Research Update:

NextEra Energy Inc. 'A-' Rating Affirmed On Strong Growth; Outlook Remains Stable

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Rating Action Overview

- Following NextEra Energy Inc.'s (NEE) recent investor conference, we believe that NEE's non-utility competitive contracted business will experience increasing growth related to demand from data centers and the onshoring of manufacturing. We also expect an improvement in the non-utility businesses' cash flow stability because of the company's increasing reliance on the transferability of tax credits. At the same time, the company's regulated utilities are experiencing high growth for renewable generation and as such we expect that the company will maintain its utility to non-utility balance at about 70% of consolidated EBITDA to about 30% of consolidated EBITDA.
- We affirmed all our ratings on NEE, including the 'A-' issuer credit rating and the 'BBB+' senior unsecured debt rating. The outlook remains stable.
- We affirmed all our ratings on Florida Power & Light Co., including the 'A' issuer credit rating and 'A-1' short-term rating.. The outlook remains stable.
- The stable outlook incorporates our view that NEE's regulated utility business will continue to account for about 70% of the company's consolidated EBITDA. Under our base case, we assume consolidated funds from operations (FFO) to debt of 19%-21% through 2026.

Rating Action Rationale

Our ratings on NEE reflect our assessment of its business risk profile as excellent. We continue to assess NEE as toward the middle of the business risk profile category range, primarily reflecting the company's lower-risk regulated utilities businesses (roughly 70% of EBITDA), which benefit from utility subsidiary Florida Power & Light Co.'s (FP&L) large, mostly residential and expanding customer base that provides cash flow stability. We assess Florida's regulatory construct as constructive because NEE benefits from forward-looking test years and various regulatory mechanisms that provide for the timely recovery of investments and fuel costs.

The company's higher-risk non-utility businesses, which account for roughly 30% of its consolidated EBITDA, increases business risk. They include contracted competitive energy, nuclear merchant generation, customer supply and trading, retail supply and wholesale full-requirement contracts, and natural gas exploration and production businesses. Some of these activities entail significant liquidity needs, low margins, and require diligent risk management and hedging against fluctuating commodity prices. Our assessment of these businesses incorporates the company's growing benefits from the 2022 Inflation Reduction Act that include longer-term certainty for tax credit benefits and the transferability opportunities as an efficient option to divest of tax credits that enhances longer-term cash flow predictability. Accordingly, the non-utility business' FFO will likely account for more than 30% of the company's consolidated FFO because of its growth opportunities and its increasing stable cash flows from the transferability of tax credits. While we believe tax credit transferability may be transitory in nature, credit quality is supported by a strong management track record and the company's competitive advantages, relative to peers. This includes the company being North America's largest developer and operator of renewable generation and its improving efficiencies, including remote operations of the company's generation assets.

We assess NEE's financial risk profile as significant. NEE's capital spending remains robust, averaging about $26 billion per year through 2026. We expect it will lead to annual discretionary cash flow deficits of about $17 billion. For 2023, we removed about $6.6 billion of the project finance debt at NextEra Energy Resources LLC associated with its stand-alone renewable generation projects. This reflects our view that NextEra Energy Resources has sufficient scale and diversity around its existing wind and solar investment and that no single project is critical to the company. Furthermore, management's public statement that it would not support a failing project and NEE's record of walking away from one project supports our assessment.

We expect NEE will fund its growing capital investments in a balanced manner, maintaining its credit quality. This could include use of equity issuances, hybrid securities, asset recycling, tax credits, and tax equity to support credit quality. Under our base case, we expect FFO to debt of 19%-21% through 2026. We evaluate the company's financial measures using our medial-volatility benchmarks, which primarily reflect its low-risk utility operations and effective management of regulatory risk.

Outlook

The stable outlook on NEE incorporates our view that it will maintain its lower-risk regulated utility business at about 70% of consolidated EBITDA. We also forecast NEE's consolidated FFO to debt of 19%-21% through 2026.

Downside scenario

We could lower our rating on NEE over the next 24 months if we believe its management of regulatory risk has weakened, its lower-risk regulated utility businesses account for materially less than 70% of its consolidated EBITDA, or if FFO to debt weakens to below 18%. This could occur if the company unexpectedly increases leverage to support a more aggressive growth strategy, higher-than-forecast shareholder rewards, or a large debt-financed acquisition.

Upside scenario

We could raise our rating on NEE over the next 24 months if its financial measures improve and consistently reflect FFO to debt greater than 25%, without increasing business risk. This could occur if the company reduces its reliance on leverage, substantially reduces growth spending, or finances a large acquisition or capital project mostly with equity.

