NextEra Energy
Still the Industry Leader

Equities	
Americas Electric Utilities	
12-month rating	**Buy**
12m price target	**US$106.00**
	Prior: US$115.00
Price	**US$97.51**
RIC: NEE.N **BBG:** NEE US	

Trading data and key metrics	
52-wk range	US$111.66-91.82
Market cap.	US$43.8bn
Shares o/s	449m (COM)
Free float	100%
Avg. daily volume ('000)	752
Avg. daily value (m)	US$76.3
Common s/h equity (12/15E)	US$21.9bn
P/BV (12/15E)	2.0x
Net debt / EBITDA (12/15E)	4.2x

EPS (UBS, diluted) (US$)	12/15E	
	UBS	Cons.
Q1	1.41	1.41
Q2	1.56	1.56
Q3E	1.70	1.66
Q4E	1.05	1.09
12/15E	5.74	5.66
12/16E	6.12	6.15
12/17E	6.47	6.51

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Still at the top of the heap for EPS growth and strategic positioning
We took mgmt. on the road recently, including both new and old CFOs. With the Street keen to see what new financial leadership will bring, we reiterate our overall comfort with the story. We attribute recent share price pressure to wider doubts on YieldCo valuation (as seen in NEP share price performance) and ensuing pressure on renewable valuation embedded at NEE, rather than anything specific to the story following a meaningful positive revision to LT EPS to 6-8% with 2Q results. With cash flow growth still exceeding EPS growth given the attributes around renewable revenue recognition, we sense latitude even within the higher range. With focus on CPP likely the key focus in 4Q, we believe NEE remains ideally positioned to win and scale its renewable biz.

Preparing for the rate case filing in 4Q – expect status quo outcome
While investor sentiment is likely to shift to the rate case filing later this quarter, we emphasize limited risk to the case given a similar interest rate environment (2.4% 10-yr treasury at time of last settlement vs. 2.3% today) and limited issues for debate. The key question is whether mgmt will also be able to continue to earn at the top end of its ROE through the rate reset is another key question. Further, we emphasize 4 out of 5 commissioners remain the same from the last rate case.

Still expecting a bit more equity: expect another (small) equity unit offering
Following mgmt's $700 Mn of equity units last week, we remind investors mgmt guided for up to $1 Bn, with at least another $100 Mn expected. We believe the agencies are the principal driver behind the latest needs beyond latest NEP finaning.

Valuation: Shifting down our PT to $106 from 115 on account of multiples
While not changing our estimates, we are revising down our target from $115 to $106 to reflect the latest revision in our utility multiples to 14.0x on the regulated peer group (-$3/sh), a reduction in our EV/EBITDA for the wind/solar business to strip out much of the YieldCo multiple expansion associated with un-dropped assets to 10x vs. 12x EBITDA previously (-$6/sh), and then reflecting a slightly lower GP value following our recent reduction in our NEP PT to $33/sh from $44/sh (See full note here). Valuation is based on 2017E sum-of-the-parts.

Highlights (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	14,290	15,136	17,021	17,017	17,574	18,124	18,518	18,782
EBIT (UBS)	3,279	3,541	4,395	4,379	4,557	4,847	5,029	5,074
Net earnings (UBS)	1,914	2,122	2,334	2,591	2,825	2,986	3,075	3,106
EPS (UBS, diluted) (US$)	4.57	4.97	5.30	5.74	6.12	6.47	6.74	6.76
DPS (US$)	2.40	2.64	2.80	2.97	3.37	3.82	4.34	4.92
Net (debt) / cash	(27,359)	(28,426)	(29,024)	(29,990)	(30,849)	(29,352)	(27,508)	(25,871)

Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
EBIT margin %	22.9	23.4	25.8	25.7	25.9	26.7	27.2	27.0
ROIC (EBIT) %	8.3	8.1	9.4	8.9	8.8	9.2	9.7	9.9
EV/EBITDA (core) x	10.8	10.6	10.0	10.2	9.8	9.4	9.0	8.9
P/E (UBS, diluted) x	14.4	16.1	18.2	17.0	15.9	15.1	14.5	14.4
Equity FCF (UBS) yield %	(18.0)	(4.1)	(1.1)	(0.6)	2.0	8.2	9.5	9.6
Net dividend yield %	3.6	3.3	2.9	3.0	3.5	3.9	4.4	5.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$97.51 on 16 Sep 2015 18:41 EDT

Investment Thesis

NextEra Energy

12-month rating **Buy**

12m price target **US$106.00**

Investment case

We view NextEra as one of the most appealing integrated utilities. Despite years of success, the renewable industry appears poised to continue its strong performance with our expectation for continued contract awards (and a rush to qualify assets ahead of potential tax reforms). NextEra has the YieldCo with the most visibility, NextEra Energy Partners (NEP) which can act as a renewables M&A vehicle in the future. Our price target is derived via a 2017E utility SOTP.

Upside scenario

Our upside case is premised upon applying higher multiples to the renewable business, which implies upside to $117 per share. Further longer-term upside exists from the natural gas ratebase opportunity but that is largely past the current investment horizon. In the near-term the focus will be on utility-scale solar in ratebase.

Downside scenario

Our downside case is based upon Florida Power & Light (FP&L) only achieving the low end of its 5-9% net income growth target with O&M limiting the company's ability to execute on ratebase growth through the 2016 rate-freeze as well as Energy Resources being unable to close any further solar/wind deals without continued annual extensions of the PTC. These factors as well as lower peer multiples for wind and solar implies downside to ~$83 per share.

Upcoming catalysts

2H15	Clarity on significant renewable contracting
3Q15	PSC Decision Expected on Gas Reserve Investments
2H15	Bulk of NEP drops to be executed
Nov '15	Potential Settlement in HEI acquisition?
Dec '15	Expected closing of HEI acquisition
4Q15	FPL Rate Case Filing
2016	PTC Extension

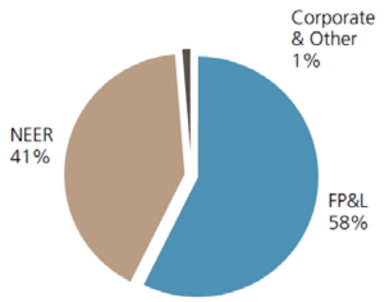
Business description

NextEra Energy, Inc. is one of the largest clean energy companies, with over 42,000MW in generating capacity. The largest subsidiary is a regulated utility, Florida Power & Light (FPL), which serves over 4.6 million customers in Florida. The other primary subsidiary is NextEra Energy Resources, one of the largest wind and solar generators in the US. Additionally, NextEra operates eight nuclear power units throughout the US. NextEra Energy formed NextEra Energy Partners LP in 2014.

