NextEra Energy
Can IDR's Work in a Yieldco?

Equities
Americas
Electric Utilities

12-month rating	Buy
12m price target	US$103.00
Price	US$96.33

RIC: NEE.N BBG: NEE US

Trading data and key metrics

52-wk range	US$99.97-75.62
Market cap.	US$42.2bn
Shares o/s	438m (COM)
Free float	100%
Avg. daily volume ('000)	548
Avg. daily value (m)	US$52.1
Common s/h equity (12/14E)	US$20.6bn
P/BV (12/14E)	2.1x
Net debt / EBITDA (12/14E)	4.6x

EPS (UBS, diluted) (US$)

	12/14E	
	UBS	Cons.
Q1	1.26	1.26
Q2E	1.69	1.41
Q3E	1.68	1.62
Q4E	0.73	1.10
12/14E	5.38	5.33
12/15E	5.97	5.70
12/16E	6.40	6.06

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NEE's S-1 Filing has MLP-style incentives for the GP, promising 12-15% growth

The widely anticipated filing of the S-1 for Nextera Energy Partners, LP (NYSE: NEP) reveals an expected Incentive Distribution Rights (IDR) structure, identical to that embedded in MLPs, in a novel yet controversial structure for a conventionally taxed entity. We remain anxious about the value add of an IDR structure given the more challenging cost of capital hurdles as the entity advances into the splits, however, with limited impact on its cost of capital upfront see a more limited near term impact on implied multiple. Ultimately, while the Street is clearly constructive, the real test remains to be seen on what kind of a multiple offset discount will be exhibited in the LP--and whether that will impede the structures ability to support accretive acquisitions.

But the structure should trade well, at least initially given the better growth

We reiterate NEE's superior set of drop-downs opportunities vs. any other YieldCo along with significant incentive to grow the entity beyond the promised 12-15% 3-year distribution CAGR target could result in a premium initial valuation despite having a more variable wind resource and eventual burden on cost of capital. The initial set of assets, with a ~21-year avg life, should provide substantial comfort to many investors desiring long-term clarity. As new assets are dropped with ~10-yr of lives left as tax equity structures revert, etc, the question remains how investors will view and value these shorter tenor assets—and at what multiple will NEE mgmt. be able to drop these?

How big could the structure become? Much more behind just the ROFO assets

We estimate the total size of eventual 'drop downs' as being roughly ~2x the size of the initial assets and ROFO (~$400 Mn/yr in EBITDA vs. total of $800-900 Mn/yr), suggesting clear line of site for further growth, particularly given our expectations for continued robust development of addt'l assets given PTC extension potential..

Valuation: There's a lot more to like than just the YieldCo. Reiterate Buy.

We reiterate our $103 PT and Buy rating. Pending more formal analysis, we estimate the GP as being worth only a few dollars per share (or ~$0.50/sh for initial ROFO), as the hurdle rate on accretive growth increases in later years (see our tables below).

Highlights (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	15,151	14,290	15,136	16,026	16,986	17,714	18,319	18,693
EBIT (UBS)	3,188	3,279	3,541	3,863	4,352	4,669	5,030	5,195
Net earnings (UBS)	1,837	1,914	2,122	2,370	2,714	2,992	3,244	3,367
EPS (UBS, diluted) (US$)	4.38	4.57	4.97	5.38	5.97	6.40	6.96	7.23
DPS (US$)	2.20	2.40	2.64	2.80	2.97	3.14	3.33	3.53
Net (debt) / cash	(22,967)	(27,359)	(28,426)	(28,423)	(31,348)	(32,236)	(30,220)	(27,749)

Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	21.0	22.9	23.4	24.1	25.6	26.4	27.5	27.8
ROIC (EBIT) %	8.9	8.3	8.1	8.3	8.7	8.8	9.3	9.7
EV/EBITDA (core) x	9.3	10.8	10.6	11.2	10.3	9.8	9.3	8.8
P/E (UBS, diluted) x	12.7	14.4	16.1	17.9	16.1	15.0	13.8	13.3
Equity FCF (UBS) yield %	(9.4)	(18.0)	(4.1)	(3.0)	(3.6)	1.8	9.1	10.3
Net dividend yield %	4.0	3.6	3.3	2.9	3.1	3.3	3.5	3.7

Source: Company accounts, Thomson Reuters, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Valuations: based on an average share price that year, (E): based on a share price of US$96.33 on 20 May 2014 18:41 EDT

Investment Thesis

NextEra Energy

12-month rating **Buy**

12m price target **US$103.00**

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). Driving the bulk of recent enthusiasm around shares has been the potential for NextEra to follow NRG's example in opting to spin out its own YieldCo structure and management announced with 1Q14 results that it has filed with the SEC to create a YieldCo. Our price target is derived via a 2016E utility SOTP.

Upside scenario

Our upside case is premised upon NEE executing on its contemplated YieldCo that would drive a higher valuation for its contracted generation assets, improving the valuation by $8/share under a best case assumption, however the market is clearly already reflecting some of this potential upside. Additionally, applying higher multiples to the renewable business implies upside to $111 per share. Further longer-term upside exists from the natural gas ratebase opportunity but that is largely past the current investment horizon.

Downside scenario

Our downside case is based upon the company reversing course and not creating a YieldCo due to poor market conditions or other factors. An additional negative would be 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 an extension of the PTC in 2014. These factors as well as lower peer multiples for wind and solar implies downside to $87 per share.

Upcoming catalysts

May 23	PJM Auction Results Released
July 2014	Expected 2Q14 Earnings Announcement

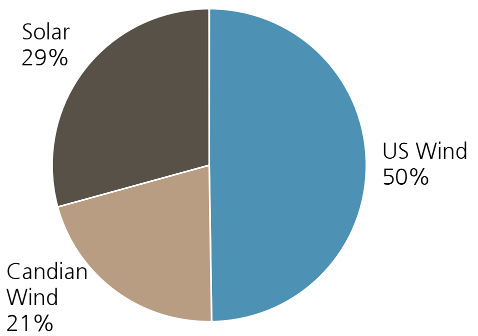
Business description

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 4.5 million customers in Florida. The other primary subsidiary is NextEra Energy Resources, one of the largest wind and solar generators in the United States. Additionally, NextEra operates eight nuclear power units throughout the United States.

Industry outlook

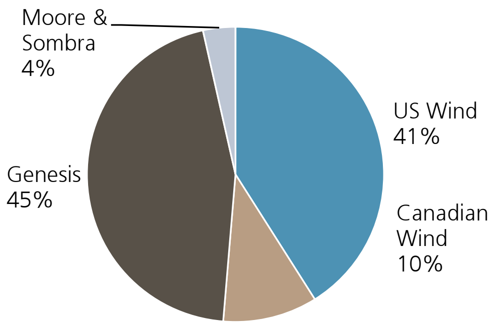
The electric utility industry is projected to experience weak or negative electric demand growth in coming years as a tepid economy and energy efficiency dampen demand. In the unregulated merchant power space, we see limited potential for a meaningful recovery from currently low power prices due to limited 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. We believe utilities with high parent leverage will disproportionately suffer, as they are unable to recoup from rising interest rates.

NextEra Energy Partners Portfolio (MW%)



Source: Company Filings

NextEra Energy Partners Portfolio (Initial EBITDA%)



Source: Company Filings and UBS Estimates

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What You Need to Know:

While the introduction of IDRs in a Yieldco structure opens a key question on how the LP subsidiary structure will trade, we believe the initial listing of the NEP shares should prove comparable to NYLD (or even better) given the clear (and incentivized) line of sight to at least the 12-15% per annum distribution growth promised. Our long-term concern remains how LP shares will trade given the juxtaposition of shorter contract (~10-year) wind assets (post-PTC) along with the hindrance of a GP structure. Beyond the YieldCo, we emphasize NEE has exposure to several other major drivers, including $13/sh of long-term upside potential from the ratebasing of natural gas reserves at its FP&L utility as well as broader continued renewable project development, putting upside to mgmt. current 2016 EPS guidance. We're maintaining our $103 PT and Buy rating, which already reflects a full multiple on the LP shares, without any incremental GP uplift.

How about the tax status? Structured as partnership, but taxed at full rate

Initially, all of the assets appear to be fairly tax-neutral assets, with none expected to generate production tax credits. Either they are Canadian assets or are US assets developed in 2009 and 2010, and opted to employ the CITC structure. As such the average contract life of the portfolio is materially better than its remaining portfolio of post-PTC assets it would likely seek to drop down beyond the initial ROFO period. That said, NEP does not expect to be a tax payer for some time, with dividends treated as a non-taxable return of capital for the next 8-year period (and likely for the foreseeable future).

Still wondering about the quick change of heart?

We remain somewhat puzzled by management's about-face in opting to pursue a YieldCo structure. It appears that the proposed structure will largely be unable to qualify for REIT status despite the latest guidance from IRS around renewable and T&D utility assets. We suspect management likely opted to move forward, seeing a clear path forward with its current base of asset (as well as eligibility of its own solar portfolio drop downs) through the medium term, coupled with a sense of comfort that a YieldCo structure would have institutional investor appetite despite the disadvantaged IDR structure.

