

NextEra Energy

A Quarter of Relative Calm to End a Turbulent Year. Maintain Neutral.

Maintain Rating: NEUTRAL | PO: 61.00 USD | Price: 57.01 USD

FY23 beats on lower parent. FY24+ guidance reaffirmed

We maintain Neutral on shares of diversified utility and renewables/energy company NextEra Energy (NEE) with a balanced risk/reward profile. NEE reported \$3.17 FY23 adjusted EPS vs \$3.14 BofA/\$3.13 Consensus and \$2.98-\$3.13 guidance. The primary deltas versus our expectations was lower parent drag (flat YoY). \$3.23-\$3.43 FY24 EPS guidance was reaffirmed vs \$3.40 BofA/Consensus. Additionally, 2025 and 2026 EPS guidances were reaffirmed along with the expectation to be near the top-end of the respective ranges, consistent with our expectations. In 4Q23 Florida continued its solid earnings trend and had an acceleration of customer growth to +140bp from +110bp in 3Q23. The ~\$65-\$75Bn 2024-2026 NEE funding plan was unchanged. FY23 credit metrics declined YoY at S&P (18.7% vs 19.9%) likely due to methodology changes (target moved -300bp to more than offset); Moody's increased to 18.7% from 16.2%.

Backlog shrinks QoQ but it is the seasonal trend

Besides consolidated EPS guidance, the most closely watched area is NEER renewables originations on a net and gross basis. NEER had 2,060MW new originations since the 3Q23 call, similar to its 1Q22-2Q23 trend of 1.9GW. 1.7GW net originations is consistent with the trailing average. We and investors have been looking for a meaningful acceleration in originations after the Inflation Reduction Act (IRA) which has yet to materialize. The backlog declined to 20.2GW from 21.0GW QoQ with 4Q having its typical large assets enter service (2.5GW in 4Q23 and 2.6GW in 4Q22). Seasonally the April (1Q) update has more backlog growth with de minimis assets placed in service. While shrinking QoQ, the backlog is +7% YoY from 19.0GW. The cumulative 2023-2026 and 2025-2026 renewables development expectations are unchanged QoQ. 2023-2024 execution only increased +169MW to 12,577MW versus a 12,100-14,600MW target with most of the execution in 2025-2026 which was +1,396.

Do not expect a major reaction for shares from results

Overall NEE's 4Q23 update was neutral with in-line originations (gross and net), no changes to the financing plan, and no change to NextEra Energy Partners (NEP) distribution level of outlook. We will watch for the 10K (timing and disclosure content) for additional details on pending legal and regulatory items that have been top of mind for investors.

25 January 2024

Equity

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Stock Data

Price	57.01 USD
Price Objective	61.00 USD
Date Established	17-Jan-2024
Investment Opinion	B-2-7
52-Week Range	47.15 USD - 80.99 USD
Mrkt Val (mn) / Shares Out (mn)	115,372 USD / 2,023.7
Free Float	99.9%
Average Daily Value (mn)	617.31 USD
BofA Ticker / Exchange	NEE / NYS
Bloomberg / Reuters	NEE US / NEE.N
ROE (2023E)	12.7%
Net Dbt to Eqty (Dec-2022A)	127.3%
ESGMeter™	High

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NEER: NextEra Energy Resources
IRA: Inflation Reduction Act

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Timestamp: 25 January 2024 10:10AM EST

NEER performance drivers important to watch

At NEER, new investments decelerated to +\$0.08, below +\$0.10 BofAe. We anticipated customer supply and trading to decline -\$0.07 YoY off a strong comparison to 4Q22 but it was only -\$0.03 YoY. This was partially offset by -\$0.03 gas infrastructure versus -\$0.01 BofAe and no incremental debt financing cost versus -\$0.01 BofAe. Corporate was flat YoY versus our expectation of -\$0.04 from an unfavorable reversal of 4Q22 items. On a FY23 basis even with customer supply and trading declining YoY in 4Q23, NEER was +\$0.13 with customer supply and trading +\$0.16 and the rest of NEER -\$0.03.

This is also apparent from the 2023 adjusted EBITDA where contracted renewables was \$3.8Bn vs \$4.1-\$4.8Bn guidance and customer supply and trading was \$1.0Bn vs \$625-\$825Bn guidance. Customer supply and trading was 13% of adjusted EBITDA including tax credits for FY23.

