates a diversified portfolio of contracted renewable and conventional generation, along with thermal infrastructure assets in the United States. The company's primary business strategy is to focus on acquisitions and ownership of assets that have predictable and long-term cash flows to increase the cash dividends paid to holders of its Class A and Class C common stock over time, without compromising the ongoing stability of the business. Clearway Energy's asset portfolio includes more than 7,400 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. As of Dec 31, 2019, GIP owned nearly 55% voting interest in the company.

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.



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## 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.

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 June 30, 2020. The Bankruptcy case of its customer, Pacific Gas and Electric Co. (PG&E) is resolved. This provided the company with a significant source of liquidity through the release of nearly \$168 million of trapped cash and allowed it to allocate the same toward growth investments. In the past 12 months, Clearway Energy's shares have gained 49.3% against the industry's decline of 2.8%.

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

- ▲ 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. It has already made an agreement to acquire two wind projects having a combined capacity of 199 MW, out of which the Rattlesnake project will start operation from 2020 and Pinnacle Wind Repowering will begin operating from 2021.

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. Clearway Energy entered into an agreement with Clearway Group to acquire an interest in Mesquite Star Pledgor LLC, which owns the Mesquite Star wind project, a 419-MW utility scale wind facility.

- ▲ 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.

The company owns and operates utility scale and distributed renewable energy and natural gas-fired generation, thermal and other infrastructure assets with proven technologies, low operating risks, along with stable cash flows. Clearway Energy believes that it will be able to maximize strategic opportunities and the overall financial performance, as well as be a leader in operational efficiency by focusing on this core asset class and leveraging the industry knowledge.

- ▲ 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.

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## 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. The company also depends on others for wholesale sale of electricity from the electric generation assets to customers. If these third-party facilities fail to provide Clearway Energy with adequate transmission capacity, its 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. Long-term debt of the company at the end of second-quarter 2020 were \$6,377 million, up from \$4,956 million at the end of fourth-quarter 2019.

Its 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 COVID-19 outbreak, 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 Q2 Earnings & Revenues Miss Estimates

Clearway Energy Inc. reported second-quarter 2020 earnings of 41 cents per share, which missed the Zacks Consensus Estimate of 71 cents by 42.2%. In the year-ago quarter, the company reported a loss of 22 cents per share.

### Total Revenues

The company's total revenues for second-quarter 2020 were \$329 million, which lagged the Zacks Consensus Estimate of \$339 million by 2.9%. However, total revenues improved 15.8% year over year.

### Highlights of the Release

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

Total operating expenses for the second quarter amounted to \$199 million, increasing 1.01% from the year-ago period. Operating income was \$130 million, up 49.4% from the year-ago level.

Interest expenses for the quarter were \$93 million, decreasing 28.5% year over year.

### Financial Position

Clearway Energy had cash and cash equivalents of \$175 million as of Jun 30, 2020, up from \$155 million on Dec 31, 2019. Total liquidity as of Jun 30, 2020 was \$855 million, which was higher than the Dec 31, 2019 level of \$842 million. The improvement was due to proceeds raised through the company's ATM program during 2020 and from the residential solar portfolio divestiture, along with the offering of additional Senior Notes due 2028.

Long-term debt as of Jun 30, 2020 was \$6,377 million, reflecting a 28.7% increase from \$4,956 million on Dec 31, 2019.

The company's net cash flow from operating activities for first-half 2020 was \$184 million compared with \$150 million in the comparable prior-year period.

### Guidance

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

Quarter Ending 06/2020

Report Date	Aug 06, 2020
Sales Surprise	-2.95%
EPS Surprise	-42.25%
Quarterly EPS	0.41
Annual EPS (TTM)	0.47

## Valuation

Clearway Energy shares are up 31.1% in the year to date period and up 49.3% in the trailing 12-month period. Stocks in the Zacks sub-industry is and the Zacks Oil-Energy sector are down 13.6% and 34.6% respectively in the year to date period. Over the past year, the Zacks sub-industry and Zacks sector are down 2.8% and 29.5% respectively.

The S&P 500 index is up 4.5% in the year-to-date period and up 15.4% in the past year .

