

Clearway Energy Inc.(CWEN)

\$24.37 (As of 09/23/20)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/12/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

Summary

Clearway Energy is primarily focused on North American operations, and operates utility-scale renewable as well as natural gas-fired power generation units having low operational risks. New generation fleet ensures high fleet availability and modest maintenance-related expenditures, in turn boosting margins. Resolving of the PG&E bankruptcy provided additional cash to the company to fund growth investments. Its shares have outperformed the industry in the past 12 months. However, Clearway Energy generates a substantial volume of electricity from renewable sources, subject to favorable weather conditions that cannot be always assured. Underperformance of third-party transmission lines that are used to supply electricity may negatively impact the company. Its high debt level and low times interest earned ratio are concerns.

Price, Consensus & Surprise

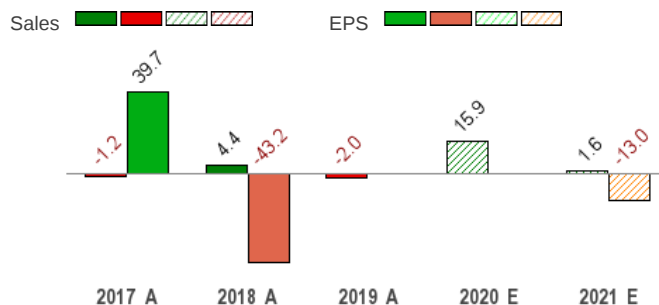


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$27.12 - \$16.12
20-Day Average Volume (Shares)	640,531
Market Cap	\$4.9 B
Year-To-Date Price Change	22.2%
Beta	0.89
Dividend / Dividend Yield	\$1.25 / 5.1%
Industry	Alternative Energy - Other
Zacks Industry Rank	Top 41% (104 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-42.3%
Last Sales Surprise	-3.0%
EPS F1 Estimate 4-Week Change	-19.8%
Expected Report Date	11/04/2020
Earnings ESP	-35.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,215 E
2020	258 A	329 A	352 E	286 E	1,196 E
2019	217 A	284 A	296 A	235 A	1,032 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.17 E	\$0.20 E	\$0.42 E	\$0.38 E	\$0.94 E
2020	-\$0.24 A	\$0.41 A	\$0.73 E	\$0.40 E	\$1.08 E
2019	-\$0.18 A	-\$0.22 A	\$0.36 A	-\$0.06 A	-\$0.10 A

*Quarterly figures may not add up to annual.

P/E TTM	51.9
P/E F1	22.6
PEG F1	2.3
P/S TTM	4.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/23/2020. The reports text is as of 09/24/2020.

Overview

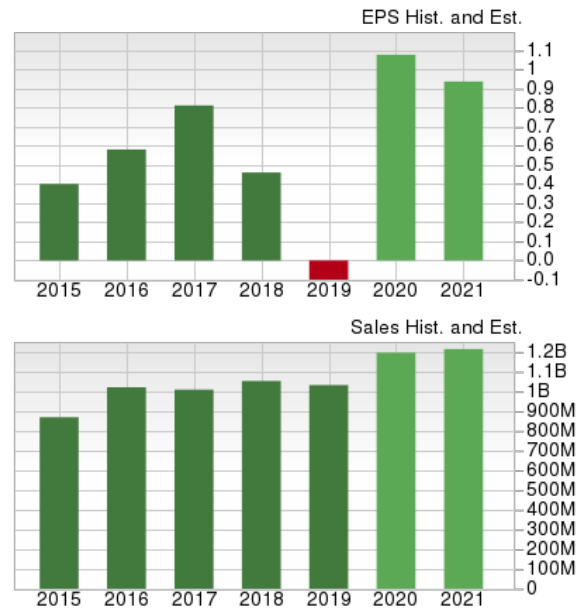
Founded in 2012, Clearway Energy Inc., along with its subsidiaries, owns and operates a diversified portfolio of contracted renewable and conventional generation, along with thermal infrastructure assets in the United States. The company's primary business strategy is to focus on acquisitions and ownership of assets that have predictable and long-term cash flows to increase the cash dividends paid to holders of its Class A and Class C common stock over time, without compromising the ongoing stability of the business. Clearway Energy's asset portfolio includes more than 7,400 megawatts ("MW") of wind, solar, thermal and natural gas-fired power generation facilities, as well as district energy systems

The company was formed after Global Infrastructure Partners ("GIP") acquired all the ownership interests of NRG Yield, Inc. from NRG Energy, Inc. Clearway Energy started to trade from Sep 17, 2018. As of Dec 31, 2019, GIP owned nearly 55% voting interest in the company.

