

NRG Energy (NYSE:NRG)

Konnor Kininmonth

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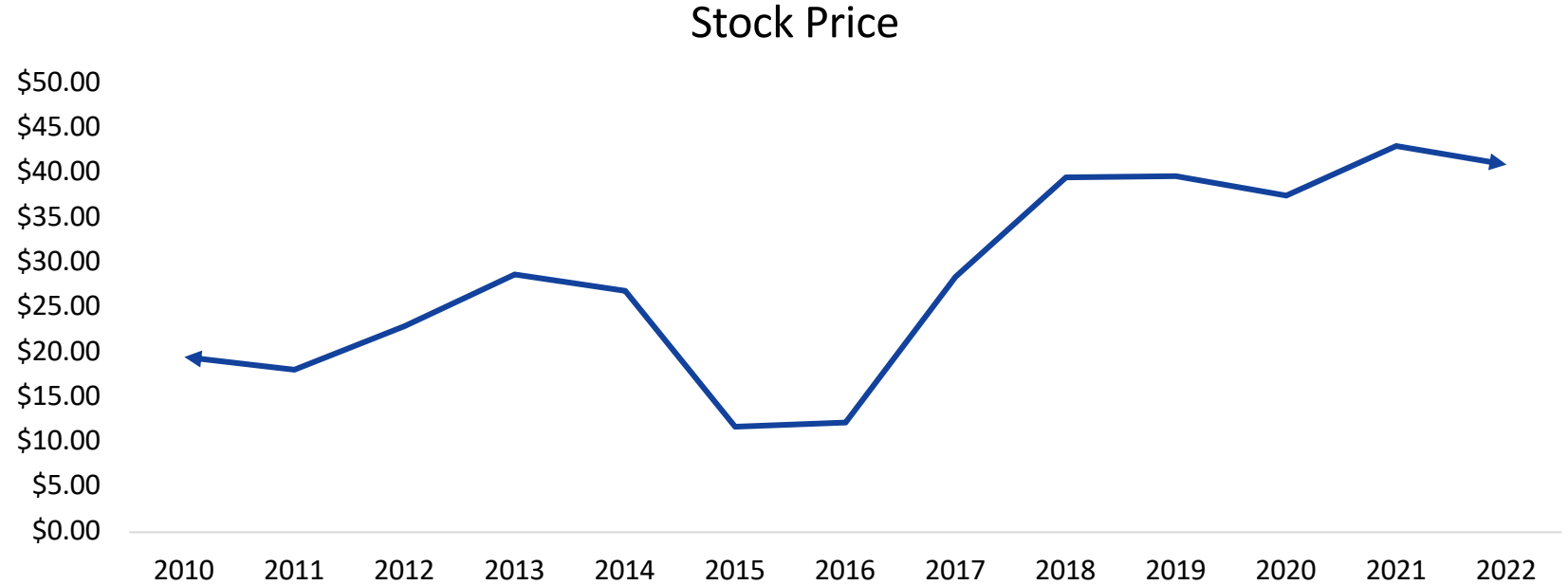
Valuation

Investment Risks





- Buy NRG Energy Shares with a one-year holding period
- Target price: \$74.99 ~ upside of 78%
- Key Drivers:
 1. Sector rotation towards a defensive company as the near-term outlook is negative for the global economy
 2. Robust risk hedging protocols for seasonal volatility
 3. Ability to pass higher energy costs onto customers
 4. Largest and most diversified power generation and distribution company in the US
 5. Increase of natural gas use in the domestic U.S.

Overview

Key Financials	
Share Price	41.04
Market Cap	10,500 M
Dividend Yield	3.0%
52 Week Range	34.70 – 47.82
Beta	0.84
Debt / Equity	.75
P / E	2.88
P / Book	1.82
EV / EBITDA	3.89
ROE	82.84%
ROA	11.4%



Core Management

 <p>Mauricio Gutierrez President and CEO</p>	 <p>Michael Bramnick SVP, Administration & CCO</p>
 <p>Alberto Fornaro EVP and CFO</p>	 <p>Chris Moser EVP, Head of Competitive Markets and Policy</p>

The company makes its money through both electricity generation and providing energy to households/businesses

