

NextEra Energy LP(NEP)

\$68.85 (As of 03/19/21)

Price Target (6-12 Months): **\$72.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/02/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

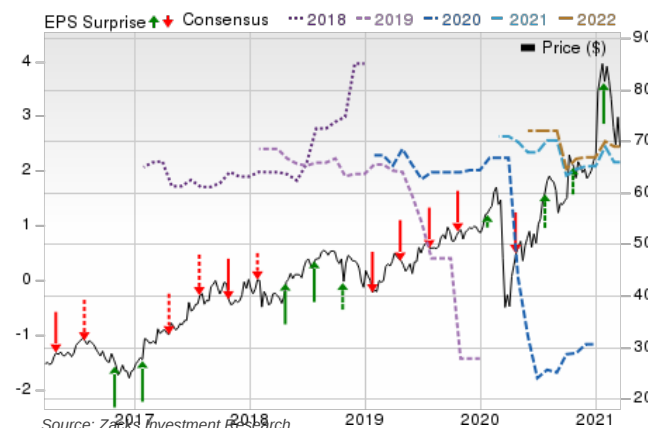
Growth: C

Momentum: C

Summary

NextEra Energy Partners' strategic acquisitions and organic projects will further expand its domestic renewable operations. Its eight natural gas pipelines are well poised to gain from the increase in natural gas production in the United States. The agreement to acquire a 40% interest in a 1GW renewable project from Energy Resources will further expand its clean energy operations. It has financial flexibility to meet its near-term debt obligations. Units of the firm have outperformed the industry in the past year. However, the firm is subject to stringent rules and dependence on a limited group of customers to generate major revenues are headwinds. Dependence on favorable weather conditions to produce energy from renewable power units and competition from other clean sources of fuel are other woes.

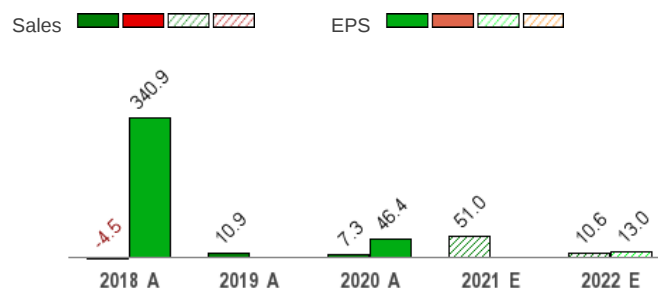
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$88.30 - \$33.00
20-Day Average Volume (Shares)	592,299
Market Cap	\$5.2 B
Year-To-Date Price Change	2.7%
Beta	0.73
Dividend / Dividend Yield	\$2.46 / 3.6%
Industry	Alternative Energy - Other
Zacks Industry Rank	Top 44% (111 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	123.7%
Last Sales Surprise	-34.2%
EPS F1 Estimate 4-Week Change	-5.4%
Expected Report Date	04/28/2021
Earnings ESP	17.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	306 E	314 E	315 E	316 E	1,532 E
2021	308 E	329 E	342 E	340 E	1,385 E
2020	212 A	253 A	240 A	212 A	917 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.52 E	\$0.64 E	\$0.64 E	\$0.56 E	\$2.44 E
2021	\$0.37 E	\$0.56 E	\$0.54 E	\$0.53 E	\$2.16 E
2020	-\$3.39 A	\$0.69 A	\$0.76 A	\$0.85 A	-\$0.81 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	31.9
PEG F1	3.5
P/S TTM	5.7

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 03/19/2021. The report's text and the analyst-provided price target are as of 03/22/2021.

