NextEra Energy Inc.  (NEE-NYSE)

Summary

NextEra Energy’s earnings missed Zacks Consensus Estimates in the fourth quarter and full year, but revenues beat. However, earnings increased year over year due to higher revenues across all segments. NextEra Energy’s ongoing systematic investments in utility transmission and distribution projects are expected to drive its growth, going forward. Moreover, its renewable expansion initiative has been particularly impressive, which will help the company meet regulatory mandates on carbon emission. However, weather variations and commodity price fluctuations are concerns that might deter its growth substantially.

Summary Data

- **52-Week High**: $111.66
- **52-Week Low**: $90.74
- **One-Year Return (%)**: 11.61
- **Beta**: 0.32
- **Average Daily Volume (sh)**: 2,222,100
- **Shares Outstanding (mil)**: 443
- **Market Capitalization ($mil)**: 43,826
- **Short Interest Ratio (days)**: 5.41
- **Institutional Ownership (%)**: 73
- **Insider Ownership (%)**: 1
- **Annual Cash Dividend**: $3.08
- **Dividend Yield (%)**: 3.11
- **5-Yr. Historical Growth Rates**
  - **Sales (%)**: 0.5
  - **Earnings Per Share (%)**: 5.3
  - **Dividend (%)**: 9.3
- **P/E using TTM EPS**: 18.7
- **P/E using 2015 Estimate**: 17.5
- **P/E using 2016 Estimate**: 16.3
- **Zacks Rank *: Short Term 1 – 3 months outlook**: 3 - Hold
  - * Definition / Disclosure on last page

Risk Level *: Below Avg.

Type of Stock: Large-Blend

Industry: Util-Elec Pwr

Zacks Industry Rank *: 112 out of 267

Zacks Consensus Estimates

Revenue Estimates
(In millions of $)

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<tr>
<th></th>
<th>Q1 (Mar)</th>
<th>Q2 (Jun)</th>
<th>Q3 (Sep)</th>
<th>Q4 (Dec)</th>
<th>Year (Dec)</th>
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<td>2016</td>
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<td></td>
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<td>17,621 E</td>
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Earnings Per Share Estimates
(EPS is operating earnings before non-recurring items, but including employee stock options expenses)

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<th>Q1 (Mar)</th>
<th>Q2 (Jun)</th>
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<td>2016</td>
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<td>$6.06 E</td>
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Projected EPS Growth - Next 5 Years %: 6
Juno Beach, FL-based NextEra Energy Inc. (previously known as FPL Group Inc.) is a public utility holding company engaged in the generation, transmission, distribution, and sale of electric energy. The company has both regulated and non-regulated energy-related products and services, with operations in 27 states in the U.S. and four provinces in Canada.

At the end of 2014, NextEra Energy had a generating capacity of around 44,900 megawatts (MW). The company trades in electric power for resale to its customers and provides risk management solutions for gas and power consumption. As of Dec 31, 2014, NextEra Energy owned approximately 17% of the installed U.S. wind power production base and operated roughly 11% of the installed utility-scale solar power output capacity. The company also operates one of the largest fleet of nuclear power stations.

NextEra Energy's primary subsidiaries are Florida Power & Light Company (FPL) and NextEra Energy Resources LLC (NEER). The company's other subsidiaries include NextEra Energy Transmission, LLC (NEET), NextEra Energy Services and FPL FiberNet LLC.

NextEra Energy Capital Holdings, Inc. (NEECH) is a wholly owned subsidiary of NextEra, which owns and provides funds for NEER and other operating subsidiaries apart from FPL and its subsidiaries. NEECH conducts its other activities through NEET and FPL FiberNet.

FPL is the largest electric utility in Florida providing retail and wholesale electricity services to approximately 4.7 million customer accounts in eastern and southern Florida. Florida Power's capacity generation is 25,092 MW. FPL is also one of the cleanest electric utilities in the nation with 95% of its power generation coming from natural gas, nuclear and solar sources.

