

Edison International (EIX)

\$58.84 (As of 06/18/20)

Price Target (6-12 Months): **\$62.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/21/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: C

Summary

Edison International continues to witness favorable outcomes from regulatory authorities that tend to boost growth. 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. Its shares have also outperformed the industry in the in the past month. However, the coronavirus pandemic had an adverse impact on the operations of Edison International. For the first quarter, the pandemic led to an uncollectable account expense of \$17 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.

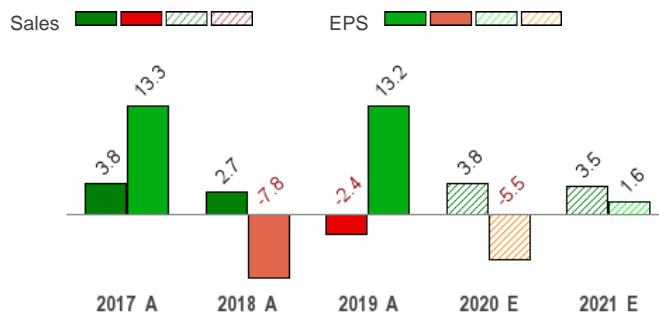
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$78.93 - \$43.63 |
| 20 Day Average Volume (sh) | 3,074,826 |
| Market Cap | \$21.4 B |
| YTD Price Change | -22.0% |
| Beta | 0.51 |
| Dividend / Div Yld | \$2.55 / 4.3% |
| Industry | Utility - Electric Power |
| Zacks Industry Rank | Top 38% (97 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | -18.2% |
| Last Sales Surprise | -6.1% |
| EPS F1 Est- 4 week change | -0.1% |
| Expected Report Date | 07/23/2020 |
| Earnings ESP | -2.2% |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|----------|
| 2021 | | | | | 13,263 E |
| 2020 | 2,790 A | 3,019 E | 3,976 E | 3,043 E | 12,818 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 | \$0.72 E | \$1.00 E | \$1.21 E | \$1.65 E | \$4.51 E |
| 2020 | \$0.63 A | \$1.16 E | \$1.41 E | \$1.32 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 | 12.6 |
| P/E F1 | 13.3 |
| PEG F1 | 2.4 |
| P/S TTM | 1.7 |

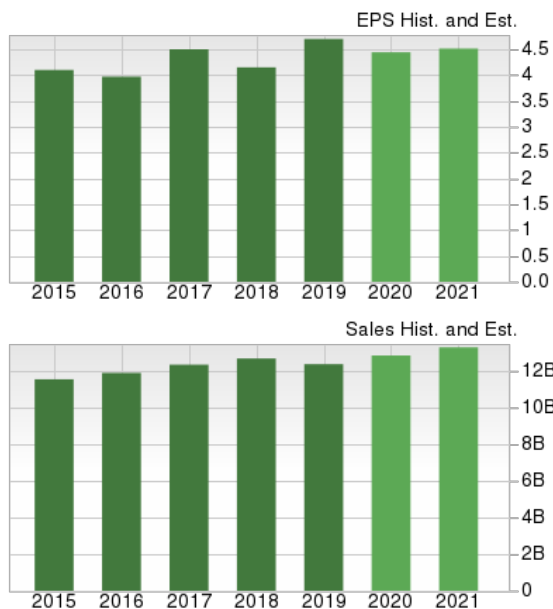
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/18/2020. The reports text is as of 06/19/2020.

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.

SCE 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 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. Further, the company's shares have increased 1.3% in the past month against the industry's 0.9% decline.

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 first quarter, the pandemic led to an uncollectable account expense of \$17 million for the company. The total impacts of the pandemic are still emerging 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.

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

▼ 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 growth.

▼ Edison International has a long-term debt of \$19,125 million, as of Mar 31, 2020, higher than \$17,864 million, as of Dec 31, 2019. Moreover, its cash equivalents worth \$1,337 million, as of Mar 31, 2020, remained much lower compared to its long-term debt levels. Moreover, its current debt was \$2,250 million on Mar 31, which is much higher than the cash reserve. This makes us skeptic about the company's ability to duly meet its debt obligations.

Moreover, the company's current ratio, as of Mar 31, 2020, is 0.79, 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 of 0.58 was higher sequentially from 0.55. The company's times interest earned ratio came in at 2.2 at end of first-quarter 2020, down sequentially from 2.3. Such deteriorating financial ratios indicate that the firm might face difficulties and struggle to meet debt obligations in the near future.

