

## Consolidated Edison (ED)

**\$72.20** (As of 08/21/20)

Price Target (6-12 Months): **\$77.00**

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:B

Value: B

Growth: B

Momentum: A

### Summary

Consolidated Edison posted mixed second-quarter results, wherein earnings surpassed the Zacks Consensus Estimate but revenues failed to meet the mark. 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. In 2020, it targets to invest \$3.94 billion. Consolidated Edison is also investing steadily in renewable generation assets. However, its current ratio, as of Jun 30, 2020, was 0.68, 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.

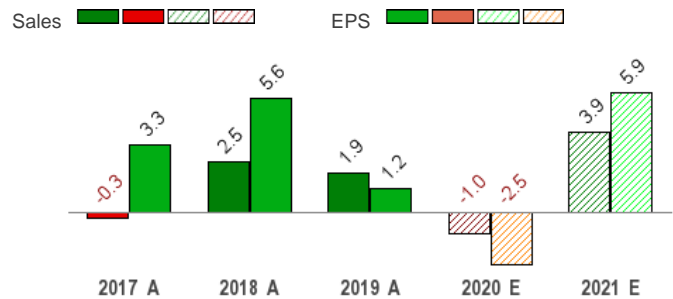
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$95.10 - \$62.03
20 Day Average Volume (sh)	1,905,050
Market Cap	\$24.2 B
YTD Price Change	-20.2%
Beta	0.20
Dividend / Div Yld	\$3.06 / 4.2%
Industry	<a href="#">Utility - Electric Power</a>
Zacks Industry Rank	Bottom 22% (197 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.1%
Last Sales Surprise	-4.7%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	NA
Earnings ESP	-1.5%
P/E TTM	16.6
P/E F1	17.0
PEG F1	8.5
P/S TTM	2.0

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,924 E
2020	3,234 A	2,719 A	3,457 E	3,011 E	12,443 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	\$4.51 E
2020	\$1.34 A	\$0.60 A	\$1.53 E	\$0.81 E	\$4.26 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/21/2020. The reports text is as of 08/24/2020.

## 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.

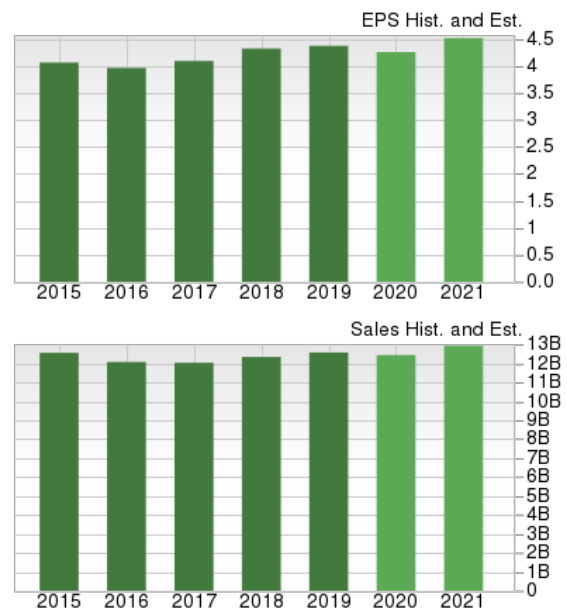
ConEd's regulated businesses operate through its subsidiaries – Consolidated Edison Company of New York (CECONY), Orange and Rockland Utilities (O&R), Con Edison Clean Energy Businesses, Inc. and Con Edison Transmission, Inc.

**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).



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## 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. It is currently the second largest solar power producer in North America and boasts 3.4 gigawatts-ac (GWac) of renewable energy production capacity. As of Jun 30, 2020, its Clean Energy Businesses had 3,374 MW AC of utility-scale renewable energy production projects and 69 MW of behind-the-meter renewable energy production projects in service. It also generated 1,784 million kWh of electricity from solar projects and 388 million kWh from wind projects for the second quarter. 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.

