

NextEra Energy LP (NEP)

\$60.50 (As of 08/26/20)

Price Target (6-12 Months): **\$64.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/28/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: A

Summary

NextEra Energy Partners' financial flexibility will help it fund organic projects, make selective acquisitions to expand domestic renewable operations and produce more electricity from clean sources. Its decision to move out of Canada and focus on the United States will boost its performance. PG&E's emergence from bankruptcy and payment of \$65 million to the firm for Desert Sunlight projects will further boost the latter's liquidity. Financial flexibility of the firm will allow it to meet debt obligations. Units of the firm have outperformed the industry in the past 12 months. However, stringent rules and dependence on a limited group of customers to generate major revenues are headwinds. Dependence on favorable weather to produce energy from renewable projects and competition from other clean sources of fuel are headwinds.

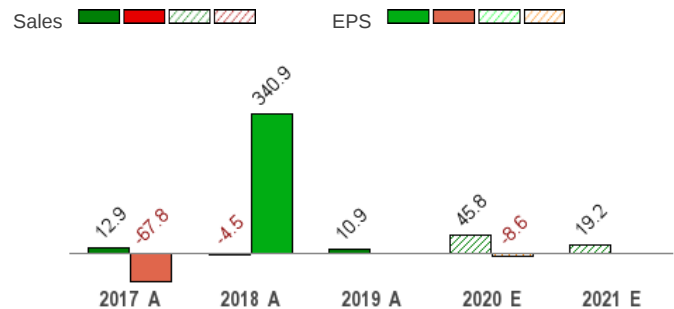
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$64.41 - \$29.01
20 Day Average Volume (sh)	514,212
Market Cap	\$4.0 B
YTD Price Change	14.9%
Beta	1.18
Dividend / Div Yld	\$2.31 / 3.8%
Industry	Alternative Energy - Other
Zacks Industry Rank	Bottom 23% (195 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	38.0%
Last Sales Surprise	-24.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	10/27/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	257 E	304 E	302 E	287 E	1,487 E
2020	212 A	253 A	355 E	337 E	1,247 E
2019	177 A	219 A	253 A	206 A	855 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.37 E	\$0.69 E	\$0.66 E	\$0.47 E	\$2.55 E
2020	-\$3.39 A	\$0.69 A	\$0.56 E	\$0.38 E	-\$1.64 E
2019	-\$0.38 A	-\$0.49 A	-\$1.21 A	\$0.50 A	-\$1.51 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	4.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/26/2020. The reports text is as of 08/27/2020.

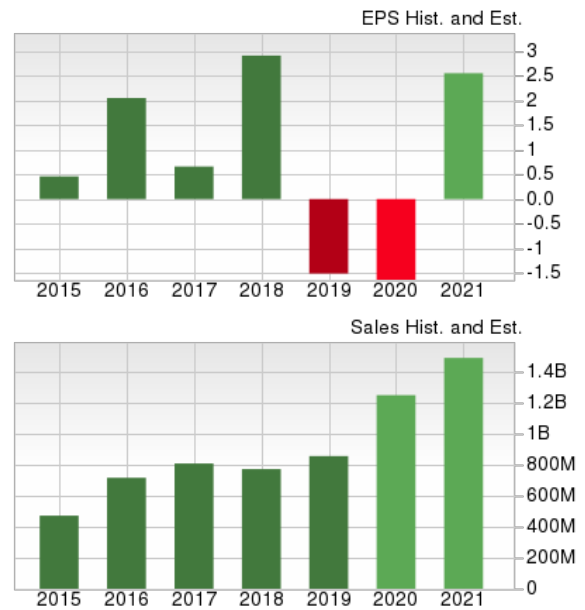
Overview

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 had contributed 75.9%, 71.5% and 75.4% to its total revenues during 2017, 2018 and 2019, respectively. Texas pipelines service revenues had constituted 24.1%, 28.5% and 24.6% of total revenues during 2017, 2018 and 2019, 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 2019, the firm added another 600 MW of solar and wind capacity to its existing portfolio through the acquisition of NextEra Energy Resources. It also advanced organic growth projects, and announced the repowering of 275 MW of wind projects and expansion of the Texas Pipelines. These projects are on track to come into service later this year and will further strengthen the firm's liquidity

The seven 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, and producers in the Eagle Ford Shale. These pipeline projects have a capacity of transporting 4 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 12 months, units of NextEra Energy Partners have gained 20.3% against the industry's 4.4% decline.