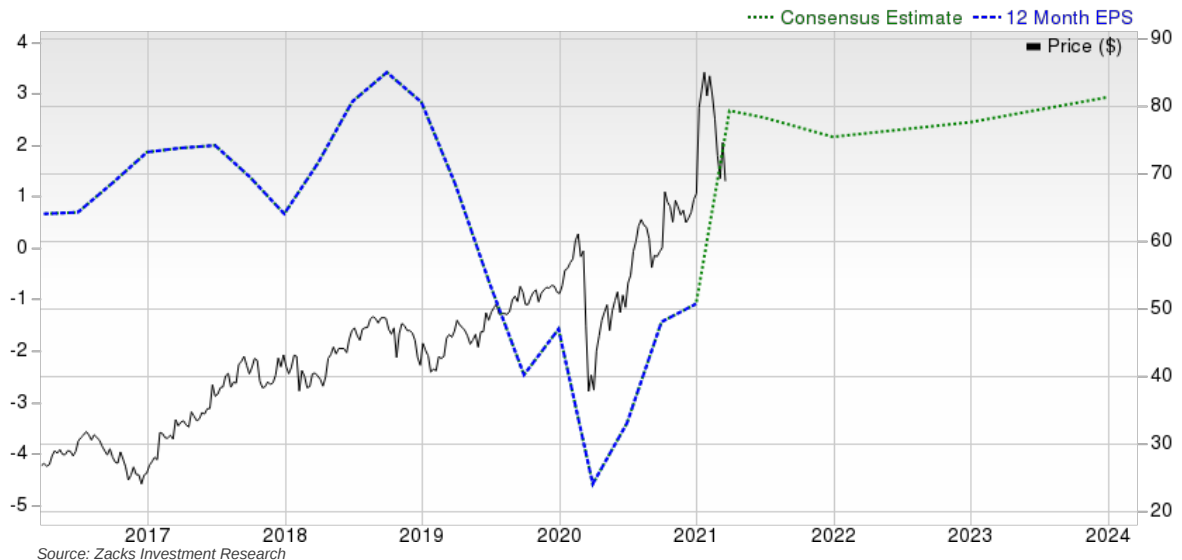
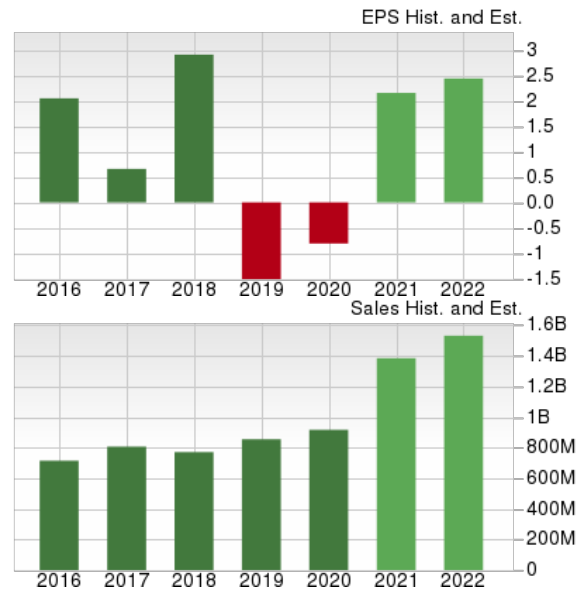
Overview

Based in Juno Beach, Florida NextEra Energy Partners, LP is a growth-oriented limited partnership formed by NextEra Energy, Inc. in 2014. The partnership is formed to acquire, manage and own contracted clean energy projects with stable long-term cash flows. NextEra Energy Partners owns a portfolio of contracted renewable generation assets consisting of wind and solar projects in North America, as well as seven contracted natural gas pipeline assets in Texas.

Renewable Energy sales contributed 71.5%, 75.4% and 76.7% to its total revenues during 2018, 2019 and 2020, respectively. Texas pipelines service revenues constituted 28.5%, 24.6% and 23.3% of total revenues during 2018, 2019, and 2020, respectively.

NextEra Energy Partners plans to focus on the long-term contracted clean energy projects with newer and more reliable technology, lower operating costs, and relatively stable cash flows, consistent with the characteristics of its portfolio. The company's renewable wind and solar assets have the capacity of producing 5,330 megawatts ("MW") of electricity. In 2020, the firm closed the acquisition of a 40% interest in a 1,000-MW renewable portfolio and 100% interest in a 100-MW solar-plus-storage project from NextEra Energy Resources. It also advanced organic growth projects, and completed repowering of 275 MW of wind projects and expansion of the Texas Pipelines. The new agreement with NextEra Energy Resources will further expand its renewable operation in the United States. These projects are on track to come into service later this year and will further strengthen the firm's liquidity.

The eight natural gas pipelines in the portfolio are all strategically located, serving power producers and municipalities in South Texas, commercial and industrial customers in the Houston area, processing plants, along with producers in the Eagle Ford Shale. It owns more than 727 miles of pipelines. These pipeline projects have a capacity of transporting 4.3 billion cubic feet of gas per day.