Last Earnings Report

Edison International Q1 Earnings & Sales Lag Estimates

Edison International reported first-quarter 2020 adjusted earnings of 63 cents per share, which missed the Zacks Consensus Estimate of 77 cents by 18.2%. The bottom line remained flat year over year.

Excluding adjustments, quarterly earnings came in at 50 cents per share from continuing operations compared with 85 cents in first-quarter 2019.

Quarter Ending **03/2020**

| Report Date | Apr 30, 2020 |
|------------------|--------------|
| Sales Surprise | -6.12% |
| EPS Surprise | -18.18% |
| Quarterly EPS | 0.63 |
| Annual EPS (TTM) | 4.69 |

Total Revenues

Edison International's first-quarter revenues came in at \$2.79 billion, lagging the Zacks Consensus Estimate of \$2.97 billion by 6.6%. Moreover, the top line declined 1.2% from the year-ago quarter's \$2.82 billion.

Operational Highlights

In the reported quarter, total operating expenses increased 0.6% year over year to \$2,488 million. Operation and maintenance costs decreased 0.1% year over year, while purchased power and fuel costs declined 7.7%. Meanwhile, depreciation and amortization expenses increased 0.8%.

Edison International registered an operating income of \$302 million in the first quarter compared with \$352 million reported in the year-ago quarter.

Interest expenses were \$225 million, higher than \$194 million incurred in the prior-year quarter.

Segment Results

Southern California Edison's (SCE) first-quarter earnings were 60 cents per share compared with 90 cents 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 5 cents.

Financial Update

As of Mar 31, 2020, cash and cash equivalents were \$1,337 million compared with \$68 million, as of Dec 31, 2019. Long-term debt amounted to \$19.13 billion, higher than the 2019-end level of \$17.86 billion.

Net cash from operating activities during the first three months of 2020 was \$315 million compared with \$210 million in the prior-year quarter. Total capital expenditures summed \$1,268 million at the end of the first quarter, up from \$1,074 million a year ago.

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 21.9% in the year to date period and 7.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 10.7% and 12.9% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 5.4%, while the sector is down 20.2%.

The S&P 500 index is down 3.3% in the year to date period and up 5.4% in the past year.

The stock is currently trading at 13.2X of forward 12-month earnings, which compares to 13.2X for the Zacks sub-industry, 12.5X for the Zacks sector and 22.4X 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 \$62 price target reflects 13.9X 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 | 13.15 | 13.22 | 12.5 | 22.4 |
| | 5-Year High | 19.59 | 15.53 | 15.32 | 22.4 |
| | 5-Year Low | 9.87 | 11.12 | 11.4 | 15.23 |
| | 5-Year Median | 15.89 | 13.23 | 13.78 | 17.49 |
| P/S F12M | Current | 1.64 | 2.15 | 2.68 | 3.49 |
| | 5-Year High | 2.18 | 2.45 | 3.29 | 3.49 |
| | 5-Year Low | 1.19 | 1.54 | 1.75 | 2.53 |
| | 5-Year Median | 1.77 | 1.89 | 2.05 | 3.02 |
| EV/EBITDA TTM | Current | 10.01 | 12.1 | 18.49 | 11.53 |
| | 5-Year High | 15.73 | 13.79 | 21.13 | 12.85 |
| | 5-Year Low | 6.62 | 7.81 | 10.59 | 8.25 |
| | 5-Year Median | 8.89 | 10.38 | 13.74 | 10.82 |

As of 06/18/2020

Industry Analysis Zacks Industry Rank: Top 38% (97 out of 253)



