

Edison International (EIX)

\$53.93 (As of 08/03/20)

Price Target (6-12 Months): **\$57.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/21/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

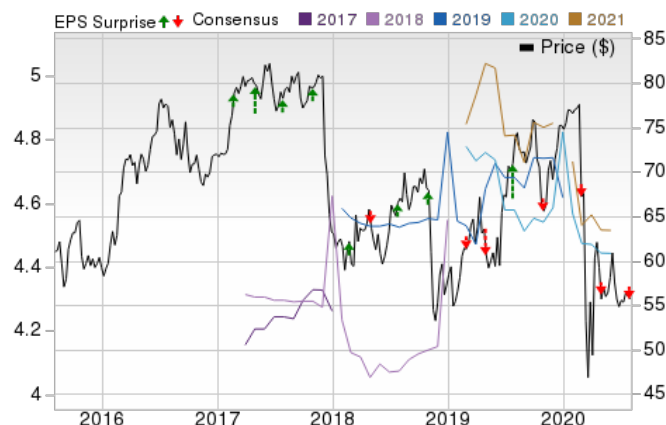
Growth: F

Momentum: B

Summary

Edison International ended second-quarter 2020 on a dismal note, with both earnings and revenues lagging the Zacks Consensus Estimate. Based on the 2021 GRC request, SCE has forecasted capital expenditure for 2020-2023 to be approximately \$19.4-\$21.2 billion. Apart from traditional projects, SCE has implemented equity programs to address the significant needs for infrastructure replacements and enhancement. However, the coronavirus pandemic had an adverse impact on the operations of Edison International. For the second quarter, the pandemic led to an uncollectable account expense of \$8 million for the company. Therefore, Edison International anticipates a heightened level of bad expenses to continue as the pandemic is not likely to die out soon. Its shares have also underperformed the industry in the in the past year.

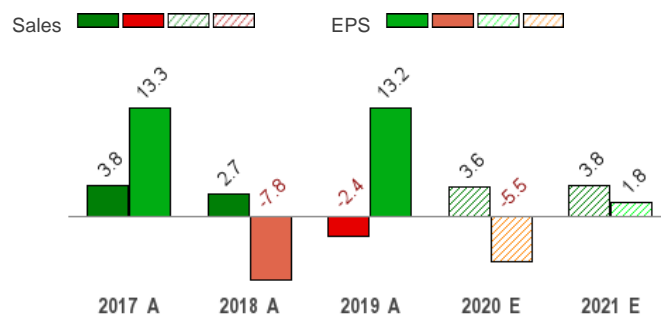
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$78.93 - \$43.63
20 Day Average Volume (sh)	2,250,490
Market Cap	\$20.4 B
YTD Price Change	-28.5%
Beta	0.48
Dividend / Div Yld	\$2.55 / 4.7%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 28% (183 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-9.9%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	11/03/2020
Earnings ESP	-0.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					13,269 E
2020	2,790 A	2,987 A	3,979 E	3,065 E	12,789 E
2019	2,824 A	2,812 A	3,741 A	2,970 A	12,347 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.05 E	\$1.11 E	\$1.24 E	\$1.15 E	\$4.52 E
2020	\$0.63 A	\$1.00 A	\$1.45 E	\$1.29 E	\$4.44 E
2019	\$0.63 A	\$1.58 A	\$1.49 A	\$0.99 A	\$4.70 A

*Quarterly figures may not add up to annual.

P/E TTM	13.1
P/E F1	12.2
PEG F1	2.2
P/S TTM	1.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/03/2020. The reports text is as of 08/04/2020.

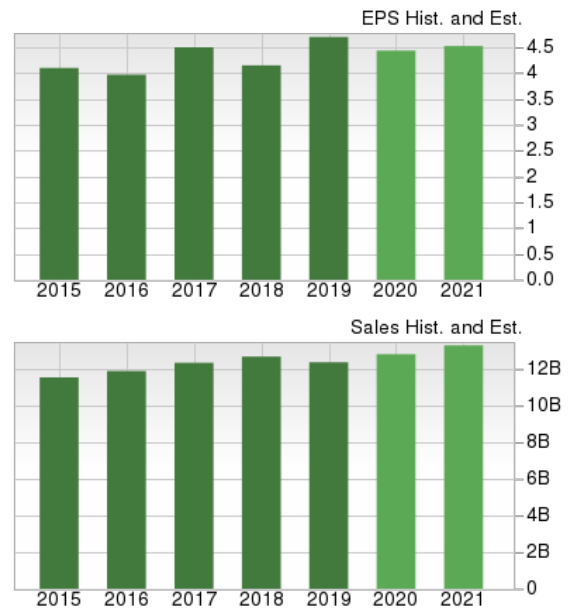
Overview

Incorporated in 1987, California-based Edison International (EIX) is the parent holding company of Southern California Edison (SCE). Edison International is also the parent company of subsidiaries that are engaged in competitive businesses related to the delivery or use of electricity.