A Gig Dropping Down Initially… with at least another 1.5 GW on Tap

Below we present the initial and Right of First Offer (ROFO) portfolios which are predominately composed of wind assets with a quarter of generation being Canadian wind. The initial portfolio is anchored by the 250MW Genesis solar asset while three 100+MW assets create the foundation on the wind side. The ROFO projects include two large solar projects (Silver State and McCoy) but continue to be dominated by wind. Of the fifteen ROFO assets, only six are currently in operations and the two large aforementioned solar projects are not slated to reach COD until 2H16.

Figure 1: NEP Portfolio – Initial and ROFO

Initial Portfolio			ROFO Portfolio		
Project	**Resource**	**MW**	**Project**	**Resource**	**MW**
Northern Colorado	Wind-U	174.3	Story II	Wind-U	150.0
Elk City	Wind-U	98.9	Day County	Wind-U	99.0
Moore	Solar	20.0	Ashtabula III	Wind-U	62.4
Sombra	Solar	20.0	Baldwin	Wind-U	102.4
Perrin Ranch	Wind-U	99.2	North Sky River	Wind-U	162.0
Conestogo	Wind-C	22.9	Mountain View	Solar	20.0
Tuscola Bay	Wind-U	120.0	Adelaide	Wind-C	59.9
Summerhaven	Wind-C	124.4	Borniah	Wind-C	72.9
Genesis	Solar	250.0	Jericho	Wind-C	149.0
Bluewater	Wind-C	59.9	East Durham	Wind-C	22.4
Total		**989.6**	Goahem	Wind-C	102.0
			Shafter	Solar	20.0
			Adelanto I and II	Solar	27.0
			Siver State South	Solar	250.0
			McCoy	Solar	250.0
			Total		**1,549.0**

	Initial		ROFO	
	MW	%	MW	%
Wind-U	492	50%	576	37%
Wind-C	207	21%	406	26%
Solar	290	29%	567	37%

Source: Company Filings and UBS Estimates

Extrapolating from our NextEra energy model, we present a simplified estimation of the earnings contribution from the initial and ROFO portfolios.

Figure 2: Initial NEP Wind Portfolio

Initial Wind Portfolio	US Wind	Canadian Wind
MW	492	207
Capacity Factor	37.50%	37.50%
Output	1.62	0.68
Assumed PPA Price ($/MWh)	40	40
PTC ($/MWh)	35	35
% of Output Eligible for PTC	50%	50%
O&M ($/MWh)	14.25	14.25
Energy Revenues	65	27
PTC (grossed up)	28	-
GM	93	27
O&M	23	10
EBITDA	**70**	**18**

Source: Company Filings and UBS Estimates

Figure 3: ROFO NEP Wind Portfolio

ROFO Wind	US Wind	Canadian Wind
MW	576	406
Capacity Factor	37.50%	37.50%
Output	1.89	1.33
Assumed PPA Price ($/MWh)	40	40
PTC ($/MWh)	35	35
% of Output Eligible for PTC	50%	50%
O&M ($/MWh)	14.25	14.25
Energy Revenues	76	53
PTC (grossed up)	33	-
GM	109	53
O&M	27	19
EBITDA	**82**	**34**

Source: Company Filings and UBS Estimates

For further details on Genesis and other NextEra solar/wind projects, please refer to our initiation report, aptly titled **'To Yield or not to Yield?'**

Figure 4: Genesis

General		Operational		Financing (Initial)		Final Cap Structure	
Total Capacity (MW)	250.0	PPA Price (¢/KWh)	$0.17	Debt	70%		
Generation (GWh)	602.3	PPA Date	4Q09	Equity	30%	Debt	$852
Investor IRR	18.55%	O&M ($/kW-yr)	100	Debt $ Mn	$852	Grant	$290
Construction Cost	$1,150	Capacity Factor	27.5%	Equity $ Mn	$298	Net Debt	$562
Implied Cost $/kW	4,600	Degradation factor	1%				
Qualifying Capital	96%	**Returns**		Cost of Debt	4.10%	Equity	$298
		Pre-tax IRR	8%	Debt Tenor	20	Grant	$32
Effective Tax (Federal + State)	40.85%	After-tax levered IRR	19%	FCF Cash Sweep to Debt	20%	Net Equity	$266
EV/EBITDA	10.7x			Cash Grant to Debt	90%	Equity / Cap	32%
				Cash Grant ($ Mn)	$322	Debt / Cap	68%

Source: CPUC, Company Filings, SNL, and UBS estimates

We see Genesis as representing 45% of the initial portfolio adjusted EBITDA (~$77Mn), consistent with the S-1 filing and utilizing a simplistic assumption for the generation composition and arrive at $85Mn of CAFD versus $86.3Mn disclosed in the filing.

Figure 5: Initial and ROFO Portfolio UBSe Estimates

Initial Portfolio Summary	EBITDA	% of Total
US Wind	70	41%
Canadian Wind	18	10%
Genesis	77	45%
Moore & Sombra	6	4%
Total	**170**	**100%**
Guidance: Genesis equals 40-45% of Adj. EBITDA TTM 6/30/15		
Approx. CAFD (~50%)	*85*	
Guidance: CAFD equals ~$86.3Mn TTM 6/30/15		

ROFO Asset Portfolio	EBITDA	% of Total
US Wind	70	30%
Canadian Wind	18	7%
McCoy	62	26%
Silver State South	69	29%
Mountain View	9	30%
Shafter & Adelanto	7	30%
Total	**234**	**153%**
Approx. CAFD (~50%)	*117*	

Source: Company Filings and UBS Estimates

IDRs will be challenging in a Yieldco; question is credibility of growth

How to keep up a competitive cost of capital with GP drag?

In our opinion, NEP's Incentive Distribution Rights (IDR) structure adds minimal value to NEE beyond the overall multiple uplift that Yieldcos enjoy generally. In contrast to MLPs, we see IDRs in Yieldcos as a much more zero-sum game, with no incremental cash flows to redistribute between the GP and LP units. MLPs use IDRs to redistribute their substantial tax benefit heavily toward the GP, still leaving the LP units with enough residual benefit to remain competitive investment vehicles. Yieldcos enjoy no such incremental tax benefit beyond that which NEE already employs (NOLs). Therefore, we necessarily see any Yieldco IDR redistribution as significantly disadvantaging LP units, depressing their price, driving up the cost of capital. It's been true that Yieldcos realize a more general uplift in EBITDA multiples as a result of increased cash flow stability (i.e., NYLD). While this could provide some cost-of-capital benefit that could be redistributed toward the GP, the GP advantage net of damage to the LP pales in comparison with the cash tax value unlocked by MLP GP creation.

Dividend policy: How to deal with unknown winds

With 65%+ of the portfolio comprised of wind assets, NEP is subject to a more volatile earnings stream than solar based vehicles. With many projects historically under-performing expected levels, we see payout policy as among the chief concerns of any investors. We flag the $250 Mn revolver upfront as likely designed to address volatility. Moreover, without a specific payout ratio defined in the S1 filing, we suspect the dividend payout will be less than NYLD's 90% policy in order to accommodate for a greater portion of variability. Lastly, we flag a further minor risk to the high dividend around F/X fluctuations between the USD and CAD; while unlikely to move sufficiently sharply to impede the story materially, we see this as compounding the wind output variability.

We see payout policy as among the chief concerns of any investors.

Why not use typical wind assets with PTCs up front? Not tax efficient.

We emphasize management appears to have gone out of its way to craft a portfolio that can achieve a 12-15% CAGR entirely without the use of its core renewable business of developing assets without product tax credits (PTCs). While other companies have thus elected to drop down wind assets with PTCs remaining, management remains adamant this is not a tax efficient use of PTCs (opting to retain them at the parent instead). Rather, we suspect the company intends to begin dropping these assets down once they are 10-years old (and typically have 10 years remaining on their contract life). The question in turn is how will the market value these assets which have a more limited tenor, as the YieldCo reaches its maturity? We suspect The use of PTCs are lessened in a standalone vehicle (expect to be in Federal NOL position for ~15 years).

Further potential angle? EPS growth for the GP is disproportionate:

Another angle we suspect in pursuing the IDR structure is the ability for management to continue to recognize depreciation at the YieldCo, while benefitting from the higher splits of the GP. Seeing that NEE trades on an EPS basis, we suspect this 'reduction' in D&A that would typically accrue to the company as an added potential benefit. We suspect investors at the YieldCo will largely ignore the D&A projections, focusing instead on cash flow properties of the entity.

Expect to continue to generate NOLs and carryforwards

While NEP will be treated as a corporation for US federal income tax purposes, the Yieldco expects to generate enough NOLs to avoid income taxes for approximately 15 years. As distinct from MLP formation at D, SRE, and others, this is not an *incremental* cash benefit that provides a lower cost of capital advantage versus non-yieldcos.

Without PTC assets in the ROFO, the question is when will these drop downs start?

