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Research Update:

NextEra Energy Inc. Ratings Affirmed On Acquisition Of Gulf Power; Outlook Remains Stable

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Rating Action Overview

- NextEra Energy Inc. (NEE) completed its debt-financed acquisition of Gulf Power Co., which increases the EBITDA contribution from its lower-risk regulated utility businesses.
- On Jan. 3, 2019, S&P Global Ratings affirmed its ratings on NEE, including the 'A-' issuer credit rating. The outlook is stable.
- At the same time, we revised our assessment of the company's business risk profile upward to the low end of the excellent business risk profile category. Previously, we assessed the business risk profile in the strong category.
- Our ratings on Gulf Power, including the 'A-' issuer credit rating and stable outlook, are unchanged.
- The stable rating outlook on NEE incorporates our view that the company will continue to reduce risk at its competitive businesses by strategically growing through contracted assets and that its regulated utility business will consistently reflect about 70% of consolidated EBITDA. Because of the fully debt-financed Gulf Power acquisition, we expect that consolidated financial measures will weaken and reflect funds from operations (FFO) to debt of 21%-24%.

Rating Action Rationale

Our affirmation of the ratings and stable outlook on NextEra reflects our expectations for a modest improvement in the business risk profile, offset by a modest weakening in financial measures. We expect that NextEra's EBITDA contribution from its lower-risk regulated utilities businesses will consistently reflect about 70% of consolidated EBITDA. This compares with our prior expectation that the regulated utility businesses would account for about two-thirds of consolidated EBITDA. Furthermore, we think that the company will continue to reduce the risks of its competitive businesses by growing through lower-risk, long-term contracted assets. Because of these improvements, we revised upward our assessment of the company's business risk profile to excellent from strong. However, we assess the company at the very low end of the range for this category, incorporating the company's other higher-risk businesses. These include nuclear merchant generation, proprietary trading, retail supply and wholesale full-requirements contracts, and natural gas exploration and production businesses. These activities account for more than 10% of consolidated EBITDA and have significant liquidity needs, low margins, and require diligent risk management and hedging against fluctuating commodity prices. To account for these risks, we assess the comparable ratings analysis modifier as negative.

We assess NextEra's financial measures using our medial volatility table because the majority of the company's operating cash flows are from its lower-risk regulated utilities and reflecting its generally effective management of regulatory risk in Florida.

We expect a weakening in NextEra's 2019 financial measures, in part due to the all debt-financed acquisition of Gulf Power. FFO to debt for year-end 2017 and for the rolling-12-months ended September 2018 was about 25% and we expect year-end 2018 to be about 28%. However, we expect NextEra's financial measures to weaken in 2019 reflecting the Gulf Power fully debt-financed acquisition, robust capital spending at more than $10 billion, and dividends of more than $2 billion. Specifically, we expect FFO to debt to weaken to 21%-24% and to remain at this level as NextEra continues to grow its core businesses.

We assess Gulf Power as a core subsidiary of NEE. This reflects our view that Gulf Power is highly unlikely to be sold, is integral to the overall group strategy, and has a strong long-term commitment from senior management. As a result, we assess the issuer credit rating on Gulf Power as in line with NEE's 'a-' group credit profile.

Outlook

The stable rating outlook incorporates our view that the company will remain focused on growing its regulated utility businesses and will continue to reduce risk at its competitive businesses by strategically growing through contracted assets. We expect NEE's regulated utility business will consistently reflect about 70% of consolidated EBITDA. Because of the fully debt-financed nature of the Gulf Power transaction, we expect that consolidated financial measures will weaken, reflecting FFO to debt at 21%-24%.

Downside scenario

We could lower the rating over the next 24 months if the company's effective management of regulatory risk weakens or if the lower-risk regulated utility businesses account for less than 70% of consolidated EBITDA. We could also lower the ratings if FFO to debt consistently weakens to below 21%. This could occur if the company unexpectedly increases debt leverage to support more aggressive growth, shareholder rewards, or another debt-financed large acquisition.

