

Constellation Energy Corp. (CEG)

Company Overview

Constellation Energy Corporation (CEG) is the largest private sector power producer in the world, and the largest producer of clean energy in the United States. The company boasts roughly 55 GWs of power capacity sourced from a fleet which includes nuclear, natural gas, geothermal, hydro, wind, and solar facilities. This also makes them the largest nuclear energy company in the US. Most of the company's energy production comes from nuclear energy sources, followed by natural gas and oil, and then renewables (wind, hydroelectric, and solar). CEG's customer facing business is also the largest in the nation, supplying utilities, municipalities, and those in the commercial, industrial, and public sectors. Additionally, they supply residential power in multiple regions, especially the mid-Atlantic. CEG offers two distinct services, Hourly Carbon-Free Energy (CFE) Matching and CORE+. CORE+ is CEG's offsite renewable product providing access to new renewable energy projects (wind or solar). This service matches your power use with the Renewable Energy Certificate (REC) Contract, and the contract money is used to help fund even more renewable energy projects. Hourly CFE is a matching service between consumers and their energy use every hour of the day instead of just an average over a year. It identifies carbon-free sources in your grid. Many companies use CORE+ to gain a steady flow of clean energy and then add Hourly CFE to fill gaps in energy (energy 24/7/365 commitment)

Industry Overview

The global clean energy market is projected to grow at around a 8-9% CAGR through 2030, while the US Renewable Energy Certificate (REC) Market is projected to grow even faster at 10-11%. This characterized by intense growth due to surging AI growth/investment where data centers are driving surging electricity demand. The industry is experiencing many mergers and acquisitions in an effort to meet these demands, along with an increase in Private Equity deals where companies who simply can't keep up are in desperate need of capital. Investment also remains strong, with renewables dominating capacity growth in the US despite clear policy shifts from the government.

The competitive landscape for remains fairly strong. There are multiple other major power/utility companies including Vistra Energy, NextEra Energy, Southern Company, American Electric Power (just taken private), and more. Even so, CEG maintains its position as the leader in renewables and nuclear.

Sources: Grand View Research, Yahoo Finance, Deloitte

Drivers/Catalysts

Calpine Corporation Acquisition

- In January, CEG acquired Calpine Energy in a deal valued at \$26.6 billion. This combines Constellation's nuclear and renewable energy assets with Calpine's natural gas production. This expands their electricity output capabilities to help meet AI-driven power surges. While the DOJ required the divestiture of 3.5 GW of power from Calpine (around \$5 billion in assets, for antitrust concerns), it still adds more than 27 GW worth of capacity to the company. This combined entity allows for an extremely diverse and structurally advantageous business. It opens CEG up to the Texas and California markets, the two fastest growing in the nation.

Renewables Growth

- As the world moves towards its low/no-carbon and methane emission commitments, the rise in demand for clean energy and renewables will help drive increased business for CEG for many years to come. This is what drives, high projected CAGR in those industries. CEG is one of the best positioned companies for growth in any area because of its high diversification of assets within its portfolio.

Recommendation: BUY

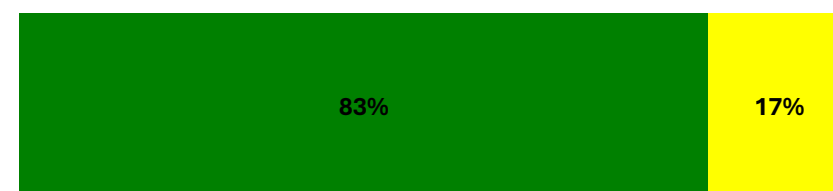


Figure 1: Street Sentiment Analysis



Figure 2: YTD Stock Price Graph

52-Wk Range:	\$161.35-412.70
Current Price:	\$281.99
P/E (Forward):	23.04x
EPS:	\$7.40
Market Cap (BN):	\$102.08
Beta:	1.24
Yield:	0.60%

WACC	
Risk Free Rate	4.22%
Beta	1.24
Market Risk Premium	4.00%
Cost of Equity	9.1863%
Tax Rate	33.81%
Total Debt	7,250
Interest Expense	511
Cost of Debt	4.67%
Total Debt	7,250
Total Equity	102,080
Capital Structure	109,330
Weight of Debt	6.63%
Weight of Equity	93.37%
WACC	8.89%

Figure 3: Discount Rate Calculation

Risks & Mitigants

Nuclear Production Tax Credit (PTC)

- The nuclear PTC provides revenue support for the company's nuclear fleet, but it remains subject to legislative and regulatory changes. This could negatively affect the amount of benefits the company receives (which could have negative effects on its income). **Mitigant:** The PTC was affirmed under the Big Beautiful Bill, meaning bipartisan support for it remains strong. Many states have also put zero-emission credits (ZEC) programs in place that provide revenue floors for some plants independent of the government.