The biggest question arising from the filing is both management's plan around dropping down post-PTC wind assets (have largely ~10-years of contract life left) as well as investor receptivity to shorter lived assets. We view the broad market receptivity to thermal generation transfers of Marsh Landing and El Segundo for NYLD as suggesting there is indeed appetite despite the limited cash flow coverage of these assets. While full paydown of amortizing debt through the remaining life of the contract helps moderate the rolloff in true cash flow available for distribution, we see the stepdown off subsidized rates (either thermal or under NEE's wind assets) as driving a material compression in cash flows. We estimate a wind asset with ~10-years of cash flow should transact at ~7x EBITDA assuming DCF of merchant economics beyond the expiration of the first ten year period.

The biggest question arising from the filing is both management's plan around dropping down post-PTC wind assets (have largely ~10-years of contract life left) as well as investor receptivity to shorter lived assets.

And how about the wind outlook? Better than solar.

We reiterate our continued comfort in a robust outlook for the wind industry, as the growing potential for an extension of the current production tax credit (PTC) at $23/MWh in the Senate's Tax Extenders bill becomes a greater reality. Given expectations for continued improvements in technology, we see credible suggestions that wind procurement will remain at robust levels.

How about the acquisition outlook? We believe there's more there

While NEP is certainly not predicated on an external acquisition growth strategy, we continue to see real credibility to rolling up the wind sector. We see the consolidation argument as driven by both rationalization of players involved, limitations on foreign involvement given domestic tax credit generation, and more competitive outlook for wind developers. Ultimately, with ongoing concerns that the latest 'extension' of the PTC will be the last, we see the maturation of the business as a further lever to encourage divestment of assets, particularly smaller portfolios. We emphasize that contemplated consolidation may very well include substantial SG&A synergies ,particularly as teams involved in business development are consolidated. We expect this to be the greatest contributor of value as we have already seen in conventional IPP consolidation.

Putting numbers to the YieldCo and gas ratebase math

For further details on our initial attempt to put numbers to a NextEra YieldCo with a hypothetical drop-down schedule of 1GW in annual wind please refer to our note from last month, '**A Windy, Gassy, Yieldy Opportunity Set**'. We continue to show $4-$7/sh of value from the Yieldco depending on assumptions regarding PTCs and declining build costs.

Meanwhile investors should **review** [link] our latest YieldCo note comparing Sun Edison to NRG Yield, to contrast differing expectations between the two investor bases. We worry that more robust SUNE growth expectations (premised off DG), are increasingly filtering into the Utility YieldCo's whose growth is more derived off chunky/yet slower growth utility-scale projects. Nonetheless, the big appeal of a Yieldco remains both the pipeline of projects, as well as ability to consolidate the renewables sector as it matures. We see NEE as among the most credible opportunities in this growing niche.

Figure 6: Case 1: Value of Wind Contract Stream - Assume Add 1 GW/year in Perpetuity With Continued PTCs

Case 1: Value of Wind Contract Stream - Assume Add 1 GW/year in Perpetuity With Continued PTCs

Beta	2.0	
Risk Free Rate	2.0%	
Market Return	6.0%	
Risk Adder	0.0%	
Cost of Equity at YieldCo Level	10.00%	
Terminal Growth Rate	8.3%	Assume 1000 GW/year continues

Year	1	2	3	4	5	6	7	~~~	12
MWs Built and Contracted	1,000	1,000	1,000	1,000	1,000	1,000	1,000		1,000
Assumed Build Cost per kW	$ 1,700	$ 1,700	$ 1,700	$ 1,700	$ 1,700	$ 1,700	$ 1,700		$ 1,700
Assumed PTC for Assets in Year X ($/MWh)	$ 23.00	$ 23.00	$ 23.00	$ 23.00	$ 23.00	$ 23.00	$ 23.00	~~~	$ 23.00
Net Present Value of Asset/PPA Bundle ($M)	$ 106	$ 106	$ 106	$ 106	$ 106	$ 106	$ 106		$ 106
Terminal Value ($M)									$ 6,913
Discount Factor	1.0000	1.1000	1.2100	1.3310	1.4641	1.6105	1.7716		2.8531
Present Value	$ 106	$ 97	$ 88	$ 80	$ 73	$ 66	$ 60		$ 2,460
Net Present Value of Asset/PPA Stream ($M)	$ 3,220								
NEE Average Shares Outstanding 2016	467								
Yieldco NPV of 1 GW/year Stream per share	**$ 6.89**								

Source: UBS Estimates

Figure 7: Value of Wind Contract Stream - Assume Add 1 GW/year in Perpetuity, with Build Cost declining and PTCs Going Away for Good in 2020

Case 2: Value of Wind Contract Stream - Add 1 GW/year in Perpetuity, with Build Cost declining and PTCs Going Away in 2020

Beta	2.0	
Risk Free Rate	2.0%	
Market Return	6.0%	
Risk Adder	0.0%	
Cost of Equity at YieldCo Level	10.00%	
Terminal Growth Rate	8.3%	Assume 1000 GW/year continues

Year	1	2	3	4	5	6	7	~~~	12
MWs Built and Contracted	1,000	1,000	1,000	1,000	1,000	1,000	1,000		1,000
Assumed Build Cost per kW	$ 1,700	$ 1,700	$ 1,700	$ 1,700	$ 1,700	$ 1,700	$ 1,300		$ 1,300
Assumed PTC for Assets in Year X ($/MWh)	$ 23.00	$ 23.00	$ 23.00	$ 23.00	$ 23.00	$ 23.00	$ -	~~~	$ -
Net Present Value of Asset/PPA Bundle ($M)	$ 106	$ 106	$ 106	$ 106	$ 106	$ 106	$ 47		$ 47
Terminal Value ($M)									$ 3,029
Discount Factor	1.0000	1.1000	1.2100	1.3310	1.4641	1.6105	1.7716		2.8531
Present Value	$ 106	$ 97	$ 88	$ 80	$ 73	$ 66	$ 26		$ 1,078
Net Present Value of Asset/PPA Stream ($M)	$ 1,697								
NEE Average Shares Outstanding 2016	467								
Yieldco NPV of 1 GW/year Stream per share	**$ 3.63**								

Source: UBS Estimates

The next few tables highlight our more detailed expectations for the Yieldco IDR structure based on a standard MLP-type waterfall.

IDRs are not expected to hit the high splits before 2017 (at least) as the company layers in the ROFO assets at roughly 500 MW per year for three years. It will be some time after that before a significant portion of total cash flow distribution flows to the GP (our tables below stop at 9% to the GP after adding ROFO assets). The result is a GP with very little of the total Yieldco value for many years.

Figure 8: GP and LP Distribution NPVs

Nextera Energy Partners Yieldco	2014E	2015E	2016E	2017E	2018E	2019E	2020	2030
LP Distribution Per Unit	$ 1.18	$ 1.36	$ 1.56	$ 1.80	$ 1.80	$ 1.80	$ 1.80	$ 1.80
Coverage	1.05x	1.02x	1.00x	1.10x	1.05x	1.05x	1.05x	1.05x
Terminal Value								$ 25.98
Present Value of Distribution	$ 1.18	$ 1.24	$ 1.31	$ 1.37	$ 1.25	$ 1.15	$ 1.05	$ 0.42
Terminal PV								$ 6.13
LP Equity Value Per LP Share								$ 21.26
Implied Yield	5.6%	6.4%	7.4%	8.5%	8.5%	8.5%	8.5%	8.5%
CAGR on Distribution Growth					11%			
Value to Nextera:								
LP Distribution ($M)	$ 118	$ 140	$ 178	$ 274	$ 349	$ 367	$ 367	$ 367
LP Distribution ($M) after NEE's cap-gains tax	$ 99	$ 118	$ 150	$ 230	$ 293	$ 308	$ 308	$ 308
Terminal Value								$ 4,455
Present Value of Distribution	$ 99	$ 108	$ 125	$ 176	$ 204	$ 196	$ 179	$ 73
Terminal PV								$ 1,051
LP Equity Value								$ 3,269
NEE Shares Outstanding								467
LP Equity Value Per NEE share								$ 6.99
GP Distribution ($M)	$ 2	$ 3	$ 9	$ 26	$ 33	$ 35	$ 35	$ 35
GP Distribution ($M) after NEE's cap gains tax	$ 2	$ 2	$ 7	$ 22	$ 28	$ 29	$ 29	$ 29
GP % of Total Distributions	2%	2%	5%	9%	9%	9%	9%	9%
Terminal Value								$ 333
Present Value of Distribution	$ 2	$ 2	$ 6	$ 16	$ 18	$ 17	$ 15	$ 5
Terminal PV								$ 59
GP Equity Value								$ 225
NEE Shares Outstanding								467
GP Equity Value Per NEE share								$ 0.48

Yieldco Assumptions	
5-Year LP Growth Rate	7.2%
Terminal LP Growth Rate	3.0%
Stable LP Coverage Ratio	1.06x
Risk Free Rate	2.5%
Debt	60.0%
Equity	40.0%
Levered Beta	70.6%
Equity Risk Premium	7.0%
Additional discount	2.0%
LP Cost of Equity	9.4%
LP Terminal Cost of Equity	10.1%
5-Year GP Growth Rate	87.2%
Terminal GP growth rate	3.3%
GP Cost of Equity	11.4%
GP Terminal Cost of Equity	12.1%

