

Consolidated Edison (ED)

\$88.89 (As of 02/24/20)

Price Target (6-12 Months): **\$94.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/04/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: C

Summary

Consolidated Edison ended fourth quarter of 2019 with earnings surpassing the Zacks Consensus Estimate and revenues missing the same. It is steadily investing in enhancement of its renewable generation assets. As of Dec 31, 2019, its Clean Energy Businesses had 3,045 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. 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/S 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 have underperformed the industry in the past year.

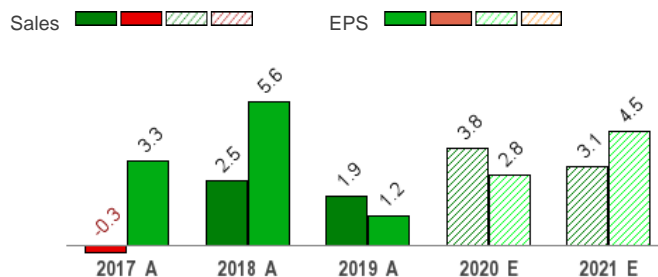
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$95.10 - \$80.98
20 Day Average Volume (sh)	1,605,340
Market Cap	\$29.7 B
YTD Price Change	-1.8%
Beta	0.05
Dividend / Div Yld	\$3.06 / 3.4%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 44% (111 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.9%
Last Sales Surprise	-2.7%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	20.4
P/E F1	19.8
PEG F1	9.9
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					13,458 E
2020					13,058 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					\$4.69 E
2020	\$1.46 E	\$0.59 E	\$1.59 E	\$0.89 E	\$4.49 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 02/24/2020. The reports text is as of 02/25/2020.

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.

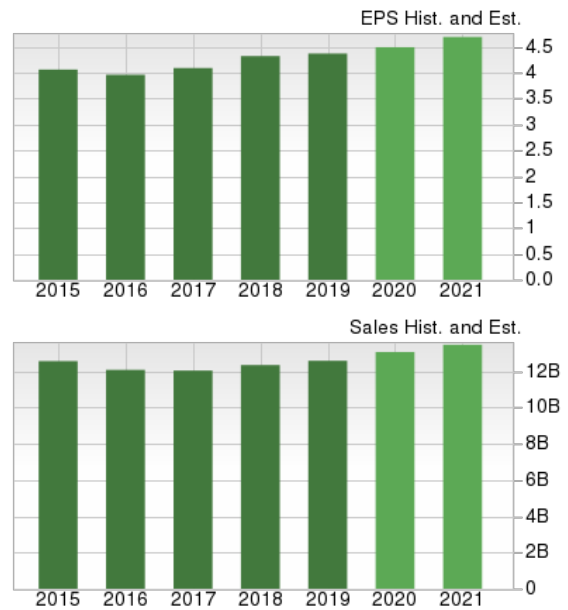
ConEd's regulated businesses operate through its subsidiaries – Consolidated Edison Company of New York (CECONY), Orange and Rockland Utilities (O&R), Con Edison Clean Energy Businesses, Inc. and Con Edison Transmission, Inc.

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 (NJBPU). 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 CECONY & 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 Dec 31, 2019, Consolidated Edison's Clean Energy Businesses had 3,045MW AC of utility-scale renewable energy production projects and 56 MW of behind-the-meter renewable energy production projects in service. In the fourth quarter of 2019, the company's electric-production volumes from renewables surged 82.2% year over year to 6,839 kilowatt per hours (kWh) millions. This reflects the steady progress that Consolidated Edison has been making in the booming renewable space.
- ▲ Consolidated Edison focuses on maximizing shareholder value, through increased dividend payouts. On Jan 16, the company announced that its management has increased the quarterly dividend payout to 76.5 cents per share from the prior distribution of 74 cents. This marked the 46th straight yearly increase by Consolidated Edison. The company continues to target a dividend payout ratio of between 60% and 70% of its adjusted earnings.

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 \$981 million as of Dec 31, 2019, compared with \$895 million as of Dec 31, 2018. Such strong cash-generation capacity enables the company to follow a disciplined capital-spending program. In 2019, it paid dividends worth \$924 million compared with the prior-year period's \$842 million.

