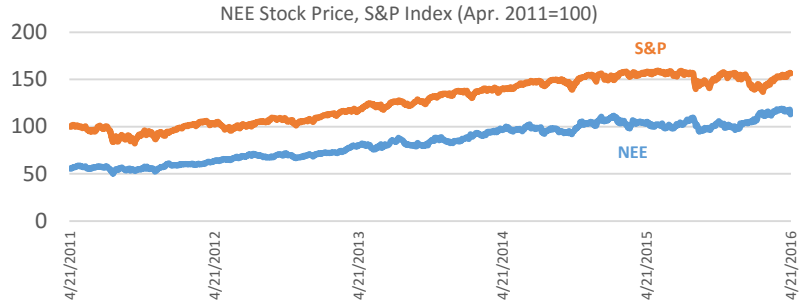
Rating: HOLD



NextEra Energy (NEE) is a leader in clean energy production. Operating two different segments, as a regulated utility business (FPL) as well as a wholesale power generator (NEER), the company benefits from stable cash flows on the regulated side and the flexibility to adapt to a changing clean tech environment via its generation business.

Improving margins in regulated business. The utility segment is seeking a rate base hike this year, translating into a roughly $335 million increase in revenues per year until 2020. We are confident this request will be approved given the company's previous case success, supported by regulators' favorable view of FPL's low emissions and consumer prices. We expect FPL's revenues to increase 3-4% annually until 2022 and management to realize its goals of increasing dividends per share by 12-14% in 2016-2017 given FPL's cash generation.

NEER generation segment actively adding capacity. NextEra's wholesale power generation business is growing fast, and has potential to add significantly to its already large wind capacity as dirty capacity comes offline. Cost associated with wind energy are biggest upfront – operationally wind generators are extremely efficient. We already see costs coming down for NEER as wind increases its share of generation capacity, benefiting margins. Revenues will be volatile in coming years given power prices, with growth in the range of 1-7% annually until 2020, and we expect a turnaround in NEER's cash flows towards the end of the forecast period when growth capex winds down.

Stock is currently fairly priced. Our sum-of-the-parts valuation for NEE, based on a separate DCF for the utility and generation segment, suggests a target price of $108.20 (-6.98%). The recent rise in NEE's stock price as of this year is supported by fundamentals in our view. Given that the market has already factored the above into prices we recommend investors hold onto NEE shares, but do not add to their position at the current price.

Yale University

Initiation Report

NextEra Energy (NEE)

A Balanced Act:

Steady Utility Partnered With Fast-Growing Clean Power Generation

April 18th, 2016

Price	$116.31
Target Price	$108.20
Market Cap	$53,619
52-wk range	$93.74-$119.37
Shares Outst.	461 MM
P/E	19x
Beta	0.5
EPS	$6.08

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Please see the disclaimer at the end of this report for important information

Contents

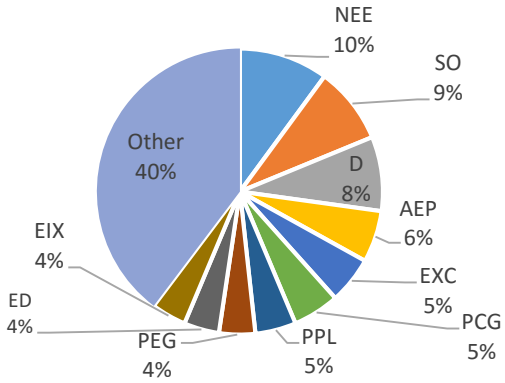
Company Overview

Nextera Energy (NEE) is the largest electric power company in North America by market capitalization[1] at $52 billion, with 46 GW of generating capacity. The company's generation facilities are located in 27 states in the U.S. as well as 4 provinces in Canada. NEE provides retail and wholesale electric services to over 5.3 million customers, in addition to owning generation, transmission and distribution facilities to support this service. The company also has investments in gas infrastructure assets.

NEE is a leader in renewable energy generation from wind and sun through its generation business, and owns and operates around 15% of the installed base of U.S. wind power production capacity as well as roughly 9% of the installed base of U.S. utility-scale solar production capacity. The company also operates a large fleet of nuclear power stations in the U.S., with eight reactors in four states.

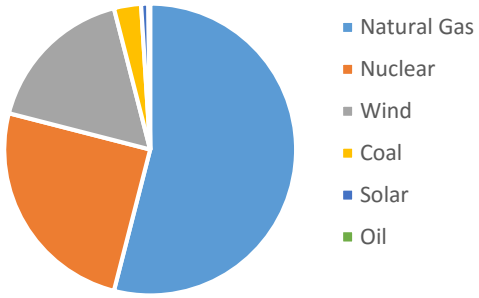
Nextera Energy has focused its core business strategy on responding to long-term energy policy trends that aim to lower emissions from power generation. As such, the company emphasizes the development acquisition and operation of renewable, nuclear and natural gas-fired generation facilities, that make up approximately 97% of NEE's generation. NEE conducts its operations primarily through two wholly owned subsidiaries, Florida Power & Light Company (FPL) and NextEra Energy Resources, LLC (NEER).

Fig. 1 Electricity Companies' Market Share



Source: Thomson Reuters Data

Fig. 2 NextEra Energy Fuel Mix MWhs



Source: NEE Annual report

Florida Power & Light (FPL)

NextEra's energy delivery business, Florida Power & Light (FPL), is a rate-regulated electric utility and takes part in generation, transmission, distribution and the sale of electric power in Florida. It is the largest electric utility in Florida based on retail MWh sales, serving over 9.5 million people. FPL is vertically integrated, with its own generating capacity of roughly 25 GW. Roughly 95% of FPL's power generation comes from natural gas, nuclear and solar.

FPL Prices

FPL's service to retail customers is provided mainly under franchise agreements negotiated with municipalities or counties. These franchise agreements cover just under 90% of FPL's retail customer base in Florida. FPL obtains its operating revenues primarily from the sale of electricity to retail customers at rates established by regulators through base rates and cost recovery clause mechanisms.

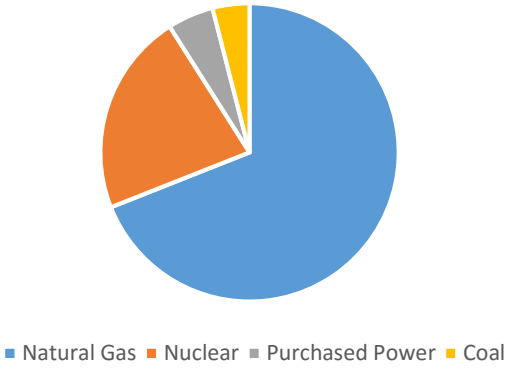
[1] Based on Thomson electrical utility sector definition

For retail as well as wholesale customers the prices FPL can charge are approved by the Florida Public Service Commission (FPSC) (for retail customers) and by the Federal Energy Regulatory Commission (FERC) (wholesale customers). Regulated rates are to cover the cost of providing the service, including a reasonable rate of return on the utility's invested capital. Rates are largely cost-based, and as a result low rates require a focus on low costs. In 2015 FPL's average bill was the lowest among reporting electric utilities in Florida, at $97.92 per 1000 kWh of consumption per month.

FPL Fuel Sources & Power Generation

Gas. FPL's natural gas plants require natural gas transportation, supply and storage. FPL has transportation contracts that provide for an aggregate maximum delivery quantity of 2,069,000 MMBtu/day with expirations dates ranging from 2016-2036, that are expected to satisfy almost all of the anticipated needs for natural gas transportation through the end of 2016. The company has an agreement for natural gas storage that expires in 2017. The FPSC approved FPL's 25-year natural gas transportation agreements with Sabal Trail and Florida Southeast Connection in 2013. This is for a quantity of 400,000 MMBtu/day beginning in May 2017 and increasing to 600,000 MMBtu/day in May 2020. Combined with FPL's existing agreements, this is expected to satisfy substantially all of FPL's natural gas transportation needs through 2020 at the very least.

Fig. 3 FPL Generation by Fuel Type MWh
Oil and solar are collectively less than 1%



Source: Company Annual Report

Coal. Supply and transportation contracts for FPL's coal fired units vary across plants, with some plants having secured their needs through 2017, and others with a portion of their fuel and transportation needs secured for the coming years. Remaining fuel requirements are obtained in the spot market.

Nuclear. FPL has several contracts for the supply of uranium and the conversion, enrichment and fabrication of nuclear fuel. These contracts expire from late February 2016 through 2031. FPL's petition to add two nuclear units at its Turkey Point site was approved by the FPSC in 2008 and the company is in the process of obtaining necessary permits and licenses for the construction and operation of the units. The additional units are expected to add around 2,200 MW of capacity, however they are not expected to be placed in service until 2027 and 2028.

Facility	MW	Operating License Expiration Dates
St. Lucie Unit No. 1	981	2036
St. Lucie Unit No. 2	840	2043
Turkey Point Unit No. 3	811	2032
Turkey Point Unit No. 4	821	2033

Source: Annual report

Solar. FPL owns and operates two solar photovoltaic (PV) generation facilities, providing 35 MW of generating capacity, as well a 75 MW solar thermal hybrid facility.

NextEra Energy Resources

NextEra Energy Resources (NEER) is NEE's competitive energy business with approximately 21 GW of generating capacity, thereof 920 MW in four Canadian provinces and one Spanish province. NEER owns, develops, constructs, manages and operates electric generation facilities in wholesale energy markets. NEER is the largest generator of wind and utility-scale solar energy electric power in the U.S. based on MWh produced. Around 65% of its generation comes from renewables, such as wind and solar.

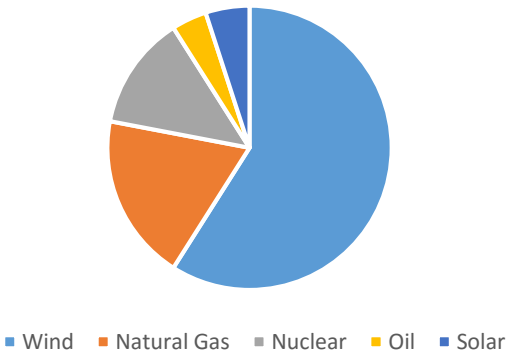
92% of NEER's revenue last year was derived from wholesale electricity markets. NEER has operations that fall within the following Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs):

- Alberta Electric System Operator
- California Independent System Operator
- ERCOT
- Independent Electricity System Operator (in Ontario)
- ISO New England (ISO-NE)
- Midcontinent Independent System Operator, Inc.
- New York Independent System Operator
- PJM
- Southwest Power Pool

NEER Prices & Contracts

NEER has ownership interest in operating independent power projects in the U.S. that have received exempt wholesale generator status under the Public Utility Holding Company Act of 2005. These interests represent around 99% of NEER's net generating capacity in the U.S. Exempt wholesale generators sell exclusively to wholesale customers and are not allowed to sell electricity directly to retail customers.

