

Clearway Energy Inc.(CWEN)

\$20.23 (As of 03/26/20)

Price Target (6-12 Months): **\$21.00**

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:C

Value: C

Growth: C

Momentum: C

Summary

Clearway Energy is poised to gain from its long-lived renewable assets. The company's strategy to acquire contracted operating assets will continue to boost performance. Focus on North American operation and buyout of 527 MW Carlsbad Energy Center will act as a tailwind. 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.

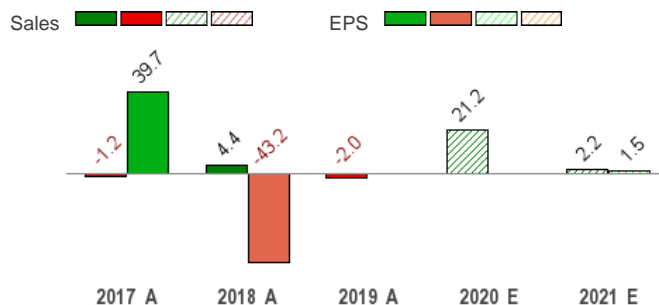
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$23.24 - \$14.77
20 Day Average Volume (sh)	1,238,008
Market Cap	\$4.0 B
YTD Price Change	1.4%
Beta	1.09
Dividend / Div Yld	\$0.84 / 4.2%
Industry	Alternative Energy - Other
Zacks Industry Rank	Top 32% (80 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-115.4%
Last Sales Surprise	4.9%
EPS F1 Est- 4 week change	-17.7%
Expected Report Date	05/05/2020
Earnings ESP	-146.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,278 E
2020	232 E	339 E	345 E	256 E	1,251 E
2019	217 A	284 A	296 A	235 A	1,032 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.37 E
2020	\$0.09 E	\$0.58 E	\$0.55 E	\$0.13 E	\$1.35 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	15.0
PEG F1	1.5
P/S TTM	3.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

Overview

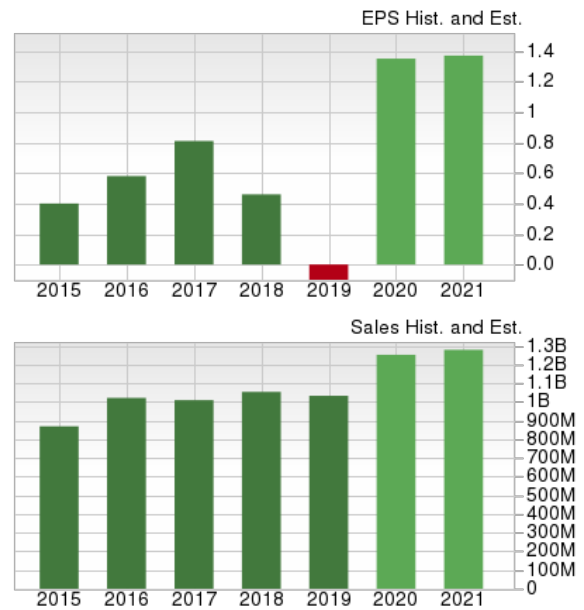
Founded in 2012, Clearway Energy Inc., along with its subsidiaries, owns and operates a diversified portfolio of contracted renewable and conventional generation, along with thermal infrastructure assets in the United States. The company's primary business strategy is to focus on acquisition and ownership 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 35.3% against the industry's decline of 28.7%.

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

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 had increased quarterly dividend rate by 5%, thus boosting shareholders' value.

- ▲ 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. This in sync with company's strategy to expand operation through acquisitions of contracted operating assets.

Clearway Energy already acquired 80 MW of solar projects from Clearway Group under the Right to First Offer ("ROFO") mode. Additionally, the company currently has 634 MW ROFO projects, which includes 175 MW of solar projects and 459 MW of wind projects. If these clean development projects are acquired by Clearway Energy it 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 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.
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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. 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 to near zero level, servicing the existing debts will lower the company's profitability and reduce margins. The current debt-to-capital is 69.61%, much higher than its industry's average of 37.32% and the Zacks S&P 500 Composite group's 42.57%.

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 Q4 Earnings Estimates, Ups View

Clearway Energy Inc. reported fourth-quarter 2019 loss of 6 cents per share against the Zacks Consensus Estimate of earnings of 39 cents.

Total Revenues

The company's total revenues in 2019 were \$1,032 million, declining 2% from the year-ago reported figure.

Quarter Ending **12/2019**

Report Date	Feb 27, 2020
Sales Surprise	4.91%
EPS Surprise	-115.38%
Quarterly EPS	-0.06
Annual EPS (TTM)	-0.10

Highlights of the Release

On Dec 6, 2019, it closed the acquisition of the 527-MW Carlsbad Energy Center (Carlsbad) from Global Infrastructure Partners III (GIP) for a purchase price of \$184 million plus the assumption of non-recourse debt of \$803 million. This acquisition is expected to contribute asset CAFD on a five-year average annual basis of nearly \$27 million beginning Jan 1, 2020.

During the quarter, the company raised \$700 million of new corporate level capital to support growth investments and optimize the balance sheet.

Total operating expenses in 2019 amounted to \$808 million, increasing 14.5% from the year-ago period.

Operating income in 2019 was \$224 million, down 35.4% from the year-ago level.

Interest expenses in the full year amounted to \$404 million, increasing 32% from the year-ago period.

Financial Position

Clearway Energy had cash and cash equivalents of \$155 million as of Dec 31, 2019, down from \$407 million in the comparable period of 2018.