Industry outlook

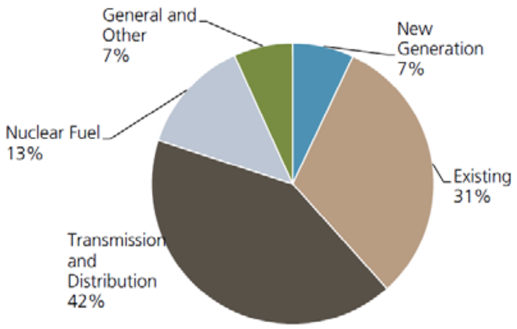
The electric utility industry is projected to experience weak or negative electric demand growth in coming years as a tepid economy and energy efficiency dampen demand. In the unregulated merchant power space, we see limited potential for a meaningful recovery from currently low power prices due to limited projected demand growth, growth of subsidized renewables, and potential for only modest further retirements At regulated utilities, we believe rising interest rates and robust valuations are a challenge to the sector, particularly as earnings growth stalls once EPA-mandated growth CapEx slow mid-decade. We expect cost-cutting and strategic planning to be a key theme across both regulated and competitive companies, with M&A at modest (at best) premiums designed to extract cost synergies

NextEra Energy Approx. EPS by Source (2016E %)



Source: Company Filings and UBS Estimates

Base CapEx FP&L (2016E %)



Source: Company Filings and UBS Estimates

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For more detail on these issues, please see our other recent reports:

8/30/15: Ramping up Expectations
4/30/15 A Shining Star
4/6/15 Leading The Pack (NextEra Energy Partners)
3/12/15 Pure Squeezed Sunshine (analyst day note)
2/28/15 Gaining a Line of Sight on 2016
12/5/14 More Hawaiian Punch Please
12/4/14 Hawaiian Punch
11/4/14 Harnessing the Florida Sun

A Review of the Key Issues and Themes

Renewables – opportunity to scale the business further?

We see ready comfort to continue to execute through the near-term, with confidence on renewable execution apparent despite wider saber rattling around returns; wind is structurally from solar – and so is NEE in maintaining capital deployment discipline. Mgmt further sees a clear path towards a further two extension of wind tax credits (PTCs) 2018. When marrying this visibility with the expected boom cycle in the 2020-2021 period at which time states will likely benefit from 'early action credits' for CPP compliance, we expect a robust pipeline for renewable development through the medium terms. While PTCs could yet add 500MW/yr to its baseline of 300-500MW/yr baseline without the PTCs, mgmt. suggests it could eventually scale the business to 1.5GW-2.0GW/yr as Carbon CPP targets become a reality (mostly wind, but some solar). Lastly, mgmt. was also confident on continued efficiency gains in the wind sector – driving towards a 60-65% capacity factors by decade end, up 10% from the current 50-55% maximum range today with new technologies focusing on capturing lower quality wind with longer blades.

The midstream strategy is still under development

While mgmt. is clearly continuing to evaluate other opportunities to add to its gas infrastructure buildout (including going further upstream to find G&P assets), no specific regions or other projects appear to be identified as of yet. While its inaugural transaction on the midstream side was recently announced to acquired pipes directly at the NEP level, we believe other efforts are likely to be more development in nature with NEE.

One thought process would be to reverse the flows on Transco down to the Sable Trail pipeline to serve Florida from the from the northeast markets, with the Transco line already connecting further north to the Mountain Valley pipeline (MVP). Alternatively, a direct intertie between Sable Trail and the Mountain Valley pipeline could yet be in the cards.

PTCs: Confident on an Extension in 2018; key positive

Management remains exceptionally constructive on a further extension of the Production Tax Credit (PTC) for another 2-year period as part of the latest tax extenders bill. While still at some risk, we view there appears to be little effort to remove this element from the wider array of tax holidays on offer in the bill. Bottom line, mgmt. sees this as worth an additional 500MW/yr for two-years (2017 and 2018). Assuming monetization at 10x EBITDA, this would imply a value of ~$1/sh in value creation per year of PTC extension, or cumulatively ~$2/sh at best if extended as expected. Please see our appendix for the short-hand estimate on value uplift.

Wind Development: What are the development hurdle rates?

With so many renewable investors (principally solar) keenly focused on returns achieved in the sector, we emphasize NEE's development business remains best in class. Mgmt seemingly targets *at least* 8-9% unlevered IRRs on assets, prior to ascribing *any* value to post-PPA life (beyond 20-25 year tenor of the initial contract). Mgmt emphasizes that it is indeed the terminal value assumptions that frequently leave it to be left out from competitive pressures; we encourage investors to focus on long-term assumptions both in development and particularly in third-party transactions of late.

Becoming a cash tax payer again – enabling more accretive renewables

With NEE's tax credits from its various renewable efforts set to largely be utilized in the next several years, we actually see this as a modest positive to future renewable growth – driving a more immediate cash flow profile to the consolidated entity, rather than banking new tax credits as it is doing today. Mgmt has historically applied a penalty to additional renewables when it was in an excess credit situation (as it is today), reflecting the delayed benefits of any PTCs or ITCs generated.

NEP: Gaining more comfort with the vehicle, but what will turn it around?

Management appears ever more promotional of NEP's prospects, emphasizing they saw substantial value in the vehicle, adding to their continued commitment to drop-downs. Despite its premium vs. peers, we see this as the safest YieldCo story, with management having both the parent sponsor strength to force drops through the cycle and provide volume to achieve DPS growth targets if accretion spread on cost of capital remains muted . The wider question remains what will drive wider in the sector; this is clearly the angle of the story over which most investors are particularly intrigued. Despite the quality disparity, we maintain our preference for TERP over NEP, seeing SUNE as poised to announce a series of updates to improve near-term accretion on drops.

Florida Power & Light

How about the upcoming rate case? Hoping for Status Quo.

We look for a status-quo outcome, with interest rates at the time of its 2012 rate case settlement roughly equal (2.4% 10-year at the time vs. 2.30% for the 10-year today). We emphasize NEE's current ROE is established at 10.5%, with an allowed ROE band of +/- 100bp. FPL continues to earn at the high end of the band at 11.5%, principally predicated on continued use of legacy depreciation credits. While substantial cost savings have been extracted, driving real reductions to customers, mgmt. believes it could take a couple years to drive savings yet again vs. latest round of savings which will recaptured in the latest rate case. We believe the principal risk to the NEE story (beyond the well documented ongoing re-rating in the YieldCo sector) pertains to ROE risk – and FPL EPS expectations as new rates are established for 2017 (we reflect ~$0.25 in our current estimates, implying 7% YoY growth – this could be a tad high if only because of some risk for cost structure reset back to the midpoint of the earned ROE range).

Further, with few controversial issues, we could imagine a rate settlement again. We emphasize 4 of the 5 sitting commissioners today were present for the last 2012 rate case, suggesting there is continuity in the understanding of key issues before the commission.

While not a real risk to the story, the forthcoming case does require another depreciation study; we believe this is likely to drive D&A expense higher, forcing up the aggregate cash impact of the rate request. While ultimately a straight forward process, this could seemingly garner some amount of attention; with an initial rate case filing expected in 4Q, we believe NEE shares could well see a muted near-term recovery pending at least some investor comfort the case will prove .

Solar comes to Florida? Poised to see no more baseload gas.

Mgmt emphasizes that its proposed 1.6GW lake Okeechobee CCGT (at a cost of $670/kW for 2019 in-service) could well be the last combined-cycle gas plant built in the state for some time to come, as it moves meaningfully towards utility-scale solar opportunities.

We emphasize the 'Sunshine' state could well live up its reputation, albeit still without any real residential solar to speak of. Rather, the risk to NEE relates principally to the risk around deployment of behind-the-meter C&I. Recall a state legislative statue prevents any third-party leasing of solar for residential customers.