Generation

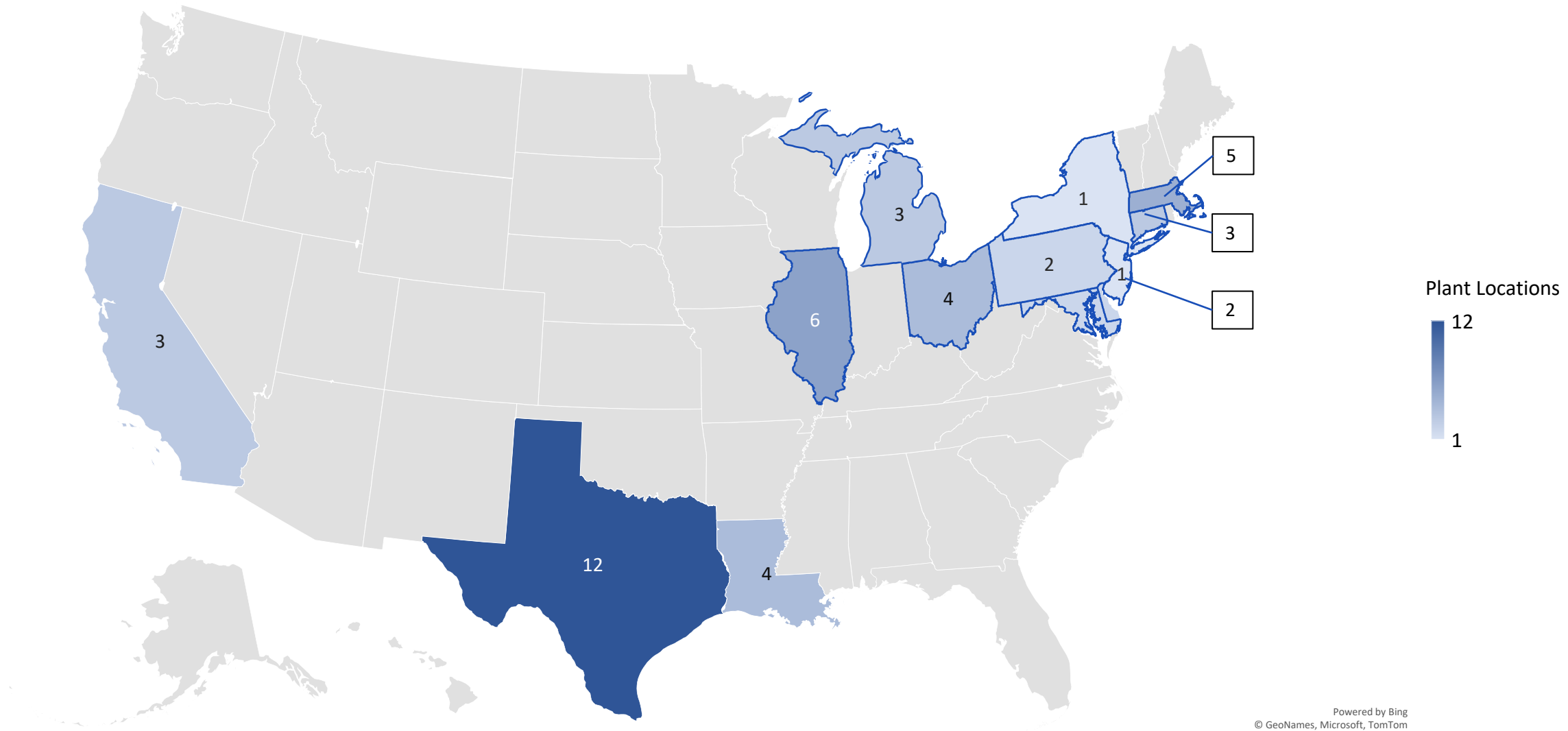
- Ranging from 4% - 6% of the revenue portfolio
- This has been growing as the company is starting to diversify into renewable energy
- Breakdown of energy generation types:
 - Coal (44% of the portfolio)
 - Natural Gas (46% of the portfolio)
 - Nuclear (6% of the portfolio)
 - Oil (3% of the portfolio)
 - Renewables (1% of portfolio)

Retail

- 87% of the revenue portfolio
- Buy energy from producers and sell it to businesses and retail consumers
- The largest competitive retailer in the US
- Breakdown of energy sale types:
 - Electricity
 - Natural Gas
 - Home and power services

