

Consolidated Edison (ED)

\$73.26 (As of 07/20/20)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/06/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: D

Summary

Consolidated Edison continues to follow a systematic capital investment plan for infrastructure development and maintaining the reliability of its electric, gas and steam delivery systems. In 2020, the company expects to invest \$3.94 billion. Consolidated Edison is also investing steadily to enhance its renewable generation assets. As of Mar 31, 2020, its Clean Energy Businesses had 3,235 MW AC of utility-scale renewable energy production projects in service. However, its current ratio as of Mar 31, 2020, was 0.8, which being less than 1, indicates that this utility might not possess sufficient capital in hand to meet its short-term obligations. Consolidated Edison faces commodity-price risks related to the purchase and sale of its electricity, gas and related derivative instruments. Its shares have also underperformed the industry in the past year.

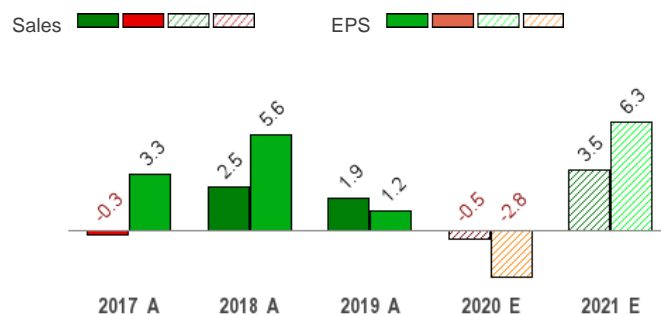
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$95.10 - \$62.03
20 Day Average Volume (sh)	1,775,733
Market Cap	\$24.5 B
YTD Price Change	-19.0%
Beta	0.19
Dividend / Div Yld	\$3.06 / 4.2%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 34% (166 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-6.3%
Last Sales Surprise	-10.2%
EPS F1 Est- 4 week change	-1.3%
Expected Report Date	08/06/2020
Earnings ESP	-0.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,950 E
2020	3,234 A	2,843 E	3,486 E	3,044 E	12,510 E
2019	3,514 A	2,744 A	3,365 A	2,951 A	12,574 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.36 E	\$0.63 E	\$1.58 E	\$0.89 E	\$4.52 E
2020	\$1.34 A	\$0.54 E	\$1.57 E	\$0.82 E	\$4.25 E
2019	\$1.38 A	\$0.58 A	\$1.54 A	\$0.86 A	\$4.37 A

*Quarterly figures may not add up to annual.

P/E TTM	17.0
P/E F1	17.2
PEG F1	8.6
P/S TTM	2.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/20/2020. The reports text is as of 07/21/2020.

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.

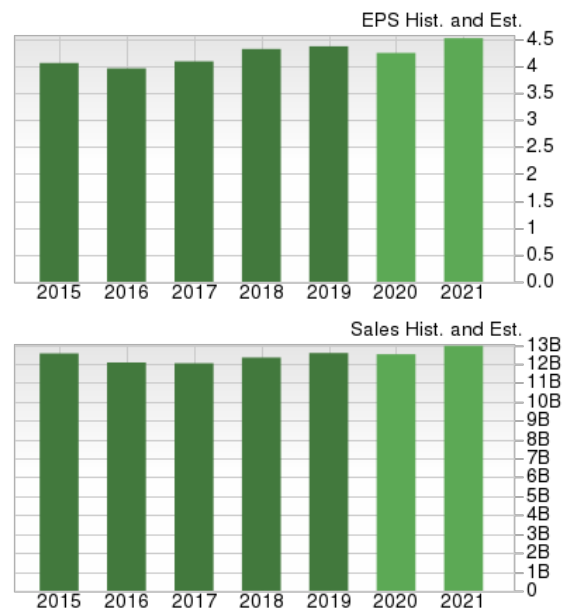
ConEd's regulated businesses operate through its subsidiaries – Consolidated Edison Company of New York (CECONY), Orange and Rockland Utilities (O&R), Con Edison Clean Energy Businesses, Inc. and Con Edison Transmission, Inc.

CECONY is a regulated utility that provides electricity to around 3.5 million customers and natural gas to 1.1 million customers. CECONY operates the largest steam distribution system in the United States by producing and delivering approximately 19,796 MMlb of steam annually to 1,589 customers in parts of Manhattan. CECONY's operating revenues in 2019 totaled \$10.82 billion, reflecting 86% of the company's total revenues.