FPL: Ratebase Gas: still moving a bit slower

While NEE has received approval from the Florida commission to pursue upwards of $500 Mn/yr of investment in ratebase gas reserves, we perceive the FPL team as moving quite cautiously to acquire dry gas properties at present. Following its first pilot, which is largely under water today given the sharply lower gas price environment, mgmt. continues to find it hard to make the economics work for acquisitions with substantial contango in the gas curve. That said, we wouldn't be surprised if mgmt. did move quickly by 1Q to have something in hand. While a modest negative, we believe few have formally embedded this expectation in their estimates

Texas: Thinking through the divestment scenario

Consistent with management's overall tone on the merchant markets, we understand NEE could well evaluate divesting its ERCOT CCGT exposure (two CCGTs amount to 2.8GWs).

Figure 1: Texas gas portfolio

Power Plant	State	Net MW
Forney	Forney, TX	1,792
Lamar	Paris, TX	1,000
Total		2,792

Source: Company sources

What's the profile of these assets? Still quite profitable.

While the CCGT assets generate real EBITDA and FCF, we estimate relatively limited equity value at present under current sparks when applying a 9x EV/EBITDA multiple against project debt. We believe the sale is driven in part by projections of breakeven of even negative EPS from the assets.

Figure 2: Texas CCGT portfolio: EBITDA analysis

Texas CCGT Portfolio	2015E	2016E	2017E	2018E	2019E
Lamar					
MW	1,076	1,076	1,076	1,076	1,076
Heat Rate	7,400	7,400	7,400	7,400	7,400
Capacity Factor	55.0%	55.0%	55.0%	55.0%	55.0%
Output (TWh)	5.184	5.184	5.184	5.184	5.184
Forney					
MW	1,912	1,912	1,912	1,912	1,912
Heat Rate	7,400	7,400	7,400	7,400	7,400
Capacity Factor	55.0%	55.0%	55.0%	55.0%	55.0%
Output (TWh)	9.212	9.212	9.212	9.212	9.212
ERCOT North Peak ($/MWh)	34.30	34.30	36.15	35.60	36.10
Houston Hub Gas ($/Mmcf)	2.93	2.93	3.14	3.27	3.26
O&M $/kw-month	2.00	2.00	2.00	2.00	2.00
Sparks ($/MWh)					
Lamar	12.63	12.63	12.93	13.93	14.93
Forney	12.63	12.63	12.93	13.93	14.93
Gross Margin	182	182	186	201	215
O&M	72	72	72	72	72
Texas CCGT EBITDA	110	110	114	129	143
Previous Guidance				135-145	
EV/EBITDA	9x	9x	9x	9x	9x
EV ($ Mn)	991	991	1,030	1,159	1,289
Implied $/kW	332	332	345	388	431
Outstanding Project Debt	(977)				
Net Equity Value	14	14	53	182	312
D&A (UBSe)	(83)	(83)	(83)	(83)	(83)
Interest Expense (UBSe)	6%				
Interest Expense (UBSe)	(54)	(54)	(48)	(44)	(39)
EPS (Broad Estimate)	(0.04)	(0.04)	(0.02)	0.00	0.03

Source: Company sources, Platts, UBS estimates

Wind in Texas too?

A further tangent would be to monetize West Texas wind projects (2.8GWs) once legacy hedges roll off as well; we believe any merchant exposure in the state is less desirable. We believe even unhedged renewable assets could well be interesting to YieldCo like asset structures, assuming layering in of 10-year financial hedges (some transactions have already seen this structure pursued). The question is whether mgmt. is right in pursuing the divestment today or is it selling the relative lows? While we understand a process has commenced for asset divestment, a final timeline remains unclear.

Figure 3: Texas wind portfolio (MW)

Power Plant	State	Net MW
Blue Summit Wind	Wilbarger County, TX	135
Callahan Divide	Taylor County, TX	114
Capricorn Ridge	Sterling & Coke Counties, TX	364
Capricorn Ridge Expansion	Sterling & Coke Counties, TX	299
Horse Hollow Wind	Taylor County, TX	213
Horse Hollow Wind II	Taylor & Nolan Counties, TX	299
Horse Hollow Wind III	Nolan County, TX	224
Indian Mesa	Pecos County, TX	83
King Mountain	Upton County, TX	278
Majestic Wind	Carson County, TX	80
Majestic Wind II	Carson & Potter Counties, TX	80
Palo Duro	Hansford & Ochiltree Counties, TX	194
Red Canyon	Borden, Garza & Scurry Counties, TX	84
Southwest Mesa	Upton & Crockett Counties, TX	74
Wolf Ridge Wind	Cooke County, TX	113
Woodward Mountain	Upton & Pecos Counties, TX	160
Total		2,792

Source: Company sources

ERCOT: What does this say about market prospects?

While most companies remain relatively constructive, we see the decision to exit this market as a relatively cautious point on expectations for recovery. We attribute their actions as part of a wider continued trend to de-risk the business from merchant volatility. We believe the timing of any sale in Texas may be indicative of EPS accretion relative to the contemplated sale price (vs. prior decision not to sell was illustrative of wider view of value). Recall management had previously issued project debt against the gas assets, with project debt to the tune of $977 Mn.

However, NEE is not selling down other markets for the time being

Meanwhile, remaining merchant exposure in New England or contracted exposure in PJM is unlikely to transact given the difficulties in selling down a single nuclear asset (Seabrook) as well as the relative EPS dilution.

Breaking Down the Equity Unit Issuances

As we wrote about earlier, NextEra Energy's recent financing update calls for another slug of equity planned. After avoiding a forward sale in 2014, NEE anticipates coming to the market with $1Bn in forward equity later this year or early in 2016. NextEra's historical equity forward unit sales have settled after three years and shares are not typically recognized for GAAP dilution purposes until settlement. Even assuming that the forward sale occurs late in 2015, there will be minimal dilution in 2016. Below we summarize the forward equity unit offerings done over the past few years as well a placeholder for the recent announcement. We emphasize that despite this additional equity issuance, management remains committed to its previously communicated earnings guidance ranges. Below shares are off a base of 449 as of 2Q results and 440 as of year end 2014.

Unit Class	$Mn	Shares (Mn)	Issue Date
2012 May	$600	7.9	June 2015
2012 Sept	$650	8.2	September 2015
2013 Sept	$500	5.5	September 2016
2016 Placeholder	$1,000	10.5	~January 2019

Source: Company Filings and UBS Estimates

More equity units on the way.

More recently on Sept 11, NEE announced a sale of $700mn equity units (net proceeds from which are expected to be ~$693mn). We empahsize management is likely to return to the equity capital markets for a further raise of upwards of $300 Mn (mgmt stated it would seek up to $1 Bn in equity capital through equity-linkekd units onits latest call); we expect at least $100 Mn another. We believe this is in part due to pressure from the rating agencies to maintain credit metrics within a relatively narrow band. We understand the credit rating agencies are providing companies with MLP and YieldCo structures less latitude.

NEE: Still attending the Luau?

Not so much the focus any more.

Management appears surprised by the level of forceful pushback on the transaction. While $90 Mn in termination payments to HE are due if the deal is not executed, we sense some doubts from NEE mgmt. on execution. We believe a settlement with key parties remains a real push after testimony is filed October 1–and prior to the start of hearings at the end of October.