Business Description – Regions of Operation

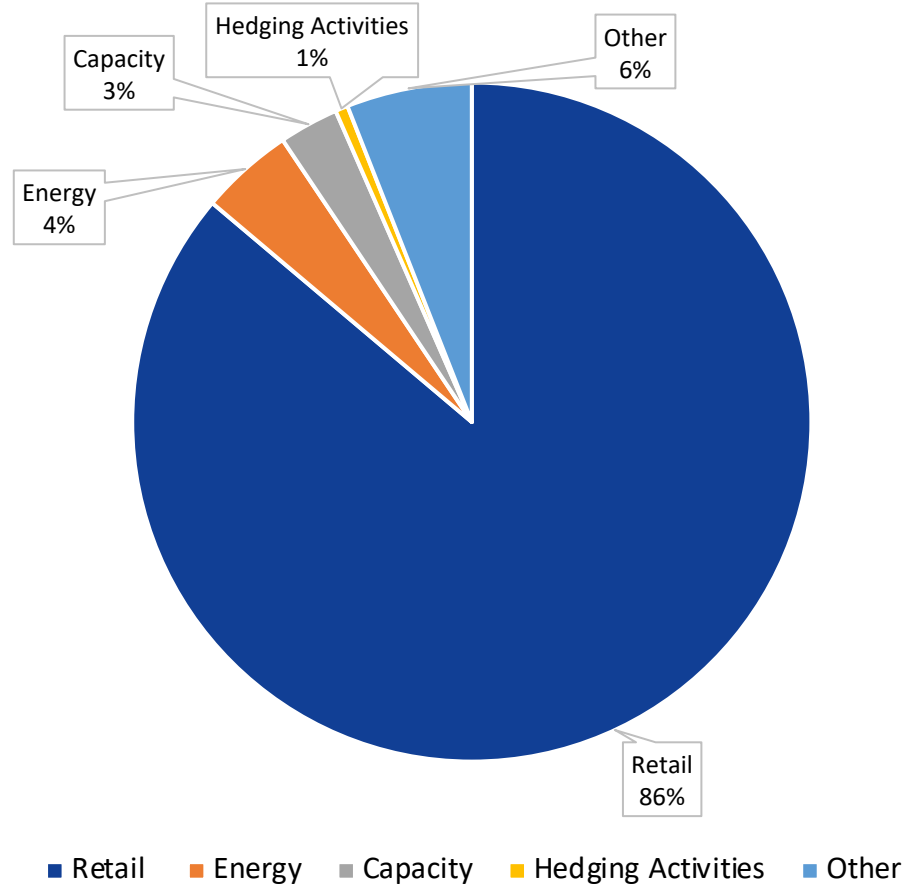
Generation and Retail States



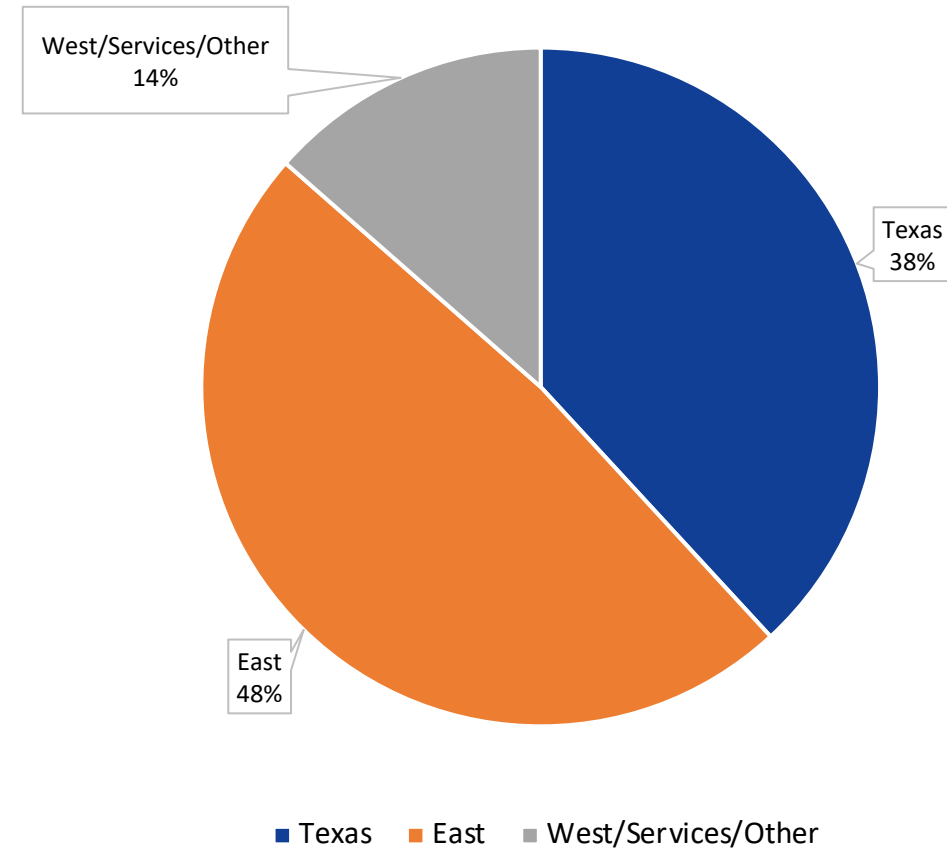
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Business Description – Revenues