Company Description

NEE is a large electric power and energy infrastructure company that primarily comprises lower-risk, regulated utility operations (approximately 70% of EBITDA), competitive generation (approximately 20% of EBITDA), customer supply and trading (approximately 5% of EBITDA), and natural gas infrastructure businesses (approximately 5% of EBITDA). The company's regulated utility, FP&L, serves more than 5.9 million customers in Florida and maintains about 35,000 megawatts (MW) of generation capacity, including from nuclear and natural gas. NEE's non-utility operations focus on contracted electric generation (hedged or under long-term contracts) with an emphasis on renewable energy projects, as well as some fossil fuel and nuclear generation.

Our Base-Case Scenario

- EBITDA rises annually, supported by rate increases at its utility and the expansion of its contracted and competitive generation assets.
- Capital expenditure (capex) averaging about $26 billion per year through 2026, before asset recycling and tax equity.
- Negative discretionary cash flow averaging about $17 billion annually through 2026, indicating external funding needs.
- NEE funds its growth in a balanced manner using equity issuances, hybrid securities, asset recycling, and tax equity.
- NEE refinances all debt maturities.

Liquidity

We rate the commercial paper program at NextEra Energy Capital Holdings Inc. (NEECH) 'A-2' based on our issuer credit rating on NEECH.

We base our short-term 'A-2' rating on our long-term issuer credit rating on NEE. As of March 31, 2024, we assess the company's liquidity as adequate, which reflects our expectation its sources of cash will be 1.1x its uses over the next 12 months even if its consolidated EBITDA declines 10%. We believe NEE's predictable regulatory framework provides it with cash flow stability even in times of economic stress, which supports our use of slightly lower thresholds to assess its liquidity. In addition, we believe it has the ability to absorb high-impact, low-probability events. This reflects NEE's committed credit facilities provided by a large group of banks and our belief it can reduce its high capital spending during periods of stress, indicating a limited need for refinancing under such conditions. Furthermore, our assessment reflects the company's generally prudent risk management, sound relationships with its banking group, and satisfactory standing in the credit markets (its credit default swap spreads are in line with those of its peer investment-grade utilities). Overall, we believe NEE will likely withstand adverse market circumstances over the next 12 months while maintaining sufficient liquidity to meet its obligations. The company's long-term debt maturities in 2024 are expected to be proactively address well in advance of their scheduled due dates.

Principal liquidity sources

- Estimated cash FFO of about $14.1 billion;
- Credit facility availability of about $10.3 billion;
- Asset sales, reflecting dropdown of projects to affiliates and tax equity proceeds, of about $6.2 billion; and
- Cash and liquid investments of about $1.6 billion.

Principal liquidity uses

- Debt maturities, including outstanding commercial paper, of about $14.1 billion;
- Capital spending of about $11 billion, which reflects the company's ability to scale back its planned capital spending, including that related to growth, amid financial distress; and
- Dividends of about $4.3 billion.

Environmental, Social, And Governance

Environmental and governance factors are positive considerations in our credit rating analysis of NEE. The company is increasing the proportion of renewable generation in its generation portfolio to about 45% (from about 27%) by 2025 while reducing its reliance on nuclear generation to about 18% (from about 23%) and natural gas to about 36% (from about 48%). The cumulative effect will further strengthen its industry-leading carbon dioxide intensity (emissions in tons/gigawatts). Currently, the company's carbon intensity is about 40% lower than that of its closest industry competitor. NEE's record of effective strategic planning and completion of its many infrastructure projects on time and on budget, while also meeting or exceeding its financial performance targets, lead us to anticipate it will successfully execute its strategic initiatives.

Issue Ratings - Subordination Risk Analysis

Capital structure

- As of March 31, 2024, NEE's capital structure comprised about $66 billion of total long-term debt, of which about $42 billion was outstanding at NEECH and about $24 billion was outstanding at FP&L.

Analytical conclusions

- We rate the senior unsecured debt at NEECH, which is guaranteed by NEE, one notch below our rating on NEE because it ranks behind significant debt issued by subsidiaries in the capital structure.
- We rate the junior unsecured debt at NEECH, which is guaranteed by NEE, one notch below our rating on NEE because it ranks behind significant debt issued by subsidiaries in the capital

structure.

- We rate the hybrid equity units at NEE two notches below our issuer credit rating, which incorporates one notch for their deferability and one notch for their subordination.
- We rate the hybrid junior subordinated notes at NEECH two notches below our rating on NEE, which incorporates one notch for their deferability and one notch for their subordination.

Ratings Score Snapshot

Issuer Credit Rating: A-/Stable/--

Business risk: Excellent

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

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: a-

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Positive (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a-

- Group credit profile: a-
- Issuer credit profile: A-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- General Criteria: Methodology: Industry Risk, 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: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
NextEra Energy Inc.	
Issuer Credit Rating	A-/Stable/--
Florida Power & Light Co.	
Issuer Credit Rating	A/Stable/A-1
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+
Preference Stock	BBB+
Commercial Paper	A-1
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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.