Settlement still a possibility

On Aug 31, NEE filed an update to its plan to acquire HE, providing details on 50 new concessions in its attempt to placate vocal opposition within the state, including from the Governor's office itself. While regulators hold "public listening sessions" in September and October, evidentiary hearings are scheduled for Nov 30 through Dec 16 followed by closing briefs and a final PUC decision, probably no earlier than early 2016. However, a settlement process could begin as early as Oct 1 after the discovery phase ends with a goal of posting a deal prior to the state of the hearings in November; it would likely have to include (at a minimum) the Governor's Department of Business, Economic Development & Tourism (DBEDT), the State Office of Planning, the PUC Division of Consumer Advocacy (DCA), and the Department of Defense (DoD).

With HE having fulfilled its commitment to achieving shareholder approvals, the breakup fee in case of regulator rejection would be $90M from NEE to HE. Either party has the option to extend the merger deadline 6 months to June 30, 2016 if necessary.

Lastly, with oil prices off significantly, this would appear to drive down the attractiveness of LNG imports – and arguing a more aggressive renewables strategy.

Among the major concessions granted by NEE:

- Guaranteed $60M rate savings from forgoing a portion of the increase in revenues due to decoupling.

- NEE also projects nearly $465M of total customer savings (including the $60M) from a combination of $172M in capital expenditure savings, $133M in savings from a four-year general base rate case moratorium, $67M in fuel savings, post-rate moratorium $30M in non-fuel operating and maintenance cost reductions, and $3M in lower interest expense. This works out to a cumulative $345-$475 per residential customer from 2016-2020.

- NEE will also establish a $10M customer benefit fund over four years to be applied at the PUC's discretion for what it deems appropriate and in the public interest.

- Full support for Hawaii's 70% renewable goal by 2040 and 100% by 2045. The merger is also expected to accelerate by about 2 years the full deployment of smart meters by Dec 31, 2019 with time-of-use rates along with smarter grid technology and demand response integration. Hawaii currently has 50K rooftop installations and a total 70K applications awaiting review.

- Support for rooftop solar and other forms of distributed energy.

- Local control and governance: maintaining local headquarters, local management, and the Hawaiian Electric name. Local management will remain the primary point of contact in Hawaiian regulatory matters. Hawaiian Electric will have independent authority to commit up to $20M toward capital investments without additional approvals – the same as NEE's other two principal businesses.

- Community support: NEE affirmed continuation of at least $2.2M annual giving for at least 10 years, a local independent advisory board, the preparation of annual Corporate Responsibility Reports emphasizing the Hawaiian values of kuleana (responsibility), malama (stewardship), pono (righteousness) and aloha (compassion).

- Employee support: no involuntary layoffs or material benefit cuts for at least two years. Commitment to add the University of Hawaii to its recruiting list and to make more internships available.

Public Option not for Public Discussion (yet). Regarding the local opposition to the merger, HE management has noted that the oft-discussed "public option" whereby state entities acquire HE assets for conversion to either munis or coops is not on the table during the merger approval process. Regulators recently rejected attempts by interveners to include this discussion under the merger docket, although it could re-emerge under a separate docket next year should the merger be rejected. Also, despite nearly 25% of retail ownership in the islands, this group is not organized or well represented.

Lower oil pricing and lower O&M are changing the transitional parameters. With oil around ~$40/bbl vs $135 when HE originally filed its "Power Supply Improvement Plan" in 2014, the average residential customer bill has declined precipitously from ~$225-$240/month to only ~$140/mo now. Declining load of -2% annually over the past 10 years has also allowed early plant retirements and reduced operations and maintenance expense as well. This has led to a reevaluation of the need to import LNG to replace traditionally oil-fired generation in the islands, although management still points to LNG reducing ~$900M of environmental compliance cost (MATS as well as possible future CPP standards, for which Hawaii has been left out for the time being).

Regulators understand solar tariff reform and the need for an orderly transition to 100% renewables. Our meetings earlier this year with Commissioner Champley, a former DTE executive and engineer, gave us the impression of a person well versed in utility technical and regulatory issues. His term expires in June 2016, about the time a decision may be rendered on the merger. We are also impressed with Chairman Iwasse and Commissioner Akiba as well, with terms expiring in June 2020 and June 2018, respectively.

ASB to be retained if the merger is rejected. HE management has been relatively unambiguous on this point, citing ~$40M of annual cash flows from American Savings Bank's (ASB) 70% dividend payout as helpful to maintaining utility equity ratios of 58%. Furthermore, management estimates that HE consolidated standalone would have an equity ratio of ~51% after an ASB divestiture, requiring significant equity issuances to bring in-line with levels authorized by regulators. While the elimination of $6M-$7M annual Durbin Amendment fees would improve ASB value by about $90M under current bank multiples, we believe this would not be enough to justify the spin (higher bank multiples of 18x-20x that had been trading prior to 2008 might be enough of a swing factor, however).

Standalone capital expenditure program would be largely funded through 2016. HE's capex forecast calls for significant step-up to $700M of spending in 2016 and $720M in 2017, although management noted significant uncertainty for 2017 and beyond with the Transitional Distributed Generation program filing now being considered for approval and subject to possibly significant revisions. In the event the merger is rejected, management has stated that this would likely be funded from a combination ~$300M-$350M of internal operating cash flow generation plus the $90M breakup fee (~$60M after tax) and $53M of subsidiary dividends being collected for a special dividend to be paid at closing. The remainder would be funded with debt as HE is currently somewhat over equitized heading into 2016. On the 2Q earnings call, management indicated possible secondary equity needs "well under" $200M in 2016. About $640M of the capital spending for the next few years is for major "transformational" projects that are somewhat discretionary depending on how the company's program filings are amended, such as an LNG terminal ($40M) and Schofield Generation ($170M).

EPS Estimates - Unchanged

Figure 4: Updated NextEra Energy Estimates

EPS - Segments	2013A	2014A	2015E	2016E	2017E	2018E
FP&L	3.16	3.45	3.26	3.48	3.73	3.87
NEER	1.83	1.89	2.43	2.50	2.58	2.70
Corporate & Other	(0.02)	(0.04)	0.07	0.14	0.16	0.17
Total UBSe	4.97	5.30	5.77	6.12	6.47	6.74
UBSe (Prior)	4.97	5.30	5.74	6.12	6.47	6.74
Consensus		5.30	5.66	6.15	6.51	6.91
Company Guidance			$5.40-$5.70	$5.85-$6.35		$6.60-$7.10

Source: Company Filings, FactSet, and UBS Estimates

Valuation: PT reduced to $106 from $115 earlier

We show below our unchanged earnings estimates and the break up for our new price target. We continue to use a 2017E sum-of-the-parts methodology in the valuation table below.

What have we changed?

- **Lowering our Renewables EV/EBITDA to 10x from 12x: -$6/sh** We assume renewable assets given the reduction in YieldCo valuations may well trade at a reduced EV/EBITDA multiple. While still at a premium to conventional assets (9x), we are cautious to ascribe a premium to the renewables assets with NEP needing accretive drops to continue to grow

- **Lowering our Peer Regulated Utility P/E to 14.0x from 14.8x: -$3/sh**

- **Lowering our GP Value from NEP to reflect 15x FCF: -$0.50/sh**

  We emphasize IDR cash flows are likely to remain modest to the overall SOP story for NEE, and don't see much of a readthrough from the recent reset to GP valuation seen in SUNE.