Top Peers

| Company (Ticker) | Rec | Rank |
|--------------------------------|---------|------|
| Ameren Corporation (AEE) | Neutral | 4 |
| CMS Energy Corporation (CMS) | Neutral | 3 |
| CenterPoint Energy, Inc. (CNP) | Neutral | 2 |
| DTE Energy Company (DTE) | Neutral | 3 |
| Eversource Energy (ES) | Neutral | 3 |
| Entergy Corporation (ETR) | Neutral | 3 |
| 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) | 4 | - | - | 4 | 3 | 3 |
| VGM Score | C | - | - | C | C | D |
| Market Cap | 21.39 B | 7.97 B | 21.93 B | 17.89 B | 16.90 B | 33.88 B |
| # of Analysts | 5 | 3 | 14 | 4 | 5 | 5 |
| Dividend Yield | 4.33% | 3.42% | 1.93% | 2.73% | 2.76% | 2.67% |
| Value Score | C | - | - | C | C | C |
| Cash/Price | 0.06 | 0.06 | 0.06 | 0.00 | 0.05 | 0.01 |
| EV/EBITDA | 9.99 | 9.54 | 12.69 | 10.90 | 12.22 | 12.12 |
| PEG Ratio | 2.40 | 3.52 | 2.97 | 3.11 | 3.24 | 3.94 |
| Price/Book (P/B) | 1.38 | 1.60 | 3.02 | 2.17 | 3.24 | 2.54 |
| Price/Cash Flow (P/CF) | 6.00 | 7.89 | 11.62 | 9.25 | 9.86 | 10.33 |
| P/E (F1) | 13.19 | 17.80 | 21.45 | 21.13 | 22.43 | 23.36 |
| Price/Sales (P/S) | 1.74 | 1.82 | 2.33 | 3.09 | 2.54 | 3.03 |
| Earnings Yield | 7.55% | 5.59% | 4.37% | 4.73% | 4.46% | 4.28% |
| Debt/Equity | 1.23 | 1.06 | 0.77 | 1.14 | 2.42 | 1.28 |
| Cash Flow (\$/share) | 9.81 | 4.15 | 7.01 | 7.84 | 5.99 | 6.25 |
| Growth Score | C | - | - | C | D | D |
| Hist. EPS Growth (3-5 yrs) | 2.41% | 5.04% | 10.87% | 7.69% | 6.95% | 5.69% |
| Proj. EPS Growth (F1/F0) | -5.49% | 0.51% | -10.65% | 2.39% | 5.70% | 4.62% |
| Curr. Cash Flow Growth | 7.87% | 4.96% | 5.46% | 2.50% | 6.78% | 7.69% |
| Hist. Cash Flow Growth (3-5 yrs) | 0.92% | 5.54% | 8.55% | 6.59% | 7.74% | 8.62% |
| Current Ratio | 0.79 | 0.86 | 1.29 | 0.62 | 0.96 | 0.51 |
| Debt/Capital | 55.17% | 51.19% | 45.14% | 53.27% | 70.72% | 56.12% |
| Net Margin | 10.15% | 10.46% | 10.53% | 13.51% | 10.68% | 12.07% |
| Return on Equity | 11.33% | 9.19% | 16.06% | 9.62% | 14.68% | 10.39% |
| Sales/Assets | 0.19 | 0.22 | 0.55 | 0.20 | 0.25 | 0.22 |
| Proj. Sales Growth (F1/F0) | 3.82% | 0.00% | -2.61% | 1.54% | -1.33% | 1.96% |
| Momentum Score | C | - | - | B | A | C |
| Daily Price Chg | -1.75% | -0.03% | -0.07% | 0.00% | -0.15% | 0.97% |
| 1 Week Price Chg | -5.44% | -4.10% | -7.25% | -5.07% | -1.92% | -2.47% |
| 4 Week Price Chg | 4.57% | 4.42% | 6.92% | 4.56% | 7.84% | 7.25% |
| 12 Week Price Chg | 1.92% | 7.39% | 16.91% | -0.45% | 3.67% | 11.40% |
| 52 Week Price Chg | -7.75% | -15.83% | -5.63% | -6.33% | -0.12% | 5.22% |
| 20 Day Average Volume | 3,074,826 | 416,783 | 2,574,456 | 1,598,547 | 1,711,791 | 2,659,065 |
| (F1) EPS Est 1 week change | -0.01% | 0.00% | 0.00% | -0.29% | 1.08% | 0.00% |
| (F1) EPS Est 4 week change | -0.12% | 0.00% | 0.00% | -0.44% | 0.94% | -0.22% |
| (F1) EPS Est 12 week change | -0.52% | -3.08% | -14.21% | -1.44% | -1.33% | -1.29% |
| (Q1) EPS Est Mthly Chg | 0.65% | -0.22% | 0.00% | 4.69% | 0.00% | -3.48% |

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 | 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.

Disclosures

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