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## Reasons To Sell:

- ▼ In August 2020, Tropical Storm Isaias caused significant damage to Consolidated Edison's electric distribution system and interrupted service to approximately 300,000 CECONY electric customers and approximately 225,000 O&R electric customers. To restore service to customers and repair their energy systems, the company is incurring operating costs and making capital expenditures, the amount of which it is unable to estimate at this time. In August, New York State governor Cuomo directed the New York State Department of Public Service to investigate the preparation and performance of New York utilities in connection with Tropical Storm Isaias. In case of any adverse ruling made by the regulatory authority, Consolidated Edison will incur significant expenses that might weigh on its bottom-line performance in the future.
- ▼ Consolidated Edison faces commodity-price risks related to the purchase and sale of its electricity, gas and related derivative instruments. As of Jun 30, 2020, the company's management stated that a 10% decline in market prices might result in a decrease in fair value of \$89 million for the derivative instruments used by the company to hedge purchases of electricity and gas, of which \$84 million is for CECONY and \$5 million for O&R. This must have hurt investors' confidence. Notably, shares of Consolidated Edison have declined 17.7% in a year's time compared with the industry's 9.5% decrease.
- ▼ Consolidated Edison had a long-term debt of \$19,960 million as of Jun 30, 2020 while, its current debt was \$3,861 million. The company's cash equivalents worth \$1,345 million as of Jun 30, 2020 was lower than both its long-term and current debt values. This makes us skeptical about the company's ability to duly meet its obligations.

Huge debt levels, commodity price risk and adverse decision for its pending regulatory cases could be detrimental to growth.

Moreover, the company's current ratio as of Jun 30, 2020, was 0.68, which being less than 1, indicates that this utility might not possess sufficient capital in hand to meet its short-term obligations. Further, the ratio declined sequentially from 0.80. Such unimpressive financial ratio indicates that Consolidated Edison might face difficulties and may struggle to meet debt obligations in the near future.

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## Last Earnings Report

### Consolidated Edison Q2 Earnings Beat, Revenues Down Y/Y

Consolidated Edison reported second-quarter 2020 adjusted earnings of 60 cents per share, which surpassed the Zacks Consensus Estimate of 54 cents by 11.1%. The reported figure also improved 3.4% from the prior-year quarter's adjusted earnings of 58 cents.

Barring one-time adjustments, the company posted GAAP earnings of 57 cents per share, reflecting 23.9% year-over-year growth.

Quarter Ending **06/2020**

Report Date	Aug 06, 2020
Sales Surprise	-4.68%
EPS Surprise	11.11%
Quarterly EPS	0.60
Annual EPS (TTM)	4.34

### Total Revenues

In the reported quarter, the company's total revenues of \$2,719 million missed the Zacks Consensus Estimate of \$2,852 million by 4.7%. Moreover, the top line declined 0.9% from \$2,744 million in the year-ago quarter.

Electric revenues totaled \$1,983 million in the second quarter, up 0.6% from the prior-year quarter's \$1,971 million. Gas revenues improved 0.9% to \$453 million. However, steam revenues declined 6.7% to \$84 million. Meanwhile, non-utility revenues amounted to \$199 million, falling 15% from \$234 million in the year-earlier quarter.

### Operating Statistics

Total operating expenses in the second quarter declined 2% year over year to \$2,240 million.

Depreciation and amortization, purchased power and taxes other than income taxes grew 13.9%, 8% and 4.5%, respectively, from the prior-year quarter's numbers.

However, other operations and maintenance, fuel, and gas purchased for resale declined 12.9%, 11.5% and 41.2% year over year, respectively.

### Financials

Cash and temporary cash investments as of Jun 30, 2020, summed \$1,144 million compared with \$981 million as of Dec 31, 2019.

Long-term debt was \$19,149 million as of Jun 30, 2020, compared with \$18,527 million at 2019-end.

At the end of the second quarter, cash from operating activities amounted to \$975 million compared with \$1,291 million a year ago.

### 2020 Guidance

For 2020, the company reaffirmed its adjusted earnings per share guidance in the \$4.15-\$4.35 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 20.2% in the year to date period and 17.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 14.2% and 14.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 9.5% whereas the sector is down 9.9%.

The S&P 500 index is up 5.5% in the year-to-date period and 18.3% in the past year.