Fig. 4 NEER Generation Capacity by Asset Type MW



Source: Company Annual Report

Around 66% of NEER's generating capacity is fully committed under long-term contracts. For certain wind assets this means that long-term power sales agreements are expected to be executed. Where such contracts are not in effect, NEER sells its output into daily spot markets. Of the total capacity of contracted generation assets, 10,571 MW is wind generation, 1,621 MW nuclear and 1,121 MW solar. Remaining 1,004 MW use natural gas and oil.

The rest of NEER's generating facilities do not have long-term power sales agreement to sell their capacity and thus require marketing and hedging. Merchant assets consist of 6,823 MW of owned wind, nuclear, natural gas, oil and solar generation facilities. Just under 60% of natural gas-fueled merchant generation assets have natural gas transportation agreements to provide for fluctuating natural gas requirements.

NEER Fuel Sources

Wind is around 12,400 MW of total net generating capacity. Wind facilities are located in 19 states in the U.S. and 4 provinces in Canada. In 2015 the company added around 1,200 MW of new wind generation, of which around 1,030 MW was in the U.S., while selling or decommissioning 220 MW of capacity. NEER expects to add new contracted wind generation assets of approximately 1,400 MW in 2016.

Solar is 1,026 MW of NEER's total net generating capacity and the company added around 285 MW in 2015. Four facilities are located in the U.S. and one in Canada. NEER expects to more than double its solar generation capacity in 2016, adding around 1,100 MW. NEER also owns solar facilities with just under 100 MW capacity in Spain.

Natural Gas is 4,083 MW of NERR's total net generating capacity. Around a quarter of this capacity is from contracted assets located throughout Northeastern U.S.

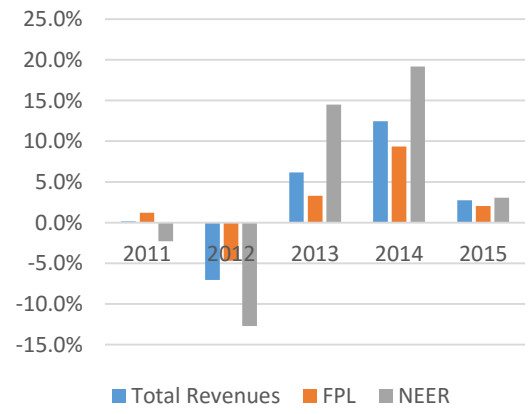
NEER owns and operates four **nuclear** units with a net generating capacity of 2,721 MW and 796 MW of **oil-fired** generation facilities in Maine.

Facility	Location	MW	Portfolio Category	Operating License Expiration Date
Seabrook	New Hampshire	1100	Merchant	2030
Duane Arnold	Iowa	431	Contracted	2034
Point Beach Unit No. 1	Wisconsin	595	Contracted	2030
Point Beach Unit No. 2	Wisconsin	595	Contracted	2033

Operating Model

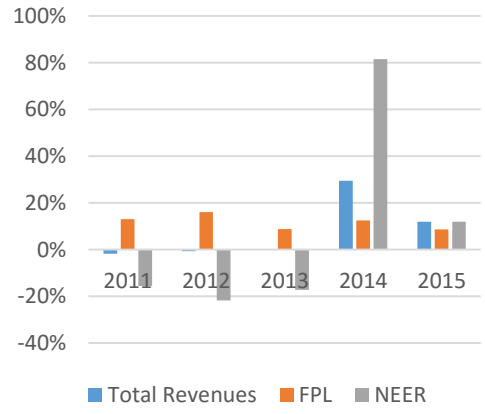
The NextEra Energy Resources business is of a different nature than FPL's. NEER's revenues and earnings are more volatile as the segment operates in the wholesale market and is not regulated, as opposed to FPL. As can be seen in figures 5 and 6, much of the revenue and income volatility of NEE can be traced to NEER's share.

Fig. 5 Revenue Growth By Segment



Source: Company Annual Report

Fig. 6 Net Income Growth By Segment

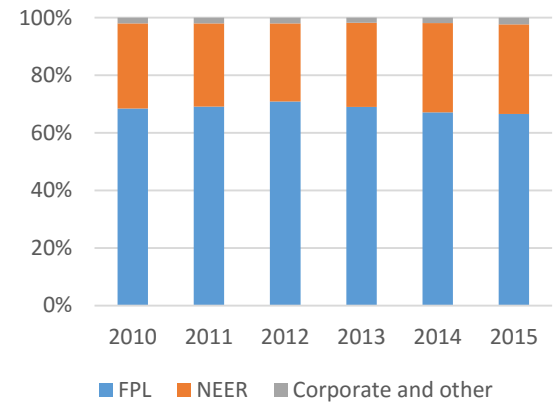


Source: Company Annual Report

Furthermore, NEER is more capital intensive than FPL's business as reflected both in the segment's capex and depreciation ratios. NEER is still in a growth phase, investing in new capacity, and has had negative free cash flows in the past years.

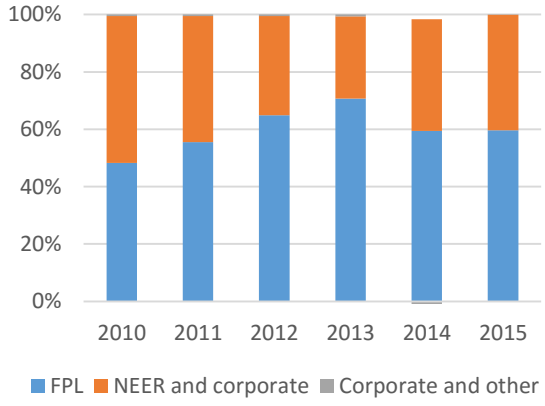
NEE reports its financial results on a consolidated basis for NEER and FPL, as well as FPL separately. However, the company does not provide separate statements for NEER. Just under 70% of revenues are sourced from the FPL segment, with the rest associated with NEER's operations (aside from minor amounts due to operations). In terms of net income, the split fluctuates more, with around 50% of revenue arising from the regulated business in 2010 to over 70% in 2013, and 60% last year.

Fig. 7 NEE Revenue Split



Source: Company Annual Report

Fig. 8 NEE Net Income Segment Split



Source: Company Annual Report

Given the different business models of the two segments and the variation in terms of the revenue and earnings split we model the two segments separately. We use a separate DCF for the regulated utility segment and the NEER segment, supported by a multiples analysis of the NEER segment. High capex associated with NEER results in negative cash flows for the coming years. As such we argue that an analysis of the NEER segment in comparison with similar growth companies, both independent power producers (IPPs) that operate in wholesale markets as well as cleantech companies that are leading the renewables revolution is a better group to compare this segment to than electric utilities solely. This requires the creation of a separate pro forma income statement, balance sheet and cash flow for NEER. We then forecast the financials for NEER and FPL separately. The price target is the result of a sum of the parts valuation where the results from FPL's DCF and NEER's DCF (and multiples analysis) are combined.

Management provides relatively little guidance and historical performance results for NEER specifically going forward, likely due to it not being reported separately as FPL. This has been the case for the past few years. However, management does disclose specific investment project goals for NEER, that we look to.

Forecasts & Inputs for Valuation

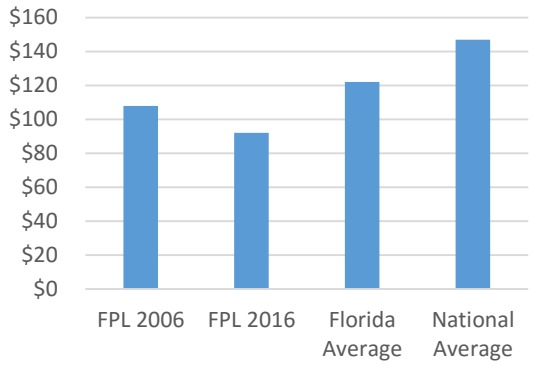
Income Statement: FPL

Revenues

The majority of FPL's revenue is directly related to regulatory base rate cases. Currently FPL operates under a rate agreement with allowed ROE of 10.50%, +/- 100 basis points. These base rates resulted in an increase in retail base revenues of $350 million on an annualized basis. Retail base rate increases are also associated directly with certain plants that are placed into service, which are agreed upon in discussions with the FPSC. Additionally, FPL records fuel and other cost recovery clauses as revenue. These are payments due to the pass through of costs such as franchise fees, revenue taxes and storm related surcharges. Such revenues also include a return on investment allowed to be recovered through the cost recovery clauses on specific investment, such as solar and environmental projects and nuclear capacity.

Fig. 9 FPL Customer Bill

Rates based on a typical 1,000 kWh residential bill



Source: Company Presentation

In terms of retail customer usage and growth, FPL saw a 1.4% and 1.8% increase, respectively in 2015 and 2014 in average number of customer accounts. Average usage per retail customer increased by 4.2% in 2015 mostly due to weather and decreased by 0.4% in 2014. Going forward, FPL expects year over year weather-normalized usage per customer to be between flat and 0.5% negative.

FPL's main focus for 2016 is a proceeding rate case

In January 2016 FPL filed a formal notification with the FPSC seeking to initiate a base rate proceeding to set forth a four-year plan beginning in January 2017 following the current agreement's expiration. Based on preliminary estimates FPL expects to request an increase to their base annual revenue requirements of around $860 million effective in January 2017 and roughly $265 million effective January 2018 and $200 million as of mid-year 2019 when their Okeechobee County natural gas unit becomes operational. Additionally, FPL is seeking to propose an allowed regulatory ROE of 11.50%. FPL expects the typical residential bill to reduce after its base rate impacts, reflecting the increased efficiency associated with investments in a better grid and power plants. Estimated base rate impacts on the typical residential bills are around $13 per month, over the period 2017-2020.

Costs

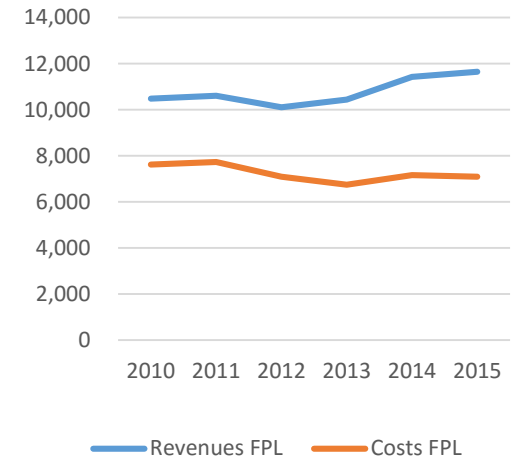
FPL's focus on cost reduction has allowed the company to pass through its previous base rate increases over to its customers without compromising their margins. In fact, operating margins have increased in the past couple of years, despite a falling customer bill, as can be seen in figure 11.