Source: UBS estimates, Company filings

Figure 9: Nextera Energy Partners Dropdown Distributable Cash Flow Assumptions

Nextera Energy Partners Distributable Cash Flow and Coverage Analysis							
Initial US Wind	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020**
EBITDA	**$ 70**	**$ 70**	**$ 70**	**$ 70**	**$ 70**	**$ 70**	**$ 70**
Net Income before GP interests	$ 19	$ 19	$ 19	$ 19	$ 19	$ 19	$ 19
Equity earnings, net of distributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation	$ 28	$ 28	$ 28	$ 28	$ 28	$ 28	$ 28
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Provision for income taxes	$ 10	$ 10	$ 10	$ 10	$ 10	$ 10	$ 10
Adjustment for maintenance capex	$ (6)	$ (6)	$ (6)	$ (6)	$ (6)	$ (6)	$ (6)
Total Distributable Cash Flow	**$ 52**	**$ 52**	**$ 52**	**$ 52**	**$ 52**	**$ 52**	**$ 52**
Initial Canadian Wind	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020**
EBITDA	**$ 18**	**$ 18**	**$ 18**	**$ 18**	**$ 18**	**$ 18**	**$ 18**
Net Income before GP interests	$ 5	$ 5	$ 5	$ 5	$ 5	$ 5	$ 5
Equity earnings, net of distributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation	$ 7	$ 7	$ 7	$ 7	$ 7	$ 7	$ 7
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Provision for income taxes	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3
Adjustment for maintenance capex	$ (1)	$ (1)	$ (1)	$ (1)	$ (1)	$ (1)	$ (1)
Total Distributable Cash Flow	**$ 13**	**$ 13**	**$ 13**	**$ 13**	**$ 13**	**$ 13**	**$ 13**
Genesis solar	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020**
EBITDA	**77**	**$ 77**	**$ 77**	**$ 77**	**$ 77**	**$ 77**	**$ 77**
Net Income before GP interests	$ 21	$ 21	$ 21	$ 21	$ 21	$ 21	$ 21
Equity earnings, net of distributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation	$ 31	$ 31	$ 31	$ 31	$ 31	$ 31	$ 31
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Provision for income taxes	$ 11	$ 11	$ 11	$ 11	$ 11	$ 11	$ 11
Adjustment for maintenance capex	$ (6)	$ (6)	$ (6)	$ (6)	$ (6)	$ (6)	$ (6)
Total Distributable Cash Flow	**$ 57**	**$ 57**	**$ 57**	**$ 57**	**$ 57**	**$ 57**	**$ 57**
Moore & Sombra solar	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020**
EBITDA	**6**	**$ 6**	**$ 6**	**$ 6**	**$ 6**	**$ 6**	**$ 6**
Net Income before GP interests	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2
Equity earnings, net of distributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Provision for income taxes	$ 1	$ 1	$ 1	$ 1	$ 1	$ 1	$ 1
Adjustment for maintenance capex	$ (0)	$ (0)	$ (0)	$ (0)	$ (0)	$ (0)	$ (0)
Total Distributable Cash Flow	**$ 4**	**$ 4**	**$ 4**	**$ 4**	**$ 4**	**$ 4**	**$ 4**
ROFO - All assets	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020**
EBITDA		**26**	**88**	**175**	**263**	**263**	**263**
Net Income before GP interests	$ -	$ 7	$ 24	$ 48	$ 73	$ 73	$ 73
Equity earnings, net of distributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation	$ -	$ 11	$ 35	$ 70	$ 105	$ 105	$ 105
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Provision for income taxes	$ -	$ 4	$ 13	$ 26	$ 39	$ 39	$ 39
Adjustment for maintenance capex	$ -	$ (2)	$ (7)	$ (14)	$ (21)	$ (21)	$ (21)
Total Distributable Cash Flow	**$ -**	**$ 20**	**$ 65**	**$ 131**	**$ 196**	**$ 196**	**$ 196**
		10%	**33%**	**67%**	**100%**	**100%**	**100%**
Post-ROFO	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020**
EBITDA		**-**	**-**	**132**	**132**	**132**	**132**
Net Income before GP interests	$ -	$ -	$ -	$ 36	$ 36	$ 36	$ 36
Equity earnings, net of distributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation	$ -	$ -	$ -	$ 53	$ 53	$ 53	$ 53
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Provision for income taxes	$ -	$ -	$ -	$ 20	$ 20	$ 20	$ 20
Adjustment for maintenance capex	$ -	$ -	$ -	$ (11)	$ (11)	$ (11)	$ (11)
Total Distributable Cash Flow	**$ -**	**$ -**	**$ -**	**$ 98**	**$ 98**	**$ 98**	**$ 98**
				50%	**50%**	**50%**	**50%**
Total (amounts in $M, except per unit amounts)	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020**
Net Income before GP interests	$ 47	$ 54	$ 71	$ 132	$ 156	$ 156	$ 156
Equity earnings, net of distributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation	$ 68	$ 79	$ 103	$ 191	$ 226	$ 226	$ 226
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Provision for income taxes	$ 25	$ 29	$ 38	$ 71	$ 84	$ 84	$ 84
Adjustment for maintenance capex	$ (14)	$ (16)	$ (21)	$ (38)	$ (45)	$ (45)	$ (45)
Total Distributable Cash Flow	**$ 127**	**$ 147**	**$ 192**	**$ 356**	**$ 421**	**$ 421**	**$ 421**

Source: UBS estimates, Company filings

Figure 10: Nextera Energy Partners Incentive Distribution Rights Assumptions

Total (amounts in $M, except per unit amounts)	2014E	2015E	2016E	2017E	2018E	2019E	2020
Net Income before GP interests	$ 47	$ 54	$ 71	$ 132	$ 156	$ 156	$ 156
Equity earnings, net of distributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation	$ 68	$ 79	$ 103	$ 191	$ 226	$ 226	$ 226
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Provision for income taxes	$ 25	$ 29	$ 38	$ 71	$ 84	$ 84	$ 84
Adjustment for maintenance capex	$ (14)	$ (16)	$ (21)	$ (38)	$ (45)	$ (45)	$ (45)
Total Distributable Cash Flow	**$ 127**	**$ 147**	**$ 192**	**$ 356**	**$ 421**	**$ 421**	**$ 421**
Unit Structure							
Common Units Outstanding	100	103	114	152	194	204	204
Issuance of New Common Units	100	4	13	47	40	-	-
Class B Common Units							
Redemption of Common Units							
Total No. of Common Units Outstanding	100	103	114	152	194	204	204
Beginning No. Subordinated Units Outstanding	-	-	-	-	-	-	-
Issuance of New Subordinated Units	-	-	-	-	-	-	-
Redemption/Conversion of Subordinated Units	-	-	-	-	-	-	-
Ending Total No. Subordinated Units Outstanding	**-**	**-**	**-**	**-**	**-**	**-**	**-**
GP Interest Unit Equivalent	**2**	**2**	**2**	**3**	**4**	**4**	**4**
Total Units Outstanding (including implied GP units)	102	105	116	156	198	208	208
Total LP Units Outstanding	**100**	**103**	**114**	**152**	**194**	**204**	**204**
Indicated Distribution	$ 0.5912	$ 1.3598	$ 1.5638	$ 1.7984	$ 1.7984	$ 1.7984	$ 1.7984
Annualized Indicated Distribution	$ 1.1825	$ 1.3598	$ 1.5638	$ 1.7984	$ 1.7984	$ 1.7984	$ 1.7984
% Increase yoy		15.0%	15.0%	15.0%	0.0%	0.0%	0.0%
NPV LP Unit Price Per Share	$ 29.56	$ 29.56	$ 29.56	$ 29.56	$ 29.56	$ 29.56	$ 29.56
LP Distribution Yield	4.0%	4.6%	5.3%	6.1%	6.1%	6.1%	6.1%
Proceeds from Issuance of LP Units ($M)	$ 2,956	$ 118	$ 395	$ 1,382	$ 1,184	$ -	$ -
Date hit 50% splits							
Total Unit Distribution Coverage	**1.05x**	**1.02x**	**1.00x**	**1.10x**	**1.05x**	**1.05x**	**1.05x**
CALCULATION OF INCENTIVE DISTRIBUTION							
Distribution Levels							
MQD	$ 0.5912	$ 1.1825	$ 1.1825	$ 1.1825	$ 1.1825	$ 1.1825	$ 1.1825
First Target	$ 0.5912	$ 1.1825	$ 1.1825	$ 1.1825	$ 1.1825	$ 1.1825	$ 1.1825
Second Target	$ 0.6799	$ 1.3598	$ 1.3598	$ 1.3598	$ 1.3598	$ 1.3598	$ 1.3598
Third Target	$ 0.7390	$ 1.4781	$ 1.4781	$ 1.4781	$ 1.4781	$ 1.4781	$ 1.4781
Thereafter	$ 0.8869	$ 1.7737	$ 1.7737	$ 1.7737	$ 1.7737	$ 1.7737	$ 1.7737
Incentive Distribution GP Sharing Percentage							
MQD	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
First Target	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Second Target	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Third Target	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Thereafter	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%