2021 Revenue By Business Segment

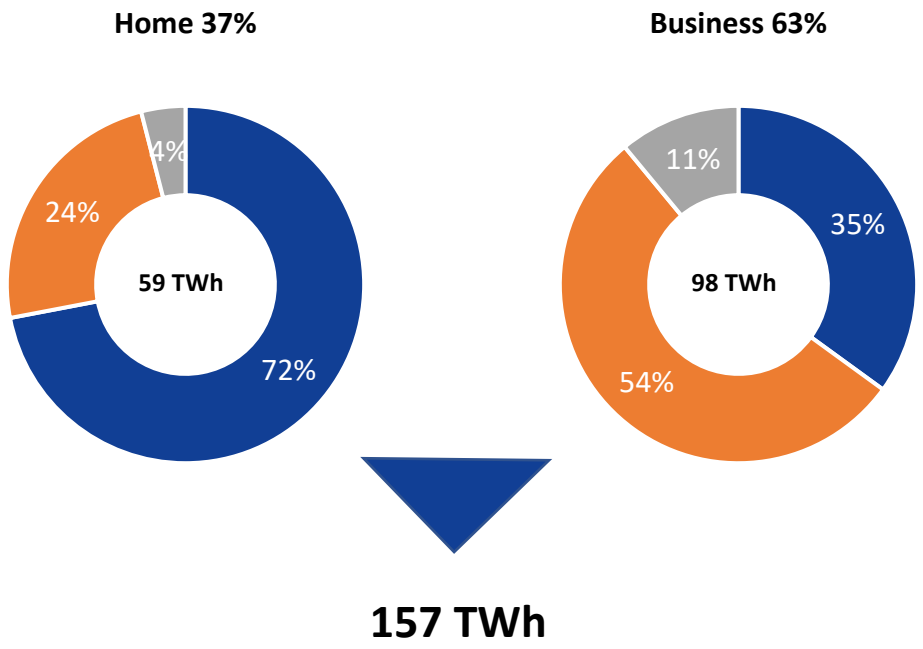


2021 Revenues By Geography

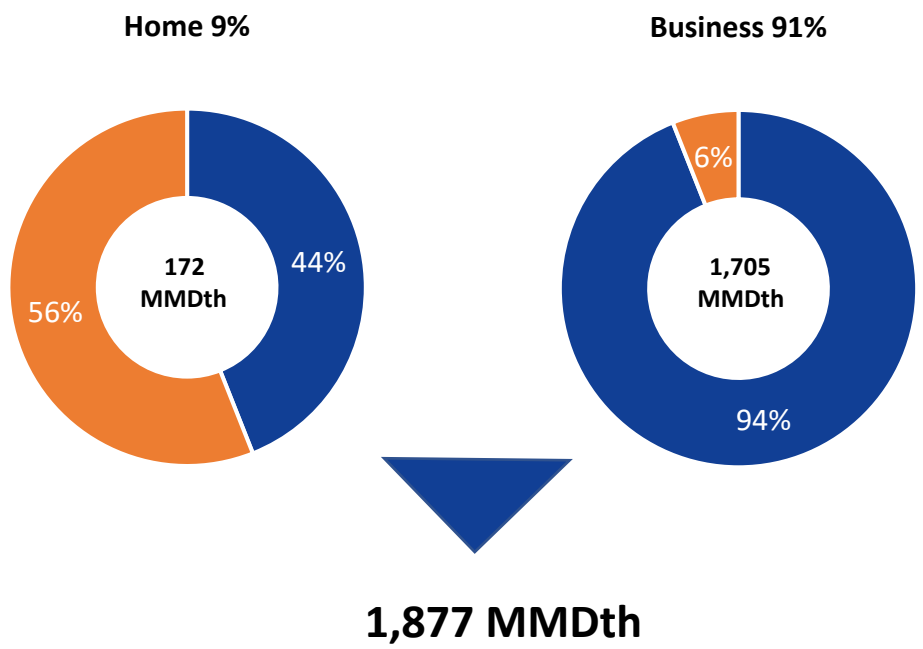


Business Description – Sales Volume By Type and Geography

Electricity



Natural Gas



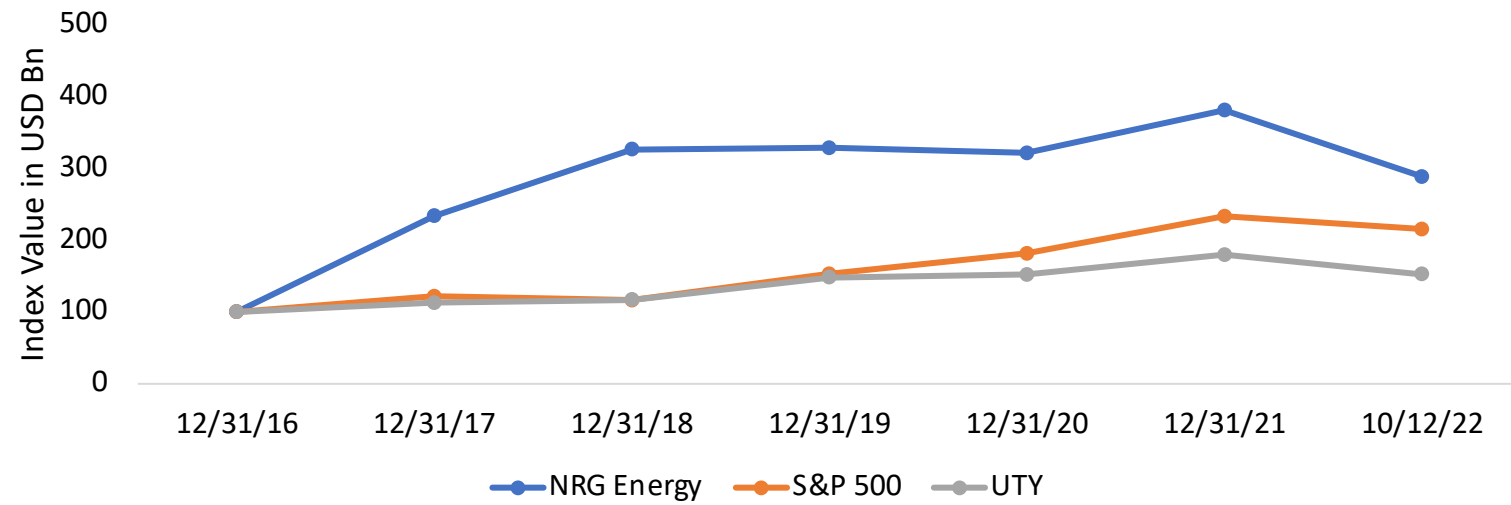
Industry Analysis

Industry Analysis – Electric Utilities Market Landscape

Key Players

Company	Revenues (USD Billions)
Exelon Corp	36.3
NRG Energy	26.9
Duke Energy	25.1
NextEra Energy	17.1
Edison International	14.9
Dominion Energy	13.9
Entergy Energy	11.7
First Energy Corp	11.1
Public Service Ent.	9.7
CenterPoint	8.3