Our Thoughts on Revenues, Costs & Margins

Given the regulated nature of the FPL business, the segment's operating margins have remained relatively stable throughout. Rate base cases and cost recovery clauses have by far the greatest effect on the company's margins. Based on a general push for increased energy efficiency among power users, and given the difficulties associated with forecasting weather patterns, we stick with a flat (0%) growth in usage. Modest growth in the Florida population in recent years, expected to continue going forward, leads us to forecast 1% growth in customer accounts. FPL is the market leader in Florida, as well as the provider

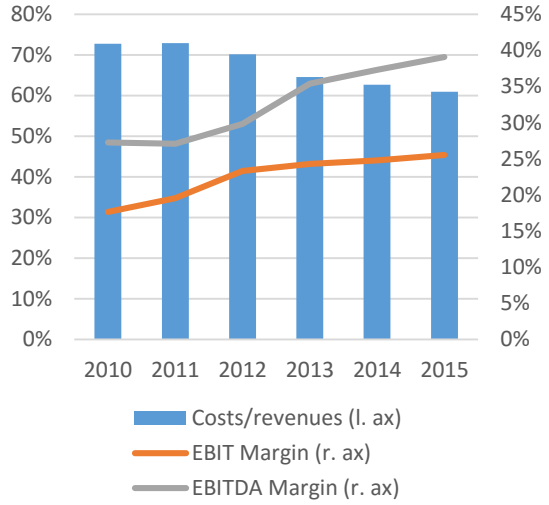
of the lowest utility bill. As such, we argue that the utility is in a good position to capture growing customer accounts given increased economic activity in the area.

Fig. 10 Revenues & Costs FPL Segment ($MM)



Source: Company Annual Report

Fig. 11 FPL Margins



Source: Company Annual Report

We expect FPL to be successful in seeking its base rate case, given its previous performance in such cases. Table 1 shows how the results of the previous rate case in 2012 versus requested ROE and increase in rate base. We assume based on this that the company will receive approval for an average base rate increase for the next 4 years of $335 million.

In terms of allowed ROE we assume a 0.75% discount of their requested amount based on the previous case, resulting in an approved ROE of 10.75% up from 10.5% today. Florida has on average a 10.25% allowed ROE among its utilities, high compared to other states, yet lower than the ROE we anticipate for FPL of 10.75%. However, we believe this rise in allowed ROE will be supported in the rate case committee by the fact that FPL has the most cost-efficient operations and the lowest customer bills in the state. As such the company has consistently used the additional rate rises to invest in more efficient means of generating and delivering power, resulting in a lower bill for consumers.

On costs, the company ranks best in class among major US utilities in terms of operating and maintenance expenses measured as cost per kilowatt hour of retail sales.[2] Furthermore, whereas other companies in the utility business are faced with the potential of higher costs in order to comply with the EPA's clean power plan, FPL is already well positioned to comply with such targets given the clean nature of its fleet.

Given this backdrop **we forecast the revenues will grow by 4.2% in 2016 and between 3-4% until 2020**, based on the base rate increase of $335 million on average throughout 2020 (see figure 12). This growth assumes flat usage rates and an additional 1% revenue growth collectively representing customer accounts and usage rates.

[2] Investor presentation March 2016

We **forecast a steady EBIT margin in 2016 compared to 2015**, with a slight reduction back to 2014 levels throughout the forecast period, which we argue is a prudent assumption given the company's successful cost reduction streak as of recently (figure 13)

Table 1: FPL's Previous Rate Requests

2012 Case					
Actual Revenues					
	2012	**2013**	**2014**	**2015**	**2016**
Revenue starting in 2012	10,114	10,464	10,814	11,164	11,514
A. Additions to revenue from 2012 rate case		350	350	350	350
YoY Growth		3.5%	3.3%	3.2%	3.1%
Average YoY Growth 2012 rate case	3.3%				
Allowed Reg ROE		10.50%	10.50%	10.50%	10.50%
+/- bps		100	100	100	100
B. *Requested Reg ROE*		11.25%			
Requested base rate increase		525	170		
Average requested for 2 years		347.5			
A-B. *Requested vs approved difference*					
ROE		0.75%			
Average rate base increase		3			
2016 Case					
	2016	**2017**	**2018**	**2019**	**2020**
Revenue starting in 2016	12,001	12,861	13,126	13,326	13,326
Additions to revenue from 2016 rate case		860	265	200	0
YoY Growth		7.2%	2.1%	1.5%	0.0%
Average YoY Growth 2016 rate case	2.7%				
Requested Reg ROE		11.50%	11.50%	11.50%	11.50%
Implied average base rate increase for 4 years	331.25				
Our forecast of approved					
ROE	10.75%				
Average rate base increase	335				

Source: Annual report and analyst's estimation

Fig. 12 EBITDA & EBIT Margins – Historical & Forecast

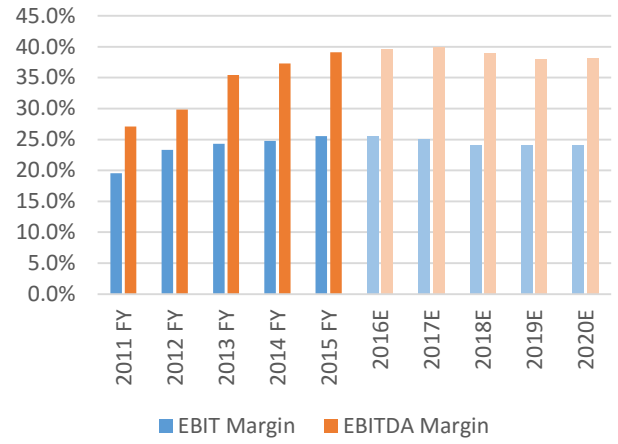
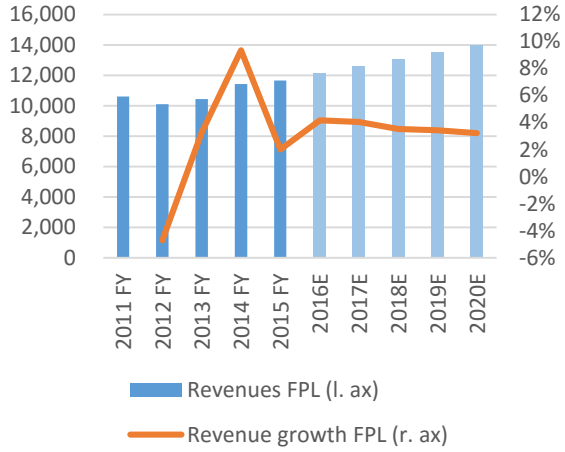


Fig. 13 FPL Revenues ($MM) – Historical & Forecast



Source: Company financials and analyst's estimates

Depreciation

Along with the rate case the company has to file a comprehensive depreciation study, reflecting investments FPL has made since 2009. FPL estimates that based on a changing mix of assets over the course of this period and recoverable lifespans this should lead to a $200 million increase in annual depreciation expense for the next few years.

Looking at such an increase in the context of current depreciation, this seems a high addition to current numbers. On average since 2010 depreciation as a percentage of revenues has been 10% for FPL, increasing to 13%-14% in 2014 and 2015. We assume depreciation will be in line with the most recent numbers, with a 1% additional increase in this range accounting for around a $100 million additional depreciation based on the depreciation study. This results in a depreciation cost of 13-15% of revenues from 2016 to 2020.

Fig. 14 FPL Depreciation Expense – Historical & Forecast

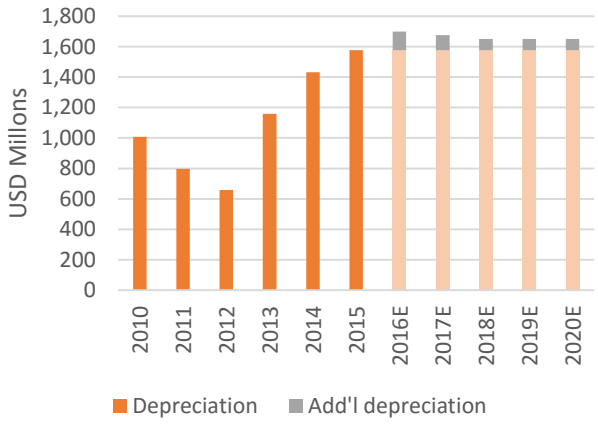
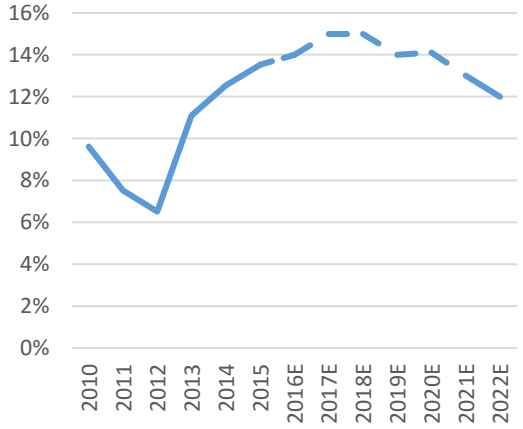


Fig. 15 FPL Depreciation % of revenue – Historical & Forecast

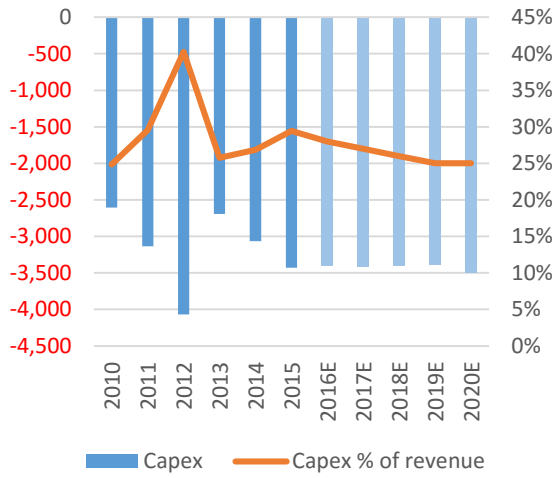


Source: Company financials and analyst's estimates

Capital Expenditures: FPL

Management has noted that FPL planned to invest $16 billion from 2014-2017 in its business, expecting significant additional investments in 2018 and beyond. Capex for 2014 and 2015 combined amounted to $6.5 billion, leaving $9.5 billion for 2016 and 2017 according to management goals. Were we to assume this goal were reached this results in capex in 2016 and 2017 amounting to around 38% of revenue, compared to a historical average closer to 30%. We thus assume this $16 billion plan will extend into 2018. Management has provided capex guidance for 2016-2020 in its 2015 annual report as can be seen in table 2. These forecasts for 2016-2018 imply an average of 28% of revenue in capex, with this year the heaviest. Looking at earlier guidance in NEE's annual reports for such expenditures the segment's expected capex numbers for the following year or two are usually on point, while the capex expected in the years further out tend to be lower than actually realized. Currently, guidance for 2019 and 2020 results in relatively low capex compared to historical levels, with a greater hit in 2016. We assume 2019 and 2010 is in line with the historical average and assume 25-26% of revenues in capex in these years, as well as going forward, with a reduced hit in 2016 smoothing out expenditures.