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 Dec 31, 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 might result in a decrease in fair value of \$81 million for the derivative instruments used by the company to hedge purchases of electricity and gas, of which \$76 million is for CECONY and \$5 million for O&R.
- ▼ The company had a notable long-term debt of \$18.5 billion as of Dec 31, 2019, compared with \$17.5 billion as of Dec 31, 2018. Such rising debt levels can turn out to be a major headwind for the company in the days to come. Moreover, with the current U.S. economy having expanded interest rate in the recent past, the credit market might not turn out to be much favorable for Consolidated Edison. Such debt related issues will likely cause investors to remain skeptic about the company's growth. Notably, shares of Consolidated Edison have gained 9.3% in a year's time compared with its industry's 19.7% growth.
- ▼ A comparative analysis of Consolidated Edison's historical Price/Sales (P/S) 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 2.36. This level compares unfavorably with what the stock saw in the past 12 months, with the ratio being above the mid-point of 1.97 for the period. Its P/S ratio also remained above the industry's ratio of 2.29 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 Q4 Earnings Top, Revenues Miss

Consolidated Edison Inc. reported fourth-quarter 2019 adjusted earnings of 86 cents per share, which surpassed the Zacks Consensus Estimate of 79 cents by 8.9%.

Including one-time adjustments, the company posted GAAP earnings of 88 cents per share, reflecting 16.2% year-over-year decline. This downside can be attributed to lower operating income recorded in the reported quarter.

For 2019, the company recorded earnings of \$4.38 per share, which surpassed the Zacks Consensus Estimate of \$4.31. The full-year top line rose 1.2% year over year.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	-2.69%
EPS Surprise	8.86%
Quarterly EPS	0.86
Annual EPS (TTM)	4.36

Total Revenues

In the reported quarter, the company's total revenues of \$2,951 million missed the Zacks Consensus Estimate of \$3,033 million by 2.7%. The top line was almost flat when compared with \$2,949 million in the year-ago quarter.

For 2019, the company's total revenues of \$12.57 billion missed the Zacks Consensus Estimate of \$12.64 billion by 0.6%. The full year top line rose 1.9% when compared to \$12.34 billion in the prior year.

Electric revenues totaled \$2,029 million in the fourth quarter, up 1.4% from the prior-year quarter's \$2,001 million. Gas revenues remained flat year over year at \$601 million. Steam revenues inched up 0.6% to \$158 million.

Meanwhile, non-utility revenues amounted to \$164 million, down 13.7% from \$190 million in the year-earlier quarter.

Operating Statistics

Total operating expenses in the fourth quarter declined 1.5% year over year to \$2,386 million.

Purchase power, fuel, gas purchased for resale along with other operations and maintenance expenses decreased 3.9%, 30.6%, 31.7 and 1.2%, respectively, from the prior-year quarter numbers. However, depreciation and amortization expenses as well as tax, other than income taxes, increased 14.6% and 8.4% year over year, respectively.

Financials

Cash and temporary cash investments as of Dec 31, 2019 were \$981 million compared with \$895 million as of Dec 31, 2018.

Long-term debt was \$18,527 million as of Dec 31, 2019, compared with \$17,495 million at 2018 end.

At the end of 2019, cash from operating activities amounted to \$3,134 million compared with \$2,695 in the prior year.

2020 Guidance

For 2020, the company expects to generate adjusted earnings per share in the range of \$4.30-\$4.50. The Zacks Consensus Estimate for full-year earnings is pegged at \$4.49, closer to the upper end 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 up 1.3% in the past six months period and up 9.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 12.1% and 9.6% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 19.7% and the sector is up 0.6%.

The S&P 500 index is up 12.6% in the past six months period and 14.6% in the past year.