The stock is currently trading at 16.3X of forward 12-month earnings, which compares to 13.6X for the Zacks sub-industry, 12.6X for the Zacks sector and 22.9X 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 \$77 price target reflects 17.4X 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	16.33	13.57	12.6	22.85
	5-Year High	21.1	15.36	15.28	22.85
	5-Year Low	14.56	11.07	11.3	15.25
	5-Year Median	18.45	13.2	13.72	17.58
P/S F12M	Current	1.89	2.28	2.47	3.71
	5-Year High	2.47	2.47	3.29	3.71
	5-Year Low	1.35	1.35	1.75	2.53
	5-Year Median	2	2	2.07	3.05
EV/EBITDA TTM	Current	9.83	11.49	18.32	12.89
	5-Year High	11.88	13.88	21.07	8.25
	5-Year Low	8.52	7.84	10.59	10.91
	5-Year Median	10.14	10.53	13.97	12.89

As of 08/21/2020

## Industry Analysis Zacks Industry Rank: Bottom 22% (197 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	3
PPL Corporation (PPL)	Neutral	4
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	3
VGM Score	B	-	-	C	C	A
Market Cap	24.15 B	8.43 B	23.62 B	22.31 B	29.65 B	15.24 B
# of Analysts	4	3	14	6	7	5
Dividend Yield	4.24%	3.52%	1.65%	3.50%	2.62%	5.55%
Value Score	B	-	-	B	D	A
Cash/Price	0.05	0.07	0.07	0.03	0.00	0.01
EV/EBITDA	9.70	9.70	13.29	11.91	15.44	11.00
PEG Ratio	8.54	3.44	3.03	3.06	3.63	NA
Price/Book (P/B)	1.31	1.57	3.11	1.88	2.15	2.13
Price/Cash Flow (P/CF)	7.69	7.51	12.69	8.95	12.77	5.82
P/E (F1)	17.08	17.08	21.51	17.33	23.92	11.29
Price/Sales (P/S)	1.97	1.81	2.43	1.88	3.47	1.40
Earnings Yield	5.90%	5.81%	4.46%	5.77%	4.18%	8.86%
Debt/Equity	1.08	1.05	0.76	1.47	0.99	3.08
Cash Flow (\$/share)	9.39	4.27	6.93	12.95	6.78	4.83
Growth Score	B	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	1.88%	5.32%	10.44%	6.30%	5.32%	-2.26%
Proj. EPS Growth (F1/F0)	-2.63%	0.93%	-5.53%	6.08%	4.84%	-3.49%
Curr. Cash Flow Growth	12.02%	6.78%	5.20%	7.70%	3.84%	-2.04%
Hist. Cash Flow Growth (3-5 yrs)	7.14%	6.02%	8.52%	4.88%	8.38%	-0.82%
Current Ratio	0.68	0.86	1.33	0.83	0.72	0.78
Debt/Capital	51.98%	50.98%	44.50%	59.49%	50.09%	75.47%
Net Margin	10.86%	9.66%	10.13%	10.13%	13.52%	6.10%
Return on Equity	7.92%	9.28%	14.67%	10.50%	8.99%	19.31%
Sales/Assets	0.21	0.22	0.51	0.28	0.21	0.26
Proj. Sales Growth (F1/F0)	-1.04%	0.00%	-1.54%	-2.21%	2.58%	-0.36%
Momentum Score	A	-	-	C	B	B
Daily Price Chg	-0.28%	0.00%	-0.15%	0.32%	1.02%	-0.88%
1 Week Price Chg	-2.10%	-0.86%	1.09%	-0.97%	-2.10%	-0.37%
4 Week Price Chg	-5.31%	-2.00%	1.64%	0.77%	-3.88%	2.59%
12 Week Price Chg	-1.30%	2.79%	6.72%	7.49%	6.98%	-34.15%
52 Week Price Chg	-18.18%	-12.08%	1.00%	-11.07%	8.49%	-38.49%
20 Day Average Volume	1,905,050	336,207	1,873,576	951,941	1,151,915	10,690,990
(F1) EPS Est 1 week change	0.29%	0.00%	0.00%	0.38%	0.00%	0.00%
(F1) EPS Est 4 week change	0.18%	0.19%	1.79%	1.62%	0.59%	1.22%
(F1) EPS Est 12 week change	-1.62%	0.00%	3.35%	2.35%	-0.08%	-0.08%
(Q1) EPS Est Mthly Chg	-2.29%	-0.68%	0.42%	-4.62%	0.36%	1.30%

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## 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.

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### 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>B</b>
Growth Score	<b>B</b>
Momentum Score	<b>A</b>
VGM Score	<b>B</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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