Fig. 16 FPL Capex ($MM) – Historical & Forecast



Source: Company financials and analyst's estimates

Table 2. Estimated Capital Expenditures

FPL	2016	2017	2018	2019	2020
Total	4050	3385	3095	3360	3280
% of revenue	33%	27%	24%	25%	23%
Our forecast	3,399	3,410	3,400	3,381	3,490
% of revenue	28%	27%	26%	25%	25%

Income Statement: NEER

Revenues

Management does not cite specific revenue goals for NEER, as the segment's revenues are heavily dependent on energy prices.

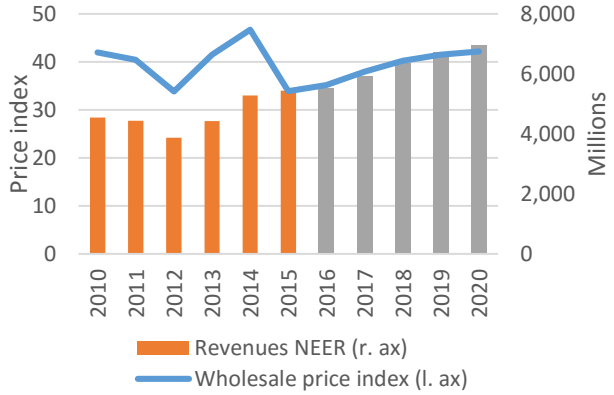
Various factors affect NEER's revenues; power prices, installed capacity as well as capacity factors of power generating facilities. NEER operates in several wholesale markets as seen in table 3, with 21,140 MW of installed capacity. The capacity percentages are calculated from an overview of state-by-state

Table 3. Geographic Locations	% total capacity
NY ISO	1.6%
ISO NEW ENGLAND	12.4%
CALIFORNIA ISO	9.4%
ERCOT	17.5%
MISO	33.2%
PJM	7.1%
SOUTHWEST POWER POOL	14.5%
US Total Capacity	95.7%
International Capacity	4.3%

locations of each plant based on information provided by NEE, and then aggregated into relevant power market areas.

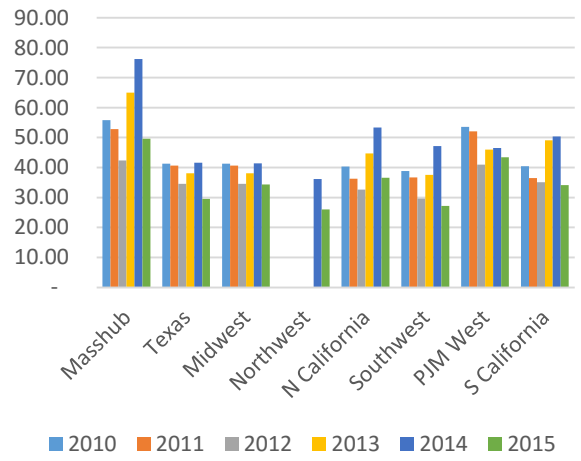
Figure 18 shows wholesale electric prices in relevant power markets in 2010-2015. We constructed a price index for NEER, based on the capacity percentages in table 3 and historical power market prices in each market. This provides us with a price measure to compare revenues of NEER historically with prices in the region it operates in. We note the tight correlation between this index and NEER's revenues, as can be seen in figure 19, except in 2015 where the correlation breaks down. The fall in the index, by 27% in 2015, is in line with EIA's observation that wholesale electric power prices at major trading hubs were down by 27-37% across the U.S. in 2015 compared to 2014. This was mostly driven by lower natural gas prices. The EIA notes that since natural gas-fired generation sets the marginal price in many wholesale power markets, prices are very sensitive to gas price movements.[3]

Fig. 17 NEER Revenues – Historical & Forecast



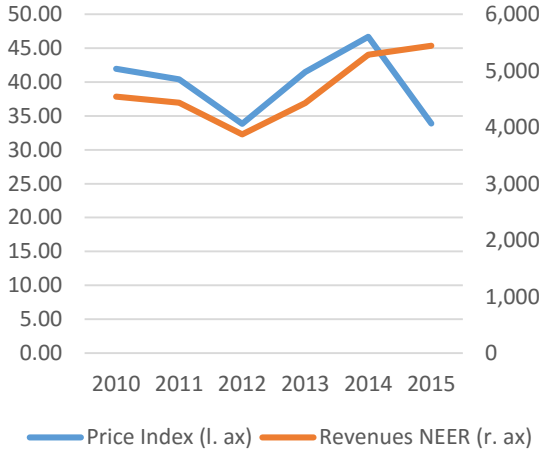
Source: Company financials, analyst's estimations

Fig. 18 Wholesale Electric Prices US ($)



Source: EIA.gov

Fig. 19 NEER Revenues ($MM) & Wholesale Electricity Price Index ($)



Source: Company financials, EIA price data, analyst's calculations

Interestingly, NEER's revenues were seemingly unaffected by this fall in wholesale prices last year. This may reflect the power purchase agreements NEER has signed into, therefore locking in a higher price for its power generation last year. As noted, around 66% of NEER's generating capacity is fully committed under long-term contracts. For the purposes of our forecast we do not however distinguish between these

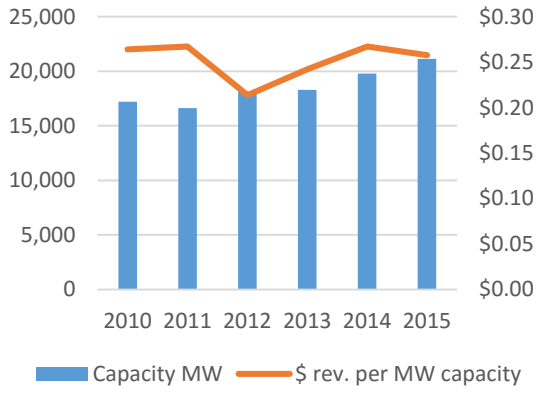
[3] https://www.eia.gov/todayinenergy/detail.cfm?id=24492

contracted assets (66% of capacity) and merchant assets (34% of capacity), as we do not have information on the detail of the long-term contracts. Power purchasing agreements (PPA) among power companies can vary greatly, where prices can be fixed, with a steady increase or decrease in price contracted. As such, we do not have any reason to assume that any portion NEER's power generation has a known price point given the information available. Further, management does not provide any guidance of revenue growth in the NEER segment.

Given the tight-knit relationship between revenues and our constructed price index, excluding last year's anomaly, **we rely on a forecast of our price index to determine revenues in 2016-2020**. Wholesale electric power prices across the U.S. are still low as of the first 3 months of 2016, still weighed down by low gas prices. We forecast that prices will rise slightly as the year passes, with prices lower than in 2016 in most regions. In the PJM and Indiana Hub areas we forecast a rise in prices for 2016 as a whole compared to 2015 based on significant coal capacity that is coming offline in those regions. This is expected to put pressure on supply, leading to higher prices.[4] Overall, this results in a 3.8% increase in our price index for this year. Going into 2017 and 2018 we expect an 8% and 6% annual increase in prices, bringing the index in line with numbers seen in 2010, 2011 and 2013.

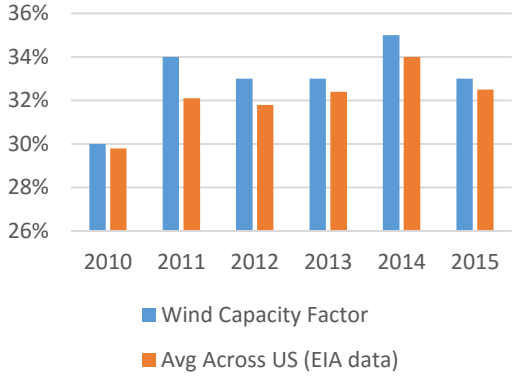
Another important determinant of revenues of NEER is installed capacity, which has been rising slowly but steadily over the past years as can be seen in figure 20. Revenues generated per MW installed have however remained around $0.26, aside from a fall in in 2012 as can be seen in figure 21, likely driven by a fall in power prices that year. Based on this, **we assume revenue per MW installed will stay stable at around $0.26** going forward.

Fig. 20 NEER Installed Capacity & Revenues per MW



Source: Company financials, analyst's calculations

Fig. 21 NEER & Industry Wind Capacity Factors



Source: Company presentations, EIA

Finally, capacity factors of NEER's generation facility are important, as lower capacity will result in less power available for sale given installed capacity. NEE does not disclose capacity factors for individual NEER plants in its annual accounts, but it does draw attention to the capacity factor of its wind production in investor presentations. Wind is NEER's largest power generating source, making up just under 60% of its generation capacity. However, given the low capacity factor of wind generators actual power produced from wind makes only up 42% of NEER's production. Compared to average wind capacity factors among

[4] "SNL Energy: Coal Plants at Risk", as well as discussion in analyst's EXC report from March 28th.

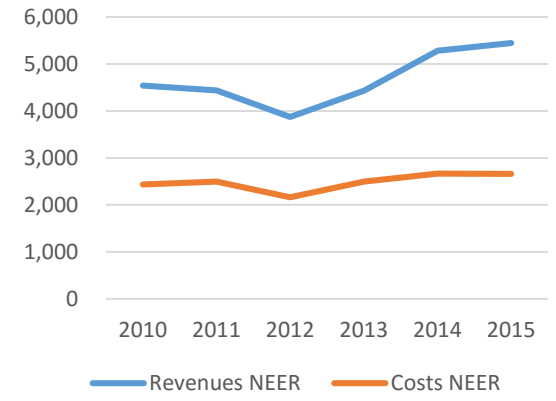
power plants in the U.S. NEER's generators are efficient as can be seen in figure 21, operating at around 33-35% in recent years. For other generating plants we can calculate implied capacity factors by comparing generation percentages by assets and by fuel types, and incorporating numbers for installed capacity and actual production. The result of these calculations can be found in table 4.