Edison Energy is one of such companies. Edison Energy Group is a holding company for Edison Energy which is engaged in the competitive business of providing energy services to commercial and industrial customers to help them improve managing their energy costs and reaching their sustainability goals. In April 2018, Edison Energy Group sold its subsidiary SoCore Energy, which was engaged in providing distributed solar solutions.

The **SCE** segment is an investor-owned public utility primarily engaged in the business of supplying electricity to an approximately 50,000 square-mile area of southern California. The SCE service territory has a population of approximately 14 million people where it had roughly 5 million customer accounts as of December 2019. In 2019, SCE's total operating revenues of \$12.3 billion were derived from commercial (43.1%), residential (38.8%), industrial (4.3%), public authorities (4.4%), agricultural and other (2.4%), and other (7%) customers. The SCE segment's adjusted earnings in 2019 were \$4.70 per share.

Edison Energy is an independent advisory and services company with the capabilities to develop and integrate an array of energy solutions for the largest energy users nationwide. Based in Irvine, Calif., Edison Energy focuses on helping the nation's largest energy users simultaneously reduce their energy costs, improve the environmental performance of their operations, ensure energy resiliency, and manage exposure to energy price risk.



Reasons To Buy:

- ▲ Favorable outcomes from regulatory authorities tend to boost growth for utility stocks like Edison International. On Apr 16, the California Public Service Commission issued a final decision on SCE's Grid Safety & Resiliency Program, approving the settlement agreement, which now authorizes the company to spend \$407.3 million in capital and \$119.2 million in O&M for the 2018-2020 period. Additionally, SCE received a proposed decision on its capital structure waiver application that seeks to exclude the previously recorded net charge of \$1.8 billion and any future charges associated with the 2017 and 2018 wildfire events from SCE's common equity. These encouraging outcomes tend to boost investor interest in the stock.
- ▲ Based on the 2021 GRC request, SCE forecasts capital expenditures for 2020 – 2023 to be approximately \$19.4 billion to \$21.2 billion. Of the total expenses, \$16 billion has been allotted for traditional investment that focuses on expanding its distribution and transmission facilities, and generating more electricity. The investment also includes spending of \$540 million through 2021. SCE also aims to invest \$4.4 billion in mitigating wild-fire related risks.
- ▲ Apart from traditional projects, SCE has implemented equity programs to address the significant needs for infrastructure replacements and enhancement. This includes ATM, a program through which the company aims to issue up to \$1.5 billion of common equity. These equity programs have been sized to fund SCE's equity requirements related to the requested increase in the authorized equity layer. Per management, this equity issuance will also boost SCE's growth opportunities in California's clean energy space. Moreover, the company continues to strive for operational excellence and create a foundation for an improved SCE cost structure.

Focus on transmission and distribution infrastructural development programs along with solid financial position will help Edison International to boost its top line.

Reasons To Sell:

- ▼ The pandemic had an adverse impact on the operations of Edison International. For the second quarter, the pandemic led to increased expenses of \$17 million due to the timing of labor and other expenses resulting from SCE's response to the COVID-19 pandemic and \$8 million for the timing of customer uncollectible expenses. The total impacts of the pandemic are yet to be assessed and thus, may have a material impact on the company's ability to execute its planned work, including wildfire mitigation and capital projects as well as its operational results. Therefore, Edison International anticipates a heightened level of bad expenses to continue as a result of the economic impact of the pandemic and the consumer protections put in place, which in turn may weigh on its bottom line.
- ▼ Multiple factors have contributed to increased wildfire activity, faster progression of and increased damage from wildfires across SCE's service territory and throughout California. Edison International recorded a charge of \$255 million as of Dec 31, 2019 for wildfire-related claims, net of expected insurance recoveries. In March 2019, the Ventura County Fire Department (VCFD) and CAL FIRE released separate reports claiming that both the Thomas Fire and the Koenigstein Fire were caused by SCE equipment. Following the release of these reports, if the CPUC finds the company legally responsible for these damages, SCE may be held liable for property damages, and associated interest and attorney's fees. Consequently, the company's expenses might increase significantly and weigh on its earnings. Further, the company's shares have lost 25.7% in the past year compared with the industry's 4.2% decline.
- ▼ Edison International has a long-term debt of \$19,238 million as of Jun 30, 2020, higher than \$19,125 million as of Mar 31, 2020. Moreover, its cash equivalents worth \$524 million as of Jun 30 decreased sequentially from \$1,337 million and remained much lower compared to its long-term debt levels. Moreover, its current debt was \$1,569 million on Jun 30, which remained much higher than the cash reserve. This makes us skeptical about the company's ability to duly meet its debt obligations.