Organic growth, accretive acquisitions, and solid contribution from new and existing projects continue to strengthen the firm's financial position.

- ▲ 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. Disciplined investment approach will allow the partnership to expand operation, remain competitive and increase cash distribution of its unitholders over the long term.
- ▲ 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 firm further expanded the renewable power generation portfolio through the acquisition of 600 MW of wind and solar assets from NextEra Energy Resources.

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. The partnership is targeting an annual increase in cash distribution in the range of 12-15% till 2024 from 2018 levels. NextEra Energy Partners has the financial flexibility to fulfill its distribution growth commitments without the need to make any asset acquisitions until 2022.

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's debt to capital at second quarter-end was 39.9%, better than the Zacks S&P 500 composite's average of 43.9%. The firm has been steadily lowering the proportion of debt in the capital mix. At 2015-end, the firm's debt to capital was 64.6%, which declined to 37% at 2019-end due to repayment and effective management of debts.

At second quarter-end, the firm's current ratio was 1.46, better than the 2019-end level of 1.44. Current ratio of more than 1 indicates that the firm has enough liquidity to meet its obligations that are due within a year. At a time when every entity is looking forward to preserve liquidity amid uncertainty created by the COVID-19 outbreak, NextEra Energy Partners' current ratio will be reassuring for investors.

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 its contractual obligation or terminate a contract before expiration, the financial conditions of NextEra Energy Partners will be impacted and its ability to pay distribution to unitholders will be hampered. PG&E Corporation, which accounts for a significant portion of NextEra Energy Partners' revenues, has filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. PG&E Corporation is on track to emerge from Chapter 11 by Jun 30, 2020. The failure to do so could have a material effect on NextEra Energy Partners' results of operations, financial conditions or business.

If natural gas prices remain at lower-than-expected levels for a considerable period of time, this could force the producers to go slow on drilling activities in regions outside of the current areas of operation, which can in turn 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' Q2 Earnings Surpass Estimates

NextEra Energy Partners, LP delivered earnings of 69 cents per unit in the second quarter of 2020, beating the Zacks Consensus Estimate of 50 cents by 38%. Moreover, this outperformance reversed the year-ago quarter's loss of 49 cents per unit.

Revenues

In the quarter under review, the firm's revenues of \$253 million missed the Zacks Consensus Estimate of \$333 million by 24%. However, the top line improved 15.5% on a year-over-year basis.

Highlights of the Release

In the June quarter, NextEra Energy Partners' total adjusted operating expenses were \$164 million, up 7.9% from the year-ago quarter's \$152 million.

In the same period, the partnership's operating income summed \$89 million, up 32.8% from \$67 million in the year-ago quarter.

The firm now expects to achieve long-term distribution growth objectives without any additional acquisition until 2022. Notably, it declared a quarterly distribution of 57.75 cents per unit payable Aug 14 to its unitholders of record as of Aug 6. This makes the annualized distribution of \$2.31 per common unit rise nearly 15% on an annualized basis.

Financial Condition

NextEra Energy Partners had cash and cash equivalents worth \$96 million as of Jun 30, 2020 compared with \$128 million as of Dec 31, 2019.

Long-term debt was \$4,182 million as of Jun 30, 2020 compared with \$4,132 million as of Dec 31, 2019.

Net cash provided by operating activities at the end of the first half of 2020 was \$259 million, higher than \$130 million at the end of first-half 2019.

Guidance

For 2020, the firm reaffirmed the run rate for cash available for distribution (CAFD) in the range of \$560-\$640 million.

The partnership continues to expect 12-15% per year growth for limited partner distributions through 2024. It expects the annualized rate of 2020 distribution in the band of \$2.40-\$2.46 per common unit.

Quarter Ending **06/2020**

Report Date	Jul 24, 2020
Sales Surprise	-23.98%
EPS Surprise	38.00%
Quarterly EPS	0.69
Annual EPS (TTM)	-3.41

Valuation

NextEra Energy Partners units are up 15.1% in the year to date period, and up 20.3% over the trailing 12-month period. Stocks in the Zacks sub-industry was down 14.8% and the Zacks Oil & Energy sector was down 37.3% in the year to date period. Over the past year, the Zacks sub-industry was down 4.4% and sector was down 31.3%.

The S&P 500 index is up 8.1% in the year to date period but up 20.9% in the past year.