NEER has the majority of its electric generation assets in the North East, Mid-Atlantic, Central and Western United States, most of which is derived from renewable sources. It has a portfolio of 19,800 MW of generating capacity across 25 states and 4 Canadian provinces.

In 2014, NextEra Energy formed NextEra Energy Partners, LP (NEP) to own, manage and acquire contracted clean energy projects with stable and long-term cash flows through a limited partnership interest in NextEra Energy Operating Partners, LP (NEP OpCo).

REASONS TO BUY

- NextEra Energy is a premier U.S. utility service provider offering efficient power and energy services across various states. The company's subsidiary, Florida Power & Light Company (FPL), continues to increase its number of customer accounts. During the fourth quarter of 2014, FPL served around 68,000 more customers over the prior year. These customer additions boosted FPL's sales by 1.4% as compared to last year.

  The rise in customer count along with an improving energy sales volume indicates a favorable economic climate in NextEra Energy's service territories. Signs of recovery in the Florida economy are also evident from a declining unemployment rate (down 70 basis points to 5.2%) and an improving job growth rate (up 3%) at the end of Dec 2014. NextEra Energy stands to benefit from positive economic fundamentals, which will help it to achieve its targeted compound annual earnings per share growth rate of 5% to 7% though 2018.

- To cope with increased demand and provide reliable services to its customers, NextEra Energy continues to expand its scale of operations and utilize modern technologies, primarily at its FPL utility. The company brought into service Riviera Beach Clean Energy Center ahead of schedule and commenced
construction on Port Everglades Clean Energy Center, which is the third of three combined-cycle natural gas generation modernization projects. In 2014, NextEra Energy invested around $3.1 billion in its FPL operations as planned to support a series of large-scale modernization ventures.

NextEra Energy also invests frequently in its natural gas operations. The company is progressing on its Mountain Valley Pipeline joint venture with EQT Corporation (EQT), with expected approval from FERC by the end of 2015. The venture has secured 2 billion cubic feet (bcf) per day of firm capacity commitment through 20 years. This pipeline will help the company cater to growing demand by connecting the Marcellus and Utica shales to the Southeast markets of the U.S.

- Coming to talk about clean energy, NextEra's investment in renewables over the last few years is compelling. In the last two years, NextEra Energy has added roughly 2,285 MWs of renewable power to its portfolio and has secured contracts for another 2,115 MW, which the company expects to bring online by 2016 end. In the fourth quarter alone, the company increased its solar and wind backlog to 500 MW. The company projects that its combined renewable portfolio with NEER and NEP will reach the 14,200 MW mark by the end of 2016. With government mandates pushing to increase renewable generation capacity, the company’s green portfolio expansion will enable it to stay ahead in the industry.

- NextEra Energy is committed towards maintaining a solid financial position and focuses on keeping a flexible long-term capital program which will ensure the smooth development of its ongoing projects. The company's cash balance as of Dec 31, 2014 increased 31.7% to around $577 million from $438 million at 2013 end. At the end of 2014, the company's cash flow from operating activities increased 7.8% to roughly $5.5 billion from the prior-year level. A stable financial position backed by strong cash generating capacity enables NextEra Energy to maximize shareholder wealth through the payment of regular dividends. This is reflected in steady dividend growth in the last four years. In 2014, the company paid $1.3 billion as dividends, up 12.3% year over year.

### REASONS TO SELL

- NextEra Energy’s nature of business is subject to complex and comprehensive federal, state and other regulations. The company’s regulated entity, FPL, depends on the Florida Public Service Commission for timely rate relief and cost recovery approvals. Any denial of such applications could materially affect the company’s operational results. Another main subsidiary of NextEra, NEER, depends heavily on government policies for incentivizing utility scale renewable energy projects. Budgetary constraints or political factors leading to the elimination of such incentives may lead to the abandonment of renewable projects and hence reduce project returns through loss of investments.

