

Consolidated Edison (ED)

\$86.88 (As of 01/09/20)

Price Target (6-12 Months): **\$92.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/04/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: F

Momentum: A

Summary

Consolidated Edison is steadily investing in enhancement of its renewable generation assets. As of Sep 30, Consolidated Edison's Clean Energy Businesses had 2,634 MW AC of utility-scale renewable energy production projects in service. The company also maintains a stable liquidity level, which enables it to reward shareholders with valuable dividend hikes. Consolidated Edison focuses on maximizing shareholder value, through increased dividend payouts. However, increasing debt levels might be a major headwind for the company going ahead. The company also faces commodity price risk. Consolidated Edison's P/E ratio remains higher than its industry. Pending investigation results related to disruption of services due to storms might hurt the stock. Shares of the company underperformed the industry in the past year.

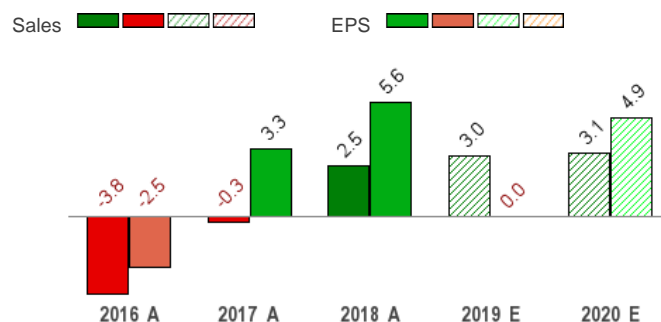
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$94.97 - \$73.30
20 Day Average Volume (sh)	1,484,181
Market Cap	\$28.9 B
YTD Price Change	-4.0%
Beta	0.04
Dividend / Div Yld	\$2.96 / 3.4%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 37% (161 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.1%
Last Sales Surprise	-3.8%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	02/20/2020
Earnings ESP	0.0%
P/E TTM	20.4
P/E F1	19.2
PEG F1	9.6
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					13,110 E
2019	3,514 A	2,744 A	3,365 A	3,041 E	12,712 E
2018	3,364 A	2,696 A	3,328 A	2,949 A	12,337 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.46 E	\$0.57 E	\$1.66 E	\$0.81 E	\$4.53 E
2019	\$1.38 A	\$0.58 A	\$1.54 A	\$0.78 E	\$4.32 E
2018	\$1.37 A	\$0.61 A	\$1.56 A	\$0.77 A	\$4.32 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/09/2020. The reports text is as of 01/10/2020.

Overview

New York-based Consolidated Edison, Inc., also known as ConEd, is a diversified utility holding company, with subsidiaries engaged in both regulated and unregulated businesses. The company was incorporated in 1823.

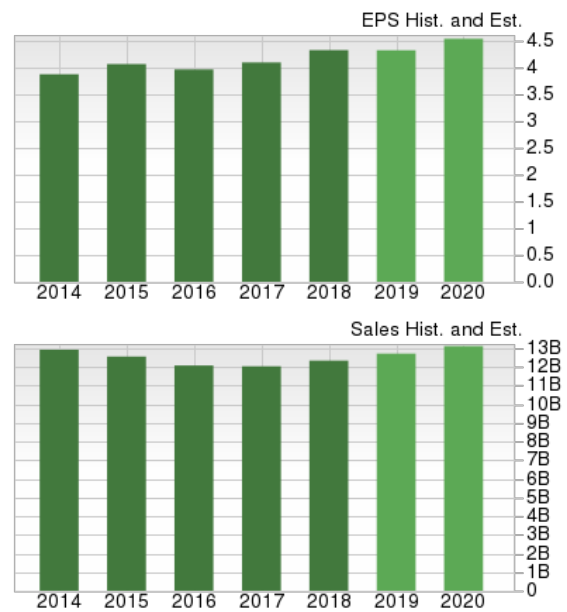
ConEd's regulated businesses operate through its subsidiaries – Consolidated Edison Company of New York (CECONY), Orange and Rockland Utilities (O&R), Con Edison Clean Energy Businesses, Inc. and Con Edison Transmission, Inc.

CECONY is a regulated utility that provides electricity to around 3.4 million customers and natural gas to roughly 1.1 million customers. The company also supplies steam to parts of Manhattan. CECONY's operating revenues in 2018 totaled \$10.68 billion, reflecting 86.6% of the company's total revenues.