Calpine Acquisition Integration Risk

- This acquisition increases CEG's scale, but with that it brings integration risks. There are unknown challenges ahead which could include keeping employees, unforeseen costs, and other time-consuming processes. The debt CEG took on could also affect management's goal of a 2x Debt-to-EBITDA ratio. **Mitigant:** CEG's strong cash flow generation gives them flexibility to fund the acquisition and pay down debt, as well as deal with any unforeseen hardships.

Supply Chain and Commodity Price Volatility

- CEG's nuclear fleet depends heavily on global uranium supply. This is subject to geopolitical risk because of their current inability to import Russian uranium. The company sources 35% of its uranium from only three sources as of now. Issues with these suppliers could prove costly for the company. **Mitigant:** CEG has a diversified strategy towards the nuclear fuel cycle. The PTC serves as a financial hedge on price downside.

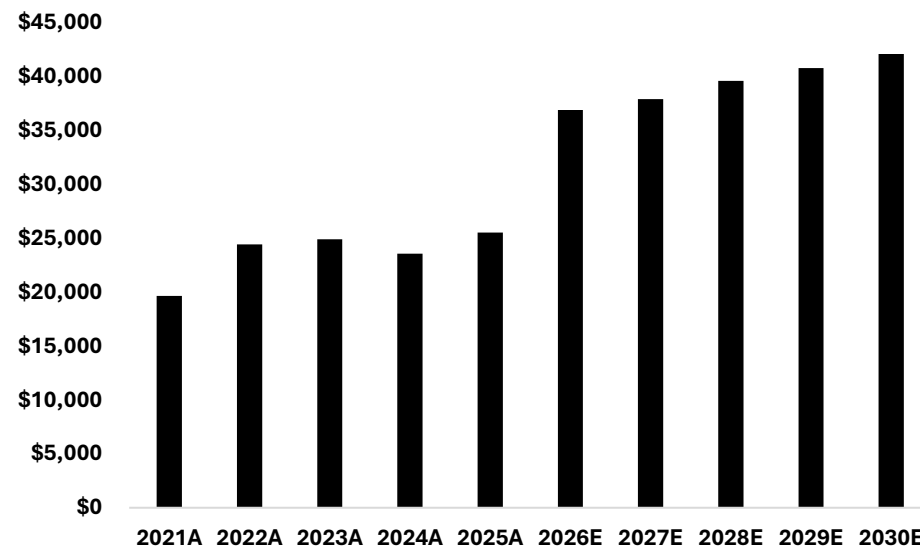


Figure 4: Revenue Forecast

Investment Thesis

Energy Dominance Create Several Competitive Advantages

- Constellation's nuclear dominance has been evident from the start, but their new, combined entity with Calpine means they supply 10% of the nation's energy, creating a clear structural advantage. This also means barriers to entry for any competitors, as the company already holds significant long-term contracts and has formed relationships with many businesses through its sale of RECs and providing its existing CORE+ and Hourly CFE services. Deploying these advantages at scale has also given them a level of brand recognition which has led to Purchase Power Agreements (PPAs, more on this later).

Calpine Acquisition Allows Runway for Continued Growth

- With the acquisition of Calpine, Constellation has secured an enormous boost to its energy output capacity of around 27 GW, complementing their nuclear dominance with a huge number of natural gas and geothermal assets. These new assets are heavily centered around the most beneficial markets, giving CEG geographic diversity, taking away from risk. The data-center driven growth in electricity demand in Texas can now be fully taken advantage. The same goes for California, which is the largest producer of geothermal energy. This combined entity now has multiple markets to operate in, all providing strong growth prospects.

Economic Moat from Downside Protection

- Through long-term hyperscale contracts (called PPAs) and federal policy support, CEG has transitioned from a merchant power provider to an essential infrastructure partner for Big Tech. They've locked in a landmark 20-year Microsoft deal to restart Three Mile Island securing high-margin, inflation-linked revenue that takes away from risk in volatile commodity markets. They also hold PPAs with Meta and CyrusOne. This stability is reinforced by the Inflation Reduction Act's Nuclear Production Tax Credit (PTC), which effectively creates a guaranteed price floor for their carbon-free output. This combination of scarcity and a government-backed safety net de-risks the company's aggressive growth target and supports a premium valuation compared to traditional utilities.

