

Clearway Energy Inc.(CWEN)

\$23.11 (As of 02/19/20)

Price Target (6-12 Months): **\$25.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/19/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

Summary

Clearway Energy is poised to gain from its long-lived renewable assets. Clearway Energy's planned capital expenditure expands renewable generation and helps it to maintain its generation portfolio in compliance with environmental regulations. Focus on North American operation is acting as a tailwind for the company. Notably, shares of Clearway Energy have outperformed its industry in the past six months. The company completes acquisition of 527 MW Carlsbad Energy Center further expanding its clean energy generation portfolio. 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.

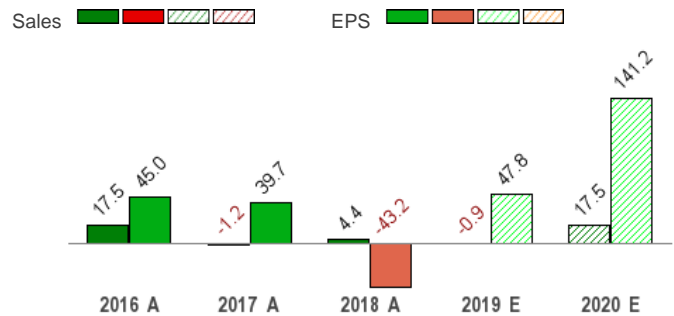
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$23.21 - \$14.13
20 Day Average Volume (sh)	534,935
Market Cap	\$4.5 B
YTD Price Change	15.8%
Beta	1.23
Dividend / Div Yld	\$0.80 / 3.5%
Industry	Alternative Energy - Other
Zacks Industry Rank	Top 18% (47 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-49.3%
Last Sales Surprise	-9.8%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	02/27/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	14.1
PEG F1	1.4
P/S TTM	4.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					1,226 E
2019	217 A	284 A	296 A	224 E	1,043 E
2018	225 A	307 A	292 A	229 A	1,053 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.34 E	\$0.30 E	\$0.51 E	\$0.37 E	\$1.64 E
2019	-\$0.18 A	-\$0.22 A	\$0.36 A	\$0.39 E	\$0.68 E
2018	\$0.16 A	\$0.61 A	\$0.20 A	-\$0.63 A	\$0.46 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 02/19/2020. The reports text is as of 02/20/2020.

Overview

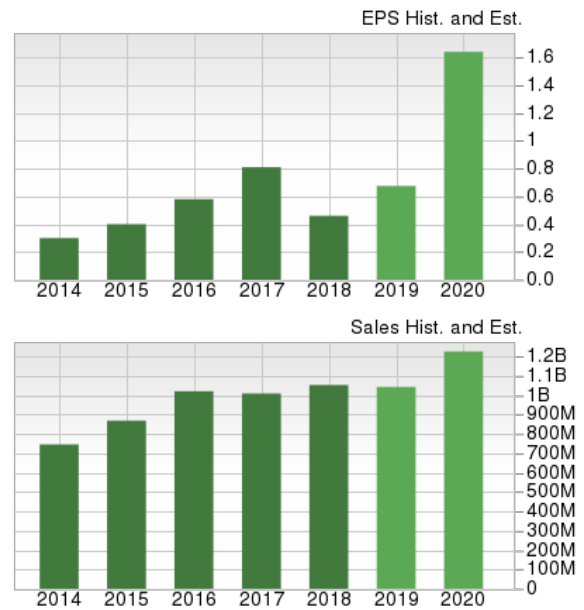
Founded in 2012, Clearway Energy Inc., along with its subsidiaries, owns and operates a diversified portfolio of contracted renewable and conventional generation, along with thermal infrastructure assets in the United States. The company's primary business strategy is to focus on acquisition and ownership of assets that have predictable, long-term cash flows for strengthening its financial position. Clearway Energy's asset portfolio includes nearly 7,000 megawatts 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.

The company has three segments, namely **Renewables**, **Thermal** and **Conventional**. At the end of 2018, these segments contributed \$526 million, \$193 million and \$337 million, respectively, to its 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 six months, shares of Clearway Energy have gained 30.9% compared with its industry's 8.1% rally.

Most of its generation assets substantially sell all of its output pursuant to long-term offtake agreements. The weighted average remaining contract duration of these long-term offtake agreements were nearly 14 years as of Sep 30, 2019. The company had increased annual dividend rate by 15% in 2018, which is enabling it to improve its shareholders' value. The current annual dividend rate is 80 cents per share and its dividend yield stands at 3.59%, much higher than the S&P 500 index's 1.78%.

- ▲ 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. The recent acquisition of Duquesne University's District Energy System will allow the company to enjoy long-term benefits from a 40-year energy services agreement with the University.