- The utility faces the risk of project incompletion within budget due to a rise in cost of inputs and regulatory compliance costs. Its financial performance primarily depends on its ability to manage the operations of its transmission and distribution businesses. The transmission and distribution operations sometimes face several operational risks, including breakdown, failure or damage of equipments or processes, accidents and labor disputes.

- Volatility in market prices of fuel, electricity and other renewable energy commodities could create operational risks for the company. Unfavorable supply costs necessary to provide full energy and capacity requirement services could have an undesirable impact on NextEra’s earnings outcome. The company could experience financial losses or reduction in operating cash flow if a concerned third party fails to fulfill contractual obligations.
**Recent News**

**NextEra Unit Files for Rate Cut on Cheaper Natural Gas Usage** – Mar 9, 2015

Florida Power & Light Company filed a request with the Florida Public Service Commission ("FPSC") to reduce electric rates for its customers starting May 1, 2015. Upon approval, FPL’s residential customers, using an average of 1,000 kilowatt-hours, would witness a $3 per month decline in rates to $97.12. If approved, FPL’s customer bill will be 30% lower than the national average.

**NextEra Energy Unit to Buy Cedar Bay Plant and Phase Out** – Mar 6, 2015

Florida Power & Light Company has filed a petition with FPSC requesting for the approval to acquire Cedar Bay Generating Plant in Jacksonville. In the filing, FPL proposes to take over CBAS Power Inc., the indirect owner of the power plant, from CBAS Power Holdings, LLC. The purchase price is pegged at $520.5 million.

FPL plans to obtain ownership of the 250 megawatt ("MW") coal-fired facility only to phase the plant out of service. Since 1988, FPL had a long-term agreement to purchase power from Cedar Bay Generating Company, LP, the direct owner of the Cedar Bay plant.

FPL has planned to reduce the plant’s operations by 90% within three years from the date of ownership. This will lead to cost containment of about $70 million and prevent an annual carbon emission of 1 million tons.

**NextEra Energy Misses on Q4 Earnings, Revenues Impress**

NextEra Energy, Inc. announced fourth-quarter 2014 adjusted earnings of $1.03 per share, missing the Zacks Consensus Estimate of $1.04 by just a cent. On a year-over-year basis, earnings climbed 8.4% on the heels of higher revenues across all segments.

Earnings for 2014 came in at $5.30 per share, lower than the Zacks Consensus Estimate of $5.32 per share but 6.6% ahead of 2013 earnings.

On a GAAP basis, NextEra Energy recorded fourth-quarter earnings of $2.00 per share compared with $0.75 per share a year ago. The variance between adjusted and GAAP earnings, during the quarter, was due to a $0.99 impact of unrealized mark-to-market gain from non-qualifying hedges and a $0.02 loss associated with Spain Solar projects.

**Total Revenue**

In the fourth quarter, NextEra Energy's operating revenues were $4,664 million, outpacing the Zacks Consensus Estimate by 20.5%. Quarterly revenues surged 28.5% from $3,630 million a year ago.

Revenues for 2014 were reported at $17.0 billion, surpassing the Zacks Consensus Estimate of $16.4 billion by 4.8%. Revenues also escalated 12.5% from last year.

**Segmental Results**

Florida Power & Light Company (FPL): In the fourth quarter, the segment reported revenues of $2,682 million, up 5.5% from the year-ago figure. This was primarily driven by an increase in wholesale power sales due to a combination of customer growth and higher average sales price.

NextEra Energy Resources (NEER): Revenues from this segment shot up nearly 90% from the prior-year quarter to $1,880 million. The upside was attributable to higher revenues from the expanded renewable
business and improvements in customer supply. The positives were, however, partially offset by lower sales from the gas infrastructure business.

Corporate and Other: The segment's quarterly revenues were $102 million compared with $99 million a year ago.

**Operational Update**

In the quarter under review, NextEra Energy's total operating expenses increased 4.8% year over year to $3,132 million. This was primarily due to higher fuel, purchased power and interchange expenses as well as depreciation and amortization expenses and impairment charges.

Total operating income more than doubled to $1,532 million from $641 million a year ago.