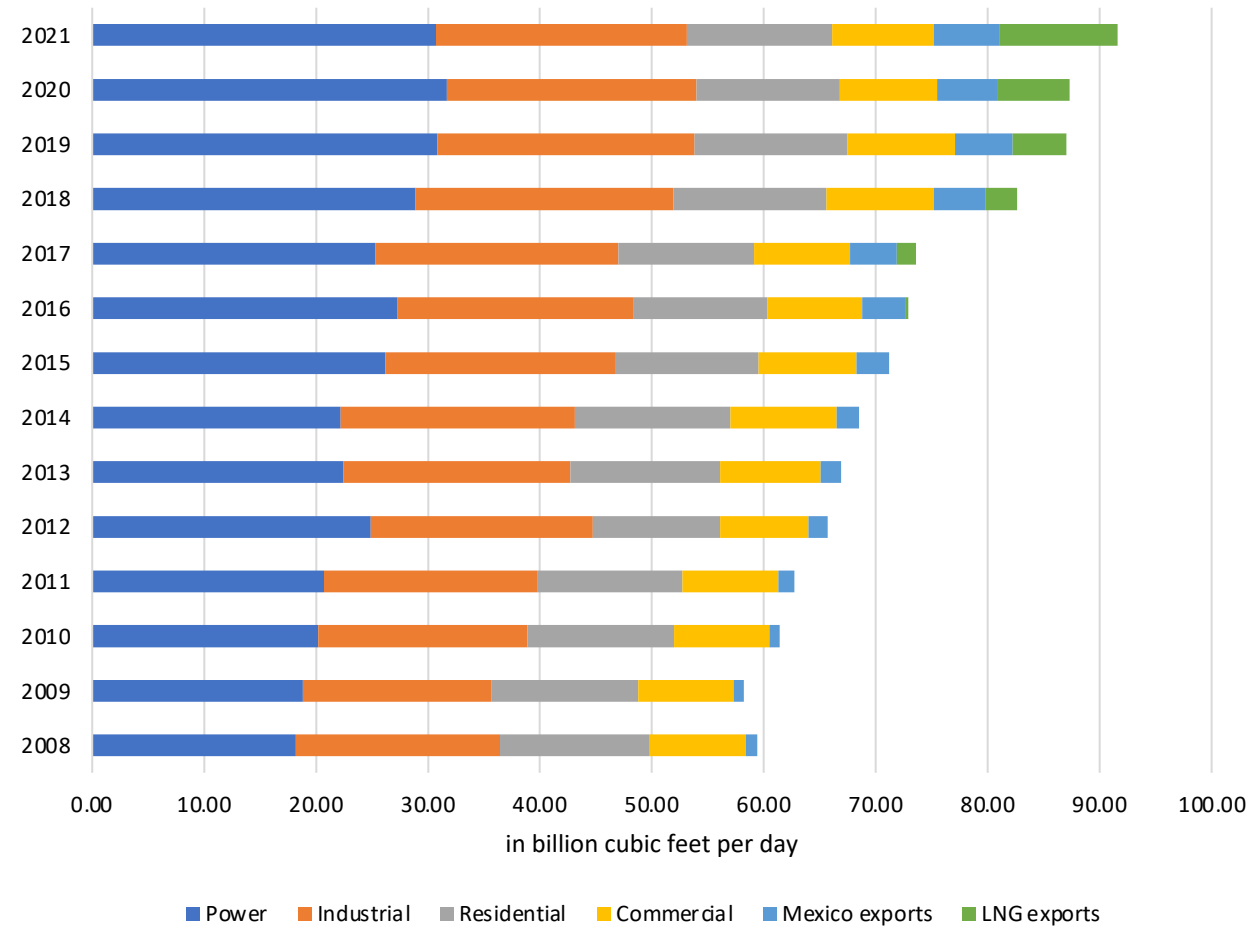
Total Return Performance



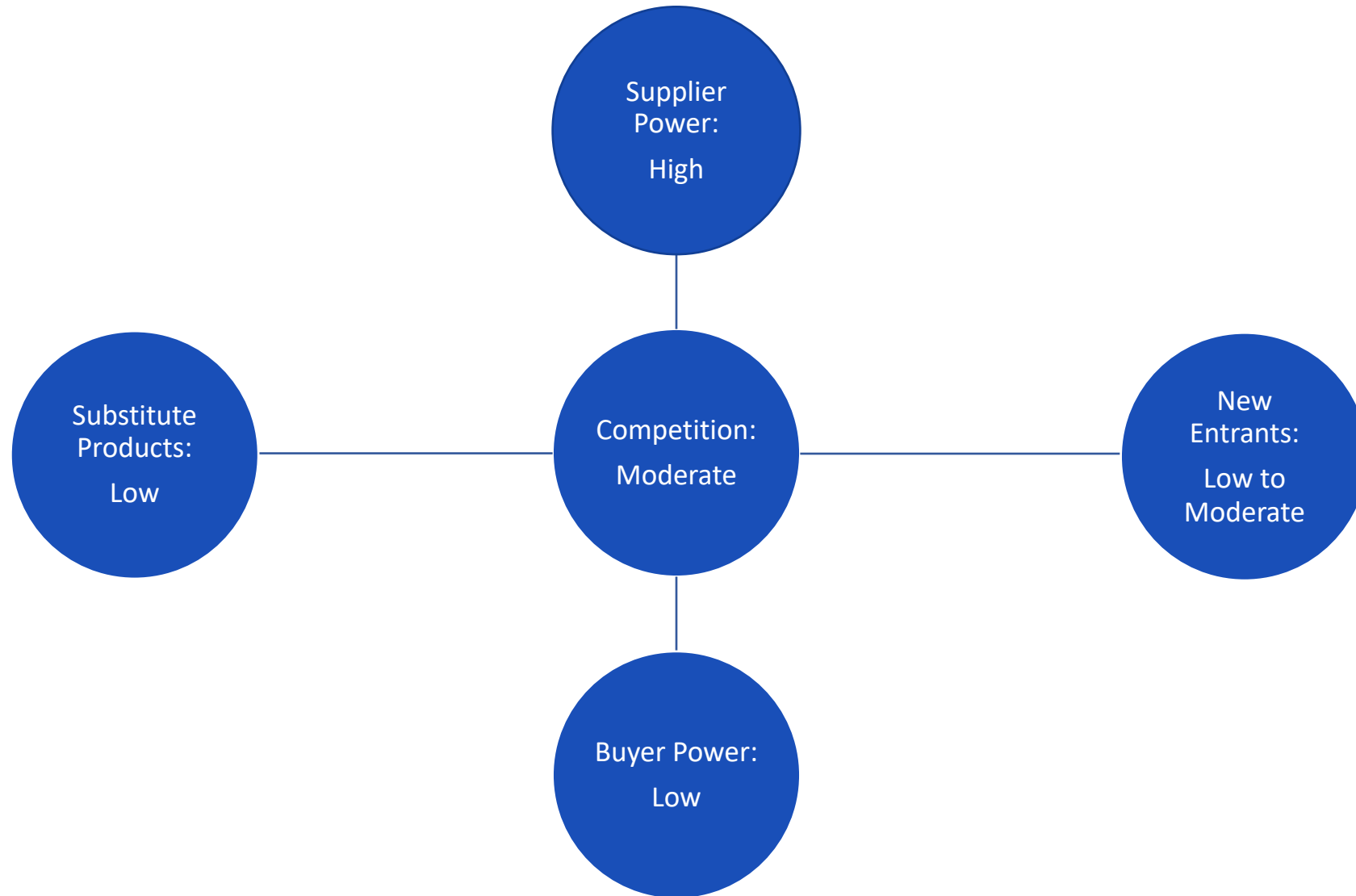
- Industry revenue 2021: \$476.1bn, CAGR of 1.4% since 2016
- Industry profit 2021: \$56.7bn, CAGR of 6.1% since 2016
- The annual growth rate of companies entering the market since 2016 has remained steady at 2.1% but is forecasted to reduce to 1.6% through 2027