Figure 5: Updated NextEra Energy Valuation : Moving PT down to $106 from $115

	2017E Adj. EBITDA	EV/EBITDA & P/E Multiple			Enterprise Value		
Energy Resources		**Low**	**Base**	**High**	**Low**	**Base**	**High**
Traditional Generation	901	8.0x	9.0x	10.0x	7,205	8,106	9,007
Wind (Total)	1,279	9.0x	10.0x	11.0x	11,510	12,789	14,068
Hedges (Texas 'Merchant' Wind)	(61)	9.0x	10.0x	11.0x	(552)	(613)	(675)
Tax Credits (PTC)	1,055	7.0x	8.0x	9.0x	7,384	8,439	9,494
Less NEP Initial Wind Assets	*(175)*	*9.0x*	*10.0x*	*11.0x*	*(1,578)*	*(1,753)*	*(1,928)*
Solar (Total), excl ITC	324	9.0x	10.0x	11.0x	2,915	3,239	3,563
Less NEP Initial Solar Assets	*(88)*	*9.0x*	*10.0x*	*11.0x*	*(788)*	*(875)*	*(963)*
Gas Infrastructure	363	7.0x	8.0x	9.0x	2,538	2,900	3,263
Trading & Retail	137	4.0x	5.0x	6.0x	546	683	819
Total / Implied (ex-ITC)	***3,733***	***7.8x***	***8.8x***	***9.8x***	***29,182***	***32,915***	***36,649***
Add: Silver State Solar NPV						**583**	*$1.26*
Add: NPV Sabal Trail, SE Connection, and Mountain Valley Project						**2,040**	*$4.42*
Add: NPV of Remaining Solar and Wind Project Pipeline						**1,385**	*$3.00*
Add: NPV of Texas Hedge						**296**	*$0.64*
Less: Total NextEra Debt						(29,611)	
Netting FP&L-associated debt						8,797	
Netting NextEra Transmission-associated debt						411	
Netting Pipeline debt						-	
Netting NEP Debt						*1,655*	
Net NEE Resources Debt						**(18,748)**	
NextEra Energy Resources					**10,434**	**18,472**	**19,941**
Shares Outstanding (2017E)					462	462	462
NextEra Energy Resources Value per Share					**$22.61**	**$40.02**	**$43.20**

	2017E NI	P/E Multiple							
		Low	**Peer**	**Prem/ Discount**	**Base Multiple**	**High**			
Florida Power & Light	1,723	14x	14.0x	1.0x	15.0x	16x	24,120	25,843	27,565
NextEra Transmision	34	14x	14.0x	2.0x	16.0x	17x	476	544	578
Total Utility	***1,757***	***14.0x***			***15.0x***	***16.0x***	***24,596***	***26,387***	***28,144***
Shares Outstanding (2017E)							462	462	462
NextEra Utilities Value per Share							**$53.29**	**$57.17**	**$60.97**
Value of the NEP GP per Share (IDRs)							$2.26	$3.26	$4.26
NEP Price Target							$30	$33	$55
Value of NEP LP per NEE Share based on NEP Price Target							$4.84	$5.33	$8.88
NEP Value per Share							**$7.10**	**$8.58**	**$13.13**
Total Equity Value per Share							**$83.00**	**$106.00**	**$117.00**

Source: Company Filings, FactSet, and UBS Estimates

Where is wind and where could it go?

Today, NEER appears to be signing deals as low as $22/MWh, however reflecting an assumption of 65% capacity factor, this would suggest PPA prices would trend as low as $10/MWh net of PTCs. Excluding PTC compensation, a 65% capacity factor would equate to economics $40/MWh, still close to palatable economics. We include our asset model below. Mgmt cites EPA's scenario for renewable penetration to reach 28% by 2030 (vs. our more conservative initial high-teens scenario) by 2030.

Figure 6: Wind Model at 65% Capacity Factor –Where wind will be in 2020?

	2020	2021	2022	2023	2024	2025	2026	2027	2028
Capacity (MW)	**100**	100	100	100	100	100	100	100	100
Investment costs ($/kW)	**1,500**	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Depr life (years)	20	20	20	20	20	20	20	20	20
Load factor (%)	**65.0%**	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%
O&M costs ($/MWh)	**10.0**	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Total Investment ($ mn)	150								
Debt ($ Mn)	105								
Production (GWh)	569	569	569	569	569	569	569	569	569
	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Power Price ($/MWh)	**40.0**	**40.0**	**40.0**	**40.0**	**40.0**	**40.0**	**40.0**	**40.0**	**40.0**
PTC ($/MWh)		-	-	-	-	-	-	-	-
Share of PTC	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total Revenue ($/MWh)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
($m)	10.00								
PPA Revs	22.776	22.776	22.776	22.776	22.776	22.776	22.776	22.776	22.776
PTC revs	-	-	-	-	-	-	-	-	-
Revenues	**22.776**	**22.776**	**22.776**	**22.776**	**22.776**	**22.776**	**22.776**	**22.776**	**22.776**
O&M	5.694	5.694	5.694	5.694	5.694	5.694	5.694	5.694	5.694
EBITDA	**17.082**	**17.082**	**17.082**	**17.082**	**17.082**	**17.082**	**17.082**	**17.082**	**17.082**
Depr.	30.000	48.000	28.800	17.280	17.280	8.640	-	-	-
EBIT	**(12.918)**	**(30.918)**	**(11.718)**	**(0.198)**	**(0.198)**	**8.442**	**17.082**	**17.082**	**17.082**
Adj EBIT (ex-PTC)	(12.918)	(30.918)	(11.718)	(0.198)	(0.198)	8.442	17.082	17.082	17.082
tax rate	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*
Taxes	(4.909)	(11.749)	(4.453)	(0.075)	(0.075)	3.208	6.491	6.491	6.491
NOPAT	**(8.009)**	**(19.169)**	**(7.265)**	**(0.123)**	**(0.123)**	**5.234**	**10.591**	**10.591**	**10.591**
Cash Flow (post-tax, pre interest)	(128.577)	28.831	21.535	17.157	17.157	13.874	10.591	10.591	10.591
IRR (post-tax, pre interest)	**8.9%**								

Source: Company reporst and UBS estimates

Appendix I: Value Uplift from PTC Extension

We include an estimate of the value uplift from a PTC extension. In a best case scenario, the extension is worth $2/sh. This is effectively the best case of the equity value created per 1GW of new wind developed.

Figure 7: PTC Economics- What if means for NEE?