Upside scenario

We could raise the rating over the next 24 months if financial measures consistently reflect the middle of the range for the financial risk profile category, reflecting FFO to debt consistently greater than 26%. This could occur if the company reduces reliance on debt leverage or decides to finance a future large acquisition or capital project with mostly equity.

Company Description

NextEra is a very large company that primarily consists of lower-risk regulated utilities (about 70% of EBITDA), competitive generation (about 20% of EBITDA), proprietary trading (about 5% of EBITDA), and natural gas exploration and production (about 5% of EBITDA). The company's utilities serve more than 5.5 million customers primarily in the state of Florida and has more than 27,000 MW of electric generation of which about 70% is from natural gas. NextEra has continued to reduce the risks of its competitive generation by increasing its reliance on long-term contracted assets with high-quality credit counterparties.

Liquidity

NEE has adequate liquidity, in our view, and can more than cover its needs for the next 12 months even if EBITDA declines by 10%. We expect the company's liquidity sources over the next 12 months will exceed uses by more than 1.1x, the minimum threshold for this liquidity assessment under our criteria. Under our stress scenario, we do not expect the company to require access to the capital markets during that period to meet liquidity needs. In addition, NEE has sound relationships with banks and satisfactory standing in the credit markets. It could absorb a high-impact, low-probability event with limited need for refinancing.

Principal liquidity sources:

- FFO of about $7 billion;
- Credit facility availability of about $8 billion; and
- Cash on hand of about $500 million.

Principal liquidity uses:

- Long-term debt maturities of about $2.2 billion in 2019;
- Maintenance annual capital spending of about $8 billion; and,
- Annual dividends of more than $2 billion.

Issue Ratings - Subordination Risk Analysis

Capital structure

- NEE's capital structure consists of about $38 billion total debt of which about $13.7 billion is outstanding at NextEra Energy Capital Holdings Inc. (NEECH), about $13.3 billion is outstanding at FPL, about $7 billion of non-recourse debt is outstanding at project subsidiaries of NextEra Energy Resources LLC, and about $1.4 billion is outstanding at Gulf Power.

Analytical conclusions

- The hybrid equity units at NEE are rated two notches below the issuer credit rating, one notch for deferability and one notch for subordination.
- The unsecured debt at NEECH, guaranteed by NEE, is rated one notch below the issuer credit rating because it ranks behind significant debt issued by subsidiaries in the capital structure.
- Junior subordinated notes and hybrid equity units at NEECH are rated two notches below the issuer credit rating, one notch for deferability and one notch for subordination.
- Secured debt at FPL benefits from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral provides coverage of more than 1.5x, supporting a '1+' recovery rating and an issue-level rating one notch above the issuer credit rating.
- Unsecured debt at FPL is rated the same as the issuer credit rating because it is a qualifying investment-grade regulated utility.
- The commercial paper program at both NEECH and FPL is rated 'A-2', consistent with the issuer credit ratings.

Ratings Score Snapshot

Issuer Credit Rating: A-/Stable/--

Business risk: Excellent
- Country risk: Very low
- Industry risk: Low
- Competitive position: Excellent

Financial risk: Intermediate
- Cash flow/Leverage: Intermediate

Anchor: a

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable ratings analysis: Negative (-1 notch)

Stand-alone credit profile: a-
- Group credit profile: a-

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed

NextEra Energy Inc.	
Issuer Credit Rating	A-/Stable/--
Florida Power & Light Co.	
NextEra Energy Capital Holdings Inc.	
Issuer Credit Rating	A-/Stable/A-2
NextEra Energy Inc.	
Senior Unsecured	BBB
Florida Power & Light Co.	
Senior Secured	A
Recovery Rating	1+
Senior Unsecured	A-
Preferred Stock	BBB
Commercial Paper	A-2
NextEra Energy Capital Holdings Inc.	
Senior Unsecured	BBB+
Senior Unsecured	BBB
Junior Subordinated	BBB
Commercial Paper	A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.