- Transformation of the energy industry
- Geography and geology
- Industries are switching off the coal-fired plants
- Upstream natural gas generation companies infrastructure is expected to increase access to export markets

U.S. Natural Gas Demand



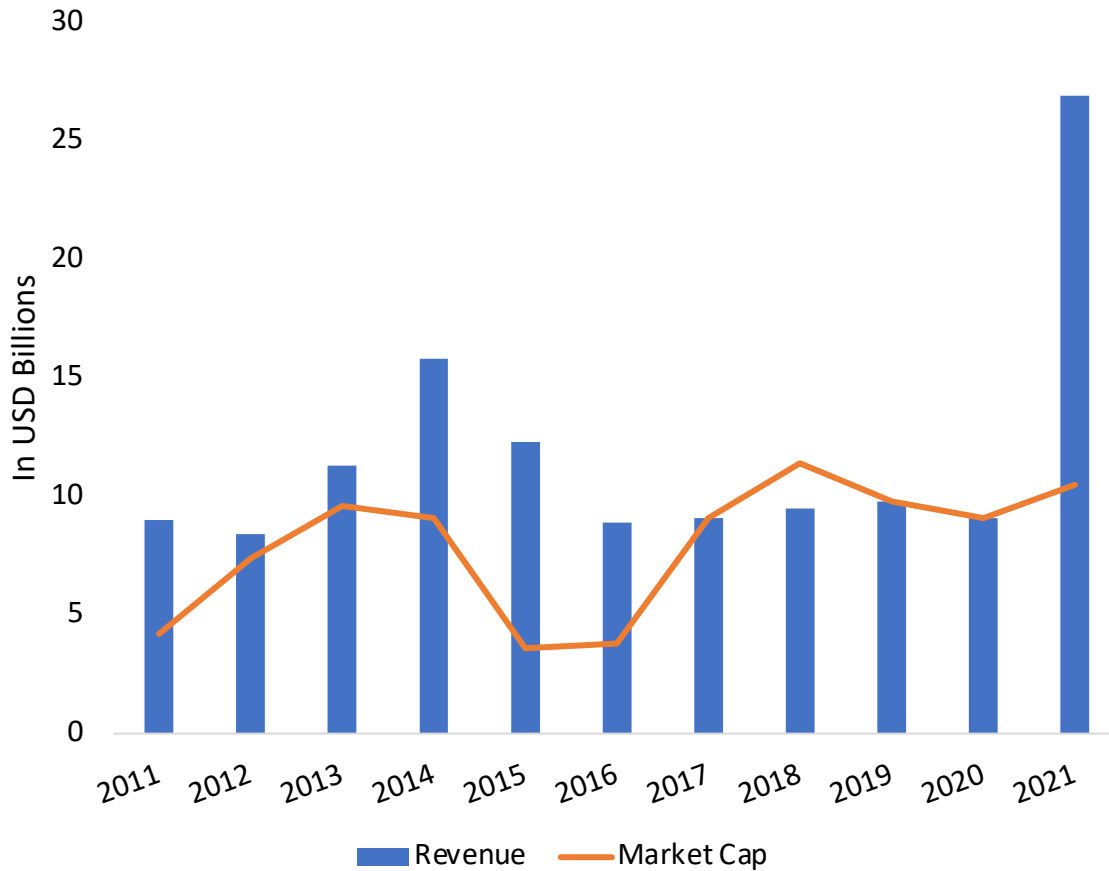
Industry Analysis – Porter Five Forces