Source: UBS estimates, Company filings

Figure 11: Nextera Energy Partners IDR Cash Flow Analysis

CASH IMPACT ANALYSIS							
Distributable Cash Flow for Total Units	$ 127	$ 147	$ 192	$ 356	$ 421	$ 421	$ 421
Cash Flow Required for Common MQD	$ (59)	$ (122)	$ (135)	$ (180)	$ (230)	$ (241)	$ (241)
Excess/(Shortfall) Cash Flow after Common MQD	**$ 68**	**$ 25**	**$ 58**	**$ 176**	**$ 192**	**$ 180**	**$ 180**
Cash Flow Required for GP MQD	$ (1)	$ (2)	$ (3)	$ (4)	$ (5)	$ (5)	$ (5)
Excess/(Shortfall) Cash Flow after GP MQD	$ 67	$ 22	$ 55	$ 172	$ 187	$ 175	$ 175
Cash Flow Required for Subordinated MQD	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Excess/(Shortfall) Cash Flow after Subordinated MQD	**$ 67**	**$ 22**	**$ 55**	**$ 172**	**$ 187**	**$ 175**	**$ 175**
Additional Cash to Common Units based on Indicated	$ -	$ (18)	$ (43)	$ (94)	$ (120)	$ (126)	$ (126)
Additional Cash Flow to GP Units based on Indicated	$ -	$ (0)	$ (6)	$ (23)	$ (29)	$ (30)	$ (30)
Additional Cash Flow to Subordinated Units based on Indicated	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Excess/(Shortfall) Cash Flow	**$ 67**	**$ 4**	**$ 5**	**$ 55**	**$ 39**	**$ 19**	**$ 19**
Total Distributions (assuming distributions are made based on Indicated)							
Common Units	$ 59	$ 140	$ 178	$ 274	$ 349	$ 367	$ 367
Subordinated Units	$ -	$ -	$ -	$ -	$ -	$ -	$ -
GP Interest Unit Equivalent	$ 1	$ 3	$ 9	$ 26	$ 33	$ 35	$ 35
Total Distributions	$ 60	$ 143	$ 187	$ 300	$ 383	$ 402	$ 402
Total Distributions to GP	$ 1	$ 3	$ 9	$ 26	$ 33	$ 35	$ 35
Less MQD to GP	$ (1)	$ (2)	$ (3)	$ (4)	$ (5)	$ (5)	$ (5)
Incentive Distributions to GP	$ (0)	$ 0	$ 6	$ 23	$ 29	$ 30	$ 30
% of Net Income before GP Interests	0.00%	0.69%	8.48%	17.07%	18.37%	19.31%	19.31%
COVERAGE RATIOS							
Common Unit MQD Coverage	1.1x	1.2x	1.4x	1.8x	1.7x	1.7x	1.7x
Total Unit MQD Coverage	1.1x	1.2x	1.4x	1.8x	1.7x	1.7x	1.7x
Common Unit Indicated Distribution Coverage	1.1x	1.0x	1.0x	1.1x	1.0x	1.0x	1.0x
Total Unit Indicated Distribution Coverage	1.1x	1.0x	1.0x	1.1x	1.0x	1.0x	1.0x

Source: UBS estimates, Company filings

Valuation: Maintain $103 PT, giving credit for YieldCo and Gas Ratebase Growth Potential

Our latest target reflects 'terminal value' opportunity provided from development pipeline flowed through the YieldCo

Our valuation remains based on a utilities sum-of-the-parts methodology where we ascribe value between Energy Resources (~40%) and FP&L (~60%). We continue to value NEER at 9x for the traditional generation, wind at 14x (PTCs at 8x), and solar at 15x to reflect the potential $4-$7/share of upside from the expected 1 GW/yr pipeline of dropdowns into a YieldCo as described above; we continue to apply a separate development pipeline value to the parent for known projects ($2/sh), seeing a distinct value proposition in the added value of a continued opportunity for YieldCo growth (reflected in SUNE shares).

Our latest revision also applies a 7x multiple (1x premium that adds $1/sh) for the Gas Infrastructure business to reflect the potential for growth in gas reservoir ratebase (ahead of any formal timetable for utility acquisition/scale). At FP&L we apply a 1.5x premium valuation to the regulated business at an expanded 16x multiple of 2016E. FP&L is among the fastest growing utilities (up 1.2% in 2013 YoY largely due continued positive customer migration) which also carries one of the lowest O&M profiles, which is set to decline substantially when Project Momentum begins yielding substantial benefits.

Figure 12: Updated NextEra Sum-of-the-Parts Valuation

2016e Adj. EBITDA		EV/EBITDA & P/E Multiple			Enterprise Value		
Energy Resources		**Low**	**Base**	**High**	**Low**	**Base**	**High**
Traditional Generation	878	8.0x	9.0x	10.0x	7,022	7,900	8,777
Wind (Total)	1,224	13.0x	14.0x	15.0x	15,909	17,133	18,357
Hedges (Texas 'Merchant' W	(83)	14.0x	15.0x	16.0x	(1,166)	(1,250)	(1,333)
Tax Credits (PTC)	1,180	7.0x	8.0x	9.0x	8,257	9,437	10,617
Solar (Total), excl ITC	339	14.0x	15.0x	16.0x	4,750	5,089	5,428
Gas Infrastructure	357	6.0x	7.0x	8.0x	2,141	2,498	2,855
Trading & Retail	134	4.0x	5.0x	6.0x	537	672	806
Total / Implied (ex-ITC)	***4,028***	***9.3x***	***10.3x***	***11.3x***	***37,451***	***41,479***	***45,507***
Add: Silver State Solar NPV						**583**	*$1.25*
Add: NPV Florida Gas Pipeline						**775**	*$1.66*
Add: NPV of Remaining Solar and Wind Project Pipeline						**1,086**	*$2.32*
Add: NPV of Texas Hedge						**305**	*$0.65*
Less: Total NextEra Debt						(33,091)	
Netting FP&L-associated debt						9,490	
Netting NextEra Transmission-associated debt						416	
Netting Pipeline debt						-	
Net NEE Resources Debt						**(23,185)**	
NextEra Energy Resources					**15,041**	**21,043**	**23,098**
Shares Outstanding (2016e)					467	467	467
NextEra Energy Resources Value per Share					**$32.18**	**$45.02**	**$49.41**
	2016e Net Income		**P/E Multiple**				
Florida Power & Light	1,662	15.0x	16.0x	17.0x	24,935	26,597	28,260
NextEra Transmision	34	16.0x	17.0x	18.0x	551	585	619
Total Utility	***1,697***	***15.0x***	***16.0x***	***17.0x***	***25,486***	***27,182***	***28,879***
Shares Outstanding (2016e)					467	467	467
NextEra Utilities Value per Share					**$54.52**	**$58.15**	**$61.78**
Total Equity Value per Share					**$86.70**	**$103.17**	**$111.19**

Source: Company Filings and UBS Estimates

Reviewing how much else may still be on the come?

Looking beyond the ~$400 Mn/yr in EBITDA delineated as part of its initial and ROFO assets we emphasize the total potential size of its YieldCo clearly could reach ~$800-900 Mn/yr in EBITDA under the most expansive view of what is eligible. We include a table below focusing on primarily existing assets, without a view as to what is still to come in the wind sector in particular.

Table 1: Estimated EBITDA from 'Eligible' Assets

Potential YieldCo Assets	2013E	2014E	2015E	2016E	2017E	2018E
Existing Solar	98	98	98	98	98	98
New Solar	22	164	237	266	266	266
New Canadian Wind	34	117	164	164	164	164
Marcus Hook 750	89	89	89	89	89	89
Other Conventional Contracted	57	57	57	57	57	57
Non-PTC Existing Wind	189	188	194	192	191	190
Post-PTC Wind	100	198	199	215	232	280
Total Potential YieldCo EBITDA	489	713	839	867	865	864
Assumed EV/EBITDA Uplift	3.0	3.0	3.0	3.0	3.0	3.0
$/Share Uplift	$3.27	$4.76	$5.60	$5.79	$5.78	$5.77
Just Non-PTC Wind	189	188	194	192	191	190
Assumed EV/EBITDA Uplift	3.0	3.0	3.0	3.0	3.0	3.0
$/Share Uplift	$1.26	$1.25	$1.29	$1.28	$1.28	$1.27

Source: Company reports and UBS estimates; Projections as of prior 3Q13 earnings note

Eligible Contracted Wind Assets

Looking at the non-PTC wind portfolio, we focus first on those garnering investment tax credits (ITCs) in lieu of PTCs. Wind projects typically elect for this form of tax treatment if the expected capacity factor is expected to be more modest or if NEE was able to garner a CITC while the 1603 cash program was still allowing assets to qualify (2009-2012 vintage projects). Excluding any projects with ITCs below, as well as those with DMI (tax equity), we estimate 1.1 GW of assets here.