Table 4: Implied Capacity factors NEER

2015	Implied million MWh produced	Installed capacity Million MWh	Implied % of capacity	Officially disclosed numbers by NEE	EIA avg capacity factors
Total	80	183.96	43%		
Wind	33.6	108.54	31%	33%	32.5%
Natural Gas	21.6	34.95	62%		67.6%
Nuclear	21.6	23.91	90%		92.2%
Oil	2.4	7.36	33%		n/a
Solar	0.8	9.20	9%		28.6%
2014	**million MWh**	**Installed capacity Million MWh**	**% of capacity**		
Total	75	173.25	43%		34%
Wind	33.6	100.48	33%	35%	34%
Natural Gas	21.6	34.65	62%		68.9%
Nuclear	22.4	24.25	92%		91.7%
Oil	1.6	6.93	23%		n/a
Solar	0.8	6.93	12%		25.9%

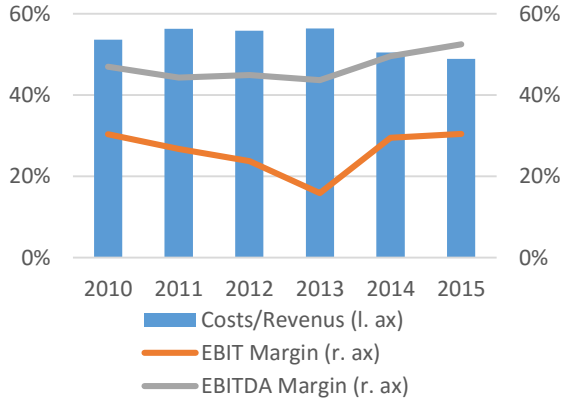
Source: Annual reports, analyst's estimations

Fig. 22 Revenues & Costs ($MM) NEER Segment



Source: Company financials

Fig. 23 NEER Margins

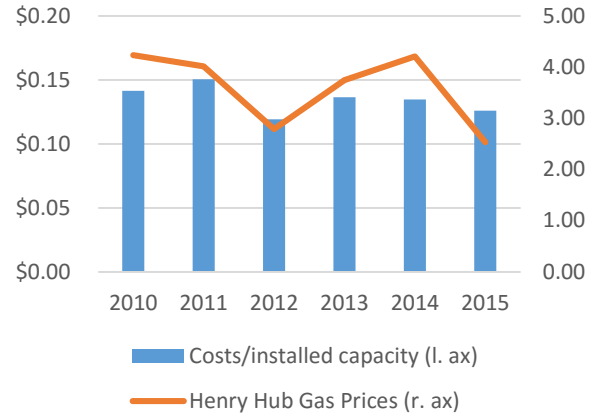


Source: Company financials

Costs

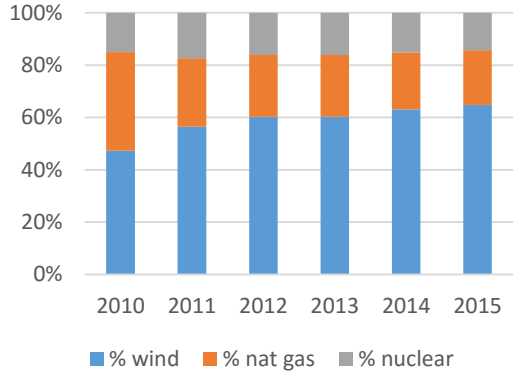
Costs at NEER have not risen in tandem with revenues, implying increased cost efficiency (figures 22 and 23). Furthermore, the EBITDA margin has risen since 2012. A couple of factors could be assisting this, firstly falling gas prices and secondly increased wind power generation. As noted in the revenue section, gas prices feed directly into wholesale electric prices, yet NEER's revenues were shielded from the fall in gas prices last year. NEER could however have benefited on the cost side, depending on the structure of its gas purchase agreements. Figure 24 shows how cost per installed capacity at NEER has trended along with gas prices.

Fig. 24 NEER Costs & Gas Prices



Source: Company financials, Factset, analyst's calculations

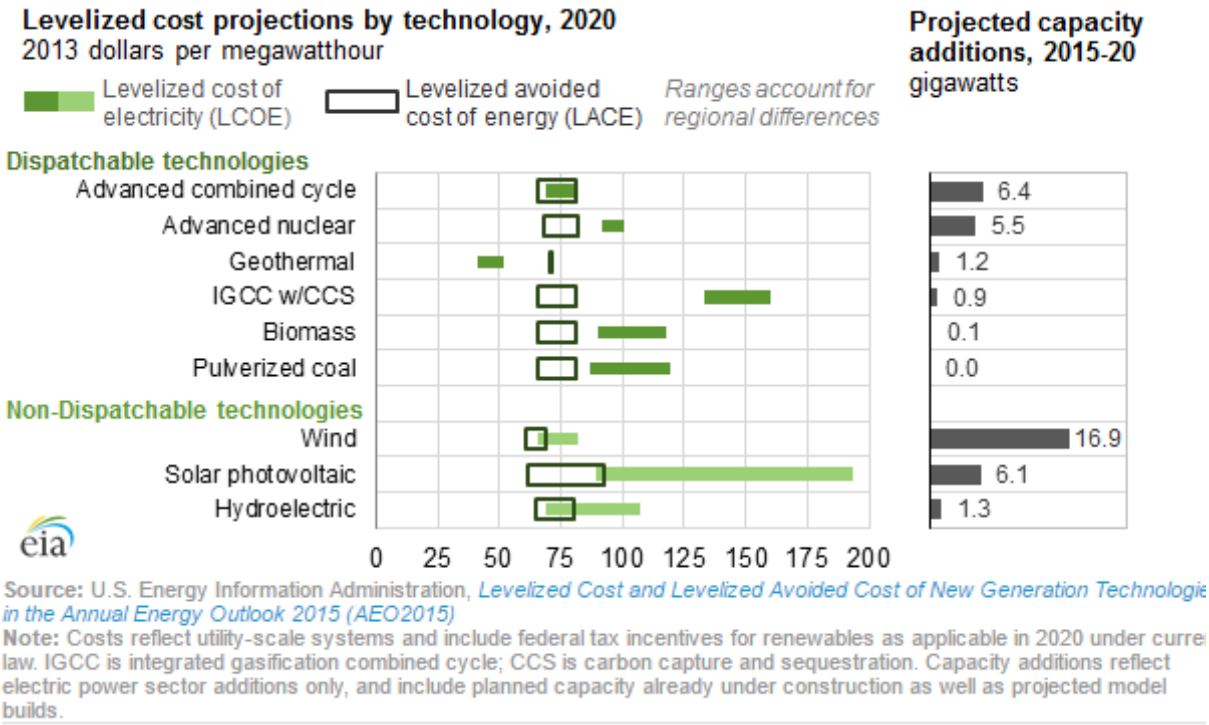
Fig. 25 NEER Generation by Asset Type



Source: Company financials

The benefits of wind power are the low operational costs; no purchased fuel is required for wind production. Most of the cost associated with wind production are upfront. The EIA estimates the levelized cost of various power generators, in order to compare their cost efficiency. According to recent estimates wind is one of the lowest cost generators, alongside gas, as can be seen in figure 26.

Figure 26



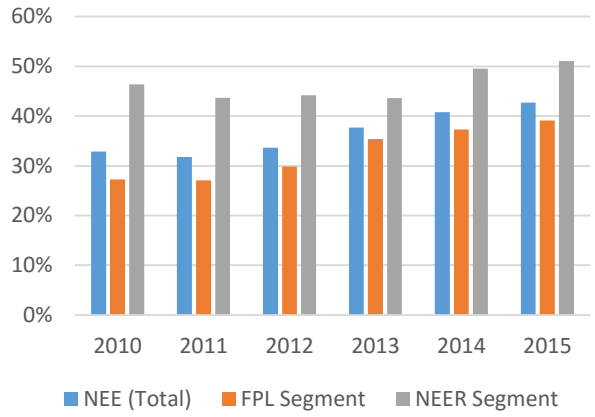
Source: U.S. Energy Information Administration, *Levelized Cost and Levelized Avoided Cost of New Generation Technologie in the Annual Energy Outlook 2015 (AEO2015)*

Note: Costs reflect utility-scale systems and include federal tax incentives for renewables as applicable in 2020 under curre law. IGCC is integrated gasification combined cycle; CCS is carbon capture and sequestration. Capacity additions reflect electric power sector additions only, and include planned capacity already under construction as well as projected model builds.

Source: EIA.gov

NEER's production of electricity via wind, as divided by asset type, has steadily increased over the past 5 years, as seen in figure 25, which is also a likely contributor to its lower costs per installed capacity. In fact, NEER's strength in wind power has without a doubt been one of its major sources of competitiveness in terms of operating margins despite the intermittancy issues often associated with wind power. This is reflected in margins for NEE as a whole, with the NEER segment pushing up margins as can be seen in the comps table in appendix. Here EBITDA is the best comparable, as the company has high depreciation due to its heavy growth investments as of recently. As such, the cost of wind compared to traditional sources of power is reflected in the capex requirements as well as depreciation and amortization.

Fig. 27 Gross Margin (excluding D&A) across NEE's segments



Source: Company financials

We assume that NEER continues to see favorable cost ratios given its emphasis on wind power generation. Costs as a percentage of revenue have fallen over the past few years, and were 49% in 2015 and 50% in 2015 (excluding depreciation and amortization**). We hold this ratio constant at 49%** in 2016, then falling to 47% in 2018 and 45% in 2019 and throughout the forecast period. If gas prices rise, as is reflected in our price forecast, this should feed into costs resulting in similar shocks upwards to costs in 2016 and 2017 as to revenues. However, we believe that ongoing capacity installments of wind power will continue to put downward pressure on operating costs, and if anything bring costs as a percentage of revenue lower as the forecast period progresses. Although subsidies for wind and solar projects are being phased out, this will affect the tax base of NEER, not its costs. As such we feel holding the cost ratio constant from its low base last year in 2016, and then reducing it after that is in line with the changing cost structure of operations as wind power is increasingly relied on.

Capital Expenditure: NEER

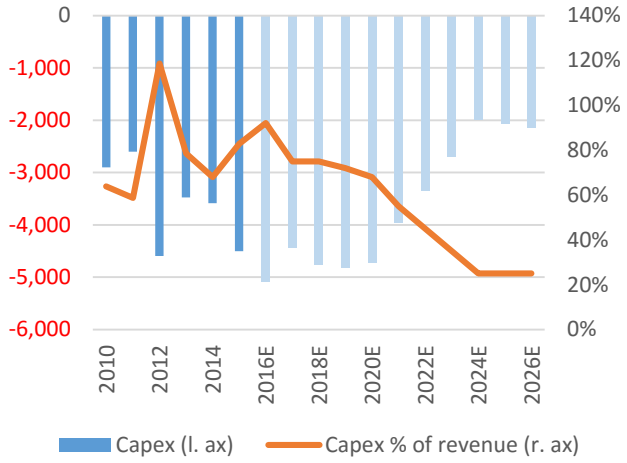
For NEER the wind turbine itself is the largest cost of wind projects. According to the Department of Energy (DOE) the turbine can make up over 70% of the cost of a land-based wind project. Costs of installation are an additional cost component. Falling capital costs among wind power producers have primarily been driven by significant reduction in wind turbine costs. Price reductions along with improved turbine technology which increase capacity factors are exerting downward pressure on project costs and wind power prices.[5] We look to this when estimating the capex needs of NEER, as falling costs reduce expenditures per output installed.