The company has plans to provide its investors with stable and growing dividend income. Clearway Energy's Class C common stock is traded on the New York Stock Exchange under the ticker symbol CWEN.

The company is sponsored by its controlling investor, Global Infrastructure Partners, an independent infrastructure fund manager that invests in infrastructure and businesses in both OECD and select emerging market countries through GIP's portfolio company, Clearway Energy Group. Clearway Energy operates as a subsidiary of Clearway Energy Group LLC.

The company has three segments, namely **Renewables**, **Thermal** and **Conventional**. At the end of 2019, these segments contributed \$485 million, \$201 million and \$346 million, respectively, to total operating revenues.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Clearway Energy owns and operates utility scale renewable energy and natural gas-fired generation, as well as thermal and other infrastructure assets having low operating risks and stable cash flows. Focus on the core assets coupled with industry knowledge will enable the company increase its operational efficiency and maximize financial performance.

The company sells majority of its output pursuant to long-term offtake agreements. The weighted average remaining contract duration of these long-term offtake agreements were nearly 13 years as of June 30, 2020. The Bankruptcy case of its customer, Pacific Gas and Electric Co. (PG&E) is resolved. This provided the company with a significant source of liquidity through the release of nearly \$168 million of trapped cash and allowed it to allocate the same toward growth investments. In the past 12 months, Clearway Energy's shares have gained 35.8% against the industry's decline of 20.6%.

- ▲ The company is primarily focused on North America, which saves it from currency fluctuation and sovereign risks. In addition, North America provides an excellent opportunity to expand its operation through acquisition of renewable, natural gas-fired generation and thermal infrastructure assets. Clearway Energy already acquired 80 MW of solar projects from Clearway Group under the Right to First Offer ("ROFO") mode. It has already made an agreement to acquire two wind projects having a combined capacity of 199 MW, out of which the Rattlesnake project will start operation from 2020 and Pinnacle Wind Repowering will begin operating from 2021.

The company announced that it has entered into an agreement related to the drop-down offer from Clearway Group to acquire and invest in a portfolio of renewable energy projects. Per the agreement, Clearway Energy — on closure of the acquisition — will invest \$241 million, subject to closing adjustments. Clearway Energy entered into an agreement with Clearway Group to acquire an interest in Mesquite Star Pledgor LLC, which owns the Mesquite Star wind project, a 419-MW utility scale wind facility.

- ▲ Courtesy of Clearway Energy's modern nature of the generation portfolio that includes a substantial number of solar and wind generation assets, it expects to achieve high fleet availability and modest maintenance-related capital expenditure. The new and long-lived assets in the portfolio give the company a competitive advantage and boost margins. It needs to incur lower operating expenses to generate electricity.

The company owns and operates utility scale and distributed renewable energy and natural gas-fired generation, thermal and other infrastructure assets with proven technologies, low operating risks, along with stable cash flows. Clearway Energy believes that it will be able to maximize strategic opportunities and the overall financial performance, as well as be a leader in operational efficiency by focusing on this core asset class and leveraging the industry knowledge.

- ▲ Capital expenditure plans of the company will help to further expand its capacity to generate energy from clean sources. For the years ended Dec 31, 2019, 2018, and 2017, the company utilized nearly \$228 million, \$83 million, and \$190 million, respectively, to fund capital expenditures. High-quality renewable assets will continue to support the company's generation portfolio, which in sync with current environmental regulations.

The company continues to carry out operations safely amid the COVID-19 pandemic and does not expect any financial impact of this pandemic on the future results.

Long-lived renewable assets, acquisition of renewable projects, and focus on North American operation are tailwinds for the company.