Table 2: Wind Assets with CITC

Wind Assets with CITC							
Plant Name	**Tax**	**State**	**MW**	**In-Service**	**PPA Counterparty**	**PPA Expiration**	**Financing**
Perrin Ranch Wind Energy Ce	CITC	AZ	99	2011	Arizona Public Service Co.		Traditional Financing
Montezuma II Wind Energy Pr	CITC	CA	78	2012	Pacific Gas and Electric Co.	2037	DMI/Traditional Financing
Montezuma Wind Plant	CITC	CA	37	2010	Pacific Gas and Electric Co.	2036	Traditional Financing
North Sky River Wind Energy	CITC	CA	160	2012	PG&E Corporation	2037	
Vasco Winds	CITC	CA	78	2011	Pacific Gas and Electric Co.	2036	DMI/Traditional Financing
Windpower Ptrs. '93 - CA	CITC	CA	50	1994			DMI/Traditional Financing
Northern Colorado Wind (NCW	CITC	CO	174	2009	Public Service Co. of Colorado	2034	Traditional Financing
Crystal Lake Wind III	CITC	IA	66	2009			N/A
Tuscola Bay Wind Park	CITC	MI	120	2012	DTE Electric Co.	2032	
Ashtabula III-NextEra Wind Fa	CITC	ND	62	2010	Otter Tail Power Co.	2038	N/A
Baldwin Wind Energy Center	CITC	ND	102	2010	Basin Electric Power Cooperative	2040	Traditional Financing
Red Mesa Wind	CITC	NM	102	2010	Public Service Co. of New Mexico	2035	N/A
Vansycle II	CITC	OR	99	2009			DMI/Traditional Financing
Day County Wind Farm	CITC	SD	99	2010	Basin Electric Power Cooperative		Traditional Financing
Total			**1,326**				
YieldCo Eligible (non-DMI)			***1,120***				
Elk City Wind	CITC/ITC	OK	99	2009	West Texas Muni		Traditional Financing
Elk City Wind II	CITC/ITC	OK	99	2010	PSC of OK	2029	N/A
Minco Wind Energy Center	CITC/ITC	OK	101	2010	Public Service Co. of Oklahoma	2030	Traditional Financing
Crystal Lake II	PTC/CITC	IA	200	2009	Wisconsin Power and Light Co.		N/A
Grand Total			**1,975**				

* DMI: Differential Membership Interest; some projects have a combination of tax equity financing and back-leveraged financing

Source: Company Reports/ SNL

Source: Company reports and UBS estimates

Canadian Wind: More Non-PTC Assets

A further angle for the YieldCo pertains to the ~400 MW of Canadian wind management continues to pursue; in particular, we flag these assets benefit from a contracted tariff, rather than a PTC. These would be ideal assets, particularly for any asset vehicle evaluated in Canada.

Table 3: NEER Contracted Canadian Wind Assets

Contracted Canadian Wind (w/o Tax Equity)						
Plant Name	**Region**	**MW**	**In-Service**	**PPA Counterparty**	**PPA Expiration**	**Financing**
Conestogo Wind	ON	23	12/2012	Ontario Power Authorit	12/21/2032	
Mount Copper	CN	54	2005	Hydro-Québec	6/30/2026	Traditional
Mount Miller	QC	54	06/05	Hydro-Québec	6/9/2026	Traditional
Pubnico Point	CN	31	2005	Hydro-Québec		Traditional
Summerhaven Wind	CN	124	07/13			N/A
Ghost Pine Wind	AB	82	12/31/2010			N/A
Total		**368**				

Source: Company Filings

Wind Assets with Expired PTCs

The last credible avenue for PTCs relates to those assets that *had* PTC attributes for the first 10-years of their operating asset life (and have subsequently seen these cash flows roll off). It remains unclear how enthusiastic management is to drop-down this portion of the portfolio, particularly for assets with substantively less than 10-years of contracted life. As such, we believe the assets from ~2003-2002 are among the more likely to be dropped in the portfolio; we caution however, as many of these are encumbered within larger project finance portfolios.

Table 4: Contracted Assets without PTCs (*already* expired)

Contracted Wind without PTCs (already expired, etc)							
Plant Name	PTC expiration	State	MW	In-Service	PPA Counterparty	PPA Expiration	Financing
TPC Windfarms	**1986**	CA	15	12/86	Southern California Edison Co.		Traditional Financing
Mojave 16/17/18	**1989**	CA	43	11/89	Southern California Edison Co.		Traditional Financing
Vansycle	**1998**	OR	25	11/98	Portland General Electric Company	8/15/2028	N/A
Delaware Mountain	**1999**	TX	29	06/05	Lower Colorado River Authority		Traditional Financing
Cerro Gordo	**1999**	IA	41	06/99	Interstate Power and Light Company	5/15/2019	Traditional Financing
Southwest Mesa	**1999**	TX	74	07/99			N/A
Lake Benton II	**2000**	MN	103	6/99, 6/00	Northern States Power Company - MN	6/15/2029	Traditional Financing
Green Mountain	**2000**	PA	10	05/00	Green Mountain Energy Company		Traditional Financing
Somerset	**2001**	PA	9	12/01	Exelon Power Team	12/15/2021	Traditional Financing
Mill Run	**2001**	PA	15	12/01	Exelon Power Team	12/15/2021	Traditional Financing
Indian Mesa	**2001**	TX	83	06/05	Lower Colorado River Authority		N/A
Gray County	**2001**	KS	112	11/01	KCP&L Greater Missouri Operations Com	11/26/2016	DMI/Traditional Financing
Woodward Mountain	**2001**	TX	160	07/01	TXU Electric And Gas		Traditional Financing
Mountaineer	**2002**	WV	66	12/02	Exelon Power Team	12/15/2022	Traditional Financing
Hancock County	**2002**	IA	98	12/02	Interstate Power and Light Company		DMI
Stateline	**2002**	WA/OR	300	12/01, 12/02	Iberdrola Renewables, LLC	12/21/2026*	Traditional Financing
Green Power	**2003**	CA	17	N/A	San Diego Gas & Electric Co.	12/31/2018	DMI/Traditional Financing
Meyersdale	**2003**	PA	30	12/03	FirstEnergy Solutions Corporation	12/15/2023	N/A
Cabazon	**2003**	CA	39	N/A	Southern California Edison Co.	1/15/2029	DMI
South Dakota	**2003**	SD	41	10/03	Basin Electric Power Cooperative		DMI/Traditional Financing
North Dakota	**2003**	ND	62	10/03	Basin Electric Power Cooperative		DMI/Traditional Financing
Waymart	**2003**	PA	65	10/03	Exelon Generation Company, LLC	10/15/2023	
Oklahoma	**2003**	OK	102	09/03, 10/03	Oklahoma Municipal Power Authority		Traditional Financing
Wyoming	**2003**	WY	144	12/03	Iberdrola Renewables, LLC	5/15/2028	Traditional Financing
High Winds	**2003**	CA	162	08/03, 12/03	Iberdrola Renewables, LLC	6/30/2028	Traditional Financing
New Mexico	**2003**	NM	204	08/03	Public Service Company of New Mexico	10/1/2028	Traditional Financing
King Mountain	**2003**	TX	278	12/01, 12/03	CenterPoint Energy, Inc.		DMI/Traditional Financing
* PPA Expiration only applies to the plant in Oregon.							

Source: Company Filings and SNL

Contracted Thermal Assets

We include contracted conventional assets below, highlighting the three most eligible assets below from its conventional portfolio. While the Marcus Hook 750 asset would appear attractive (with its LT contract to a NY Utility), it remains merchant on its capacity exposure, driving unpalatable volatility in cash flows.

Lastly, we had previously thought management would drop down some of its contracted nuclear assets through a structured note/distribution arrangement, however this appears more difficult to implement than originally anticipated.

We suspect very little by way of focus on thermal drop downs into the NEP structure given the abundance of renewable opportunities available before it.

Table 5: Potential YieldCo Contracted Conventional Assets (Nuclear & Thermal)

Contracted Conventional w/o Tax Equity					
Plant Name	Fuel	State	MW	In-Service	Financing
Duane Arnold Energy Center	Uranium	IA	430.5	2/1975	N/A
Point Beach	Uranium	WI	1,189.8	12/70, 3/73	N/A
Bayswater	**Natural Gas**	**NY**	**56.0**	**06/02**	**Traditional Financing**
Bellingham	**Natural Gas/Oil**	**MA**	**150.0**	**08/91**	**N/A**
Ebensburg	Waste Coal	PA	9.5	05/91	N/A
Jamaica Bay	**Oil**	**NY**	**54.0**	**07/03**	**Traditional Financing**
Marcus Hook 750	Natural Gas	PA	744.0	12/04	Traditional Financing
Total			**2,634**		

Source: Company Filings, UBS estimates

How to value post-PTC wind assets with 10 years left on a PPA

Management has said that a key consideration for any YieldCo structure would be whether it made sense on a longer-term basis. Although the roll-off of PTCs creates a platform for further dropdowns and dividend growth—key to any YieldCo strategy—it also creates a situation where there is a potentially sizable cash flow cliff after the PPA rolls-off, likely after another 10 years. Mid-2000s vintage PPAs were likely signed at mid-$50s/MWh pricing, compared with mid-$20s/MWh off-peak pricing today. Although any financings would likely be fully amortized by the time the PPA rolls-off, partially offsetting the lower prices, the cash flow cliff at many assets could be quite large. Below we run a DCF on what we consider a typical 'post-PTC' wind asset (i.e 10 years after COD), assuming 20 years of useful life remaining, 10 years of $60/MWh PPA remaining, a $25/MWh post-PPA price, $5/MWh in REC value, and $13/MWh in O&M.