Reasons To Buy:

- ▲ Natural gas usage in North America is on the rise. Higher production of natural gas has created opportunity for natural gas pipeline services to transport the gas from the production sites to areas having strong natural gas demand. Focus on lower emission and low price of this clean fossil fuel are the primary factors driving the demand for natural gas. Consequently, the need for midstream infrastructure is on the rise.

The partnership is well poised to gain from its pipeline assets in Texas. We expect improving demand for natural gas to create more opportunity for this partnership, further expanding pipeline operation in North America. In the past year, units of NextEra Energy Partners have gained 105.5% compared with the industry's 81.9% rally.

The acquisition of renewable assets, organic growth projects and focus on domestic operation — which are acting as tailwinds — will boost its performance.

- ▲ The partnership aims to expand its existing operations through organic growth and selective acquisitions, which are in sync with the existing renewable energy and natural gas pipeline projects in its portfolio. The firm has successfully completed its first two organic growth investments ahead of schedule and on budget. Repowering of the 175-MW Northern Colorado wind project and 100-MW Baldwin wind project were placed in service, and the backup compression capacity on the Texas Pipelines reached commercial operation. These projects will further boost the firm's projected cash flow. Disciplined investment approach will allow the partnership to expand operation, remain competitive and increase cash distribution of its unitholders over the long term.

The firm recently entered into an agreement with NextEra Energy Resources to acquire a 40% interest in a nearly 1-gigawatt renewables portfolio and 100% interest in a 100-megawatt solar-plus-storage project. This deal will further expand its renewable operation in the United States. Earlier, the firm acquired 600 MW of wind and solar assets from NextEra Energy Resources.

- ▲ NextEra Energy Partners enjoys the benefits of government incentives, declining installation costs and improving technology, which will help to further develop its renewable generation, and achieve more policy incentives.

The partnership sold its Canadian portfolio of wind and solar assets to enjoy the domestic benefit of lower effective corporate tax rate and longer tax shield than Canada. This decision to move out from Canada and use the proceeds in U.S. operations is expected to be accretive to long-term growth.

- ▲ NextEra Energy Partners' contracted clean energy assets assure steady earnings of the partnership and the same is being regularly distributed among its unitholders through cash-distribution increases. In 2020, the firm recorded a 40% year-over-year increase in cash available for distribution growth from 2019 levels. The partnership is targeting an annual increase in cash distribution in the range of 12-15% till 2024 from 2018 levels. The current distribution of 61.50 cents per unit reflects an increase of 15% from fourth-quarter 2019 levels.

NextEra Energy Partners remains uniquely positioned to take advantage of the disruptive factors reshaping the energy industry. Moreover, PG&E's emergence from bankruptcy and payment of a cash distribution of \$65 million to NextEra Energy Partners will further boost the latter's liquidity. The firm expects the annualized rate of fourth-quarter 2021 distribution payable on February 2022 in the range of \$2.76-\$2.83 per common unit.

- ▲ The partnership entered 2021 with a strong financial position. NextEra Energy Partners has access to nearly \$2.4 billion liquidity, which will enable it to fund long-term projects. The firm issued \$600 million in 0% coupon convertible notes and redeemed a portion of its outstanding 4.25% senior notes due 2024, which will further lower interest burden.

Reasons To Sell:

▼ Performance of its renewable generation assets such as wind and solar depends on weather conditions. If the weather is less favorable, energy produced from the projects will be lower than expected, thereby hurting profitability of the company and impacting its ability to pay cash distribution to its unit holders.

▼ NextEra Energy Partners' operations are subject to adherence of stringent laws and regulations in the United States. In addition, the partnership's cross-border operations require it to comply with anti-corruption laws and regulations of the U.S. government, and non-U.S. jurisdictions. If the partnership fails to comply with all the laws and regulations, it might result in penalties and liabilities.

▼ The partnership depends on a limited group of customers for revenues. If any of its customers fail to fulfill contractual obligation or terminate a contract before expiration, the financial conditions of NextEra Energy Partners will be impacted and the firm's ability to pay distribution to unitholders will be hampered.