Moreover, the company's current ratio as of Mar 31 is 0.81, which being less than 1 indicates that this utility might not possess sufficient capital in hand to meet its short-term obligations. Such a deteriorating financial ratio further indicates that the firm might face difficulties and struggle to meet debt obligations in the near future.

Decommissioning costs and charges related to pending regulatory cases against Edison International may hurt

Last Earnings Report

Edison International's Q2 Earnings & Revenues Miss

Edison International reported second-quarter 2020 adjusted earnings of \$1.00 per share, which missed the Zacks Consensus Estimate of \$1.11 by 9.9%. Moreover, the bottom line declined 36.7% year over year.

Excluding adjustments, quarterly earnings came in at 85 cents per share from continuing operations compared with \$1.20 in second-quarter 2019.

Quarter Ending **06/2020**

Report Date	Jul 28, 2020
Sales Surprise	-0.99%
EPS Surprise	-9.91%
Quarterly EPS	1.00
Annual EPS (TTM)	4.11

Total Revenues

Edison International's second-quarter revenues totaled \$2.99 billion, which missed the Zacks Consensus Estimate of \$3.02 billion by approximately 1%. However, the top line improved 6.2% from the year-ago quarter's figure.

Operational Highlights

In the reported quarter, total operating expenses increased 7.6% year over year to \$2,487 million. Operation and maintenance costs grew 28.1% year over year, while purchased power and fuel costs declined 5.9%. Meanwhile, depreciation and amortization expenses increased 52.3%.

Edison International registered an operating income of \$500 million in the second quarter, in line with the year-ago quarter's figure.

Interest expenses were \$229 million, higher than \$211 million incurred in the prior-year quarter.

Segment Results

Southern California Edison's (SCE) second-quarter earnings were \$1.10 per share compared with \$1.66 a year ago.

The Parent and Other segment incurred a loss of 10 cents per share compared with the year-ago quarter's loss of 8 cents.

Financial Update

As of Jun 30, 2020, Edison International's cash and cash equivalents amounted to \$524 million compared with \$68 million as of Dec 31, 2019. Long-term debt summed \$19.24 billion, higher than the 2019-end level of \$17.87 billion.

Net cash from operating activities during the first six months of 2020 was \$625 million compared with \$598 million in the prior-year period. Total capital expenditures amounted to \$2,514 million at the end of the second quarter, up from \$2,235 million a year ago.

2020 Guidance

Edison International narrowed its 2020 core operating earnings per share guidance to \$4.37-\$4.62. The Zacks Consensus Estimate of \$4.43 lies below the midpoint of the guided range.

Recent News

On **June 8, 2020**, Edison International published its 2019 Sustainability Report on the company's achievements toward a sweeping set of measurable goals related to clean energy, transportation electrification, diversity and inclusion, and safety, while emphasizing its commitment to providing customers safe, reliable, affordable and clean electricity during the COVID-19 pandemic. The company maintains its dedication to safety for communities, customers and employees, including carrying out its plan to reduce wildfire risk. The company's utility subsidiary is proposing to invest more than \$5 billion each year in the power grid, working to build resiliency against threats such as wildfires.

Valuation

Edison International's shares are down 28.5% in the year to date period and 25.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 12.2% and 13.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 4.2% whereas the sector is down 7.2%.

The S&P 500 index is up 1.7% in the year-to-date period and up 15.4% in the past year.

The stock is currently trading at 12X of forward 12-month earnings, which compares to 14X for the Zacks sub-industry, 12.9X for the Zacks sector and 22.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.6X and as low as 9.9X, with a 5-year median of 15.9X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$57 price target reflects 12.7X of forward 12-month earnings.