Implied cash flows suggest a ~7x EV/EBITDA multiple for those assets with 10-years left in contract

Table 6: Post-PPA Estimated Project Value DCF

Old Asset in Service 2003	2013E	~~	2024E	~~	2034E	~~	2044E	~~	2055E
Revenue	16		8		7		7		7
O&M	3	~~	3	~~	3	~~	3	~~	3
EBITDA	12		4		3		3		3
Depreciation	6	~~	6	~~	-	~~	-	~~	-
EBIT	6		(2)		3		3		3
Interest Expense	4	~~	2	~~	0	~~	0	~~	0
Earnings (loss) before Taxes	2		(3)		3		3		3
Income Taxes (Credit)	1	~~	(1)	~~	1	~~	1	~~	1
Production Tax (Credit)	-		-		-		-		-
Total Taxes (Credit)	1	~~	(1)	~~	1	~~	1	~~	1
Earnings	1		(2)		2		2		2
Maintenance capital expenditure	-	~~	-	~~	-	~~	-	~~	-
Free Cash Flow to Equity	7	~~	4	~~	2	~~	2	~~	2
Present Value of Free Cash Flow	7		1		0		0		0
Present Value of Terminal Value (Negligible)		~~		~~		~~		~~	0.2

Source: Company reports and UBS estimates

The key question with non-PTC wind assets once they begin to be dropped once NEP reaches the high splits in ~2017 will be how the Street reacts to a lower multiple transaction? Typically this has been well received, but in this case, the roll off of the contract (and the large portion of short tenor contracts beyond to be dropped), suggests this could become a greater focus. We suspect these deals will necessarily involve lower EV/EBITDA multiples of ~7-8x vs deals with NYLD of 10-year assets in the ~10x range (on its thermal assets in California).

Table 7: Post-PPA New Wind DCF Analysis

Post PTC Wind Unlevered NPV	
Cost of Equity	12.5%
Cost of Debt	5.0%
% Debt	50.0%
WACC	7.9%
Annual Cash Flow (2013 - 2023)	11.62
Annual Cash Flow (2023 - 2033)	5.63
2015 EBITDA	12.35
NPV Unlevered Cash Flows	82.94
EV/EBITDA (2015)	6.71
CF/Asset (2015)	6%
CF/Asset (2015)	7%

Source: Company reports and UBS estimates

Table 8: Post-PPA New Wind DCF Analysis

Post PTC Wind Unlevered NPV	
Cost of Equity	12.5%
Cost of Debt	5.0%
% Debt	50.0%
WACC	7.9%
Annual Cash Flow (2013 - 2023)	11.62
Annual Cash Flow (2023 - 2033)	5.63
2015 EBITDA	12.35
NPV Unlevered Cash Flows	82.94
EV/EBITDA (2015)	6.71
CF/Asset (2015)	6%
CF/Asset (2015)	7%

Source: Company reports and UBS estimates

NextEra Energy (NEE.N)

Income statement (US$m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Revenues	**15,151**	**14,290**	**15,136**	**16,026**	*5.9*	**16,986**	*6.0*	**17,714**	**18,319**	**18,693**
Gross profit	8,895	9,169	10,178	10,662	*4.8*	11,496	*7.8*	12,091	12,559	12,791
EBITDA (UBS)	**4,755**	**4,797**	**5,704**	**6,195**	*8.6*	**6,923**	*11.7*	**7,404**	**7,785**	**7,971**
Depreciation & amortization	(1,567)	(1,518)	(2,163)	(2,332)	*7.8*	(2,571)	*10.2*	(2,734)	(2,755)	(2,776)
EBIT (UBS)	**3,188**	**3,279**	**3,541**	**3,863**	*9.1*	**4,352**	*12.6*	**4,669**	**5,030**	**5,195**
Associates & investment income	95	298	425	251	*-40.8*	337	*34.2*	409	436	432
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(917)	(971)	(1,043)	(968)	*7.2*	(1,049)	*-8.4*	(1,088)	(1,016)	(958)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**2,366**	**2,606**	**2,923**	**3,147**	*7.7*	**3,640**	*15.7*	**3,990**	**4,450**	**4,669**
Tax	(529)	(692)	(801)	(776)	*3.1*	(925)	*-19.2*	(998)	(1,206)	(1,302)
Profit after tax	**1,837**	**1,914**	**2,122**	**2,370**	*11.7*	**2,714**	*14.5*	**2,992**	**3,244**	**3,367**
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	0	-	0	-	0	0	0
Extraordinary items	86	(3)	(415)	(127)	*69.4*	0	-	0	0	0
Net earnings (local GAAP)	**1,923**	**1,911**	**1,706**	**2,243**	*31.5*	**2,714**	*21.0*	**2,992**	**3,244**	**3,367**
Net earnings (UBS)	**1,837**	**1,914**	**2,122**	**2,370**	*11.7*	**2,714**	*14.5*	**2,992**	**3,244**	**3,367**
Tax rate (%)	22.4	26.6	27.4	24.7	*-10.0*	25.4	*3.0*	25.0	27.1	27.9

Per share (US$)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
EPS (UBS, diluted)	4.38	4.57	4.97	5.38	*8.2*	5.97	*11.0*	6.40	6.96	7.23
EPS (local GAAP, diluted)	4.59	4.56	4.00	5.09	*27.4*	5.97	*17.2*	6.40	6.96	7.23
EPS (UBS, basic)	4.38	4.57	4.97	5.38	*8.2*	5.97	*11.0*	6.40	6.96	7.23
Net DPS (US$)	2.20	2.40	2.64	2.80	*6.0*	2.97	*6.0*	3.14	3.33	3.53
Cash EPS (UBS, diluted)[1]	8.12	8.19	10.03	10.67	*6.3*	11.62	*8.9*	12.25	12.88	13.19
Book value per share	35.50	37.97	42.25	46.64	*10.4*	47.97	*2.8*	49.68	53.32	56.96
Average shares (diluted)	419.00	419.20	427.00	440.78	*3.2*	454.94	*3.2*	467.45	465.79	465.79

Balance sheet (US$m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Cash and equivalents	377	329	438	439	*0.3*	440	*0.2*	441	440	441
Other current assets	4,495	4,908	5,404	4,926	*-8.9*	5,083	*3.2*	5,162	5,238	5,271
Total current assets	**4,872**	**5,237**	**5,842**	**5,365**	*-8.2*	**5,523**	*2.9*	**5,602**	**5,678**	**5,712**
Net tangible fixed assets	42,490	49,413	52,720	56,614	*7.4*	61,567	*8.7*	64,954	65,196	65,065
Net intangible fixed assets	0	0	0	0	-	0	-	0	0	0
Investments / other assets	9,826	9,789	10,744	10,944	*1.9*	11,144	*1.8*	11,344	11,544	11,744
Total assets	**57,188**	**64,439**	**69,306**	**72,922**	*5.2*	**78,234**	*7.3*	**81,901**	**82,418**	**82,521**
Trade payables & other ST liabilities	4,562	4,697	4,732	4,737	*0.1*	4,765	*0.6*	4,792	4,803	4,803
Short term debt	2,157	4,182	4,457	647	*-85.49*	655	*1.21*	643	612	568
Total current liabilities	**6,719**	**8,879**	**9,189**	**5,383**	*-41.4*	**5,420**	*0.7*	**5,435**	**5,415**	**5,370**
Long term debt	20,810	23,177	23,969	27,776	*15.9*	30,693	*10.5*	31,593	29,608	27,182
Other long term liabilities	14,716	16,315	18,108	19,204	*6.1*	20,296	*5.7*	21,649	22,560	23,436
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**42,245**	**48,371**	**51,266**	**52,363**	*2.1*	**56,409**	*7.7*	**58,677**	**57,583**	**55,988**
Common s/h equity	14,943	16,068	18,040	20,560	*14.0*	21,825	*6.2*	23,223	24,836	26,533
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	**57,188**	**64,439**	**69,306**	**72,922**	*5.2*	**78,234**	*7.3*	**81,901**	**82,418**	**82,521**