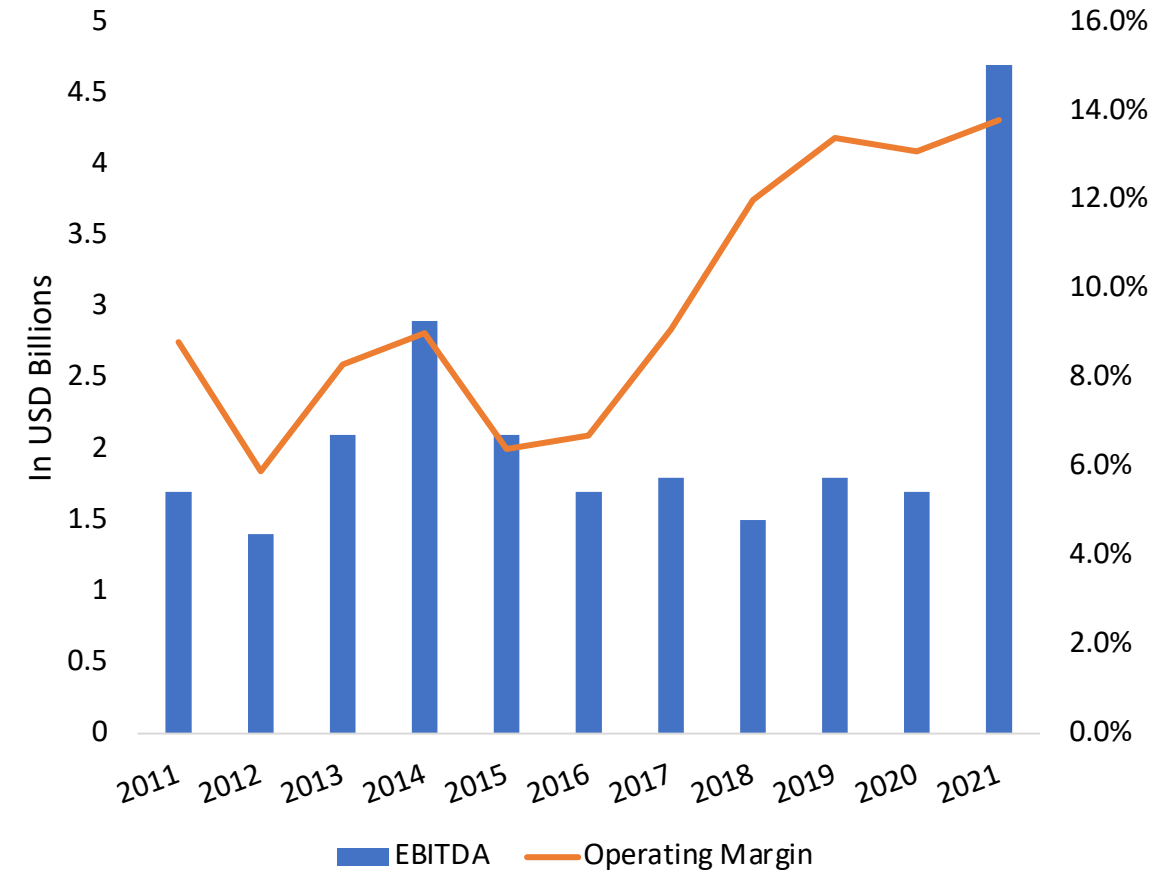
Financial Analysis

Financial Analysis – Operating Performance

Revenue and Market Cap

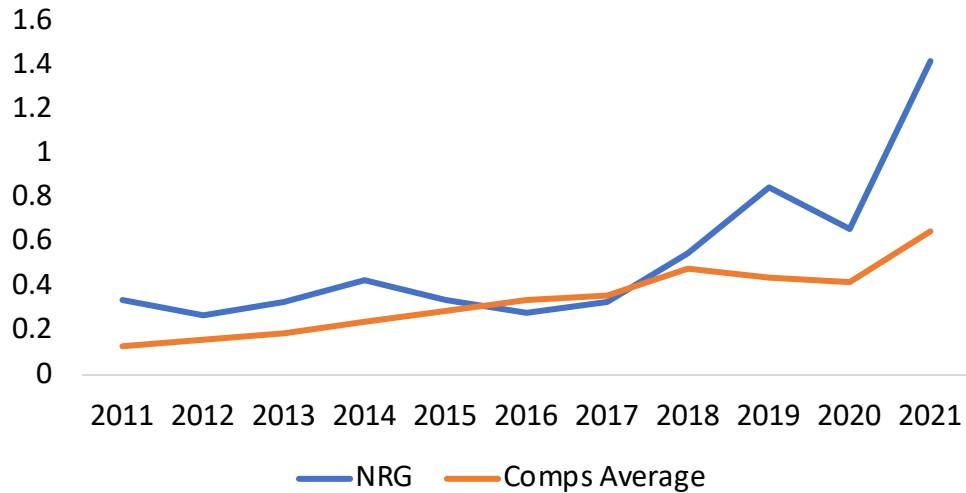


EBITDA and Operating Margin



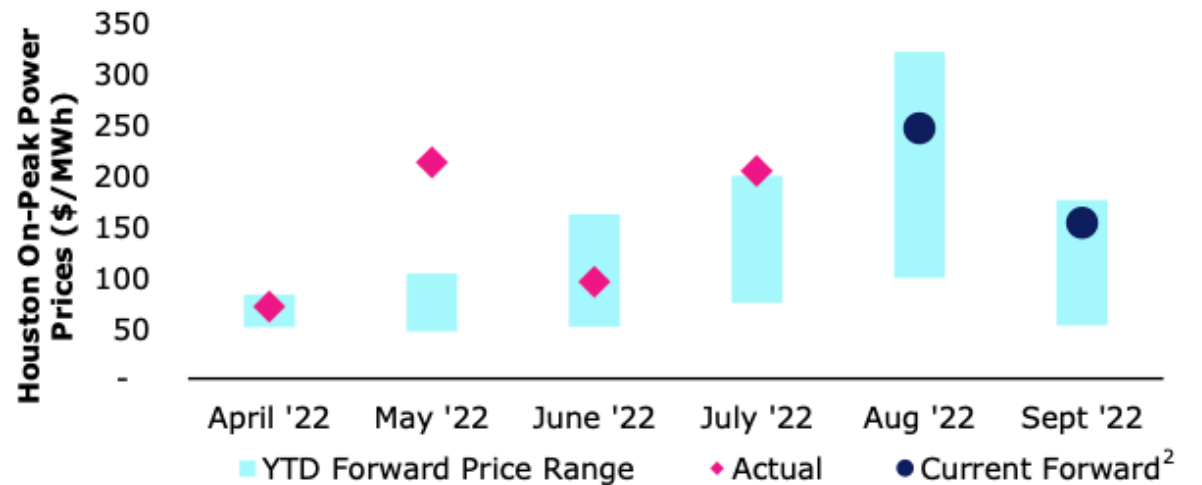
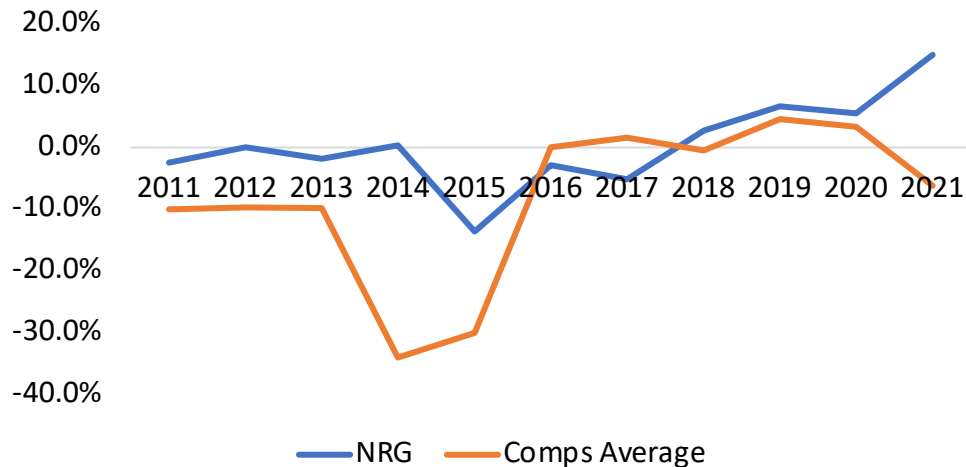
Financial Analysis – Effective Asset Investments and Risk Management