If natural gas prices remain at lower-than-expected levels for a considerable period of time, this could force producers to go slow on drilling activities in regions outside the current areas of operation, which in turn can hurt the partnership's plan of expanding its pipelines.

▼ The renewable energy projects face direct competition from other sources of fuel to create its niche in the total electricity generation mix. If the prices of natural gas and other traditional fuel sources continue to remain low, it will impact the demand for renewable energy and hamper its growth prospects.

Variable weather conditions, impact of the novel coronavirus outbreak, competition, low price of conventional fuel and dependence on a limited group of customers are potent headwinds.

Last Earnings Report

NextEra Energy Partners Q4 Earnings Surpass Estimates

NextEra Energy Partners, LP delivered earnings of 85 cents per unit for the fourth quarter of 2020, beating the Zacks Consensus Estimate of 38 cents by 123.6%. Also, the firm's earnings improved 70% from the year-ago quarter.

Revenues

Meanwhile, in the quarter under review, the firm's revenues of \$212 million missed the Zacks Consensus Estimate of \$322 million by 34.2%. However, the top line inched up 2.9% on a year-over-year basis.

Highlights of the Release

In the December quarter, NextEra Energy Partners' total adjusted operating expenses were \$166 million, up 1.8% from the year-ago quarter's \$163 million.

In the same period, the partnership's operating income summed \$46 million, up 7% from \$43 million in the year-ago quarter.

Remarkably, in 2020, the firm successfully executed its strategic initiatives with NextEra Energy Resources.

Financial Condition

NextEra Energy Partners had cash and cash equivalents worth \$108 million as of Dec 31, 2020 compared with \$128 million as of Dec 31, 2019.

Long-term debt was \$3,376 million as of Dec 31, 2020 compared with \$4,132 million as of Dec 31, 2019.

Net cash provided by operating activities at the end of 2020 was \$665 million, higher than \$346 million at 2019 end.

In December, NextEra Energy Partners issued \$600 million convertible notes and redeemed a portion of its outstanding 4.25% senior notes due 2024.

Guidance

For 2021, the firm reaffirmed the run rate for cash available for distribution (CAFD) in the range of \$600-\$680 million.

The partnership continues to expect 12-15% per year growth for limited partner distributions through 2024.

Quarter Ending	12/2020
Report Date	Jan 26, 2021
Sales Surprise	-34.16%
EPS Surprise	123.68%
Quarterly EPS	0.85
Annual EPS (TTM)	-1.09

Recent News

On **Nov 2, 2020**, NextEra Energy Partners, LP announced that it has entered into an agreement with a subsidiary of NextEra Energy Resources, LLC to acquire a 40% interest in a nearly 1,000-megawatt (MW) renewables portfolio and 100% interest in a 100-MW solar-plus-storage project. This deal will further enhance the firm's renewable asset portfolio.

Valuation

NextEra Energy Partners units are up 2.7% in the year-to-date period, and up 105.5% over the trailing 12-month period. Stocks in the Zacks sub-industry was up 10.8% and the Zacks Oil & Energy sector was up 18.2% in the year-to-date period. Over the past year, the Zacks sub-industry was up 81.9% and sector was up 87.2%.

The S&P 500 index is up 4.5% in the year-to-date period but up 76.6% in the past year.

The stock is currently trading at 7.86X of trailing 12 months cash flow, which compares to 7.22X for the Zacks sub-industry, 6.36X for the Zacks sector and 23.91X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.42X and as low as 1.76X, with a 5-year median of 7.63X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$72 price target reflects 8.22X of our 12 months cash flow.

The table below shows summary valuation data for NEP

Valuation Multiples - NEP					
		Stock	Sub-Industry	Sector	S&P 500
P/Cash Flow	Current	7.86	7.22	6.36	23.91
	5-Year High	13.42	11.25	9.37	24.29
	5-Year Low	1.76	3.48	1.66	12.87
	5-Year Median	7.63	5.34	5.9	18.62
P/S F12M	Current	3.69	0.85	0.86	4.52
	5-Year High	4.42	8.31	1.46	4.52
	5-Year Low	0.99	0.71	0.6	3.21
	5-Year Median	2.03	3.93	0.96	3.69
P/B TTM	Current	0.65	2.22	1.37	6.61
	5-Year High	1.46	2.31	1.57	6.71
	5-Year Low	0.28	1.07	0.54	3.83
	5-Year Median	0.67	1.78	1.33	4.97