Value uplift from PTC Extension	
500	MW/yr with PTC Extension
1500	$/kW Construction Costs
750	EV
$25.00	PPA/MWh
$10	O&M
$15.00	EBITDA margin ($/MWh)
$11.50	PTC (Amortized over 20-years vs. 10-year life)
$26.50	EBITDA margin ($/MWh) w/ PTC
50%	Capacity Factor
4.38	Mn MWhs
$66	EBITDA ($ Mn)
11.4	Implied EV/EBITDA
$116	EBITDA w/ PTC Amortization ($ Mn)
6.5	Implied EV/EBITDA
10	Exit Multiple (x EBITDA)
3.5	Multiple uplift
$411	**Exit Value Uplift for (per year)**
2-Year PTC Extension (*Multiply x2 and divide by shares)*	
1.77	**Value per Share**

Source: UBS estimates

NextEra Energy (NEE.N)

Income statement (US$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Revenues	**14,290**	**15,136**	**17,021**	**17,017**	*0.0*	**17,574**	*3.3*	**18,124**	**18,518**	**18,782**
Gross profit	9,169	10,178	11,419	11,506	*0.8*	11,929	*3.7*	12,342	12,614	12,753
EBITDA (UBS)	**4,797**	**5,704**	**6,946**	**7,090**	*2.1*	**7,424**	*4.7*	**7,728**	**7,925**	**7,984**
Depreciation & amortisation	(1,518)	(2,163)	(2,551)	(2,712)	*6.3*	(2,866)	*5.7*	(2,881)	(2,896)	(2,911)
EBIT (UBS)	**3,279**	**3,541**	**4,395**	**4,379**	*-0.4*	**4,557**	*4.1*	**4,847**	**5,029**	**5,074**
Associates & investment income	298	425	300	306	*1.9*	330	*7.8*	361	354	347
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(971)	(1,043)	(1,181)	(990)	*16.2*	(997)	*-0.7*	(934)	(897)	(854)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**2,606**	**2,923**	**3,514**	**3,694**	*5.1*	**3,890**	*5.3*	**4,275**	**4,487**	**4,566**
Tax	(692)	(801)	(1,176)	(1,088)	*7.5*	(1,065)	*2.1*	(1,288)	(1,412)	(1,460)
Profit after tax	**1,914**	**2,122**	**2,338**	**2,607**	*11.5*	**2,825**	*8.4*	**2,986**	**3,075**	**3,106**
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	(4)	(16)	*-300.0*	0	-	0	0	0
Extraordinary items	(3)	(415)	269	40	*-85.1*	0	-	0	0	0
Net earnings (local GAAP)	**1,911**	**1,706**	**2,603**	**2,631**	*1.1*	**2,825**	*7.4*	**2,986**	**3,075**	**3,106**
Net earnings (UBS)	**1,914**	**2,122**	**2,334**	**2,591**	*11.0*	**2,825**	*9.1*	**2,986**	**3,075**	**3,106**
Tax rate (%)	26.6	27.4	33.5	29.4	*-12.0*	27.4	*-7.0*	30.1	31.5	32.0

Per share (US$)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
EPS (UBS, diluted)	4.57	4.97	5.30	5.74	*8.3*	6.12	*6.6*	6.47	6.74	6.76
EPS (local GAAP, diluted)	4.56	4.00	5.92	5.83	*-1.4*	6.12	*5.0*	6.47	6.74	6.76
EPS (UBS, basic)	4.57	4.97	5.30	5.74	*8.3*	6.12	*6.6*	6.47	6.74	6.76
Net DPS (US$)	2.40	2.64	2.80	2.97	*6.0*	3.37	*13.5*	3.82	4.34	4.92
Cash EPS (UBS, diluted)[1]	8.19	10.03	11.10	11.76	*5.9*	12.34	*4.9*	12.71	13.08	13.11
Book value per share	37.97	42.25	45.84	48.48	*5.8*	49.88	*2.9*	52.33	55.13	56.50
Average shares (diluted)	419.20	427.00	440.00	450.98	*2.5*	461.29	*2.3*	461.57	456.57	459.07

Balance sheet (US$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Cash and equivalents	329	438	577	439	*-23.9*	439	*0.0*	439	439	436
Other current assets	4,908	5,404	6,367	5,067	*-20.4*	5,093	*0.5*	5,142	5,175	5,184
Total current assets	**5,237**	**5,842**	**6,944**	**5,506**	*-20.7*	**5,533**	*0.5*	**5,581**	**5,614**	**5,619**
Net tangible fixed assets	49,413	52,720	55,705	60,069	*7.8*	63,154	*5.1*	63,420	63,170	62,906
Net intangible fixed assets	0	0	0	0	-	0	-	0	0	0
Investments / other assets	9,789	10,744	12,280	11,278	*-8.2*	11,545	*2.4*	11,812	12,079	12,346
Total assets	**64,439**	**69,306**	**74,929**	**76,853**	*2.6*	**80,232**	*4.4*	**80,813**	**80,862**	**80,871**
Trade payables & other ST liabilities	4,697	4,732	5,006	4,727	*-5.6*	4,746	*0.4*	4,754	4,756	4,759
Short term debt	4,182	4,457	1,142	642	*-43.80*	630	*-1.83*	609	578	557
Total current liabilities	**8,879**	**9,189**	**6,148**	**5,369**	*-12.7*	**5,376**	*0.1*	**5,364**	**5,333**	**5,315**
Long term debt	23,177	23,969	27,882	29,348	*5.3*	30,219	*3.0*	28,743	26,930	25,315
Other long term liabilities	16,315	18,108	20,731	20,275	*-2.2*	21,627	*6.7*	22,554	23,430	24,305
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**48,371**	**51,266**	**54,761**	**54,991**	*0.4*	**57,221**	*4.1*	**56,660**	**55,693**	**54,935**
Common s/h equity	16,068	18,040	20,168	21,862	*8.4*	23,010	*5.3*	24,153	25,169	25,935
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	**64,439**	**69,306**	**74,929**	**76,853**	*2.6*	**80,232**	*4.4*	**80,813**	**80,862**	**80,871**

Cash flow (US$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Net income (before pref divs)	1,911	1,706	2,603	2,631	*1.1*	2,825	*7.4*	2,986	3,075	3,106
Depreciation & amortisation	1,518	2,163	2,551	2,712	*6.3*	2,866	*5.7*	2,881	2,896	2,911
Net change in working capital	(190)	(53)	(838)	1,021	-	(8)	-	(40)	(32)	(5)
Other operating	753	1,080	1,318	25	*-98.1*	1,241	*NM*	828	784	792
Operating cash flow	**3,992**	**4,896**	**5,634**	**6,388**	*13.4*	**6,925**	*8.4*	**6,655**	**6,724**	**6,802**
Tangible capital expenditure	(8,951)	(6,289)	(6,115)	(6,641)	*-8.6*	(6,042)	*9.0*	(3,084)	(2,584)	(2,584)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	23	1	(246)	(17)	-	(17)	-	(17)	(17)	(17)
Investing cash flow	**(8,928)**	**(6,288)**	**(6,361)**	**(6,658)**	*-4.7*	**(6,059)**	*9.0*	**(3,101)**	**(2,601)**	**(2,601)**
Equity dividends paid	(1,004)	(1,122)	(1,261)	(1,338)	*-6.1*	(1,553)	*-16.1*	(1,764)	(1,980)	(2,260)
Share issues / (buybacks)	386	842	633	1,250	*97.5*	500	*-60.0*	(500)	(500)	1,000
Other financing	(242)	(226)	(34)	(219)	*-544.12*	(219)	*0.00*	(219)	(219)	(219)
Change in debt & pref shares	6,691	3,651	5,505	594	*-89.21*	458	*-22.93*	(1,555)	(1,565)	(1,366)
Financing cash flow	**5,831**	**3,145**	**4,843**	**288**	*-94.1*	**(814)**	-	**(4,038)**	**(4,264)**	**(2,845)**
Cash flow inc/(dec) in cash	**895**	**1,753**	**4,116**	**18**	*-99.6*	**51**	*193.3*	**(484)**	**(141)**	**1,357**
FX / non cash items	(943)	(1,644)	(3,977)	(155)	*96.1*	(51)	*66.9*	483	141	(1,360)
Balance sheet inc/(dec) in cash	**(48)**	**109**	**139**	**(138)**	-	**0**	*100.0*	**0**	**0**	**(3)**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.[1]Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

