

Investment ideas. Stocks.

NRG Energy Inc. (NRG US) is one of the leading independent power producers in the USA. It owns and operates a diverse portfolio of power-generating facilities producing about 23,000 MW of power with 40 power stations. The Company owns power-generating assets in the USA, in Australia, and in Turkey.

Company	NRG ENERGY
Ticker	NRG US
Sector	Power generation and utilities
Capitalization, \$ million	9,349
EV, \$ million	14,813
Dividend yield	1.1%
Entry level, \$	39.83
Current price, \$	38.28
Result	-3.9%

Source: Bloomberg

Key investment attractiveness factors.

- 1) **The weather works in favor of energy sector.** Anomaly cold in the South of the USA that froze energy system in Texas, along with 30 times rise in natural gas prices, may drive revenue growth for NRG Energy. The key risk here is natural gas production stoppage due to lack of electric power capacity. In particular, supplies to Mexico were suspended because of freezing temperatures. In any case, however, adverse weather works in favor of all energy sector companies, including NRG Energy.
- 2) **Construction of power generation facilities in California.** “Green energy” promoted in California by its supporters is reported to fail when called upon. This, in turn, caused significant troubles across the state’s power network: consider, for example, rolling blackout in cities and quite expensive electric power as such. Gas-fired power generation facilities are expected to balance out renewable energy and make up for the lack of 15,000 megawatts of power.
- 3) **Substantial undervaluation of stock.** Benchmarking reveals a considerable discount with which NRG’s stock is traded as compared to stock of other companies in its sector. Discount for P/S multiplier is around 388%, for EV/EBITDA — 112%, and for P/E — 178%.

Risks. The main risk — “price storm” caused by freezing cold — is going to settle down as the weather returns to normal. Accordingly, this trigger will be no longer relevant for the company. Additionally, the company’s debt burden is moderate: net debt to EBITDA ratio is about 3.2x.

Source: Bloomberg

Financial highlights, \$ million	2019	2020	2021P*	Change, %
Revenue	9,821	9,657	13,887	44%
Gross profit	2,518	2,996	5,182	73%
EBITDA	1,904	1,980	2,435	23%
Net profit	7,805	908	1,344	48%
EPS	29.79	3.60	5.59	55%
<i>Gross margin</i>	<i>26%</i>	<i>31%</i>	<i>37%</i>	<i>6%</i>
<i>EBITDA margin</i>	<i>19%</i>	<i>21%</i>	<i>18%</i>	<i>-3%</i>
<i>Net margin</i>	<i>79%</i>	<i>9%</i>	<i>10%</i>	<i>0%</i>

Debt burden, \$ million	2019	2020	2021P*	Change, %
Gross debt	6,521	6,447	6,161	-4%
Cash	563	345	697	-
Net debt	5,958	6,102	5,464	-10%
Net debt/EBITDA	7.1	3.2	2.8	-14%

Benchmarking against similar companies, 2021P*	Country	P/S	EV/EBITDA	P/E
NEXTERA ENERGY	USA	7.1	17.7	29.5
DUKE ENERGY	USA	2.6	11.9	17.2
SOUTHERN	USA	2.8	12.8	17.7
DOMINION ENERGY	USA	3.7	13.5	18.7
EXELON	USA	1.3	8.7	13.8
AMERICAN ELECTRIC	USA	2.3	11.2	16.6
EVERSOURCE	USA	2.9	13.4	20.7
WEC ENERGY	USA	3.4	13.8	20.8
Weighted average		3.3	12.9	19.4
NRG ENERGY	USA	0.7	6.1	7.0
<i>Discount/(premium)</i>		<i>388%</i>	<i>112%</i>	<i>178%</i>

*P – Projection

Source: Bloomberg

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