O&R Utilities serves nearly 0.3 million electric and 0.1 million gas customers in southeastern New York, northern New Jersey and eastern Pennsylvania. Its operating revenues in 2018 totaled \$0.89 billion, reflecting 1.2% of the company's total revenues.

Consolidated Edison's operations are regulated by the New York Public Service Commission and the New Jersey Board of Public Utilities (NJBPUI). The company pursues unregulated businesses through three subsidiaries: Con Edison Development (engaged in infrastructure development), Con Edison Energy (supplies energy to the wholesale market) and Con Edison Solutions (provides retail energy). These are together called the **Clean Energy Business**. Its operating revenues during 2018 totaled \$0.76 billion, reflecting 6.2% of the company's total revenues.

In 2014, Consolidated Edison formed Consolidated Edison Transmission LLC (Con Edison Transmission) to invest in the transmission business. It operates through its wholly-owned subsidiaries, Consolidated Edison Transmission, LLC (CET Electric) and Con Edison Gas Pipeline and Storage, LLC (CET Gas, which was formerly named Con Edison Gas Midstream, LLC).



Reasons To Buy:

- ▲ Consolidated Edison's regulated utilities provide it with a stable earnings base. These utilities offer transmission and distribution with limited commodity exposure as most electric and gas supply costs are passed on to customers. Generally, utilities recoup funds invested in infrastructure development projects from customers by increasing their utility rates. Positive outcomes from the rate hike appeal by the utilities will likely encourage them to invest more in infrastructure projects, which will subsequently improve reliability.
- ▲ The company continues to follow a systematic capital investment plan for infrastructure development and maintain the reliability of its electric, gas and steam delivery systems. Notably, Consolidated Edison spent capital worth \$5.25 billion during 2018. Going ahead, the company boasts a robust capital expenditure plan of around \$12.1 billion for the 2019-2021 time frame. In 2019, the company expects to invest \$3.63 billion, out of which it plans to spend \$3 billion for its CECONY & O&R subsidiaries, \$0.21 billion in Con Edison Transmission and \$0.2 billion in renewable electric production projects.
- ▲ Consolidated Edison is investing steadily to enhance its renewable generation assets. As of Sep 30, 2019, Consolidated Edison's Clean Energy Businesses had 2,634 MW AC of utility-scale renewable energy production projects in service and 54 MW of behind-the-meter renewable energy production projects in service. In the third quarter of 2019, the company's electric production volumes from renewables surged 89.4% year over year to 5,421 kilowatt per hours (kWh) millions from the previous year's figure. This reflects the steady progress that Consolidated Edison has been making in the booming renewables space.
- ▲ Consolidated Edison focuses on maximizing shareholder value, through increased dividend payouts. On Jan 17, 2019, the company announced that its management has increased its quarterly dividend payout to 74 cents per share from the prior distribution of 71.5 cents. This marked 45th straight yearly increase by the company. Impressively, the company maintains a stable liquidity level, which enables it to reward shareholders with similar valuable dividend hikes. Notably, its cash and temporary cash investments were \$78 million as of Sep 30, 2019. Such strong cash generation capacity enables the company to follow a disciplined capital spending program. During the first nine months of 2019, it paid dividends worth \$685 million compared with \$635 million in the prior-year period.

Consolidated Edison's systematic capital investment plan and focus on reducing its carbon footprint through renewable assets are some of the positive factors.

Reasons To Sell:

- ▼ In March 2018, winter storms — Riley and Quinn — caused damages to Consolidated Edison's electric distribution systems, thereby interrupting its services. This, in turn, caused the company to incur total costs of \$134 million as of Sep 30, 2019. In April 2019, following the issuance of a NYSPSC staff report on the investigation, the New York State Department of Public Service (NYSPSC) ordered the company to justify why the NYSPSC should not charge a penalty against it for violating emergency response plans. Further updates on this investigation are yet to be released. If regulatory authorities come up with any adverse ruling, the company's bottom line might get affected.
- ▼ Consolidated Edison faces commodity price risk related to the purchase and sale of its electricity, gas and related derivative instruments. Management stated that a 10% decline in market prices may result in a decrease in fair value of \$83 million for the derivative instruments used by the company to hedge purchases of electricity and gas.
- ▼ The company had a notable long-term debt of \$17.54 billion as of Sep 30, 2019, compared with \$17.50 billion as of Dec 31, 2018. Such increasing debt levels can turn out to be a major headwind for the company, going ahead. Moreover, with the current U.S. economy being in favor of the expanding interest rate, the credit market may not turn out to be much favorable for Consolidated Edison. Such debt related issues may have caused investors to remain skeptic about the company's growth. Notably, shares of Consolidated Edison have only gained 18.6% in a year's time compared with its industry's 22.8% growth.
- ▼ A comparative analysis of Consolidated Edison's historical Price/Earnings (P/E) ratio reflects a relatively gloomy picture that might be a cause for investors' concern. The stock currently has a trailing 12-month P/E ratio of 20.35. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is also above the mid-point of 20.30 for the period. Its P/E ratio also remained above the industry's ratio of 18.13 last year.