O&R Utilities serves 0.3 million electric and 0.1 million gas customers in southeastern New York, northern New Jersey and eastern Pennsylvania. Its operating revenues in 2019 totaled \$0.89 billion, reflecting 7.1% 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 2019 totaled \$0.86 billion, reflecting 6.9% 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 \$3.68 billion during 2019. The company boasts a robust capital-expenditure plan of \$10.4 billion for the 2020-2022 time frame. In 2020, the company expects to invest \$3.94 billion, out of which it plans to spend \$3.53 billion for its CECNY & O&R subsidiaries, \$0.01 billion in Con Edison Transmission and \$0.4 billion in renewable electric production projects.
- ▲ Consolidated Edison is investing steadily to enhance its renewable generation assets. As of Mar 31, 2020, the Clean Energy Businesses had 3,235 MW AC of utility-scale renewable energy production projects and 60 MW of behind-the-meter renewable energy production projects in service. In the first quarter of 2020, the company's electric-production volumes from renewables increased 3.6% year over year to 14,568 kilowatt per hours (kWh) millions. It also generated 1,154 million kWh of electricity from solar projects and 351 million kWh from wind projects for the three months ending Mar 31, 2020. This reflects the company's steady progress in the booming renewable space.

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 Mar 31, 2020. Also, on Mar 31, O&R and RECO costs related to 2018 storms amounted to \$43 million and \$17 million, respectively, most of which were deferred as regulatory assets pursuant to their electric rate plans.
- ▼ Consolidated Edison faces commodity-price risks related to the purchase and sale of its electricity, gas and related derivative instruments. As of Mar 31, 2020, the company's management stated that a 10% decline in market prices might result in a decrease in fair value of \$71 million for the derivative instruments used by the company to hedge purchases of electricity and gas, of which \$67 million is for CECONY and \$4 million for O&R. This must have hurt investors' confidence. Notably, shares of Consolidated Edison have declined 15.7% in a year's time compared to the industry's 6.1% decline.
- ▼ Consolidated Edison has a long-term debt of \$20,222 million as of Mar 31, higher than \$19,336 million as of Dec 31, 2019. Moreover, its current debt stood at \$3,378 as of Mar 31, 2020. The company's cash equivalents were \$1,574 million, lower than both its long-term and current debt values. This makes us skeptical about the company's ability to duly meet its obligations.

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

Moreover, the company's current ratio as of Mar 31, 2020, was 0.8, which being less than 1, indicates that this utility might not possess sufficient capital in hand to meet its short-term obligations. Further, the company's debt-to-capital ratio at the end of the first quarter stood at 0.55, which increased sequentially from 0.53. The company's interest coverage came in at 2.5 as of Mar 31, which decreased sequentially from 2.8 and also came in lowest among the last four quarters. Together, these indicate that Consolidated Edison might face difficulties and struggle to meet debt obligations in the near future.

Last Earnings Report

Consolidated Edison Q1 Earnings Miss, Revenues Down Y/Y

Consolidated Edison Inc. reported first-quarter 2020 adjusted earnings of \$1.35 per share, which missed the Zacks Consensus Estimate of \$1.43 by 5.6%. The bottom-line figure, moreover, declined 2.9% from \$1.39 reported in the prior-year quarter.

Barring one-time adjustments, the company posted GAAP earnings of \$1.13 per share, compared with GAAP earnings of \$1.31 in the first quarter of 2019.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	-10.23%
EPS Surprise	-6.29%
Quarterly EPS	1.34
Annual EPS (TTM)	4.32

Total Revenues

In the reported quarter, the company's total revenues of \$3,234 million missed the Zacks Consensus Estimate of \$3,603 million by 10.2%. Moreover, the top line declined 8% from \$3,514 million in the year-ago quarter.

Electric revenues totaled \$1,906 million in the first quarter, down 1.8% from the prior-year quarter's \$1,941 million. Gas revenues declined 10% to \$931 million.

Further, steam revenues fell 22.1% to \$250 million. Meanwhile, non-utility revenues amounted to \$147 million, slumping 32.6% from \$218 million registered in the year-earlier quarter.

Operating Statistics

Total operating expenses in the first quarter declined 11% year over year to \$2,426 million.

Purchase power; gas purchased for resale; fuel, taxes and other operations; and maintenance expenses declined 16.3%, 47.5%, 26.4% and 11.8%, respectively, from the prior-year quarter's numbers. However, depreciation and amortization and taxes, other than income taxes, increased 13.8% and 5.5% year over year, respectively.

Financials

Cash and temporary cash investments, as of Mar 31, 2020, summed \$1,395 million compared with \$981 million as of Dec 31, 2019.

Long-term debt was \$19.423 million as of Mar 31, 2020, compared with \$18,527 million at 2019-end.

At the end of the first quarter, cash from operating activities amounted to \$412 million compared with \$464 million a year ago.

Guidance

For 2020, the company continues to expect adjusted earnings per share in the \$4.15-\$4.35 range. The Zacks Consensus Estimate for full-year earnings, pegged at \$4.37, lies just above the company's guided range.

Recent News

On **May 20, 2020**, Con Edison invested \$1.3 billion in its electric-delivery systems to keep service reliable this summer while continuing to be a leader in adding new technologies to build a clean energy future.

Con Edison is preparing for a typically hot New York summer and one that brings the additional challenge of protecting the public and employees during the coronavirus health emergency.

Valuation

Consolidated Edison's shares are down 19% in the year to date period and 15.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 12.4% and 13% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 6.1% whereas the sector is down 9.1%.

The S&P 500 index is down 0.3% in the year-to-date period and up 8.7% in the past year.