DCF/Comps Overview

Using the Exit Multiple Method, even with a slightly lower multiple (compared to its own) of 15.12x, my DCF outputs an upside of 42.34% from CEG's last close, especially since the company dipped ~10% recently on news of its required sale of \$5 billion in assets acquired from Calpine. Even still, there's clearly large upside potential, especially as the acquisition is expected to provide an estimated \$2 billion in cash flows annually for the company. Beyond the DCF, there seems to be a premium on CEG looking at its EBITDA multiple, however I believe this is more than justified given their nuclear dominance (22 GW of capacity with their nearest competitor having only ~6 GW) and the Calpine acquisition taking them from a heavy focus on the mid-Atlantic to clear exposure to the geothermal energy market in California and the data-center driven high-growth Texas area. Even so, their P/E is trading at a relative discount, and this will likely decline further as 2026E revenue will likely jump ~40% according to most analysts due to the acquisition, so earnings will increase as well.

	11.12x	13.12x	15.12x	17.12x	19.12x
6.40%	\$327.56	\$379.91	\$432.26	\$484.61	\$536.96
7.40%	\$312.96	\$362.92	\$412.88	\$462.83	\$512.79
8.40%	\$299.14	\$346.83	\$394.53	\$442.22	\$489.92
9.40%	\$286.04	\$331.60	\$377.15	\$422.71	\$468.26
10.40%	\$273.63	\$317.16	\$360.69	\$404.22	\$447.75

Figure 5: Price Sensitivity

Comps Analysis		Market Cap	EV			
Company Name	Ticker	(BN)	(BN)	EV/EBITDA	EV/Revenue	P/E
NextEra Energy	NYSE: NEE	193.3	283.4	19.10x	10.30x	36.30x
Southern Company	NYSE: SO	109.7	179.9	13.50x	6.10x	25.30x
Duke Energy	NYSE: DUK	103.6	190.5	11.70x	5.90x	20.40x
American Electric Power	NASDAQ: AEP	72.3	114.7	12.85x	5.20x	20.20x
Entergy	NYSE: ETR	47.8	76.2	12.39x	5.90x	27.00x
NRG Energy	NYSE: NRG	32.7	44.4	16.20x	1.40x	37.90x
Constellation Energy Corp.	NASDAQ: CEG	114.56	119.91	20.12x	4.70x	25.84x

Average	15.12x	5.64x	27.56x
Median	13.50x	5.90x	25.84x
High	20.12x	10.30x	37.90x
Low	11.70x	1.40x	20.20x

Figure 6: Comps Model

Financials

DCF	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E
EBIT	\$495	\$1,610	\$4,352	\$3,086	\$6,138	\$6,761	\$7,529	\$8,243	\$9,478
Income Tax Expense	(388)	859	774	1,187	1,679	1,831	2,006	2,181	2,500
EBIAT	\$883	\$751	\$3,578	\$1,899	\$4,458	\$4,931	\$5,523	\$6,062	\$6,978
(+) D&A	1,091	1,096	1,123	985	1,845	1,916	2,021	2,103	2,192
(-) CapEx	1,689	2,422	2,565	2,949	3,381	3,696	4,120	4,327	4,459
(-) Changes in NWC	1,618	513	(704)	(374)	(1,128)	191	410	(28)	65
Unlevered FCF	(\$1,333)	(\$1,088)	\$2,840	\$309	\$4,049	\$2,960	\$3,014	\$3,865	\$4,646
Discount					1	2	3	4	5
Discount Factor					91.84%	84.34%	77.46%	71.14%	65.33%
NPV of UFCF	(\$1,333.00)	(\$1,088.00)	\$2,840.00	\$309.00	\$3,718.74	\$2,496.37	\$2,334.40	\$2,749.65	\$3,035.68
EBITDA	\$1,586	\$2,706	\$5,475	\$4,071	\$7,982	\$8,677	\$9,550	\$10,346	\$11,670

Exit Multiple Method	
WACC	8.89%
Exit Multiple	15.12x
Bear	13.12x 2.00x
Base	15.12x
Bull	17.12x 2.00x
Terminal Value	176,490
PV of TV	115,305
PV of UFCF	14,335
Enterprise Value	129,640
(-) Debt	7,250
(+) Cash	3,641
Equity Value	126,031
Shares Outstanding	314
Implied Share Price	\$401.37
Current Share Price	\$281.99
Implied Upside (Downside)	42.34%

Figure 7: DCF Model