Cash flow (US$m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Net income (before pref divs)	1,923	1,911	1,706	2,243	*31.5*	2,714	*21.0*	2,992	3,244	3,367
Depreciation & amortization	1,567	1,518	2,163	2,332	*7.8*	2,571	*10.2*	2,734	2,755	2,776
Net change in working capital	(502)	(190)	(53)	483	-	(128)	-	(52)	(65)	(34)
Other operating	1,086	753	1,080	1,190	*10.2*	1,118	*-6.0*	1,282	859	827
Operating cash flow	**4,074**	**3,992**	**4,896**	**6,248**	*27.6*	**6,275**	*0.4*	**6,956**	**6,793**	**6,937**
Tangible capital expenditure	(6,276)	(8,951)	(6,289)	(7,534)	*-19.8*	(7,776)	*-3.2*	(6,212)	(2,934)	(2,584)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	639	0	0	0	-	0	-	0	0	0
Other investing	358	23	1	(17)	-	(17)	-	(17)	(17)	(17)
Investing cash flow	**(5,279)**	**(8,928)**	**(6,288)**	**(7,551)**	*-20.1*	**(7,793)**	*-3.2*	**(6,229)**	**(2,951)**	**(2,601)**
Equity dividends paid	(920)	(1,004)	(1,122)	(1,233)	*-9.9*	(1,349)	*-9.4*	(1,470)	(1,552)	(1,590)
Share issues / (buybacks)	(327)	386	842	1,000	*18.8*	0	-	734	(1,000)	(1,500)
Other financing	(118)	(242)	(226)	(219)	*3.10*	(219)	*0.00*	(219)	(219)	(219)
Change in debt & pref shares	4,400	6,691	3,651	1,166	*-68.06*	2,076	*78.01*	221	(2,102)	(2,176)
Financing cash flow	**3,035**	**5,831**	**3,145**	**714**	*-77.3*	**507**	*-28.9*	**(734)**	**(4,873)**	**(5,486)**
Cash flow inc/(dec) in cash	**1,830**	**895**	**1,753**	**(589)**	-	**(1,010)**	*-71.6*	**(7)**	**(1,031)**	**(1,150)**
FX / non cash items	(1,755)	(943)	(1,644)	590	-	1,011	*71.4*	7	1,031	1,150
Balance sheet inc/(dec) in cash	**75**	**(48)**	**109**	**1**	*-98.8*	**1**	*-42.1*	**1**	**0**	**0**

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)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
P/E (local GAAP, diluted)	12.1	14.4	20.0	18.9	16.1	15.0	13.8	13.3
P/E (UBS, diluted)	12.7	14.4	16.1	17.9	16.1	15.0	13.8	13.3
P/CEPS	6.8	8.0	8.0	9.0	8.3	7.9	7.5	7.3
Equity FCF (UBS) yield %	(9.4)	(18.0)	(4.1)	(3.0)	(3.6)	1.8	9.1	10.3
Net dividend yield (%)	4.0	3.6	3.3	2.9	3.1	3.3	3.5	3.7
P/BV x	1.6	1.7	1.9	2.1	2.0	1.9	1.8	1.7
EV/revenues (core)	2.9	3.6	4.0	4.3	4.2	4.1	3.9	3.7
EV/EBITDA (core)	9.3	10.8	10.6	11.2	10.3	9.8	9.3	8.8
EV/EBIT (core)	13.9	15.8	17.1	18.0	16.3	15.6	14.4	13.5
EV/OpFCF (core)	NM	NM	NM	NM	NM	NM	15.0	13.0
EV/op. invested capital	1.2	1.3	1.4	1.5	1.4	1.4	1.3	1.3

Enterprise value (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Market cap.	23,370	27,527	33,892	42,193	42,193	42,193	42,193	42,193
Net debt (cash)	21,895	25,163	27,893	28,424	29,885	31,792	31,228	28,984
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	**45,265**	**52,690**	**61,785**	**70,617**	**72,078**	**73,985**	**73,421**	**71,177**
Non core assets	(907)	(976)	(1,121)	(1,117)	(1,117)	(1,117)	(1,117)	(1,117)
Core enterprise value	**44,358**	**51,714**	**60,664**	**69,500**	**70,961**	**72,868**	**72,304**	**70,060**

Growth (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenue	0.7	-5.7	5.9	5.9	6.0	4.3	3.4	2.0
EBITDA (UBS)	-0.4	0.9	18.9	8.6	11.7	6.9	5.2	2.4
EBIT (UBS)	7.4	2.9	8.0	9.1	12.6	7.3	7.7	3.3
EPS (UBS, diluted)	1.8	4.1	8.8	8.2	11.0	7.3	8.8	3.8
Net DPS	10.0	9.1	10.0	6.0	6.0	6.0	6.0	6.0

Margins & Profitability (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Gross profit margin	58.7	64.2	67.2	66.5	67.7	68.3	68.6	68.4
EBITDA margin	31.4	33.6	37.7	38.7	40.8	41.8	42.5	42.6
EBIT margin	21.0	22.9	23.4	24.1	25.6	26.4	27.5	27.8
Net earnings (UBS) margin	12.1	13.4	14.0	14.8	16.0	16.9	17.7	18.0
ROIC (EBIT)	8.9	8.3	8.1	8.3	8.7	8.8	9.3	9.7
ROIC post tax	6.9	6.1	5.9	6.2	6.5	6.6	6.8	7.0
ROE (UBS)	12.5	12.3	12.4	12.3	12.8	13.3	13.5	13.1

Capital structure & Coverage (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Net debt / EBITDA	4.8	5.7	5.0	4.6	4.5	4.4	3.9	3.5
Net debt / total equity %	153.7	170.3	157.6	138.2	143.6	138.8	121.7	104.6
Net debt / (net debt + total equity) %	60.6	63.0	61.2	58.0	59.0	58.1	54.9	51.1
Net debt/EV	51.8	52.9	46.9	40.9	44.2	44.2	41.8	39.6
Capex / depreciation %	NM	NM	NM	NM	NM	NM	106.5	93.1
Capex / revenue %	NM	NM	NM	NM	NM	NM	16.0	13.8
EBIT / net interest	3.5	3.4	3.4	4.0	4.1	4.3	5.0	5.4
Dividend cover (UBS)	2.0	1.9	1.9	1.9	2.0	2.0	2.1	2.0
Div. payout ratio (UBS) %	50.2	52.6	53.1	52.0	49.7	49.1	47.9	48.9

Revenues by division (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	15,151	14,290	15,136	16,026	16,986	17,714	18,319	18,693
Total	**15,151**	**14,290**	**15,136**	**16,026**	**16,986**	**17,714**	**18,319**	**18,693**

EBIT (UBS) by division (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	3,188	3,279	3,541	3,863	4,352	4,669	5,030	5,195
Total	**3,188**	**3,279**	**3,541**	**3,863**	**4,352**	**4,669**	**5,030**	**5,195**

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

Forecast returns

Forecast price appreciation	+6.9%
Forecast dividend yield	3.0%
Forecast stock return	+9.9%
Market return assumption	5.3%
Forecast excess return	+4.6%

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.

Required Disclosures

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UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	**Definition**	**Coverage**[1]	**IB Services**[2]
Buy	FSR is > 6% above the MRA.	47%	33%
Neutral	FSR is between -6% and 6% of the MRA.	42%	34%
Sell	FSR is > 6% below the MRA.	11%	23%
UBS 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 31 March 2014.
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.

KEY DEFINITIONS: Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 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, 6, 16]	NEE.N	Buy	N/A	US$96.33	20 May 2014

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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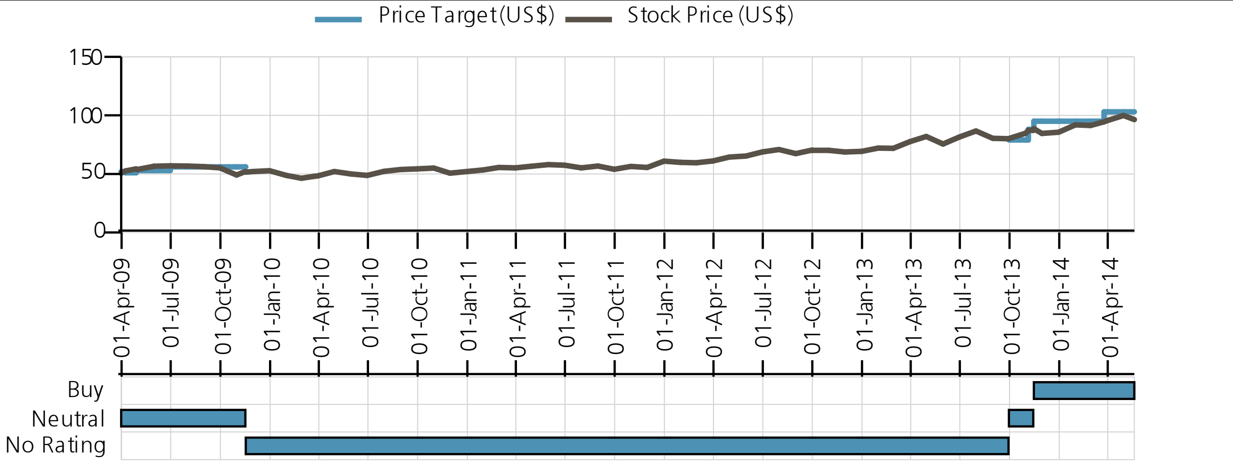
NextEra Energy (US$)



Source: UBS; as of 20 May 2014

Additional Prices: NRG Energy Inc., US$33.56 (20 May 2014); NRG Yield, US$43.90 (20 May 2014); Source: UBS. All prices as of local market close.

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