Reasons To Sell:

- ▼ The company generates a substantial portion of its electricity from solar and wind energy sources, which depends heavily on suitable meteorological conditions. Even though the company's renewable investment decision is based on the findings of wind and solar studies, weather conditions might fluctuate due to potential impact of climate change.
- ▼ The company's quarterly operating results are impacted by seasonal factors and weather variability, which can further impact renewable energy resources and volumetric sales of steam and chilled water at the Thermal segment. If the company fails to produce the expected volume of energy from renewable sources, the business, financial conditions and cash flow will be adversely impacted.
- ▼ A significant portion of electric power generated is sold under long-term offtake agreements to different buyers. If, for any reason, any of the purchasers of power under these agreements are unable or unwilling to fulfill their related contractual obligations or otherwise terminate such agreements prior to the expiration thereof, the company's business, financial condition, results of operations and cash flows will be adversely impacted.
- ▼ Clearway Energy relies on certain electric interconnection and transmission facilities that are not owned or controlled by it. The company also depends on others for wholesale sale of electricity from the electric generation assets to customers. If these third-party facilities fail to provide Clearway Energy with adequate transmission capacity, its ability to deliver electric power to customers may be restricted and it may either incur additional costs or forego revenues.
- ▼ The high debt level of Clearway Energy could adversely affect its ability to raise additional capital to fund the capital projects or pay distributions. Although interest rates have declined to near zero level, servicing the existing debts will lower the company's profitability and reduce margins. Long-term debt of the company at the end of second-quarter 2020 were \$6,377 million, up from \$4,956 million at the end of fourth-quarter 2019.

Fluctuating weather patterns can disrupt renewable power generation, high debt levels and dependence on third party assets for electric transmission could hurt margins.

Its times interest earned ratio has been declining over the years. It came in at 0.6 at the end of first-quarter 2020, down from 0.7 at 2019-end. The decline in this ratio indicates that the company might find it difficult to meet debt obligations in the near future. At a time when every entity is looking forward to preserve liquidity amid uncertainty created by the COVID-19 outbreak, this declining ratio will not be reassuring for investors.

Last Earnings Report

Clearway Energy Q2 Earnings & Revenues Miss Estimates

Clearway Energy Inc. reported second-quarter 2020 earnings of 41 cents per share, which missed the Zacks Consensus Estimate of 71 cents by 42.2%. In the year-ago quarter, the company reported a loss of 22 cents per share.

Total Revenues

The company's total revenues for second-quarter 2020 were \$329 million, which lagged the Zacks Consensus Estimate of \$339 million by 2.9%. However, total revenues improved 15.8% year over year.

Highlights of the Release

On Apr 20, Clearway Energy announced that it has entered into binding agreements with Clearway Group that will enable the former to acquire and invest in a portfolio of renewable energy projects, as well as expand the clean power generation portfolio.

Total operating expenses for the second quarter amounted to \$199 million, increasing 1.01% from the year-ago period. Operating income was \$130 million, up 49.4% from the year-ago level.

Interest expenses for the quarter were \$93 million, decreasing 28.5% year over year.

Financial Position

Clearway Energy had cash and cash equivalents of \$175 million as of Jun 30, 2020, up from \$155 million on Dec 31, 2019. Total liquidity as of Jun 30, 2020 was \$855 million, which was higher than the Dec 31, 2019 level of \$842 million. The improvement was due to proceeds raised through the company's ATM program during 2020 and from the residential solar portfolio divestiture, along with the offering of additional Senior Notes due 2028.

Long-term debt as of Jun 30, 2020 was \$6,377 million, reflecting a 28.7% increase from \$4,956 million on Dec 31, 2019.

The company's net cash flow from operating activities for first-half 2020 was \$184 million compared with \$150 million in the comparable prior-year period.

Guidance

Clearway Energy reaffirmed its 2020 Cash Available for Distribution (CAFD) guidance of \$310 million.

Quarter Ending	06/2020
Report Date	Aug 06, 2020
Sales Surprise	-2.95%
EPS Surprise	-42.25%
Quarterly EPS	0.41
Annual EPS (TTM)	0.47

Valuation

Clearway Energy shares are up 20.4% in the year to date period and up 35.8% in the trailing 12-month period. Stocks in the Zacks sub-industry is and the Zacks Oil-Energy sector are down 22.4% and 45.3% respectively in the year to date period. Over the past year, the Zacks sub-industry and Zacks sector are down 20.6% and 43.6% respectively.

The S&P 500 index is up 0.5% in the year-to-date period and up 8.7% in the past year .

The stock is currently trading at 25.06X of forward 12 months earnings, which compares to 15X for the Zacks sub-industry, 20.95X for the Zacks sector and 21.26X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.82X and as low as 7.4X, with a 5-year median of 15.45X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$26 price target reflects 26.06X of forward 12 months earnings.