NEER's ***Development Program*** involves additions to its renewable power generating sources. The company is focused on gaining an even larger share of the North American renewables market. Table 6 shows that historically guidance in annual reports for capex at NEER for the years ahead is not very reliable, except perhaps for the following year. The current guidance for 2016 in around $5 billion, or around 92% of revenue (table 5). Although high, this seems plausible given historical numbers and their

[5] http://energy.gov/sites/prod/files/2015/08/f25/2014-Wind-Technologies-Market-Report-8.7.pdf

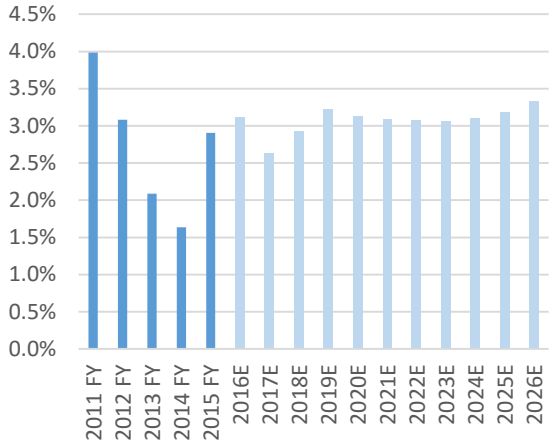
renewables investing plan. Going forward however we prefer to rely on historical averages for capex as a percentage of revenue rather than guidance given the underestimation of these numbers further out into the future in accounts provide by management. This results in our forecast, seen in figure 28 where capex is around 78% (historical average) of revenue after 2016, and then trends downwards closer to the utility segment's capex as a percentage of revenue, as growth capex peaks and capacity additions fall.

Fig. 28 NEER Capex – Historical & Forecast



Source: Company financials, analyst's estimation

Fig. 29 NEER ROIC



Source: Company financials, analyst's estimation

Table 5. Estimated Capital Expenditures in 2015 Annual Report

NEER	**2016**	**2017**	**2018**	**2019**	**2020**
Wind	2040	75	30	25	25
Solar	1240	10			
Nuclear, incl nuclear fuel	300	240	270	310	265
Natural gas pipelines	1020	740	465	35	15
Other	495	60	75	50	65
Total	5095	1125	840	420	370
% of revenue	92%	19%	13%	6%	5%

Source: Annual report

Table 6. Historical Guidance

NEER Capex in previous annual reports vs. actual capex	**2013**	**2014**	**2015**
2014			3100
2013		3075	1125
2012	1805	575	435
Actual capex	3478	3588	4505

In this context the return on invested capital (ROIC) is an important metric to look at, showing whether the company is successfully generating income from its heavy investments. As figure 29 shows, the ROIC

for NEER is expected to stay around 3% in coming years. As can be seen in the appendix, and discussed in the multiples analysis later, this is in line with the median ROIC for cleantech companies that are fast growing, and higher than the median ROIC value for independent power producers (IPPs) that only sell power in wholesale markets, similar to NEER.

Policy Drivers & Production Capacity: NEER

NEER, as many wind power generators, has been relying on tax incentives to fund its renewables expansion. Federal incentives for wind projects have led to an increase in wind energy investments in recent years, however the Production Tax Credit (PTC) for wind projects is reaching a policy cliff. In December 2014 Congress extended the wind PTC over a five-year phase-down period as can be seen in table 7. Similarly, tax credits for solar investments have slowly been phased out. The DOE noted that these provisions were likely to spur growth in wind capacity additions in 2015 and 2016. In the case of NEER that was true, with heavy investments seen both last year and expected this year. Even though the program has been extended it is being phased out, leading to uncertainty in the coming years as to some projects.

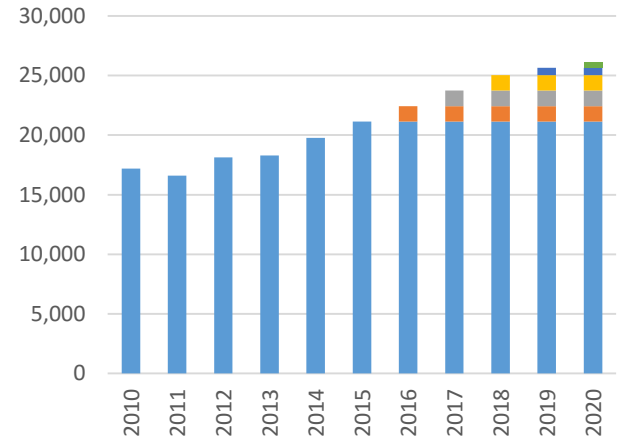
Table 7. Extended U.S. Federal Tax Credits

Wind Production Tax Credit (PTC)			Solar Investment Tax Credit (ITC)		
Start of Construction Date	Potential COD Deadline[1]	Wind PTC	Start of Construction Date	Potential COD Deadline[1]	Solar ITC
Prior to 1/1/2017	12/31/2018	100%	Prior to 1/1/2020	12/31/2021	30%
Prior to 1/1/2018	12/31/2019	80%	Prior to 1/1/2021	12/31/2022	26%
Prior to 1/1/2019	12/31/2020	60%	Prior to 1/1/2022	12/31/2023	22%
Prior to 1/1/2020	12/31/2021	40%	2022 and beyond	N/A	10%

Source: Company presentation

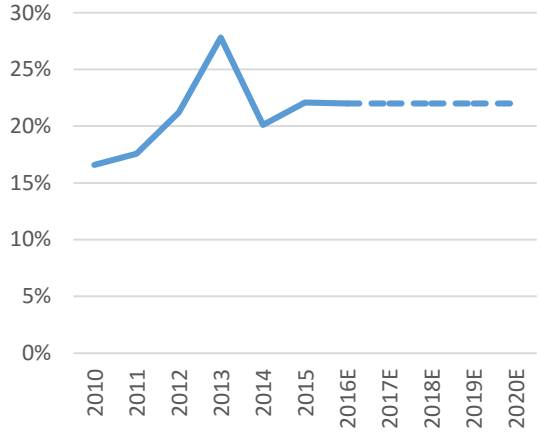
We assume a third of the development program NEER signed in 2015 will come into realization this year, and the rest in 2017 and 2018, adding around 1300 MW of capacity each year. This will be roughly equally split between wind and solar capacity. Going forward we assume the capex at NEER reflects a slower increase in capacity than we have seen historically which on average has been 1300-1500 MW capacity additions per year, mostly in wind. Given uncertainties regarding the tax credit programs, as well as our assumption that towards the end of the forecast period NEER will slow its capacity expansion, we add 600 MW and 500 MW a year in 2019 and 2020. This assumes some new renewable capacity will replace some gas capacity. All in all, **we expect NEER to grow its capacity over this period by 16% from 21,140 MW in 2015 to 26,140 in 2020.**

Fig. 30 NEER Installed Capacity – Historical & Forecast



Source: Company financials, analyst's estimation

Fig. 31 Depreciation NEER % of revenue



Source: Company financials, analyst's estimation

Taxes and Depreciation

NEER's effective income tax rate reflects the benefit of PTCs for NEER's wind projects, in addition to ITCs for solar and certain wind projects. PTCs are recognized as wind energy is generated and sold based on a per kWh rate. For 2015, 2014 and 2013 NEER's PTCs were $149 million, $186 million and $209 million respectively. To forecast effective tax rates going forward for NEER we calculate the implied income after tax credits, based on a 38% tax rate (the same rate FPL pays). This involves dividing the tax expense by 38% to find the base off of which NEER has been paying income tax. We then calculate what this base is as a percentage of revenue – on average around 10%. This leads us to conclude that this base has been in the range of 2-38% of NEER's revenues in the past 5 years. We assume the tax base for NEER will be at the lower end of this range, 12% in the coming years, falling to 10% as tax credits are slowly phased out. We than calculate 38% of this base. This results in an effective rate of 17% in the next few years, rising to 20% towards the end of the forecast period going forward, based on the phase out of such credits going forward.

In terms of depreciation, we assume a fixed percentage of revenue, 22%, throughout the forecast period, based on historical averages for NEER.

Balance Sheet: FPL & NEER

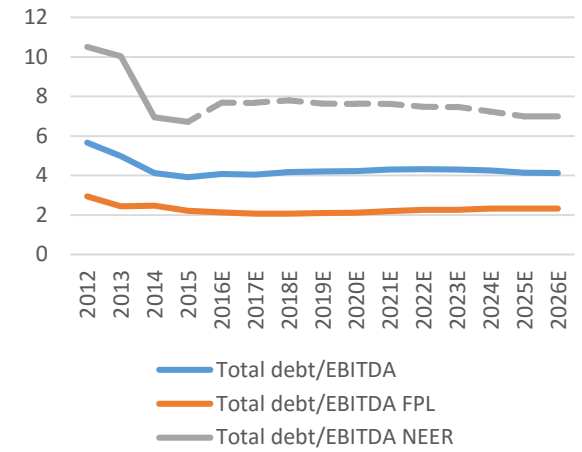
Debt

Our forecast assumes a constant debt to EBITDA ratio for FPL, and slightly rising for NEER IN 2016 and 2017 given heavy capex during the growth phase. Subsequently the debt ratio stabilizes, finally falling slightly. As the table in the appendix shows, compared to traditional electric utilities the debt/EBTIDA ratio for FPL is very low compared to its peers, given the median value for the group of around 4x compared to FPL's value of 2x. The higher ratio for NEE as a whole is due to the NEER segment. Comparing the NEER segment to independent power producers[6] the debt ratio is in line with the average value in 2015, but on the higher side going forward, with our forecast assuming it remains under 8x throughout the early part

[6] See multiples analysis in valuation chapter for comps table for IPPs

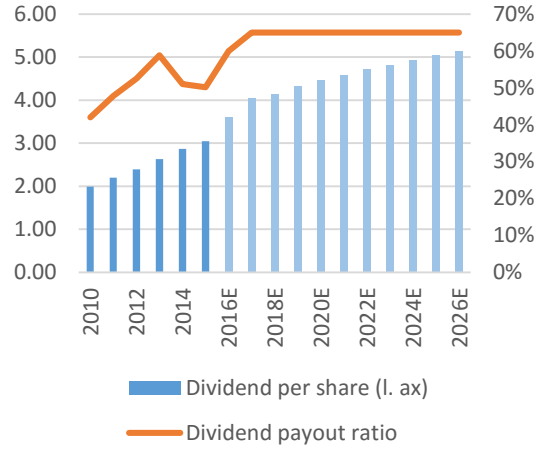
of the forecast period. We assume it will start falling in the latter years, when NEER will have reduced its capex needs and has cash to pay down debt.

Fig. 32 NEE Total Debt/EBITDA – Historical & Forecast



Source: Company financials, analyst's estimation

Fig. 33 NEE Dividends



Source: Company financials, analyst's estimation

Returning capital to shareholders

Management expects to raise its dividend payout ratio to 65% by 2018. This implies an expected growth of 12-14% off the 2015 base. The majority of NEE's dividends are usually paid out of the FPL segment, where the payment percentage is higher when cash flows are higher than usual in the utility segment, whereas this is taken out of NEER's cash flow when less room is for payouts from FPL's cash. This results in the majority of the cash at the end of period for FPL being paid out to shareholders. Given our forecasts we believe there is room for a dividend expansion in line with management goals, which can be sourced from cash flows from the FPL business. We assume the 65% payout ratio goal will be reached by beginning of year 2018 and will remain at that level throughout the forecast period.