Long-term debt as of Dec 31, 2019 was \$4,956 million, reflecting a decline of 9% from \$5,447 million in the corresponding period of 2018.

The company's net cash flow from operating activities during 2019 was \$477 million compared with \$498 million in the comparable prior-year period.

Guidance

Courtesy of the acquisition of Carlsbad Energy Center in December 2019, it upwardly revised its 2020 cash available for distribution (CAFD) guidance. Clearway Energy expects 2020 CAFD to be \$310 million, up from prior expectation of \$295 million.

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 1.4% in the year to date period and up 35.3% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 28.7% and 45.5% respectively in the year to date period. Over the past year, the Zacks sub-industry and Zacks sector are down 28.7% and 50.9% respectively.

The S&P 500 index is down 23.1% in the year-to-date period and 12.8% in the past year .

The stock is currently trading at 14.93X of forward 12 months earnings, which compares to 15.51X for the Zacks sub-industry, 16.63X for the Zacks sector and 14.92X 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 14.8X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$21 price target reflects 15.55X 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	14.93	15.51	16.63	14.92
	5-Year High	29.82	22.79	32.41	19.34
	5-Year Low	7.4	11.37	11.28	14.92
	5-Year Median	14.8	16.08	18.41	17.42
P/S F12M	Current	3.2	6.43	0.59	2.68
	5-Year High	5.1	30.75	1.45	3.43
	5-Year Low	1.86	0.71	0.59	2.54
	5-Year Median	2.92	5.23	0.99	3
P/B TTM	Current	1.78	1.17	0.72	3.33
	5-Year High	2.03	2.29	1.6	4.56
	5-Year Low	0.73	0.92	0.54	2.85
	5-Year Median	1.42	1.69	1.31	3.63

As of 3/26/2020

Industry Analysis Zacks Industry Rank: Top 32% (80 out of 253)



Top Peers

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

Industry Comparison Industry: Alternative Energy - Other				Industry Peers		
	CWEN Neutral	X Industry	S&P 500	IDA Neutral	NWE Outperform	PNM Neutral
VGM Score	C	-	-	D	F	D
Market Cap	4.02 B	356.49 M	18.50 B	4.45 B	2.98 B	3.09 B
# of Analysts	3	3	13	1	1	1
Dividend Yield	4.15%	0.00%	2.35%	3.04%	4.06%	3.17%
Value Score	C	-	-	D	D	D
Cash/Price	0.11	0.20	0.07	0.06	0.00	0.00
EV/EBITDA	11.11	4.39	11.16	11.29	11.48	11.70
PEG Ratio	1.41	2.62	1.74	7.74	5.44	3.04
Price/Book (P/B)	1.78	1.26	2.44	1.80	1.46	1.77
Price/Cash Flow (P/CF)	8.38	8.02	9.87	10.94	8.48	6.52
P/E (F1)	14.07	18.67	15.29	19.35	16.74	18.04
Price/Sales (P/S)	3.90	0.95	1.93	3.30	2.37	2.03
Earnings Yield	6.67%	4.91%	6.47%	5.17%	5.97%	5.54%
Debt/Equity	2.29	0.60	0.70	0.70	1.10	1.51
Cash Flow (\$/share)	2.41	1.44	7.01	8.07	6.97	5.95
Growth Score	C	-	-	D	F	C
Hist. EPS Growth (3-5 yrs)	38.46%	13.63%	10.85%	3.99%	6.56%	6.41%
Proj. EPS Growth (F1/F0)	1,450.00%	8.16%	2.89%	-1.08%	3.22%	-0.46%
Curr. Cash Flow Growth	1.48%	2.60%	5.93%	2.71%	0.63%	8.83%
Hist. Cash Flow Growth (3-5 yrs)	10.60%	10.89%	8.55%	4.23%	8.19%	7.55%
Current Ratio	0.30	1.13	1.23	1.51	0.90	0.30
Debt/Capital	69.61%	37.32%	42.57%	41.28%	52.47%	59.94%
Net Margin	-1.07%	-1.07%	11.64%	17.30%	16.07%	5.11%
Return on Equity	-0.52%	-0.52%	16.74%	9.57%	9.76%	9.68%
Sales/Assets	0.12	0.40	0.54	0.21	0.22	0.21
Proj. Sales Growth (F1/F0)	21.26%	0.00%	2.37%	0.00%	0.00%	0.00%
Momentum Score	C	-	-	B	C	D
Daily Price Chg	9.41%	0.00%	6.21%	6.54%	10.80%	13.12%
1 Week Price Chg	-2.05%	-10.37%	-16.96%	-16.44%	-28.54%	-27.67%
4 Week Price Chg	-4.80%	-16.67%	-15.70%	-14.50%	-20.67%	-21.72%
12 Week Price Chg	0.90%	-17.91%	-23.67%	-16.40%	-16.12%	-21.94%
52 Week Price Chg	35.23%	-45.24%	-13.99%	-10.64%	-15.70%	-17.99%
20 Day Average Volume	1,238,008	37,217	4,286,768	443,191	540,082	1,029,817
(F1) EPS Est 1 week change	0.00%	0.00%	-0.15%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-17.68%	0.00%	-2.28%	0.00%	0.00%	-2.71%
(F1) EPS Est 12 week change	-12.34%	-5.34%	-3.22%	0.00%	0.00%	-2.49%
(Q1) EPS Est Mthly Chg	-74.51%	-3.06%	-1.60%	NA	0.00%	NA

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	C
Growth Score	C
Momentum Score	C
VGM Score	C

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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