Higher debt levels, unfavorable valuation and adverse decision for its pending regulatory cases could be detrimental to growth.

Last Earnings Report

Consolidated Edison Q3 Earnings Lag Estimates, Fall Y/Y

Consolidated Edison reported third-quarter 2019 adjusted earnings of \$1.54 per share, which missed the Zacks Consensus Estimate of \$1.59 by 3.1%. The bottom line also declined 1.9% from the year-ago quarter's \$1.57.

Barring one-time adjustments, the company posted GAAP earnings of \$1.42 per share, reflecting 1.4% year-over-year improvement. This upside was driven by higher revenues and operating income.

Quarter Ending **09/2019**

Report Date	Nov 04, 2019
Sales Surprise	-3.80%
EPS Surprise	-3.14%
Quarterly EPS	1.54
Annual EPS (TTM)	4.27

Total Revenues

In the reported quarter, the company's total revenues of \$3,365 million missed the Zacks Consensus Estimate of \$3,498 million by 3.8%. However, the top line rose 1.1% from \$3,328 million in the year-ago quarter.

Electric revenues totaled \$2,753 million in the third quarter, down 1.1% from the prior-year quarter's \$2,783 million. Gas revenues increased 2.7% to \$306 million. Steam revenues declined 9.4% to \$58 million. Meanwhile, non-utility revenues amounted to \$248 million, up 35.5% from \$183 million in the year-earlier quarter.

Operating Statistics

Total operating expenses in the third quarter slipped 0.2% year over year to \$2,498 million.

Depreciation and amortization, other operations and maintenance, and taxes and other than income taxes increased 16.9%, 6.3% and 3.5%, respectively, from the prior-year quarter numbers. However, purchase power, fuel and gas purchased for resale declined 11.4%, 20.5% and 40.2% year over year, respectively.

Financials

Cash and temporary cash investments as of Sep 30, 2019 were \$78 million compared with \$895 million as of Dec 31, 2018.

Long-term debt was \$17,537 million as of Sep 30, 2019, compared with \$17,495 million at 2018 end.

At the end of the first nine months of 2019, cash from operating activities amounted to \$1,490 million compared with \$1,085 in the prior-year period.

2019 Guidance

For 2019, the company narrowed its adjusted earnings per share guidance to the range of \$4.25-\$4.35 compared with the prior guided range of \$4.25-\$4.45. The Zacks Consensus Estimate for full-year earnings is pegged at \$4.34, above the midpoint of the company-guided range.

Recent News

On **Jan 7, 2020**, a subsidiary of Consolidated Edison, Consolidated Edison Development, bought Lakehurst solar project from Starwood Energy Group Global and Energy Management Inc. The transaction details, however, was kept undisclosed, following the closure of the deal.

Valuation

Consolidated Edison's shares are down 1% in the past six months period and up 18.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 5.9% and 3.3% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 22.8% and the sector is up 4.6%.

The S&P 500 index is up 10% in the past six months period and 27.1% in the past year.

The stock is currently trading at 19.15X of forward 12-month earnings, which compares to 14.43X for the Zacks sub-industry, 13.34X for the Zacks sector and 18.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.10X and as low as 14.37X, with a 5-year median of 18.21X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$92 price target reflects 20.27X forward 12-month earnings.