The company currently has nearly 8.8-gigawatt (GW) renewable development projects in its pipeline. Out of the company's total pipeline projects, 1.3 GW is in advanced stage, 3.1 GW in intermediate state and 3.5 GW in early stage. These clean development projects will further strengthen operation of the company and create growth opportunities.

- ▲ 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 nearly 8,000 MW of solar and wind assets to its portfolio over the next few years. The company is focused on developing battery storage projects, which in a way supports the development of renewable projects. The battery projects will help it store power and provide energy to customers when generation is not available from renewable sources.

- ▲ Capital expenditure plans of the company will help to further expand its capacity to generate energy from clean sources. High-quality renewable assets will continue to support the company's generation portfolio, which in sync with current environmental regulations. Clearway Energy completes the acquisition of 527-megawatt Carlsbad Energy Center. This is set to further expand its clean energy generation portfolio.

The company is also expanding operations in the Hospitality sector and has entered into a 15-year energy services agreement with the owner of Four Seasons Cayo Largo Resort, located near Fajardo, Puerto Rico.

Long-lived renewable assets, development of new storage projects, expansion of operations in new areas 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. If the company fails to produce expected volume of energy from renewable sources, its business, financial conditions and cash flow will be adversely impacted. Poor weather conditions during the second quarter significantly affected renewable energy production and performance of the company.
- ▼ 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 recently, servicing the existing debts will lower the company's profitability and reduce margins. The current debt-to-capital is 67.94%, much higher than its industry's average of 37.66% and the S&P 500 group's 42.37%.

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 Lags Q3 Earnings & Revenue Estimates

Clearway Energy Inc. reported third-quarter 2019 earnings of 36 cents per share, lagging the Zacks Consensus Estimate of 71 cents by 49.3%. However, the reported earnings increased 80% from the year-ago figure of 20 cents.

Total Revenues

The company's total revenues in third-quarter 2019 were \$296 million, lagging the Zacks Consensus Estimate of \$328 million by 9.8%. However, the top line was up 1.4% from the year-ago reported figure.

Highlights of the Release

Total operating expenses in the quarter amounted to \$206 million, increasing 7.3% from the year-ago period.

Operating income in the reported quarter was \$90 million, down 11.1% from the year-ago level.

Interest expenses amounted to \$106 million, increasing 43.2% from the year-ago period.

Financial Position

Clearway Energy had cash and cash equivalents of \$148 million as of Sep 30, 2019, down from \$407 million on Dec 31, 2018.

Long-term debt as of Sep 30, 2019 was \$4,143 million, reflecting a decline of 23.9% from \$5,447 million on Dec 31, 2018.

The company's net cash flow from operating activities during the first nine months of 2019 was \$374 million compared with \$396 million in the comparable prior-year period.

Guidance

Clearway Energy maintained its full-year 2019 cash available for distribution (CAFD) guidance at \$250 million. In addition, the company initiated its 2020 CAFD guidance of \$295 million.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	-9.76%
EPS Surprise	-49.30%
Quarterly EPS	0.36
Annual EPS (TTM)	-0.67

Recent News

Clearway Energy Acquires Carlsbad, Expands Green Portfolio - Dec 9, 2019

Clearway Energy, Inc. announced that it has recently completed the acquisition of 527-megawatt (MW) Carlsbad Energy Center (Carlsbad) from Global Infrastructure Partners III (GIP) for \$184 million. Clearway Energy issued 5.4-million shares of Class C common stock to fund the acquisition.

This facility will further boost the company's clean power generation portfolio, which presently includes 7,000 MWs of wind, solar and natural gas-fired power generation facilities. The project's power purchase and tolling agreement with San Diego Gas and Electric Company has 19 years remaining (with the total being 20 years). This agreement will ensure regular earnings from the project and boost the company's bottom line.

Valuation

Clearway Energy shares are up 30.9% in the last six months period and 60% in the trailing 12-month period. Stocks in the Zacks sub-industry is up 8.1% but the Zacks Oil-Energy sector is down 3.6% in the last six months period. Over the past year, the Zacks sub-industry and Zacks sector are down 4.8% and 18.2% respectively.

The S&P 500 index is up 15.9% in the year-to-date period and 20.7% in the past year .