The table below shows summary valuation data for CWEN

Valuation Multiples - CWEN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.06	15	20.95	21.26
	5-Year High	29.82	22.8	60.26	23.44
	5-Year Low	7.4	11.36	11.32	15.26
	5-Year Median	15.45	16.25	18.78	17.63
P/S F12M	Current	4.16	0.88	0.62	3.94
	5-Year High	4.65	31.25	1.47	4.29
	5-Year Low	1.86	0.71	0.6	3.11
	5-Year Median	2.95	5.16	0.99	3.66
P/B TTM	Current	2.19	1.48	0.84	5.56
	5-Year High	2.42	2.29	1.55	6.17
	5-Year Low	0.73	1.01	0.53	3.75
	5-Year Median	1.46	1.7	1.32	4.85

As of 9/23/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 41% (104 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Avista Corporation (AVA)	Neutral	4
Covanta Holding Corporation (CVA)	Neutral	3
IDACORP, Inc. (IDA)	Neutral	3
NorthWestern Corporation (NWE)	Neutral	3
PNM Resources, Inc. Holding Co. (PNM)	Neutral	3
Portland General Electric Company (POR)	Neutral	4
Allete, Inc. (ALE)	Underperform	5
Ormat Technologies, Inc. (ORA)	Underperform	5

The positions listed should not be deemed a recommendation to buy, hold or sell.

Industry Comparison Industry: Alternative Energy - Other				Industry Peers		
	CWEN	X Industry	S&P 500	IDA	NWE	PNM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	B	-	-	D	D	C
Market Cap	4.89 B	417.55 M	22.66 B	4.02 B	2.43 B	3.14 B
# of Analysts	4	2	14	1	1	1
Dividend Yield	5.13%	0.00%	1.75%	3.37%	5.00%	3.12%
Value Score	B	-	-	C	C	C
Cash/Price	0.08	0.12	0.07	0.11	0.01	0.00
EV/EBITDA	13.72	5.13	12.75	10.51	10.08	11.43
PEG F1	2.23	2.77	2.87	6.65	4.23	3.67
P/B	2.19	1.45	3.16	1.60	1.18	1.79
P/CF	10.09	10.09	12.31	9.86	6.89	6.63
P/E F1	22.34	22.67	20.75	17.49	14.33	17.85
P/S TTM	4.37	1.80	2.33	3.12	2.01	2.05
Earnings Yield	4.43%	2.14%	4.61%	5.72%	6.98%	5.60%
Debt/Equity	2.86	0.67	0.70	0.80	1.06	1.39
Cash Flow (\$/share)	2.41	0.21	6.93	8.07	6.97	5.95
Growth Score	B	-	-	C	F	C
Historical EPS Growth (3-5 Years)	9.70%	14.39%	10.41%	4.41%	4.20%	6.86%
Projected EPS Growth (F1/F0)	1,175.00%	-1.03%	-4.56%	-1.30%	-2.05%	2.31%
Current Cash Flow Growth	1.48%	-0.45%	5.26%	2.71%	0.63%	8.83%
Historical Cash Flow Growth (3-5 Years)	10.60%	10.66%	8.49%	4.23%	8.19%	7.55%
Current Ratio	1.18	1.18	1.35	1.85	0.61	0.26
Debt/Capital	74.07%	40.98%	42.95%	44.43%	51.42%	57.96%
Net Margin	4.56%	-2.66%	10.25%	18.22%	12.74%	11.57%
Return on Equity	2.42%	0.16%	14.66%	9.48%	7.89%	10.72%
Sales/Assets	0.12	0.29	0.50	0.19	0.20	0.21
Projected Sales Growth (F1/F0)	15.94%	0.00%	-1.48%	0.00%	0.00%	0.00%
Momentum Score	F	-	-	C	C	D
Daily Price Change	-1.97%	0.00%	-2.13%	-2.16%	-2.20%	-3.02%
1-Week Price Change	11.31%	0.00%	0.79%	-1.12%	-3.07%	-1.96%
4-Week Price Change	-3.75%	-9.71%	-5.18%	-10.04%	-6.98%	-8.62%
12-Week Price Change	6.09%	0.00%	2.28%	-11.18%	-13.36%	0.31%
52-Week Price Change	35.31%	-25.21%	-3.19%	-29.61%	-36.87%	-24.34%
20-Day Average Volume (Shares)	640,531	58,353	2,088,433	295,837	368,790	401,079
EPS F1 Estimate 1-Week Change	0.23%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-19.78%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	-29.51%	-0.74%	4.08%	0.00%	0.00%	0.00%
EPS Q1 Estimate Monthly Change	-1.35%	0.00%	0.00%	NA	NA	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.