The table below shows summary valuation data for EIX

Valuation Multiples - EIX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.02	13.99	12.94	22.59
	5-Year High	19.59	15.52	15.31	22.59
	5-Year Low	9.87	11.11	11.38	15.25
	5-Year Median	15.88	13.25	13.78	17.55
P/S F12M	Current	1.56	2.33	2.71	3.6
	5-Year High	2.18	2.45	3.29	3.6
	5-Year Low	1.19	1.54	1.75	2.53
	5-Year Median	1.77	1.9	2.06	3.04
EV/EBITDA TTM	Current	9.42	12.86	17.98	12.76
	5-Year High	15.73	13.59	20.38	12.85
	5-Year Low	6.62	7.81	10.6	8.24
	5-Year Median	8.98	10.43	13.84	10.89

As of 08/03/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (183 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Ameren Corporation (AEE)	Neutral	3
CMS Energy Corporation (CMS)	Neutral	2
CenterPoint Energy, Inc. (CNP)	Neutral	3
DTE Energy Company (DTE)	Neutral	3
Eversource Energy (ES)	Neutral	3
Entergy Corporation (ETR)	Neutral	2
FirstEnergy Corporation (FE)	Neutral	3
Xcel Energy Inc. (XEL)	Neutral	3

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	EIX	X Industry	S&P 500	AEE	CMS	XEL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	D	-	-	C	D	D
Market Cap	20.40 B	9.17 B	22.67 B	19.57 B	18.02 B	36.12 B
# of Analysts	5	3	13.5	5	5	5
Dividend Yield	4.73%	3.50%	1.77%	2.50%	2.59%	2.50%
Value Score	B	-	-	C	C	C
Cash/Price	0.02	0.06	0.07	0.00	0.05	0.01
EV/EBITDA	9.97	9.82	13.08	11.58	13.82	13.25
PEG Ratio	2.26	3.52	2.94	3.39	3.40	4.19
Price/Book (P/B)	1.24	1.63	3.10	2.38	3.43	2.70
Price/Cash Flow (P/CF)	5.50	7.94	12.34	10.12	10.51	11.01
P/E (F1)	12.43	17.68	21.71	22.90	23.78	24.84
Price/Sales (P/S)	1.63	1.86	2.46	3.38	2.71	3.22
Earnings Yield	8.23%	5.63%	4.38%	4.36%	4.21%	4.03%
Debt/Equity	1.17	1.06	0.75	1.14	2.90	1.45
Cash Flow (\$/share)	9.81	4.27	6.94	7.84	5.99	6.25
Growth Score	F	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	2.74%	4.83%	10.46%	7.69%	6.95%	5.49%
Proj. EPS Growth (F1/F0)	-5.62%	0.67%	-7.08%	3.34%	6.35%	4.85%
Curr. Cash Flow Growth	7.87%	6.78%	5.47%	2.50%	6.78%	7.69%
Hist. Cash Flow Growth (3-5 yrs)	0.92%	6.02%	8.55%	6.59%	7.74%	8.62%
Current Ratio	0.81	0.88	1.32	0.62	2.56	0.80
Debt/Capital	53.91%	50.91%	44.21%	53.27%	74.36%	59.25%
Net Margin	9.42%	10.80%	10.25%	13.51%	11.33%	12.50%
Return on Equity	9.80%	9.19%	14.72%	9.62%	15.32%	10.56%
Sales/Assets	0.19	0.22	0.52	0.20	0.24	0.22
Proj. Sales Growth (F1/F0)	3.58%	0.00%	-1.79%	1.36%	-1.05%	0.85%
Momentum Score	B	-	-	B	C	D
Daily Price Chg	-3.13%	-0.51%	0.27%	-1.20%	-1.89%	-0.41%
1 Week Price Chg	-0.62%	0.00%	0.14%	0.91%	1.02%	1.71%
4 Week Price Chg	-3.78%	3.97%	2.96%	8.10%	4.90%	8.15%
12 Week Price Chg	-5.09%	7.67%	10.90%	11.93%	13.50%	14.35%
52 Week Price Chg	-25.62%	-9.85%	2.35%	5.64%	8.16%	15.31%
20 Day Average Volume	2,250,490	353,999	2,043,624	1,279,549	1,707,366	2,175,292
(F1) EPS Est 1 week change	0.77%	0.00%	0.00%	0.00%	0.45%	0.00%
(F1) EPS Est 4 week change	0.41%	0.00%	0.82%	0.93%	1.06%	0.22%
(F1) EPS Est 12 week change	0.22%	-0.02%	0.59%	0.42%	0.63%	0.80%
(Q1) EPS Est Mthly Chg	3.26%	-0.17%	0.25%	2.44%	-2.83%	-0.15%

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	B
Growth Score	F
Momentum Score	B
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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