The stock is currently trading at 19.66X of forward 12-month earnings, which compares to 15.47X for the Zacks sub-industry, 14.28X for the Zacks sector and 18.44X 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 18.32X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$94 price target reflects 20.79X 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	19.66	15.47	14.28	18.44
	5-Year High	21.1	15.58	15.36	19.34
	5-Year Low	14.37	11.14	12.58	15.18
	5-Year Median	18.32	13.26	13.84	17.47
P/S F12M	Current	2.26	2.47	3.04	3.39
	5-Year High	2.47	2.47	3.31	3.43
	5-Year Low	1.28	1.54	1.71	2.54
	5-Year Median	1.98	1.87	1.98	3
P/B TTM	Current	1.62	1.97	4.25	4.66
	5-Year High	1.84	2.01	4.35	4.9
	5-Year Low	1.31	1.32	2.02	2.85
	5-Year Median	1.58	1.55	5.29	3.62

As of 02/24/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 255)



Top Peers

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

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	ED Neutral	X Industry	S&P 500	DTE Neutral	ES Neutral	FE Neutral
VGM Score	C	-	-	B	C	D
Market Cap	29.67 B	9.20 B	23.50 B	25.54 B	30.83 B	27.38 B
# of Analysts	4	2	13	4	6	4
Dividend Yield	3.44%	2.78%	1.83%	3.05%	2.25%	3.08%
Value Score	C	-	-	C	D	D
Cash/Price	0.04	0.04	0.04	0.00	0.00	0.02
EV/EBITDA	10.83	11.11	13.56	12.62	15.25	13.76
PEG Ratio	9.90	4.22	2.02	3.34	4.30	NA
Price/Book (P/B)	1.62	1.78	3.20	2.16	2.54	3.92
Price/Cash Flow (P/CF)	9.47	9.82	13.05	10.26	14.05	10.48
P/E (F1)	19.80	20.68	18.56	20.04	26.13	20.33
Price/Sales (P/S)	2.36	2.37	2.60	2.02	3.62	2.48
Earnings Yield	5.05%	4.80%	5.38%	4.99%	3.82%	4.92%
Debt/Equity	1.06	1.06	0.70	1.36	1.11	2.81
Cash Flow (\$/share)	9.39	4.04	7.03	12.95	6.78	4.83
Growth Score	C	-	-	A	D	D
Hist. EPS Growth (3-5 yrs)	1.89%	4.49%	10.85%	7.49%	5.00%	-1.74%
Proj. EPS Growth (F1/F0)	2.80%	5.01%	6.90%	5.24%	5.60%	-3.49%
Curr. Cash Flow Growth	12.02%	3.45%	6.78%	7.70%	3.84%	-2.04%
Hist. Cash Flow Growth (3-5 yrs)	7.14%	5.08%	8.38%	4.88%	8.38%	-0.82%
Current Ratio	0.68	0.79	1.22	0.77	0.59	0.50
Debt/Capital	51.49%	51.41%	42.37%	57.57%	52.87%	73.77%
Net Margin	10.69%	10.08%	11.57%	9.23%	10.66%	8.26%
Return on Equity	8.02%	9.64%	16.80%	10.52%	9.35%	19.57%
Sales/Assets	0.22	0.24	0.55	0.33	0.22	0.27
Proj. Sales Growth (F1/F0)	3.85%	3.34%	4.03%	5.48%	7.22%	2.88%
Momentum Score	C	-	-	A	A	A
Daily Price Chg	-1.43%	-1.61%	-2.98%	-1.56%	-0.78%	-1.82%
1 Week Price Chg	-4.37%	0.29%	-0.94%	0.70%	2.46%	-1.26%
4 Week Price Chg	-4.84%	0.70%	-0.94%	0.43%	4.20%	0.74%
12 Week Price Chg	3.90%	9.42%	1.75%	7.68%	16.08%	6.54%
52 Week Price Chg	8.91%	12.80%	10.97%	8.17%	37.25%	25.23%
20 Day Average Volume	1,605,340	313,120	2,001,782	1,173,494	1,704,406	3,280,728
(F1) EPS Est 1 week change	-0.37%	0.00%	0.00%	0.00%	0.37%	0.30%
(F1) EPS Est 4 week change	-0.37%	0.00%	-0.05%	0.65%	0.37%	0.20%
(F1) EPS Est 12 week change	-1.14%	0.00%	-0.21%	0.66%	-0.07%	0.50%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.49%	0.00%	0.97%	1.06%

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	C
Growth Score	C
Momentum Score	C
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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