As of 3/19/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ameresco, Inc. (AMRC)	Neutral	3
Bloom Energy Corporation (BE)	Neutral	3
Central Puerto S.A. Sponsored ADR (CEPU)	Neutral	3
Charah Solutions, Inc. (CHRA)	Neutral	3
Clearway Energy, Inc. (CWEN)	Neutral	3
FuelCell Energy, Inc. (FCEL)	Neutral	4
Gevo, Inc. (GEVO)	Neutral	3
Ormat Technologies, Inc. (ORA)	Neutral	3

The positions listed should not be deemed a recommendation to buy, hold or sell.

Industry Comparison Industry: Alternative Energy - Other				Industry Peers		
	NEP	X Industry	S&P 500	AMRC	BE	CHRA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	F	F	A
Market Cap	5.23 B	1.59 B	28.48 B	2.24 B	4.65 B	119.97 M
# of Analysts	5	2	13	4	6	1
Dividend Yield	3.57%	0.00%	1.38%	0.00%	0.00%	0.00%
Value Score	B	-	-	D	F	A
Cash/Price	0.02	0.06	0.06	0.04	0.06	0.35
EV/EBITDA	11.52	7.08	15.90	24.31	-123.03	43.61
PEG F1	3.61	1.81	2.36	1.81	NA	NA
P/B	0.65	2.09	3.90	4.31	31.82	3.84
P/CF	15.51	9.34	15.91	20.70	NA	NA
P/E F1	32.45	25.56	21.22	36.16	NA	18.18
P/S TTM	5.70	3.73	3.30	2.17	5.86	0.21
Earnings Yield	3.14%	2.77%	4.61%	2.77%	-0.44%	5.50%
Debt/Equity	0.44	0.44	0.67	0.63	5.16	5.60
Cash Flow (\$/share)	4.44	0.67	6.78	2.13	-0.65	-0.10
Growth Score	C	-	-	F	C	A
Historical EPS Growth (3-5 Years)	38.03%	6.94%	9.32%	36.20%	NA	NA
Projected EPS Growth (F1/F0)	366.17%	35.40%	14.54%	3.18%	82.09%	188.00%
Current Cash Flow Growth	43.36%	-4.31%	0.72%	25.77%	-15.62%	-103.77%
Historical Cash Flow Growth (3-5 Years)	13.37%	9.72%	7.32%	23.94%	NA	NA
Current Ratio	1.18	1.16	1.39	1.28	1.42	1.16
Debt/Capital	30.46%	30.46%	41.42%	41.56%	83.77%	75.48%
Net Margin	3.05%	2.09%	10.59%	5.24%	-19.84%	-7.05%
Return on Equity	0.42%	2.79%	14.75%	12.68%	NA	-59.84%
Sales/Assets	0.07	0.23	0.51	0.67	0.58	1.50
Projected Sales Growth (F1/F0)	51.03%	8.62%	7.02%	8.62%	17.84%	-47.48%
Momentum Score	C	-	-	D	F	F
Daily Price Change	3.75%	0.00%	-0.12%	-0.29%	5.58%	2.83%
1-Week Price Change	7.71%	7.47%	2.96%	10.60%	15.38%	3.62%
4-Week Price Change	-11.42%	-12.31%	3.72%	-29.80%	-11.33%	-14.71%
12-Week Price Change	4.10%	11.44%	8.75%	-10.87%	-11.30%	34.68%
52-Week Price Change	112.50%	154.14%	72.55%	170.73%	519.45%	87.79%
20-Day Average Volume (Shares)	592,299	182,928	2,394,762	851,568	4,264,159	82,551
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-0.81%	-12.50%	0.00%
EPS F1 Estimate 4-Week Change	-5.44%	0.00%	0.00%	0.83%	-12.50%	0.00%
EPS F1 Estimate 12-Week Change	3.65%	2.03%	2.10%	1.46%	-14.13%	0.00%
EPS Q1 Estimate Monthly Change	6.31%	0.00%	0.00%	-59.52%	-8.62%	NA

Source: Zacks Investment Research

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 maintain a 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.

Disclosures

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Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.