Valuation

The price target for NextEra Energy's stock is based on a sum-of-the-parts analysis. The regulated utility segment, FPL, is valued with a discounted cash flow and WACC given FPL's steady debt structure. The NEER business is valued with a discounted cash flow and WACC, supported by a multiples analysis.

FPL Segment: Discounted Cash Flow Using WACC

The DCF assumes 3-4% revenue growth in the coming years for FPL, falling to 2.7 and 2.6% as of 2023. The EBIT margin is assumed relatively steady throughout the forecast period at around 24-25%. The effective tax rate is 37% based on a five-year historical average. Changes in net working capital are calculated by projecting the balance sheet and income statement items as historical average percentages of sales.

For the CAPM we chose a risk-free rate of 1.7% based on the 10-year treasury. The market risk premium we use is 7.0% in line with the historical value of the premium.

The beta equity we use, 0.4, is based on historical returns data for NEE's stock. We calculate the covariance of 60 months of total return data on NextEra's stock and the S&P 500 and divide it by the variance of the S&P. Figure 34 shows how the beta of NEE has fluctuated around 0.5 in recent years. Given that we are only valuing the regulated utility part of the company we assume that incorporated in the 0.5 beta value is the considerably riskier NEER segment. As such we discount the 0.5 beta to by around 20% to take this into consideration. We assume a terminal growth rate of 2.4% based on the predicted long-term growth rate of the economy.

The DCF valuation leads to an enterprise value for the FPL segment of $51,570, around 60% of NEE's current enterprise value of $83,465. The implied market cap of the regulated utility business, according to this valuation, is then $41,517.

Fig. 34 60 month beta for NEE

Source: SNL Energy, analyst's calculations

Discounted Cash Flow Analysis

($ in millions except per share items)

Fiscal Period Ending			2011 FY	2012 FY	2013 FY	2014 FY	2015 FY	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
DCF FPL																		
Total Revenue			**10,613**	**10,114**	**10,445**	**11,421**	**11,651**	**12,138**	**12,629**	**13,075**	**13,526**	**13,961**	**14,401**	**14,845**	**15,243**	**15,646**	**16,052**	**16,463**
Revenue growth %				*-4.7%*	*3.3%*	*9.3%*	*2.0%*	*4.2%*	*4.0%*	*3.5%*	*3.4%*	*3.2%*	*3.1%*	*3.1%*	*2.7%*	*2.6%*	*2.6%*	*2.6%*
EBIT			**2,076**	**2,357**	**2,539**	**2,828**	**2,977**	**3,101**	**3,157**	**3,138**	**3,246**	**3,351**	**3,456**	**3,563**	**3,658**	**3,755**	**3,853**	**3,951**
EBIT Margin			19.6%	23.3%	24.3%	24.8%	25.6%	25.6%	25.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
EBITDA			**2,874**	**3,016**	**3,698**	**4,260**	**4,553**	**4,801**	**5,052**	**5,099**	**5,140**	**5,319**	**5,328**	**5,344**	**5,488**	**5,476**	**5,618**	**5,762**
EBITDA Margin			27%	30%	35%	37%	39%	40%	40%	39%	38%	38%	37%	36%	36%	35%	35%	35%
Taxes								(1004.81)	(1023.23)	(1015.94)	(1053.33)	(1084.78)	(1116.41)	(1150.83)	(1181.72)	(1212.92)	(1244.43)	(1276.26)
D&A								1,699	1,894	1,961	1,894	1,969	1,872	1,781	1,829	1,721	1,766	1,811
Capex								(3398.50)	(3409.80)	(3399.55)	(3381.48)	(3490.30)	(3600.20)	(3711.20)	(3658.38)	(3754.96)	(3852.51)	(3951.04)
Change in Cash								(9.82)	(181.07)	157.07	(57.79)	(341.20)	205.00	195.60	10.76	(0.47)	(7.33)	47.60
Change in WC								120	36	42	42	44	43	42	48	48	47	47
FCF								507.29	473.95	883.05	688.84	446.56	859.66	720.12	706.35	555.26	561.10	628.85
ROIC NEE total							5.3%	5.0%	5.2%	5.2%	5.1%	5.0%	5.0%	4.9%	4.9%	5.0%	5.1%	5.1%
ROE NEE total			13.3%	12.8%	11.9%	13.7%	13.7%	11.8%	12.6%	12.5%	12.2%	11.9%	11.7%	11.4%	11.2%	11.0%	10.9%	10.7%
ROE FPL			10.6%	11.9%	12.0%	12.0%	11.7%	10.70%	10.93%	10.23%	10.03%	9.78%	9.57%	9.39%	9.19%	9.00%	8.82%	8.65%
CAPM																		
Discount Rate	3.8%	**Tax Rate**	36.74%				**Year**	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	10.5
Terminal Growth Rate	2.4%	**WACC**	**3.37%**				**Discount Factor**	0.98	0.95	0.92	0.89	0.86	0.83	0.81	0.78	0.75	0.73	0.71
Market Risk Premium	7.0%	Rd	4.77%				**PV of FCF**	498.9	451.0	812.8	613.4	384.7	716.3	580.5	550.8	418.9	409.5	443.9
Beta	0.4	Re	3.8%				**Sum of FCF**	5,881										
Rf	1.70%	**D/(E+D)**	0.56				**PV of Terminal Value**	45,689										
Tax Rate	36.74%	E/(E+D)	0.44				**Total**	51,570										
		Beta	0.4															

NEER Segment: Discounted Cash Flow Using WACC

We set up a DCF for the NEER segment as well, with a higher beta of 0.7 reflecting its riskier nature[7]. The revenue forecast fluctuates from 1.6%-7.3% in the early part of the forecast period. After 2020 we assume an annual revenue growth rate of 3.5% reflecting more stable revenues as the growth phase of the segment slows. The EBIT margin increases from 26-27% in the early part of the forecast (down from 30% in 2015 due to higher revenues despite falling power prices), then rising to just under 30% as we expect costs to fall given increased efficiency as discussed above.

[7] Assuming total beta of NEE is 30% due to NEER, and 70% due to FPL: 30%*0.7+70%*0.4=0.5

We assume a tax rate of 17.7% based on our effective tax rate calculations, and same terminal growth rate as in the FPL case.

As can be seen in the below output, the majority of the PV arises from the terminal value as the company is in growth phase in the early part of the forecast period.

Discounted Cash Flow Analysis

($ in millions except per share items)

Fiscal Period Ending			2011 FY	2012 FY	2013 FY	2014 FY	2015 FY	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
NEER Valuation																		
Total Revenue			4,437	3,871	4,432	5,283	5,444	5,530	5,924	6,358	6,706	6,956	7,200	7,452	7,713	7,982	8,262	8,551
Revenue growth %				*-12.7%*	*14.5%*	*19.2%*	*3.0%*	*1.6%*	*7.1%*	*7.3%*	*5.5%*	*3.7%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*
EBIT			1,185	919	702	1,556	1,655	1,423	1,643	1,891	1,994	2,069	2,141	2,216	2,294	2,374	2,457	2,543
EBIT Margin			26.7%	23.7%	15.8%	29.5%	30.4%	25.7%	27.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%
EBITDA			2,132	1,965	1,740	1,934	2,618	2,857	2,640	2,946	3,290	3,470	3,599	3,725	3,855	3,990	4,130	4,275
EBITDA Margin			48%	51%	39%	37%	48%	52%	45%	46%	49%	50%	50%	50%	50%	50%	50%	50%
Taxes								(215.55)	(273.59)	(335.05)	(377.07)	(389.93)	(402.43)	(443.69)	(458.08)	(484.32)	(511.87)	(528.65)
D&A								1,217	1,303	1,399	1,475	1,530	1,584	1,639	1,697	1,756	1,818	1,881
Capex								(5095.00)	(4442.88)	(4768.65)	(4828.23)	(4730.27)	(3959.86)	(3353.28)	(2699.39)	(1995.62)	(2065.47)	(2137.76)
Change in Cash								1296.88	(1142.68)	(1435.42)	777.99	328.25	(237.18)	(655.14)	(860.02)	65.98	(727.23)	(857.76)
Change in WC								(202)	(168)	(78)	(87)	(159)	(101)	(187)	27	25	24	22
FCF								-1,575.93	-3,081.17	-3,327.19	-1,044.52	-1,352.23	-975.64	-783.46	-0.51	1,741.18	993.55	921.95
ROIC			4.0%	3.1%	2.1%	1.6%	2.9%	3.1%	2.6%	2.9%	3.2%	3.1%	3.1%	3.1%	3.0%	3.1%	3.2%	3.3%
CAPM																		
Discount Rate	5.4%	**Tax Rate**	17.68%				**Year**	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	10.5
Terminal Growth Rate	2.4%	**WACC**	**4.11%**				**Discount Factor**	0.98	0.94	0.90	0.87	0.83	0.80	0.77	0.74	0.71	0.68	0.66
Market Risk Premium	7.0%	Rd	3.74%				**PV of FCF**	-1544.5	-2900.6	-3008.6	-907.2	-1128.2	-781.9	-603.1	-0.4	1236.6	677.8	604.1
Beta	0.7	Re	5.4%				**Sum of FCF**	-8,356										
Rf	1.70%	**D/(E+D)**	0.56				**PV of Terminal Value**	35,369										
Tax Rate	17.68%	E/(E+D)	0.44				**Total**	27,013										
		Beta	0.7															

Combining the enterprise value from the two DCF's we arrive at a value of $78,583. This translates into an equity value of $49,879 and a **price target of $108.20, or -6.98% difference from the current market price of $116.31**.

Total PV	78,583
Total Equity Value	49,879
Current Market Cap	53,619
Price Differential	(3,740)
Share Price Differential	(8.11)
Share Price	*108.20*
Difference	*-6.98%*

NEER Multiples Analysis

To take into account the fast growth and expansion of NEER's business we also use multiples analysis to value this segment. We argue that an analysis of the NEER segment in comparison with similar growth companies, both independent power producers operating in wholesale markets as well as cleantech companies that are leading the renewables revolution is a better group to compare this specific segment to, than the electric utilities sector as whole. This will allow us to get a feel for how the market views these companies and their potential to turn current capital investments into earnings in the future.

Given our DCF valuation of the FPL segment, we assume the market is valuing the NEER segment at an enterprise value of $83,465-$51,570 = $31,895. This implies a market cap of $12,102 for NEER. The multiples analysis in the appendix shows that this is more or less in line with median values across the IPP and Cleantech sector, except for the P/E ratio which is on the lower side for NEER. The implied P/E multiple for next twelve months NEER is 10.9x, whereas the median value P/E NTM among the selected IPP companies is 20.5x, and 15.2x respectively. We argue based on this that **a P/E multiple of 18x for NEER is reasonable**. Similarly, in terms of **EV/EBIT** NEER's implied multiple is 19.3x, just below the median value

for the IPP sector, and similarly for the Cleantech sector. We expect this **multiple could rise to 23x for NEER**. In terms of **EV/EBITDA** the company seems to be trading in line with both groups, at 11.2x compared to medians of 8.4x and 11.6x. We argue that **this multiple will stay at 11x**.