The stock is currently trading at 16.7X of forward 12-month earnings, which compares to 13.7X for the Zacks sub-industry, 12.8X for the Zacks sector and 22.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.1X and as low as 14.6X, with a 5-year median of 18.5X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$78 price target reflects 17.7X 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	16.66	13.67	12.76	22.83
	5-Year High	21.1	15.53	15.32	22.83
	5-Year Low	14.58	11.12	11.4	15.25
	5-Year Median	18.45	13.23	13.78	17.52
P/S F12M	Current	1.92	2.32	2.73	3.58
	5-Year High	2.47	2.45	3.29	3.58
	5-Year Low	1.35	1.54	1.75	2.53
	5-Year Median	1.99	1.9	2.06	3.02
EV/EBITDA TTM	Current	10.09	12.86	18.46	11.98
	5-Year High	11.88	13.6	20.87	12.86
	5-Year Low	8.52	7.81	10.59	8.25
	5-Year Median	10.14	10.39	13.79	10.88

As of 07/20/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (166 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Ameren Corporation (AEE)	Neutral	3
CenterPoint Energy, Inc. (CNP)	Neutral	3
DTE Energy Company (DTE)	Neutral	3
Edison International (EIX)	Neutral	3
Eversource Energy (ES)	Neutral	3
FirstEnergy Corporation (FE)	Neutral	4
PPL Corporation (PPL)	Neutral	3
Xcel Energy Inc. (XEL)	Neutral	3

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	ED	X Industry	S&P 500	DTE	ES	FE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	4
VGM Score	C	-	-	A	C	D
Market Cap	24.48 B	9.09 B	22.29 B	21.04 B	29.14 B	22.35 B
# of Analysts	4	2	14	6	7	5
Dividend Yield	4.18%	3.38%	1.85%	3.71%	2.62%	3.78%
Value Score	D	-	-	B	D	D
Cash/Price	0.06	0.06	0.06	0.03	0.00	0.01
EV/EBITDA	9.78	9.69	13.06	11.41	15.33	12.77
PEG Ratio	8.71	3.58	2.98	3.02	3.88	NA
Price/Book (P/B)	1.32	1.61	3.12	1.75	2.17	3.28
Price/Cash Flow (P/CF)	7.80	7.98	12.03	8.43	12.78	8.54
P/E (F1)	17.41	17.86	22.15	16.70	23.78	16.76
Price/Sales (P/S)	1.99	1.89	2.35	1.73	3.43	2.06
Earnings Yield	5.80%	5.55%	4.30%	5.99%	4.20%	5.96%
Debt/Equity	1.10	1.02	0.75	1.43	1.05	3.06
Cash Flow (\$/share)	9.39	4.27	6.94	12.95	6.78	4.83
Growth Score	B	-	-	C	B	D
Hist. EPS Growth (3-5 yrs)	1.79%	5.04%	10.82%	6.69%	4.94%	-2.03%
Proj. EPS Growth (F1/F0)	-2.80%	0.34%	-9.08%	3.81%	5.55%	-4.57%
Curr. Cash Flow Growth	12.02%	5.82%	5.51%	7.70%	3.84%	-2.04%
Hist. Cash Flow Growth (3-5 yrs)	7.14%	6.02%	8.55%	4.88%	8.38%	-0.82%
Current Ratio	0.80	0.90	1.30	0.89	0.75	0.54
Debt/Capital	52.27%	50.53%	44.41%	58.86%	51.55%	75.34%
Net Margin	10.53%	10.41%	10.54%	9.10%	11.02%	6.13%
Return on Equity	7.92%	9.18%	15.74%	9.82%	9.16%	19.57%
Sales/Assets	0.21	0.22	0.54	0.30	0.21	0.26
Proj. Sales Growth (F1/F0)	-0.51%	0.00%	-2.36%	-0.81%	4.85%	-0.33%
Momentum Score	D	-	-	A	F	A
Daily Price Chg	-1.09%	-0.68%	-0.77%	-2.06%	-1.40%	-2.09%
1 Week Price Chg	2.19%	3.04%	3.82%	3.72%	2.81%	2.11%
4 Week Price Chg	2.58%	3.11%	2.71%	2.30%	2.89%	3.93%
12 Week Price Chg	-11.38%	2.56%	9.79%	6.36%	1.22%	-5.17%
52 Week Price Chg	-15.62%	-13.48%	-3.79%	-15.08%	12.61%	-5.37%
20 Day Average Volume	1,775,733	352,695	2,095,914	1,228,399	1,477,581	3,910,103
(F1) EPS Est 1 week change	-0.64%	0.00%	0.00%	0.00%	0.00%	-0.97%
(F1) EPS Est 4 week change	-1.28%	0.00%	0.09%	0.15%	-0.08%	-0.97%
(F1) EPS Est 12 week change	-3.30%	-1.09%	-4.60%	0.31%	-0.10%	-1.42%
(Q1) EPS Est Mthly Chg	1.51%	0.00%	0.00%	4.84%	-1.49%	5.50%

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	B
Momentum Score	D
VGM Score	C

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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