Exhibit 1: NextEra FY23 Quarterly/Annual and FY22 Annual EPS Drivers

More than all of NEER's 2023 EPS growth was from customer supply and trading with the rest of NEER declining after financing costs

FY23 and FY22 NEE YoY EPS Changes	2023	1Q23	2Q23	3Q23	4Q23	2022
FPL + Dilution	\$0.21	\$0.09	\$0.07	\$0.04	\$0.02	\$0.24
NEER Ex-Customer Supply & Trading	-\$0.03	-\$0.02	-\$0.05	\$0.02	\$0.02	-\$0.01
NEER Customer Supply & Trading	\$0.16	\$0.06	\$0.09	\$0.04	-\$0.03	\$0.12
Corporate	-\$0.07	-\$0.03	-\$0.04	-\$0.01	\$0.01	\$0.00
Total	\$0.27	\$0.10	\$0.07	\$0.09	\$0.01	\$0.35
FY YoY Growth Guidance	\$0.23					\$0.35

Source: Company Filings and BofA Global Research

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Management anticipates a moderation in customer supply and trading YoY in 2024 to \$800-\$975Mn adjusted EBITDA while projecting a material improvement in new clean energy assets (\$1,000-\$1,300Mn adjusted EBITDA including ~\$200Mn tax credit gross-up). Existing clean energy adjusted EBITDA is similar forecasted to rise to \$4,350-\$5,050Mn (including \$2.3-\$2.6Bn tax credits) versus \$4,100-\$4,800Mn existing FY23 guidance. FY23 new plus existing contracted renewables and storage guidance midpoint was \$5,050Mn versus \$4,350-\$5,050Mn FY24 adjusted EBITDA guidance, implying a moderations versus prior expectations.

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Date Published

17 January 2024
 29 November 2023
 26 October 2023
 24 October 2023
 19 October 2023
 13 October 2023
 04 October 2023
 28 September 2023
 27 September 2023
 26 July 2023
 25 July 2023
 12 July 2023
 25 April 2023
 18 April 2023
 30 January 2023
 26 January 2023

Price objective basis & risk

NextEra Energy (NEE)

Our \$61 PO is derived using an sum-of-the-parts (SOTP) approach, with the utilities and parent segment valued on a 2025E P/E basis, and the generation segment valued on a

2025E EV/EBITDA basis. In addition, we include NEE's ownership stake in NextEra Energy Partners (NEP) as well as the value of fixed fee IDR (DCF, at 10% disc rate). We assign 25E peer multiples of 14.9x for electric and 21.4x for water (grossed up by 5% and 7%, respectively, to reflect capital appreciation) with discount/premium to reflect the growth/risk profile of the businesses. We apply a 15% premium for FPL and Gulf. For NEER, we apply a peer EV/EBITDA multiple of 10.0x, which we adjust depending on asset type. We give contracted renewables an in line multiple with peers. We utilize a DCF (12% discount rate) of new renewable for projects beyond 2024 and include a 12x terminal multiple. We value contracted nuclear on a DCF approach using an 10% discount rate. We apply a 1x premium multiple to pipelines, -6.0x discount to gas infrastructure and -4x discount for supply and trading given lower asset quality, a 0x premium for contracted gas peakers and 1x discount for merchant peakers (other), again based on asset quality.

Risks to our PO are: 1) regulatory/political/legislative outcomes, 2) weather and natural disasters, 3) commodity price changes, 4) fluctuations in stock prices for NextEra Energy Partners, 5) renewable development margins & margin, and 6) election commission review.

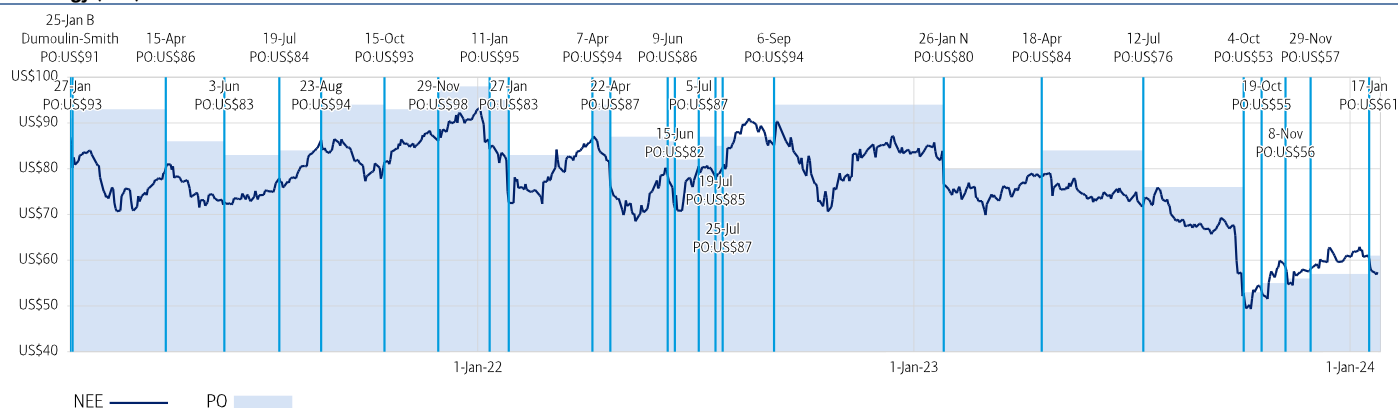
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NextEra Energy (NEE) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	46.45%	Buy	52	72.22%
Hold	45	29.03%	Hold	32	71.11%
Sell	38	24.52%	Sell	21	55.26%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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