The stock is currently trading at 14.37X of forward 12 months earnings, which compares to 12.43X for the Zacks sub-industry, 13.29X for the Zacks sector and 19.3X 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 14.86X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$25 price target reflects 15.62X 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	14.37	12.43	13.29	19.3
	5-Year High	29.82	22.79	32.4	19.34
	5-Year Low	7.4	11.74	11.27	15.18
	5-Year Median	14.86	16.16	18.56	17.47
P/S F12M	Current	3.6	0.78	0.81	3.57
	5-Year High	5.1	30.75	1.45	3.57
	5-Year Low	1.86	0.78	0.67	2.54
	5-Year Median	2.91	5.23	0.99	3
P/B TTM	Current	2.19	1.62	1.11	4.66
	5-Year High	2.19	2.29	1.6	4.68
	5-Year Low	0.73	1.01	1.03	2.85
	5-Year Median	1.41	1.69	1.31	3.62

As of 2/19/2020

Industry Analysis Zacks Industry Rank: Top 18% (47 out of 255)



Top Peers

Avista Corporation (AVA)	Neutral
Covanta Holding Corporation (CVA)	Neutral
IDACORP, Inc. (IDA)	Neutral
NorthWestern Corporation (NWE)	Neutral
Pattern Energy Group Inc. (PEGI)	Neutral
PNM Resources, Inc. (Holding Co.) (PNM)	Neutral
Portland General Electric Company (POR)	Neutral
TerraForm Power, Inc. (TERP)	Neutral

Industry Comparison Industry: Alternative Energy - Other				Industry Peers		
	CWEN Neutral	X Industry	S&P 500	IDA Neutral	NWE Neutral	PNM Neutral
VGM Score	A	-	-	F	D	C
Market Cap	4.47 B	566.82 M	24.59 B	5.64 B	4.05 B	4.38 B
# of Analysts	2	2	13	1	1	2
Dividend Yield	3.46%	0.00%	1.78%	2.39%	2.87%	2.23%
Value Score	A	-	-	D	D	C
Cash/Price	0.09	0.11	0.04	0.05	0.00	0.00
EV/EBITDA	9.93	3.58	14.21	14.14	13.82	13.58
PEG Ratio	1.41	3.40	2.09	9.82	7.38	4.32
Price/Book (P/B)	2.18	1.72	3.28	2.28	1.98	2.53
Price/Cash Flow (P/CF)	9.44	9.59	13.59	14.24	11.52	10.06
P/E (F1)	14.09	18.21	19.17	24.54	22.73	24.85
Price/Sales (P/S)	4.36	1.69	2.68	4.13	3.22	3.01
Earnings Yield	7.10%	4.16%	5.18%	4.07%	4.40%	4.01%
Debt/Equity	2.12	0.61	0.70	0.74	1.10	1.48
Cash Flow (\$/share)	2.45	1.05	6.93	7.86	6.97	5.47
Growth Score	B	-	-	F	D	B
Hist. EPS Growth (3-5 yrs)	38.46%	13.63%	10.84%	3.79%	6.56%	6.50%
Proj. EPS Growth (F1/F0)	142.96%	27.37%	7.00%	2.70%	3.22%	3.02%
Curr. Cash Flow Growth	-7.18%	13.65%	7.81%	4.64%	0.63%	2.88%
Hist. Cash Flow Growth (3-5 yrs)	18.55%	12.67%	8.25%	4.60%	8.19%	6.22%
Current Ratio	0.28	1.27	1.24	2.08	0.90	0.36
Debt/Capital	67.94%	37.66%	42.37%	42.64%	52.47%	59.57%
Net Margin	-7.12%	-3.24%	11.69%	15.52%	16.07%	-0.64%
Return on Equity	-3.45%	-3.45%	16.86%	8.79%	9.76%	9.18%
Sales/Assets	0.12	0.34	0.55	0.21	0.22	0.21
Proj. Sales Growth (F1/F0)	17.55%	6.59%	4.05%	NA	0.00%	3.21%
Momentum Score	C	-	-	D	A	B
Daily Price Chg	3.82%	0.01%	0.38%	-1.10%	0.60%	-1.33%
1 Week Price Chg	1.99%	0.98%	1.65%	2.09%	2.76%	2.37%
4 Week Price Chg	8.91%	0.64%	0.86%	1.60%	6.32%	5.20%
12 Week Price Chg	15.84%	8.28%	4.56%	5.42%	11.70%	13.25%
52 Week Price Chg	62.40%	-15.79%	14.15%	13.86%	21.20%	25.40%
20 Day Average Volume	534,935	32,329	1,989,235	221,747	263,353	520,281
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.28%	0.00%
(F1) EPS Est 4 week change	-0.40%	0.00%	-0.03%	0.00%	0.28%	0.00%
(F1) EPS Est 12 week change	7.89%	0.00%	-0.21%	0.00%	0.57%	0.45%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.40%	NA	NA	0.00%

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	A
Growth Score	B
Momentum Score	C
VGM Score	A

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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