



NextEra Energy \$280 per share
August 14, 2020

NextEra Energy – Creating profits out of the clear blue sky – really!

NextEra is a long time holding that seems to modestly outperform the overall equity market overtime due to a favorable interest rate environment for steady growing firms, population growth of Florida, and superior execution on the transition from fossil fuels to lower cost renewables. NextEra Energy consists of FPL (70%) and NextEra Energy Resources (30%), an independent renewable energy producer. Over the past 20 years, NextEra has grown from the 30th largest utility to #1 based on market value.

While the population growth of Florida has provided a strong tail wind, the management of NextEra has navigated the opportunity of renewables to perfection. Lower costs of equipment installation, improved technology, and the advent of storage with lithium batteries has reset the utility industry. Now, the cost to build a wind or solar plant IS less than the operating costs of a coal or nuclear plant.

Potential Cost per MWh Post-2023/2024⁽¹⁾
(\$/MWh)



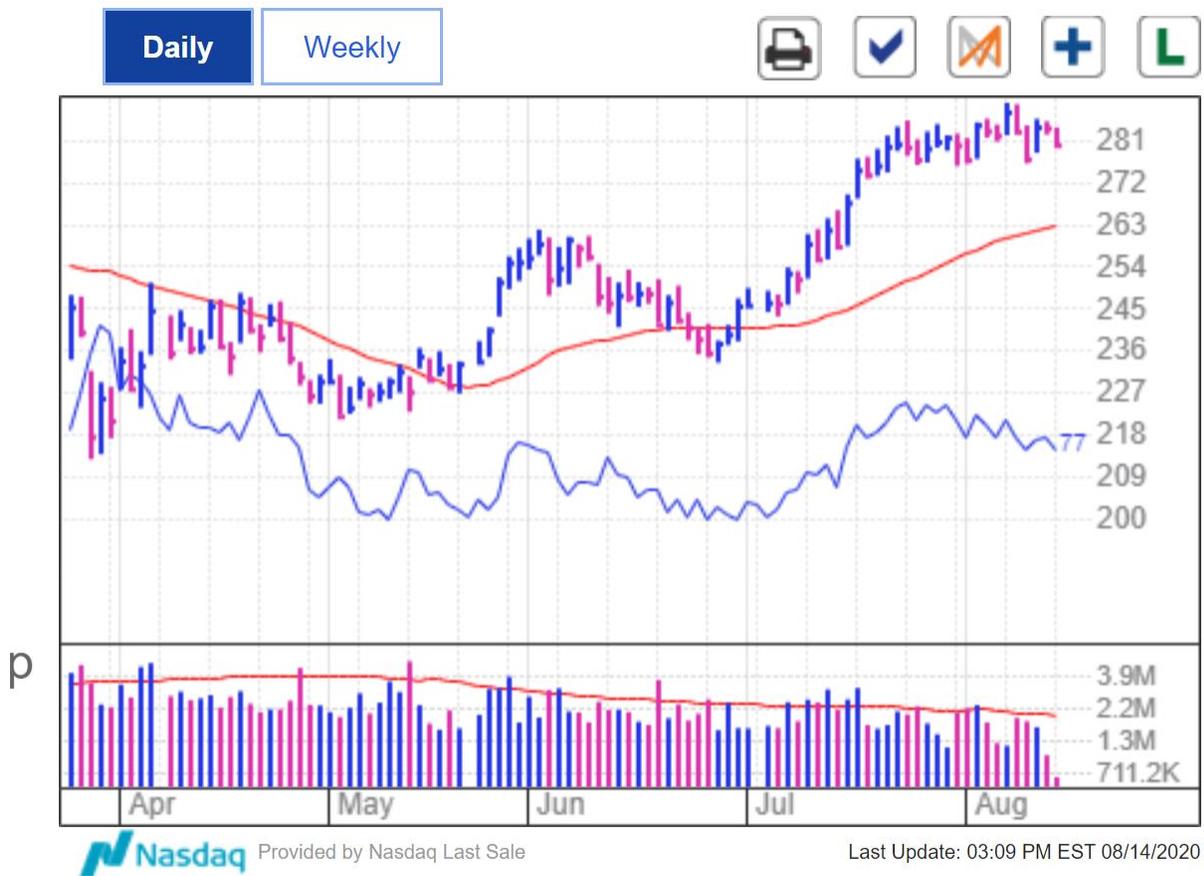
Chart from NextEra Energy slide deck, August 2020

Natural gas makes up the majority of FPL’s fuel source at present. Burning natural gas is abundant, cheap, and emits fewer green house gases and other forms of pollution than coal or oil. FPL has one remaining coal fired powerplant that is being phased out in 2022. The transition to renewables has allowed FPL to keep electricity costs to customers 30% below the national average. We expect the favorable business trends to continue. Management aims for 6% to 8% growth in

earnings which seems reasonable, with upside potential. Dividends have grown historically at 9% pace. Currently the stock yields 2%.

The most significant risk facing investors of NextEra is a material rise in interest rates. Investors have favored steady growing companies like NextEra and have bid up their shares to rich valuations. If interest rates were to rise materially, fixed income investments would become more appealing and capture investors interest at the cost of utility stocks. Also, NextEra is subject to company specific issues such as government regulatory action, environment risks including pipeline leaks, construction costs including land, and migration towards Florida.

Assuming interest rates hold steady, NextEra shares offer total return of 8%, but with less risk than the overall equity market. NextEra Energy stock and preferred stock are held in most client accounts.



Real-time quote and/or trade prices are not sourced from all markets.