



140 BROADWAY NEW YORK, NY 10005

**RAYMOND E. MOORE, CFA**  
**(212) 320-3065**

**Trading (212) 320-3001**

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[ray.moore@shieldsandco.com](mailto:ray.moore@shieldsandco.com)

Follow up to FPL Reports Issued February 26, 2008,  
 October 20, 2008, and November 25, 2008

**Rating: Hold**

**FPL GROUP**  
**Reaction to 2008 Earnings**  
**(NYSE-FPL)**

Price (intra day)	1/27						
	51						
52-week range	69-34				Price	Y-t-d	12 Mos.
Book 12/31/08	28.98	176%	P/b	Performance	1/27	%	%
Adjusted Earnings*				Fpl Group	51	1	(17)
2005 Actual	2.63	19.3		Phil. 22 El. Index	402	1	(21)
2006 Actual	3.04	16.7		Dow Industrials	8,182	(7)	(33)
2007 Actual	3.48	14.6		Analyst Total **	19		
2008 Actual	3.84	13.2		Buys **	11		
2009 Est.	4.10	12.4		%	58%		
2010 Est.	4.40	11.6		Shares (mil.)	403		
2012 Mgmt. Target***	5.40	9.4		Equity - \$ bil.	20		
Dividend	1.78	3.5%	Yield				

\* GAAP per share earnings: \$4.07 – 2008, \$3.37 – 2007, \$3.23 – 2006, \$2.34 – 2005, \$2.48 – 2004, \$2.53 - 2003

\*\* Source: Bloomberg Financial Service

\*\*\* Management target of increasing earnings per share 10%-plus annually over 2006/12

**Recommendation**

On January 27, 2009, FPL Group reported ongoing earnings of \$3.84 a share, 10% higher than the \$3.49 a share in 2007 and on target with Bloomberg consensus of \$3.84 a share. Also, unlike many companies in this environment of declining expectations, management reaffirmed guidance of \$4.00-\$4.25 a share for 2009 and \$4.50-\$4.90 a share for 2010. Moreover, management hasn't backed off from its goal of increasing earnings 10% annually over the 2012/06 period. Investors responded by increasing FPL's share price by \$1.84 a share (4%) on a day when the average utility was close to unchanged. According to Bloomberg Financial Service, the company has 19 active recommendations from the sell-side community with 11 buy or outperform ratings. Among the positives for FPL Group are its high-quality institutional holders, its size, a modest 13% premium price/earnings compared to the average utility as per the SPDR and a 3.5% yield.

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See page 4 of report for Analyst's Certification, pages 4-5 for Important Disclosures and page 5 for Other Disclosures and Disclaimers

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In our October 20, 2008 (FPL \$44) report we issued a Hold rating with a price objective of \$48-\$50. Our concerns centered on 1) the outlook for Florida Power & Light and the possibility of reduced allowed returns and perhaps reduced common equity components in rate base, and 2) valuations of businesses deriving the bulk of profit growth via tax credits. Despite the danger of being identified as a Luddite concerning wind and renewables in general, we doubt the price/earnings multiples on tax generated earnings should be any higher than the profit source of those earnings, in this case the utility Florida Power & Light. If we applied the sum-of-the-parts methodology presented by management at a Lehman Bros. seminar in September 2008 (converting EBITDA to earnings), the price/earnings ratio would exceed 40 times.

We are maintaining our Hold recommendation and will revisit that rating following release of the 10K.

## Earnings

The utility, Florida Power & Light, reported \$1.96 a share (51% of consolidated results), down 6% from \$2.09 a share in 2007. Those results were more than offset by a 30% increase in the non-utilities businesses of NextEra Energy (formerly FPL Energy) from \$1.57 a share to \$2.04 a share (53% of consolidated). NextEra results stemmed 1) from higher Production Tax Credits (PTCs) and Investment Tax Credits (ITCs) in the Wind and Solar businesses and 2) from the acquisition of the Point Beach nuclear plant in September 2007. Other operations represented mostly by impaired FiberNet, a telecommunications subsidiary, and parent expenses lost \$0.16 a share (minus 4% of consolidated).

NextEra Energy's primary growth vehicle is wind which in turn relies on Production Tax Credits (PTCs) to create earnings and 5-year accelerated amortization to generate cash flow. Tax credits from wind reduce taxes payable on the consolidated return, in effect lowering what would have been part of Florida Power & Light's tax bill. Since 2004, the PTC component of consolidated FPL Group earnings rose from \$0.30 a share (12% of \$2.49 a share) to \$0.57 a share (16% of \$3.48 a share) in 2007. The PTC contribution to 2008 earnings will be included in the 10K scheduled for release in the next few weeks.

For the 9 months ended September 30, 2008, PTC and, to a lesser extent, the ITC totaled \$0.48 a share compared to \$0.36 a share in 2007; for the 3 months ended September 30, tax credits more than doubled to \$0.23 a share versus \$0.11 a share.

Table 1  
Earnings Profile  
2008-07

Column	(1)	(2)
	2008	2007
FPL Group	3.84	3.48
Florida P&L	1.96	2.09
NextEra	2.04	1.57
FPL & NextEra	4.00	3.66
Other	(0.16)	(0.17)
Net	3.84	3.48

Totals may not add due to rounding

## Returns on Common

FPL Group's consolidated return on average common equity was 13.8% in 2008, compared to 13.5% in 2007. Florida Power & Light's return declined to 10.3% compared to 11.3% in 2007. NextEra Energy's return rose to 10.5% from 9.8%. The combined operations of Florida Power & Light and NextEra Energy produced a return on common of 10.4% and 10.6% in 2008 and 2007, respectively.

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Table 2  
Returns on Average Common  
2008-07

Column	(1)	(2)
	2008	2007
	\$-Mil	\$-Mil
<b>Average Book</b>		
FPL Group	11,207	10,333
Florida P&L	7,682	7,407
NextEra	7,804	6,434
FPL & NextEra	15,486	13,841
Other Book	(4,279)	(3,508)
	11,207	10,333
Shares – millions	403	401
<b>Book Per Share</b>		
FPL Group	27.81	25.77
Florida P&L	19.06	18.47
NextEra	19.36	16.04
FPL & NextEra	38.43	34.51
Other Book	(10.62)	(8.75)
<b>Returns</b>		
FPL Group	13.8	13.5
Florida P&L	10.3	11.3
NextEra	10.5	9.8
FPL & NextEra	10.4	10.6
Other Book	(0.6)	(0.7)

## Analyst's Certification

I Raymond E. Moore certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. Other FPL Group reports issued by me are: 1/9/06 (\$42) – Not Rated; 8/3/07 (\$56) – Not Rated; 8/9/07 (\$63) – Not Rated; 2/26/08 (\$64) – Hold; 10/20/08 (\$44) – Hold; 11/25/08 (\$48) – Hold.

## Important Disclosures

### Guide to Investment Ratings:

**Buy** Total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

**Market Perform & Hold** Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

**Sell** Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.

### Analyst's Ratings Distribution

		% Investment Banking
Buy	11%	0%
Hold	89%	0%
Sell	0%	0%

The principal risks to the achievement of our price targets include general market trends, disappointing earnings and lower energy prices and adverse regulatory developments

Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings ratio in line with the company's historical valuation or those of other companies with similar businesses and prospects.



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