Multiples for NEER segment analysis
Independent Power Producers and Cleantech

Ticker	Name	Gross Margin	EBITDA Margin	EBIT Margin	Net Margin	EV	EPS	P/E	P/E NTM	EV /Sales	EV/EBIT	EV/EBITDA	Total Debt/ EBITDA	Total Debt /EV	ROIC
	IPPS														
HNP	Huaneng Power Intl	26.6%	36.1%	21.6%	10.7%	$45,227	0.13	7.02	7.2x	2.2x	8.8x	6.1x	3.6x	58.8%	9.0%
CPN	Calpine	38.7%	21.0%	17.3%	4.0%	$14,680	0.59	25.35	20.8x	2.5x	29.7x	11.7x	9.7x	82.4%	1.6%
AES	AES	18.0%	25.5%	18.3%	2.0%	$29,735	1.02	10.99	10.7x	2.0x	11.1x	7.8x	5.5x	70.0%	1.4%
AT	Atlantic Power		41.5%	1.6%	-17.4%	$1,458	-0.20			3.5x	22.6x	8.4x	6.3x	69.9%	-4.0%
TAC	TransAlta	63.9%	35.9%	15.9%	1.0%	$5,794	0.09	51.03	49.9x	3.5x	50.4x	9.6x	5.8x	55.9%	0.3%
NRG	NRG Energy	38.4%	20.4%	10.6%	-42.5%	$22,811	0.84	15.91	20.5x	1.5x	15.8x	7.5x	6.4x	85.3%	-24.6%
DYN	Dynegy	46.8%	18.8%	9.8%	1.4%	$8,793	-0.63			2.4x	93.5x	12.7x	10.6x	82.9%	0.5%
	Median	38.6%	25.5%	15.9%	1.4%	$14,680	0.13	15.91	20.5x	2.4x	22.6x	8.4x	6.3x	70.0%	0.5%
	Average	38.7%	28.5%	13.6%	-5.8%	$18,357	0.26	22.06	21.8x	2.5x	33.2x	9.1x	6.8x	72.2%	-2.3%
	NEER	51.1%	48.1%	30.4%	20.4%	$31,895	n/a	10.9x	12.1x	5.9x	19.3x	11.2x	6.7x	60.2%	3.1%
	CleanTech														
HASI	Hannon Armstrong			88.6%	11.2%	$1,564	1.23	15.42	14.9x	26.7x				58.2%	0.6%
BGC	General Cable	12.5%	4.9%	5.1%	-2.7%	$1,688	0.78	17.14	15.2x	0.4x	14.5x	8.2x	5.2x	63.9%	-8.9%
CSE	Capstone Infra		48.3%	23.7%	0.0%	$15,617	0.12	32.53	40.1x	5.6x	23.4x	11.6x	8.1x	64.5%	0.0%
RNW	TransAlta Renewables	97.1%	72.2%	42.1%	82.7%	$2,793	0.61	16.12	15.8x	15.2x	37.9x	21.0x	4.7x	20.6%	9.5%
NFI	New Flyer Industries	14.4%	9.0%	9.0%	3.5%	$2,319	1.96	14.75	14.0x	1.5x	23.0x	16.7x	5.7x	31.5%	6.3%
ACCEL	Accell Group	31.0%	7.4%	6.2%	3.3%	$743	1.79	11.77	11.4x	0.7x	10.6x	9.2x	3.0x	31.3%	9.1%
	Median	22.7%	9.0%	16.4%	3.4%	$2,004	1.01	15.77	15.0x	3.6x	23.0x	11.6x	5.2x	44.9%	3.5%
	Average	38.8%	28.4%	29.1%	16.3%	$4,121	1.08	17.96	18.6x	8.3x	21.9x	13.3x	5.3x	45.0%	2.8%
	Median across both sectors							15.91	15.2x	2.4x	22.8x	9.4x			
	Average across both sectors							19.82	20.0x	5.2x	28.5x	10.9x			
	NEER	51.1%	48.1%	30.4%	20.4%	$31,895	n/a	10.9x	12.1x	5.9x	19.3x	11.2x	6.7x	60.2%	3.1%
	Our forecast multiples								**18.0x**	**5.0x**	**23.0x**	**11.0x**			

Using the above forecast to find the implied equity value for NEER based on 2016 earnings, EBIT and EBITDA, and adding NEER's equity value to the equity value of the utility segment we get a price target in the range of $112.60-129.23. This is a -3.2% to +11.1% price differential to the current market price of $116.31.

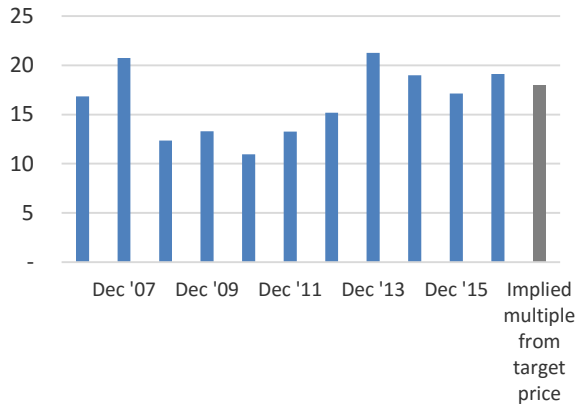
Valuation Results & Recommendation

Based on the above results result we recommend investors HOLD onto their NEE stocks. We believe this company has strong earnings growth potential in the future, especially as investments in the NEER segment will start to positively affect the bottom line of the company. In this context we point to the rate of return of the NEER segment, compared to comparable companies, where it is forecasted to be around 3% in the coming years, compared to the current median value among the selected IPPs of 0.5% and 3.5% for Cleantech companies. It seems the market has already priced these expectations into the stock, with NEE's stock price rising from around the $100 range to $115 as of the first months of this year. As such, we recommend investors hold off buying NEE shares as of now, but keep their current investments in the company.

Share price NEE as of	$116.31					**Implied Market Cap Utility**				
Shares Outstanding (MM)	461				*EV-Debt+Cash-Pref. Equity = Equity*		41,517			
Market Cap NEE	**53,619**					**Implied enterprise value NEER**				
- Cash & Short Term Invest	(571)					*=$83,465-EV utility*	31,895			
+ Total Debt	29,275									
+ Pref. Equity	0					**Implied Market Cap NEER**				
+ Minority Interest	0				*EV-Debt+Cash-Pref. Equity = Equity*		12,102			
= Enterprise Value	**83,465**									
NEER Multiples Valuation			**Multiple**	**Implied EV**		**Equity value**	**Equity value U**	**Total**	**Implied Price**	**Difference**
Using 2016 EBITDA			11.0x	$29,041		10,390	41,517	51,907	*$112.60*	*-3.2%*
Using 2016 EBIT			23.0x	$32,739		14,088	41,517	55,605	*$120.62*	*3.7%*
				Implied Equity Value						
Using P/E 2016			18.0x	$18,060			41,517	59,577	*$129.23*	*11.1%*
Average									**$120.82**	**3.9%**

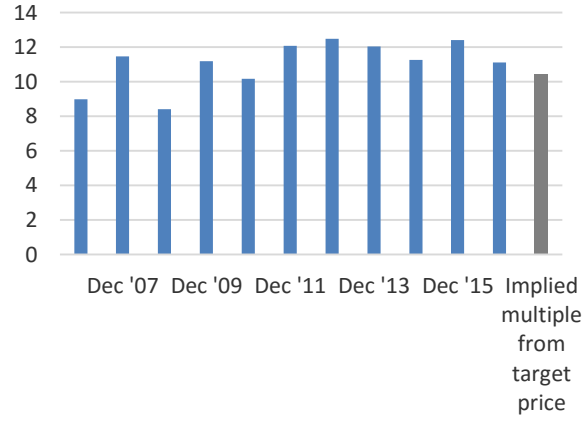
Additional tables & graphs

Fig. 35 P/E multiple NEE



Source: Factset, analyst's estimations

Fig. 36 EV/EBITDA multiple NEE



Source: Factset, analyst's estimations

		Sensitivity Analysis: NEE Target Price				
		WACC				
		3.20%	*3.30%*	*3.37%*	*3.60%*	*3.80%*
		3.85%	*4.00%*	4.11%	*4.25%*	*4.35%*
	2.00%	$87	$73	$65	$48	$38
Term.	*2.20%*	$112	$94	$83	$62	$49
Growth	*2.40%*	$148	$123	$108.20	$80	$64
Rate	*2.60%*	$203	$166	$144	$105	$82
	2.80%	$306	$237	$201	$139	$107

	Sensitivity Analysis: NEE Price Differential					
	WACC					
		3.20%	3.30%	3.37%	3.60%	3.80%
		3.85%	4.00%	4.11%	4.25%	4.35%
	2.00%	-25%	-37%	-44%	-58%	-68%
Term. Growth Rate	2.20%	-4%	-19%	-28%	-46%	-58%
	2.40%	27%	6%	-7%	-31%	-45%
	2.60%	75%	42%	24%	-10%	-29%
	2.80%	163%	104%	73%	19%	-8%

NextEra Energy (NEE) Electric Utilities Sector ($MM except per share data) Ticker	Name	Latest Price	Enterprise Value	EBITDA Margin	EBIT Margin	EV /EBITDA	EV/EBIT	P/E	Total Debt /EBITDA
SO	**Southern Company**	$51	$71,651	39%	26%	10.4x	15.9x	18.1x	4.2x
PCG	**PG&E Corporation**	$59	$43,057	30%	14%	8.6x	18.1x	29.7x	3.5x
AEP	**American Electric Power Company, Inc.**	$65	$48,510	32%	20%	9.3x	15.1x	15.9x	4.0x
EXC	**Exelon Corporation**	$35	$50,077	24%	16%	7.0x	10.7x	14.2x	3.2x
ED	**Consolidated Edison, Inc.**	$76	$32,260	30%	21%	8.6x	12.3x	15.9x	3.8x
EIX	**Edison International**	$71	$33,220	35%	17%	8.3x	16.5x	19.1x	3.0x
D	**Dominion Resources, Inc.**	$73	$69,185	44%	29%	13.8x	20.7x	21.1x	5.8x
PEG	**Public Service Enterprise Group Incorporated**	$46	$28,952	40%	25%	7.3x	11.4x	11.7x	2.5x
PPL	**PPL Corporation**	$37	$41,944	50%	37%	11.0x	14.7x	14.7x	5.2x
	High	$76	$71,651	50%	37%	13.8x	20.7x	29.7x	5.8x
	Average	$57	$46,540	36%	23%	**9.4x**	**15.0x**	**17.8x**	3.9x
	Median	$59	$43,057	35%	21%	**8.6x**	**15.1x**	**15.9x**	3.8x
	Low	$35	$28,952	24%	14%	7.0x	10.7x	11.7x	2.5x
NEE	**NextEra Energy, Inc.**	$116	$83,465	43%	26%	11.2x	18.0x	19.1x	3.9x

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