The stock is currently trading at 8.68X of trailing 12 months cash flow, which compares to 5.47X for the Zacks sub-industry, 3.77X for the Zacks sector and 16.27X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.42X and as low as 1.69X, with a 5-year median of 6.74X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$64 price target reflects 9.18X 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	8.68	5.47	3.77	16.27
	5-Year High	13.42	10.52	9.28	22.73
	5-Year Low	1.69	3.17	1.6	11.7
	5-Year Median	6.74	5.15	5.77	16.37
P/S F12M	Current	2.82	0.93	0.71	3.81
	5-Year High	3.16	31.25	1.47	3.81
	5-Year Low	0.73	0.71	0.59	2.53
	5-Year Median	1.93	5.16	0.99	3.05
P/B TTM	Current	0.65	1.58	1.04	4.71
	5-Year High	1.46	2.29	1.55	4.71
	5-Year Low	0.28	1.01	0.52	2.83
	5-Year Median	0.62	1.7	1.32	3.76

As of 8/26/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (195 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Ameresco, Inc. (AMRC)	Neutral	3
Bloom Energy Corporation (BE)	Neutral	2
Central Puerto S.A. Sponsored ADR (CEPU)	Neutral	3
Charah Solutions, Inc. (CHRA)	Neutral	3
Covanta Holding Corporation (CVA)	Neutral	3
Clearway Energy, Inc. (CWEN)	Neutral	3
Evergy Inc. (EVRG)	Neutral	3
Ormat Technologies, Inc. (ORA)	Underperform	5

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	2	3
VGM Score	B	-	-	D	C	A
Market Cap	3.96 B	383.05 M	23.69 B	1.62 B	2.15 B	77.06 M
# of Analysts	3	1	14	4	4	2
Dividend Yield	3.82%	0.00%	1.65%	0.00%	0.00%	0.00%
Value Score	C	-	-	D	D	A
Cash/Price	0.02	0.08	0.07	0.04	0.08	0.51
EV/EBITDA	13.65	5.81	13.37	24.11	-23.67	36.52
PEG Ratio	NA	2.94	3.04	2.12	NA	NA
Price/Book (P/B)	0.65	1.43	3.17	3.67	NA	2.17
Price/Cash Flow (P/CF)	16.28	10.49	12.78	19.61	NA	NA
P/E (F1)	NA	18.90	21.63	37.10	NA	NA
Price/Sales (P/S)	4.29	1.84	2.50	1.69	2.72	0.14
Earnings Yield	-2.71%	2.10%	4.44%	2.69%	-4.99%	-9.73%
Debt/Equity	0.69	0.69	0.75	0.75	-4.23	5.03
Cash Flow (\$/share)	3.72	0.21	6.94	1.73	-1.06	-0.10
Growth Score	B	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	54.90%	14.39%	10.41%	43.16%	NA	NA
Proj. EPS Growth (F1/F0)	-8.39%	-1.84%	-4.92%	9.94%	-170.00%	73.40%
Curr. Cash Flow Growth	-38.92%	-0.45%	5.22%	15.63%	-10.67%	-103.77%
Hist. Cash Flow Growth (3-5 yrs)	17.25%	10.66%	8.50%	18.73%	NA	NA
Current Ratio	1.46	1.18	1.34	1.55	1.45	1.11
Debt/Capital	39.96%	41.13%	44.18%	45.29%	NA	74.82%
Net Margin	-14.18%	-2.66%	10.25%	4.36%	-27.53%	-6.86%
Return on Equity	-2.11%	0.16%	14.66%	11.00%	NA	-58.52%
Sales/Assets	0.08	0.28	0.50	0.70	0.62	1.50
Proj. Sales Growth (F1/F0)	45.88%	0.00%	-1.45%	9.59%	-8.90%	0.64%
Momentum Score	A	-	-	D	B	A
Daily Price Chg	-1.24%	0.00%	-0.18%	-1.02%	-0.43%	-13.47%
1 Week Price Chg	-0.50%	0.00%	-1.45%	-1.51%	20.40%	11.88%
4 Week Price Chg	-3.26%	3.35%	2.10%	18.36%	26.20%	5.33%
12 Week Price Chg	15.88%	12.53%	3.61%	51.25%	108.88%	43.58%
52 Week Price Chg	19.09%	-4.55%	3.61%	135.07%	280.09%	-0.77%
20 Day Average Volume	514,212	89,939	1,883,291	312,879	4,954,640	45,686
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.93%	-1.08%	36.43%	7.41%
(F1) EPS Est 12 week change	8.40%	1.67%	3.41%	-0.27%	36.43%	7.41%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-11.71%	62.22%	800.00%

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	C
Growth Score	B
Momentum Score	A
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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.