NRG Energy (NYQ:NRG)

Konnor Kininmonth
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Investment Thesis

• 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.
### Key Financials

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Price</td>
<td>41.04</td>
</tr>
<tr>
<td>Market Cap</td>
<td>10,500 M</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>3.0%</td>
</tr>
<tr>
<td>52 Week Range</td>
<td>34.70 – 47.82</td>
</tr>
<tr>
<td>Beta</td>
<td>0.84</td>
</tr>
<tr>
<td>Debt / Equity</td>
<td>.75</td>
</tr>
<tr>
<td>P / E</td>
<td>2.88</td>
</tr>
<tr>
<td>P / Book</td>
<td>1.82</td>
</tr>
<tr>
<td>EV / EBITDA</td>
<td>3.89</td>
</tr>
<tr>
<td>ROE</td>
<td>82.84%</td>
</tr>
<tr>
<td>ROA</td>
<td>11.4%</td>
</tr>
</tbody>
</table>

### Stock Price

![Stock Price Graph](image)

### Core Management

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mauricio Gutierrez</td>
<td>President and CEO</td>
</tr>
<tr>
<td>Alberto Fornaro</td>
<td>EVP and CFO</td>
</tr>
<tr>
<td>Michael Bramnick</td>
<td>SVP, Administration &amp; CCO</td>
</tr>
<tr>
<td>Chris Moser</td>
<td>EVP, Head of Competitive Markets and Policy</td>
</tr>
</tbody>
</table>
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 – Revenues

2021 Revenue By Business Segment
- Retail: 86%
- Energy: 4%
- Capacity: 3%
- Hedging Activities: 1%
- Other: 6%

2021 Revenues By Geography
- Texas: 38%
- East: 48%
- West/Services/Other: 14%
Business Description – Sales Volume By Type and Geography

**Electricity**
- Home: 37%, 59 TWh
- Business: 63%, 98 TWh

**Natural Gas**
- Home: 9%, 172 MMDth
- Business: 91%, 1,705 MMDth

**Texas**
- Home: 72%
- Business: 54%
- West/Services/Other: 35%

**East**
- Home: 24%
- Business: 11%
- West/Services/Other: 4%

**West/Services/Other**
- Home: 9%
- Business: 56%
- West/Services/Other: 44%

Total:
- 157 TWh
- 1,877 MMDth
Industry Analysis
Industry Analysis – Electric Utilities Market Landscape

**Key Players**

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenues (USD Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exelon Corp</td>
<td>36.3</td>
</tr>
<tr>
<td>NRG Energy</td>
<td>26.9</td>
</tr>
<tr>
<td>Duke Energy</td>
<td>25.1</td>
</tr>
<tr>
<td>NextEra Energy</td>
<td>17.1</td>
</tr>
<tr>
<td>Edison International</td>
<td>14.9</td>
</tr>
<tr>
<td>Dominion Energy</td>
<td>13.9</td>
</tr>
<tr>
<td>Entergy Energy</td>
<td>11.7</td>
</tr>
<tr>
<td>First Energy Corp</td>
<td>11.1</td>
</tr>
<tr>
<td>Public Service Ent.</td>
<td>9.7</td>
</tr>
<tr>
<td>CenterPoint</td>
<td>8.3</td>
</tr>
</tbody>
</table>

- 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

- Power
- Industrial
- Residential
- Commercial
- Mexico exports
- LNG exports


0.00 10.00 20.00 30.00 40.00 50.00 60.00 70.00 80.00 90.00 100.00

in billion cubic feet per day
Industry Analysis – Porter Five Forces

- **Competition**: Moderate
- **Supplier Power**: High
- **Buyer Power**: Low
- **Substitute Products**: Low
- **New Entrants**: Low to Moderate
Financial Analysis
Financial Analysis – Operating Performance

Revenue and Market Cap

In USD Billions

Revenue | Market Cap

EBITA and Operating Margin

In USD Billions

EBITDA | Operating Margin

Konnor Kininmonth | NRG US Equity
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.
Valuation
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
### Valuation – Free Cash Flow Model

<table>
<thead>
<tr>
<th>Case One</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Growth Rate (One Year):</td>
<td>3.00%</td>
</tr>
<tr>
<td>Terminal Growth Rate:</td>
<td>2.00%</td>
</tr>
<tr>
<td>Average FCF (Past 5 Years):</td>
<td>$924M</td>
</tr>
<tr>
<td>WACC</td>
<td>6.86%</td>
</tr>
<tr>
<td>Cost of Equity:</td>
<td>8.64%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Case Two</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth Rate (Two Years):</td>
<td>5.00%</td>
</tr>
<tr>
<td>Terminal Growth Rate:</td>
<td>3.00%</td>
</tr>
<tr>
<td>Average FCF (Past 5 Years):</td>
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**Current Price:** $41.91  
**Target Price:** $90.51  
**Upside of 115%**
Investment Risks
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?