NextEra Energy (NEE.N)

Valuation (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
P/E (local GAAP, diluted)	14.4	20.0	16.3	16.7	15.9	15.1	14.5	14.4
P/E (UBS, diluted)	14.4	16.1	18.2	17.0	15.9	15.1	14.5	14.4
P/CEPS	8.0	8.0	8.7	8.3	7.9	7.7	7.5	7.4
Equity FCF (UBS) yield %	(18.0)	(4.1)	(1.1)	(0.6)	2.0	8.2	9.5	9.6
Net dividend yield (%)	3.6	3.3	2.9	3.0	3.5	3.9	4.4	5.0
P/BV x	1.7	1.9	2.1	2.0	2.0	1.9	1.8	1.7
EV/revenues (core)	3.6	4.0	4.1	4.2	4.2	4.0	3.8	3.8
EV/EBITDA (core)	10.8	10.6	10.0	10.2	9.8	9.4	9.0	8.9
EV/EBIT (core)	15.8	17.1	15.9	16.5	16.0	15.0	14.1	14.0
EV/OpFCF (core)	NM	NM	NM	NM	NM	15.7	13.4	13.2
EV/op. invested capital	1.3	1.4	1.5	1.5	1.4	1.4	1.4	1.4

Enterprise value (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap.	27,527	33,892	42,105	43,782	43,782	43,782	43,782	43,782
Net debt (cash)	25,163	27,893	28,725	29,507	30,419	30,100	28,430	28,430
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	**52,690**	**61,785**	**70,830**	**73,289**	**74,201**	**73,882**	**72,212**	**72,212**
Non core assets	(976)	(1,121)	(1,117)	(1,117)	(1,117)	(1,117)	(1,117)	(1,117)
Core enterprise value	**51,714**	**60,664**	**69,713**	**72,172**	**73,084**	**72,765**	**71,095**	**71,095**

Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	-5.7	5.9	12.5	0.0	3.3	3.1	2.2	1.4
EBITDA (UBS)	0.9	18.9	21.8	2.1	4.7	4.1	2.5	0.7
EBIT (UBS)	2.9	8.0	24.1	-0.4	4.1	6.4	3.8	0.9
EPS (UBS, diluted)	4.1	8.8	6.8	8.3	6.6	5.6	4.1	0.4
Net DPS	9.1	10.0	6.0	6.0	13.5	13.5	13.5	13.5

Margins & Profitability (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Gross profit margin	64.2	67.2	67.1	67.6	67.9	68.1	68.1	67.9
EBITDA margin	33.6	37.7	40.8	41.7	42.2	42.6	42.8	42.5
EBIT margin	22.9	23.4	25.8	25.7	25.9	26.7	27.2	27.0
Net earnings (UBS) margin	13.4	14.0	13.7	15.2	16.1	16.5	16.6	16.5
ROIC (EBIT)	8.3	8.1	9.4	8.9	8.8	9.2	9.7	9.9
ROIC post tax	6.1	5.9	6.3	6.3	6.4	6.4	6.6	6.8
ROE (UBS)	12.3	12.4	12.2	12.3	12.6	12.7	12.5	12.2

Capital structure & Coverage (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net debt / EBITDA	5.7	5.0	4.2	4.2	4.2	3.8	3.5	3.2
Net debt / total equity %	170.3	157.6	143.9	137.2	134.1	121.5	109.3	99.8
Net debt / (net debt + total equity) %	63.0	61.2	59.0	57.8	57.3	54.9	52.2	49.9
Net debt/EV %	52.9	46.9	41.6	41.6	42.2	40.3	38.7	36.4
Capex / depreciation %	NM	NM	NM	NM	NM	107.0	89.2	88.8
Capex / revenue %	NM	NM	NM	NM	NM	17.0	14.0	13.8
EBIT / net interest	3.4	3.4	3.7	4.4	4.6	5.2	5.6	5.9
Dividend cover (UBS)	1.9	1.9	1.9	1.9	1.8	1.7	1.6	1.4
Div. payout ratio (UBS) %	52.6	53.1	52.8	51.6	55.0	59.1	64.4	72.8

Revenues by division (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	14,290	15,136	17,021	17,017	17,574	18,124	18,518	18,782
Total	**14,290**	**15,136**	**17,021**	**17,017**	**17,574**	**18,124**	**18,518**	**18,782**

EBIT (UBS) by division (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	3,279	3,541	4,395	4,379	4,557	4,847	5,029	5,074
Total	**3,279**	**3,541**	**4,395**	**4,379**	**4,557**	**4,847**	**5,029**	**5,074**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+8.7%
Forecast dividend yield	3.4%
Forecast stock return	+12.1%
Market return assumption	5.8%
Forecast excess return	+6.3%

Statement of Risk

We believe the primary risk for NextEra Energy, Inc. (NEE) is that it is unable to deliver on its incremental growth opportunities beyond its baseline capex program. At NextEra Energy Resources (NEER), the unregulated subsidiary, the key risks are demand for new wind and solar projects, expiration of the wind production tax credit (PTC), and declining natural gas prices impacting the earnings of its already installed renewable and traditional generation.

In our opinion, the main risk to our investment thesis on NEE comes from the unregulated subsidiaries. In particular, we are concerned that spark spreads volatility will yield a poor return on NEER’s merchant portfolio. Given its large wind generation pipeline, NextEra (its merchant subsidiary) is highly exposed to operational, construction, and financial risk. Further, its longer term competitiveness is premised on utilities' continuing to sign PPAs to purchase renewable resources. Given the company's ownership of nuclear assets it faces the risk of nuclear accidents. Gexa Energy, its marketing retail arm, is primarily exposed to volumetric, credit, and collateral-related risks, among others. Given the volatility in natural gas and power prices, there is risk of significant deviations from the various risk management mechanisms that NEER has put in place.

At NEE's Florida Power & Light utility we think the main risk to our forecast comes from unfavorable weather conditions (above/below normal heating degree-days) and demand impact associated with its large residential exposure in southern Florida. In addition, adverse regulatory changes and denial of reasonable rate relief could affect FP&L earnings going forward.