Asset Turnover



- NRG uses a robust hedging strategy to manage the seasonal volatility in the commodity price risk
- Their balanced hedging strategy increased earnings stability during the record energy price volatility during Q1 and Q2 of 2022

Pre-Tax ROA

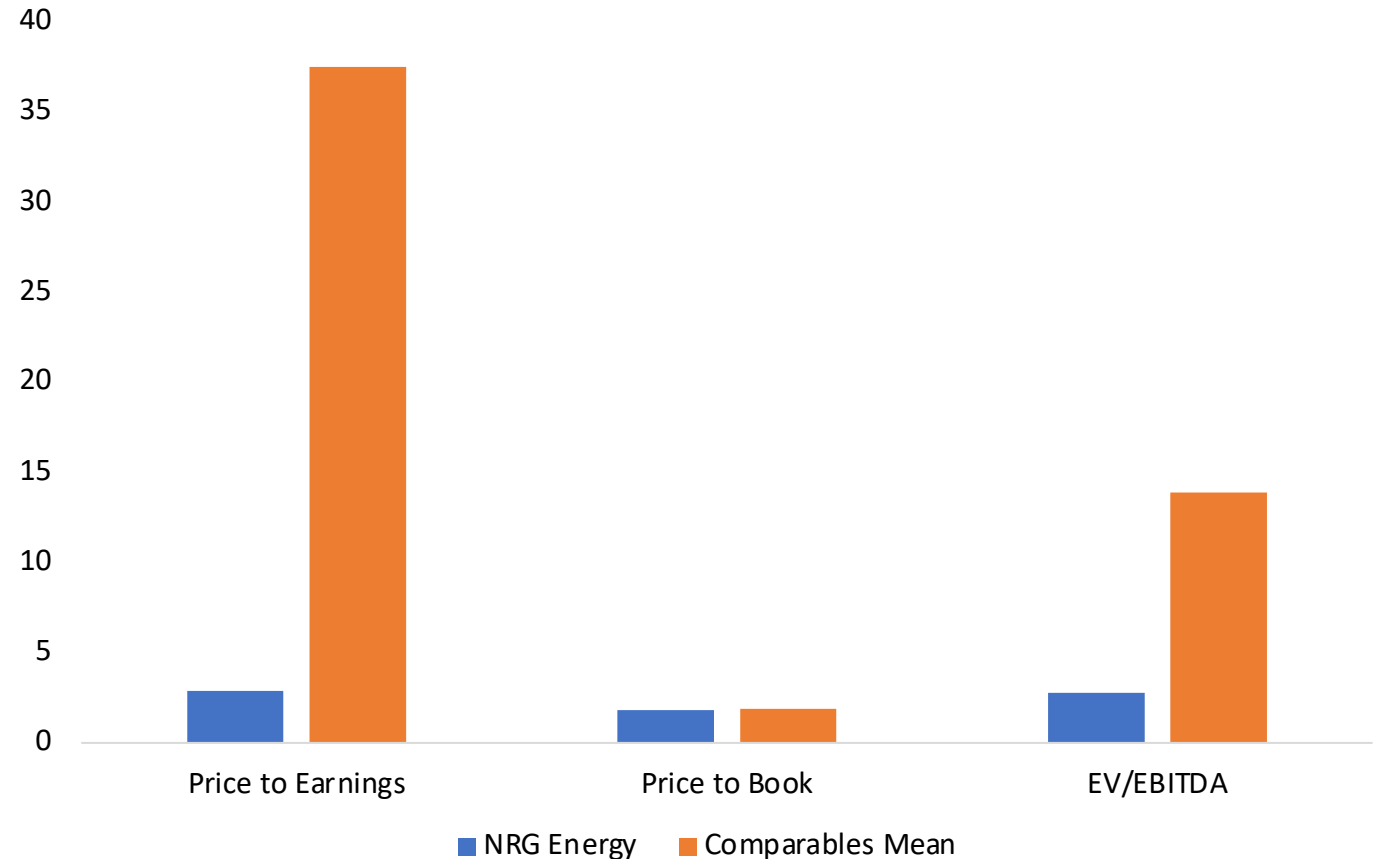


Valuation

Valuation - Comps

- NRG Energy trades at a discount to its comparable peers using P/E, P/B, and EV/EBITDA multiples
- P/E: 90% undervalued
- P/B: 3% undervalued
- EV/EBITDA: 80% undervalued

NRG Multiples versus Peer Group



Valuation – Free Cash Flow Model

Case One	
Growth Rate (One Year):	3.00%
Terminal Growth Rate:	2.00%
Average FCF (Past 5 Years):	\$924M
WACC:	6.86%
Cost of Equity:	8.64%

Current Price: \$41.91
Target Price: \$59.47
Upside of 41%

Case Two	
Growth Rate (Two Years):	5.00%
Terminal Growth Rate:	3.00%
Average FCF (Past 5 Years):	\$924M
WACC:	6.86%
Cost of Equity:	8.64%

Current Price: \$41.91
Target Price: \$90.51
Upside of 115%

Investment Risks

- Volatile power and gas supply costs
- Demand for power and gas
- Competition
- The inability of NRG to meet its commitments under forward sale or purchase obligations at a reasonable cost or at all
- Insufficient liquidity to hedge market risks

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Questions?