The table below shows summary valuation data for ED

Valuation Multiples - ED					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.15	14.43	13.34	18.81
	5-Year High	21.1	14.66	15.33	19.34
	5-Year Low	14.37	11.19	12.61	15.17
	5-Year Median	18.21	13.09	13.68	17.44
P/S F12M	Current	2.2	2.24	2.87	3.49
	5-Year High	2.47	2.25	3.26	3.49
	5-Year Low	1.28	1.5	1.7	2.54
	5-Year Median	1.96	1.83	1.95	3
P/B TTM	Current	2.31	1.74	3.93	4.41
	5-Year High	2.41	1.86	3.96	4.45
	5-Year Low	1.48	1.32	2.01	2.85
	5-Year Median	1.85	1.54	2.55	3.61

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (161 out of 254)



Top Peers

The AES Corporation (AES)	Outperform
Dominion Energy Inc. (D)	Neutral
Edison International (EIX)	Neutral
Entergy Corporation (ETR)	Neutral
FirstEnergy Corporation (FE)	Neutral
Xcel Energy Inc. (XEL)	Neutral
CLP Holdings Ltd. (CLPHY)	NA
Tenaga Nasional Berhad (TNABY)	NA

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	ED Neutral	X Industry	S&P 500	DTE Neutral	ES Neutral	FE Neutral
VGM Score	D	-	-	C	D	F
Market Cap	28.88 B	9.04 B	23.94 B	24.36 B	27.00 B	25.86 B
# of Analysts	3	2	13	4	6	3
Dividend Yield	3.41%	2.82%	1.78%	3.15%	2.57%	3.18%
Value Score	D	-	-	C	D	C
Cash/Price	0.01	0.04	0.04	0.00	0.00	0.03
EV/EBITDA	11.63	11.26	13.97	12.99	13.94	11.10
PEG Ratio	9.66	3.70	2.03	3.28	4.07	3.22
Price/Book (P/B)	1.59	1.78	3.33	2.23	2.23	3.56
Price/Cash Flow (P/CF)	9.71	8.94	13.73	10.13	12.51	9.19
P/E (F1)	19.31	19.32	18.79	19.70	22.90	19.32
Price/Sales (P/S)	2.30	2.21	2.64	1.84	3.17	2.34
Earnings Yield	5.21%	5.08%	5.32%	5.08%	4.36%	5.18%
Debt/Equity	1.01	1.06	0.72	1.28	1.11	2.67
Cash Flow (\$/share)	8.95	4.03	6.94	12.70	6.67	5.21
Growth Score	F	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	1.98%	4.40%	10.56%	7.64%	5.10%	-0.94%
Proj. EPS Growth (F1/F0)	5.00%	5.71%	7.49%	5.28%	5.46%	-1.29%
Curr. Cash Flow Growth	6.99%	7.23%	14.83%	10.89%	14.10%	-13.01%
Hist. Cash Flow Growth (3-5 yrs)	5.46%	4.93%	9.00%	4.53%	4.95%	-4.44%
Current Ratio	0.58	0.81	1.23	0.77	0.59	0.62
Debt/Capital	50.30%	51.35%	42.99%	56.15%	52.87%	72.76%
Net Margin	10.98%	9.70%	11.08%	8.24%	10.46%	10.49%
Return on Equity	7.92%	9.47%	17.16%	9.93%	9.28%	19.21%
Sales/Assets	0.23	0.24	0.55	0.36	0.22	0.27
Proj. Sales Growth (F1/F0)	3.13%	3.21%	4.20%	5.16%	5.90%	3.00%
Momentum Score	A	-	-	B	F	D
Daily Price Chg	-0.10%	0.25%	0.53%	0.14%	0.79%	0.52%
1 Week Price Chg	-1.46%	-0.58%	-0.30%	0.10%	-1.73%	-1.92%
4 Week Price Chg	-0.73%	2.39%	1.92%	2.99%	3.15%	0.04%
12 Week Price Chg	-4.84%	0.85%	6.54%	-0.63%	-2.02%	-0.50%
52 Week Price Chg	13.49%	15.18%	22.58%	15.18%	26.27%	24.08%
20 Day Average Volume	1,484,181	272,279	1,580,816	1,044,533	1,732,146	2,701,783
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.17%	0.00%	0.00%	0.00%	-0.12%	0.00%
(F1) EPS Est 12 week change	-0.82%	-0.16%	-0.50%	1.05%	0.05%	0.79%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	0.00%	0.00%

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 have an excellent 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	D
Growth Score	F
Momentum Score	A
VGM Score	D

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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