The stock is currently trading at 19.37X of forward 12 months earnings, which compares to 17.36X for the Zacks sub-industry, 29.4X for the Zacks sector and 22.87X 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 15.17X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$27 price target reflects 20.14X 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	19.37	17.36	29.4	22.87
	5-Year High	29.82	22.8	61.18	22.87
	5-Year Low	7.4	11.36	11.32	15.25
	5-Year Median	15.17	16.25	18.7	17.58
P/S F12M	Current	4.49	0.95	0.74	3.7
	5-Year High	4.65	31.25	1.47	3.7
	5-Year Low	1.86	0.71	0.59	2.53
	5-Year Median	2.94	5.16	0.99	3.05
P/B TTM	Current	2.36	1.59	1.08	4.52
	5-Year High	2.42	2.29	1.55	4.56
	5-Year Low	0.73	1.01	0.52	2.83
	5-Year Median	1.44	1.7	1.32	3.74

As of 8/14/2020

## Industry Analysis Zacks Industry Rank: Top 50% (126 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Allete, Inc. (ALE)	Neutral	3
Avista Corporation (AVA)	Neutral	3
IDACORP, Inc. (IDA)	Neutral	3
NorthWestern Corporation (NWE)	Neutral	3
PNM Resources, Inc. Holding Co. (PNM)	Neutral	3
Portland General Electric Company (POR)	Neutral	2
Covanta Holding Corporation (CVA)	Underperform	3
Ormat Technologies, Inc. (ORA)	Underperform	5

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	3	3
VGM Score	A	-	-	C	D	C
Market Cap	5.23 B	507.89 M	23.68 B	4.44 B	2.81 B	3.57 B
# of Analysts	3	3	14	1	1	1
Dividend Yield	3.20%	0.00%	1.68%	3.05%	4.32%	2.75%
Value Score	B	-	-	C	C	C
Cash/Price	0.07	0.09	0.07	0.10	0.01	0.00
EV/EBITDA	14.53	9.18	13.36	11.30	10.92	12.30
PEG Ratio	1.95	3.05	2.99	7.35	4.89	4.16
Price/Book (P/B)	2.34	1.53	3.22	1.77	1.37	2.03
Price/Cash Flow (P/CF)	10.87	10.87	12.82	10.90	7.97	7.53
P/E (F1)	19.51	19.58	22.06	19.33	16.57	20.27
Price/Sales (P/S)	4.68	1.77	2.51	3.44	2.33	2.33
Earnings Yield	5.11%	2.41%	4.30%	5.17%	6.03%	4.93%
Debt/Equity	2.97	0.69	0.77	0.80	1.06	1.39
Cash Flow (\$/share)	2.41	0.21	6.94	8.07	6.97	5.95
Growth Score	B	-	-	C	F	C
Hist. EPS Growth (3-5 yrs)	9.70%	14.39%	10.41%	4.41%	4.20%	6.86%
Proj. EPS Growth (F1/F0)	1,440.00%	-1.90%	-6.32%	-1.30%	-2.05%	2.31%
Curr. Cash Flow Growth	1.48%	-0.45%	5.20%	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	1.18	1.18	1.33	1.85	0.61	0.26
Debt/Capital	74.83%	41.13%	44.59%	44.43%	51.42%	57.96%
Net Margin	4.56%	-2.66%	10.13%	18.22%	12.74%	11.57%
Return on Equity	2.42%	0.16%	14.51%	9.48%	7.89%	10.72%
Sales/Assets	0.12	0.29	0.51	0.19	0.20	0.21
Proj. Sales Growth (F1/F0)	12.14%	0.00%	-1.43%	0.00%	0.00%	0.00%
Momentum Score	A	-	-	B	C	D
Daily Price Chg	-0.91%	-0.20%	0.12%	-1.09%	0.07%	0.04%
1 Week Price Chg	9.54%	3.13%	2.30%	-0.61%	2.86%	4.95%
4 Week Price Chg	12.42%	3.33%	4.41%	-2.03%	1.68%	14.49%
12 Week Price Chg	24.77%	0.00%	13.66%	1.38%	-3.54%	16.00%
52 Week Price Chg	49.35%	-13.71%	5.80%	-17.41%	-20.97%	-10.95%
20 Day Average Volume	462,559	86,301	1,984,154	239,654	317,983	444,219
(F1) EPS Est 1 week change	3.88%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-12.13%	0.00%	2.08%	0.00%	0.00%	2.31%
(F1) EPS Est 12 week change	3.61%	-2.09%	2.66%	0.00%	0.00%	0.00%
(Q1) EPS Est Mthly Chg	11.28%	4.19%	0.94%	NA	NA	NA

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## 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.

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### 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>B</b>
Growth Score	<b>B</b>
Momentum Score	<b>A</b>
VGM Score	<b>A</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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