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UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	45%	36%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 June 2015.
1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities LLC: Julien Dumoulin-Smith; Michael Weinstein; Paul Zimbardo.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
NextEra Energy[4, 6a, 6b, 7, 16]	NEE.N	Buy	N/A	US$97.51	16 Sep 2015
NextEra Energy Partners LP[2, 4, 5, 6a, 16]	NEP.N	Neutral	N/A	US$26.12	16 Sep 2015
SunEdison Inc.[13, 16]	SUNE.N	Neutral	N/A	US$11.50	16 Sep 2015
TerraForm Power, Inc.[2, 4, 5, 6a, 16]	TERP.O	Buy	N/A	US$21.61	16 Sep 2015

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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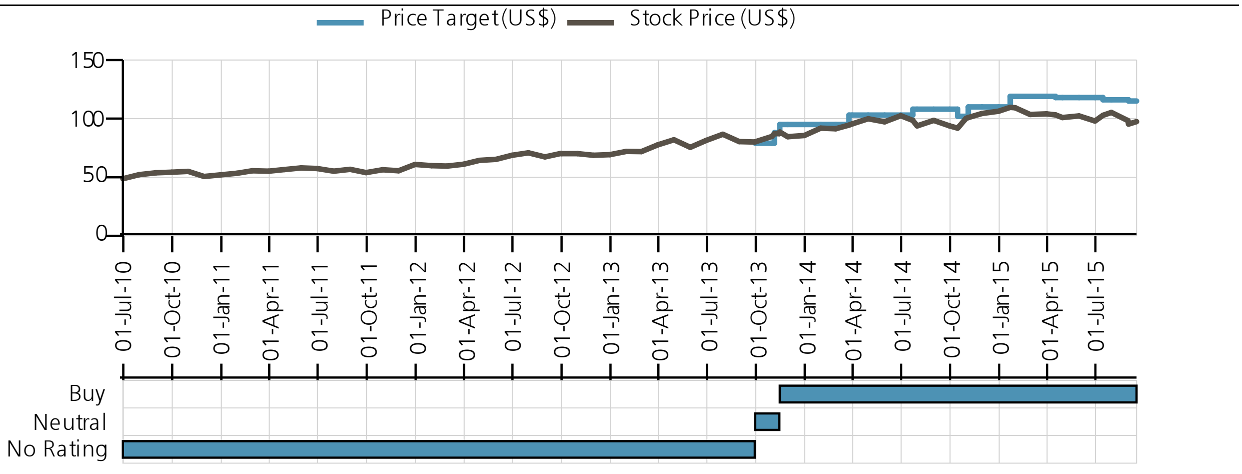
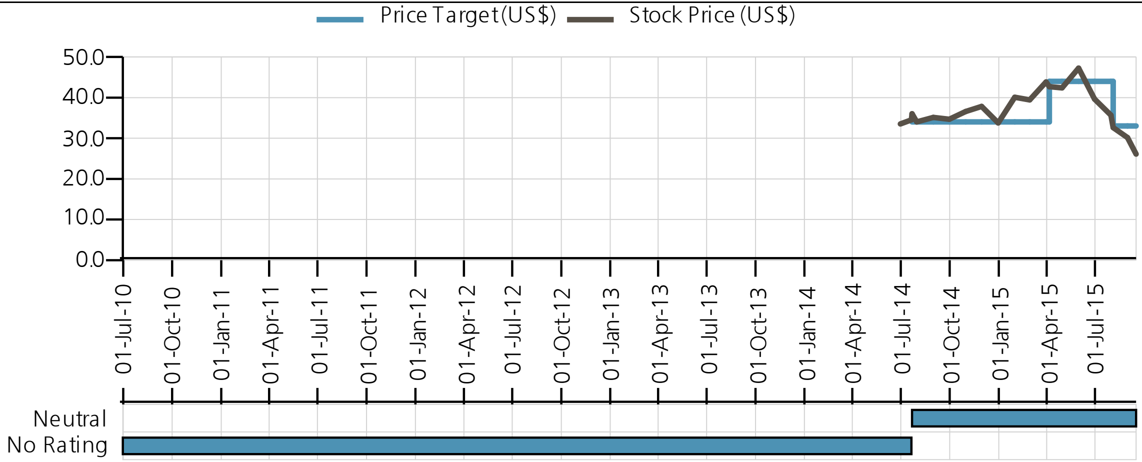


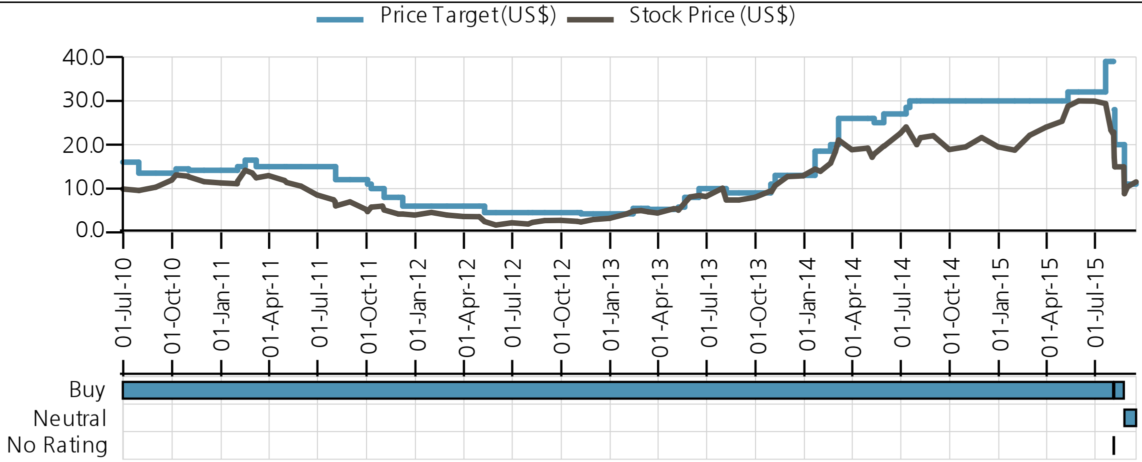
Source: UBS; as of 16 Sep 2015

NextEra Energy Partners LP (US$)



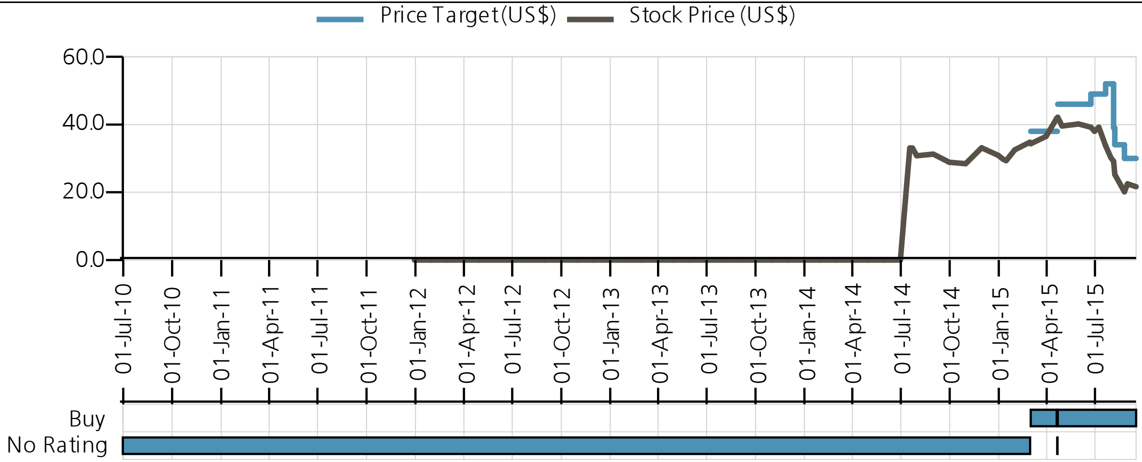
Source: UBS; as of 16 Sep 2015

SunEdison Inc. (US$)



Source: UBS; as of 16 Sep 2015

TerraForm Power, Inc. (US$)



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