The company's interest expenses in the reported quarter were $320 million as against $296 million in the prior-year quarter primarily due to a rise in long-term debt.

**Financial Update**


Long-term debts as of Dec 31, 2014, were $24.4 billion, up from $24.0 billion as of Dec 31, 2013.

NextEra Energy's cash flow from operating activities in 2014 was $5.5 billion compared with $5.1 billion in 2013.

**Business Update**

FPL continues to make progress on the Port Everglades Clean Energy Center. It is expected to be operational in mid-2016. The next-generation project comprising three combined-cycle natural gas turbines is expected to bring about energy efficiency.

FPL also won the approval of the Florida Public Service Commission (PSC) for investing in long-term natural gas supplies.

In 2014, NEER expanded its renewable portfolio by 1,629 MW comprising 1,364 MW of wind energy and 265 MW of solar energy.

The joint venture with EQT Corp. (EQT), which is called Mountain Valley Pipeline joint venture (JV), is in its permitting process. The project is expected to go online by the end of 2018.

**Guidance**

NextEra reiterated its 2015 earnings guidance in the range of $5.40–$5.70 per share.

For 2016, the company increased its earnings guidance to the range of $5.75–$6.25 per share from an earlier projection of $5.50–$6.00 per share.
VALUATION

Shares are currently trading at a 12-month trailing earnings multiple of 18.7, compared to the 19.3 for the peer group and 18.1 for the S&P 500. Over the last five years, the company’s shares have traded in the P/E band of 11.6x to 20.7x.

The 12-months trailing ROE of the company is 12.3%, which is higher than the industry average. This signifies that NextEra's management is investing its funds more profitably than its peers.

Our $104.00 price objective reflects a multiple of 18.4 based on 2015 earnings per share.

Key Indicators

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<th>P/E</th>
<th>Est. 5-Yr</th>
<th>P/CF</th>
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<td>F1</td>
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TTM is trailing 12 months; F1 is 2015 and F2 is 2016, CF is operating cash flow
DISCLOSURES & DEFINITIONS

The analysts contributing to this report do not hold any shares of NEE. The EPS and revenue forecasts are the Zacks Consensus estimates. 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. Zacks 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. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed herein are subject to change. This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks 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. Zacks uses the following rating system for the securities it covers.

**Outperform** - Zacks expects that the subject company will outperform the broader U.S. equity market over the next six to twelve months. **Neutral** - Zacks expects that the company will perform in line with the broader U.S. equity market over the next six to twelve months. **Underperform** - Zacks expects the company will underperform the broader U.S. Equity market over the next six to twelve months. The current distribution of Zacks Ratings is as follows on the 1052 companies covered: Outperform - 16.7%, Neutral - 77.5%, Underperform – 5.2%. Data is as of midnight on the business day immediately prior to this publication.

Our recommendation for each stock is closely linked to the Zacks Rank, which results from a proprietary quantitative model using trends in earnings estimate revisions. This model is proven most effective for judging the timeliness of a stock over the next 1 to 3 months. The model assigns each stock a rank from 1 through 5. Zacks Rank 1 = Strong Buy, Zacks Rank 2 = Buy, Zacks Rank 3 = Hold, Zacks Rank 4 = Sell. Zacks Rank 5 = Strong Sell. We also provide a Zacks Industry Rank for each company which provides an idea of the near-term attractiveness of a company's industry group. We have 264 industry groups in total. Thus, the Zacks Industry Rank is a number between 1 and 264. In terms of investment attractiveness, the higher the rank the better. Historically, the top half of the industries has outperformed the general market. In determining Risk Level, we rely on a proprietary quantitative model that divides the entire universe of stocks into five groups, based on each stock's historical price volatility. The first group has stocks with the lowest values and are deemed Low Risk, while the 5th group has the highest values and are designated High Risk. Designations of Below-Average Risk, Average Risk, and Above-Average Risk correspond to the second, third, and fourth groups of stocks, respectively.