

Company: NRG Energy	Ticker: NRG Current Price: \$ 40.86	Industry: Utilities	Sub Industry: Power Generation
Target Price: \$54.46 Stop Loss: \$32.98 52 Week High/ Low: \$46.10 / \$ 30.47	TTM P/E: 9.42 Forward P/E: 8.73 EPS: \$1.01	Beta: 1.27 Credit Rating: BB+ (S&P) Rating Outlook: Stable	Market Cap: \$10.09b Avg Vol (12 M): 1.86MM Dividend Yield: 3.09%

Company Background:

NRG Energy is involved in energy generation and retail electricity. Their portfolio includes natural gas generation, coal generation, oil generation, nuclear generation, wind generation, utility scale generation, and distributed solar generation. NRG Energy serves more than six million retail customers in all 50 states and six provinces in Canada. NRG Energy operates 38 power plants in the United States producing 23,000 megawatts of electricity.

Industry Outlook:

Macroeconomic factors including low interest rates, better-than-expected sales and potentially higher federal spending on infrastructure could support good performance by U.S. utility companies in 2021. Many companies have shown the ability to cut operating expenses to offset Covid-19-related sales. Expected M&A will be driven by high valuations and investors' focus on the divestiture of non-utility subsidiaries.

Investment Thesis:

NRG Energy's P/E Ratio is lower than the utility industry's P/E Ratio. Gross, operating, and EBITDA margins have consistently increased over the past three years. NRG has grown quickly through acquisitions and has acquired 11 utility companies since its inception in 1992. NRG Energy's most recent acquisition was the purchase of Direct Energy for \$3.6BN which closed on January 5th, 2021. The deal was settled on an all-cash basis with no debt involved. This acquisition added over three million customers to Direct Energy's portfolio, and provides energy solutions across several segments including residential, small business, large business, and industrial applications.

Investment Risks:

- Commodity Price Risk
- COVID-19's effect on operations and financial results
- Regulatory risk
- Climate Risk

3-5 take away from last quarter investor call transcript:

- NRG Energy confirmed their goal of achieving \$300 million in synergies by 2023. NRG is on track to achieve \$135 million in synergies by 2021 with \$89 million year to date.
- EBITDA is expected to grow from \$2.4 billion to \$2.6 billion for adjusted EBITDA and \$1.44 to \$1.64 billion in free cash flow before growth.
- NRG is striving to maintain a strong balance sheet and achieving a stronger 3.0 EBITDA ratio by year-end to 2021 and growing into their longer-term targets of 2.5 to 2.75 ratio by 2023 primarily through the full realization of Direct Energy run rate earnings.

Financial Performance:

	2015	2016	2017	2018	2019	2020	Last 12M
Revenue	14.674b	10.512b	9.074b	9.478b	9.821b	9.093b	18.170b
Operating Profit	-4.040b	2.66b	-741b	982b	1.290b	1.105b	2.31b
Net Income	-2.857b	0.1222b	-0.1769b	0.681b	7.885b	0.619b	0.628b
Revenue Growth %	-7.5%	-28.4%	-13.7%	4.5%	3.6%	-7.4%	
EBITDA%	18.8%	23.8%	17.1%	18.3%	20.8%	20.4%	
Operating Profit %	-6.58%	8.35%	-1.27%	2.46%	-0.67%	-1.48%	
Net Income Margin	-19.5%	1.2%	-1.9%	7.2%	80.3%	6.8%	3.5%
D/E	337.62	366.72	458.65	-	384.21	538.0	
EPS	-3.04	0.55	-3.37	0.87	-7.48	2.90	
PE Ratio	-	31.74	-	17.93	1.33	14.92	9.42
Current Ratio	1.69	1.43	1.32	1.50	1.31	3.15	
ROE	-103.48	-29.79	-	-	-	30.56	
ROA	-17.40	-2.44	-7.97	1.58	38.33	3.72	
Dividend Per share	0.58	0.24	0.12	0.12	0.12	1.20	
FCF	0.026b	1.112b	1.356b	0.989b	1.185b	1.607b	

Discounted Cash Flow

	2011-15	2016-20
Avg Revenue growth	12.5%	-8.28%
Avg EBITDA Margin	19.96%	20.08%
Avg Net Income Margin	-0.66%	18.68%
Avg Debt/Equity	187.6	417.05
Avg FCF / Margin	-14.78%	25.69%
Cost of Debt		1.58%
Tax Rate		26.06%
Cost of Equity		12.19%
WACC		7.09%
Perpetuity growth rate		2.0%

Analyst Opinion

Buy:7	Hold: 4	Sell:1
	Rating	Target
S&P Net Advantage	Sell	\$39.00
Morning Star	**	\$35.00
Value Line	Timeliness:2	\$55.00

Relative Valuation

	NRG Energy (NRG)	American Electric Power (AEP)	Exelon Corporation (EXC)	Centerpoint Energy (CNP)+	Industry Avg.*
P/E	9.42	18.19	50.16	20.39	20.35
P/B	3.97	2.00	1.59	2.21	2.27
Dividend Yield	3.09	3.55	3.07	2.54	3.07
PEG Ratio	0.33	3.11	4.27	5.44	5.35
EPS	4.37	4.59	0.99	1.31	16.79
Revn Grth	134.27%	9.52%	8.10%	10.6%	28.17%
NI Grth	3.50%	14.7%	6.60%	11.1%	21.6%
Operating Margin	10.34	19.85	3.07	16.77	17.002
Debt / Equity	538.04	170.81	116.54	171.53	145.39
Market Cap	10.09b	41.77b	49.02b	15.75b	28.78b
Revenue TTM	18.17b	15.78b	34.77b	7.97b	-
Net Income TTM	1.07b	2.34b	0.97b	0.78b	-
FCF TTM	1.27b	-2.75b	-5.79b	-2.96b	-

*Industry Avg. NI Grth, Operating Margin, Revenue TTM, FCF TTM includes companies listed.

Total Return

	NRG	Utilities Sector	S&P 500
YTD	13.58	8.15	22.378
2020	12.55	8.06	18.40
Last 3 Years	6.99	7.80	17.14
Last 5 Years	32.34	9.74	13.69

CSR Characteristics

	NRG	Industry
Governance Disclosure Score	38	29
ESG Disclosure	32	29
Social Disclosure Score	14	27
Environmental Disclosure Score	40	30

Prepared by Virvo Serge (Oct 26, 2021) using Bloomberg, Value Line, S&P Net Advantage, Morning Star, Yahoo Finance