Edison International (EIX)

$76.96 (As of 01/17/20)

Price Target (6-12 Months): **$82.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/21/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:F
	Value: D | Growth: F | Momentum: B	

Summary

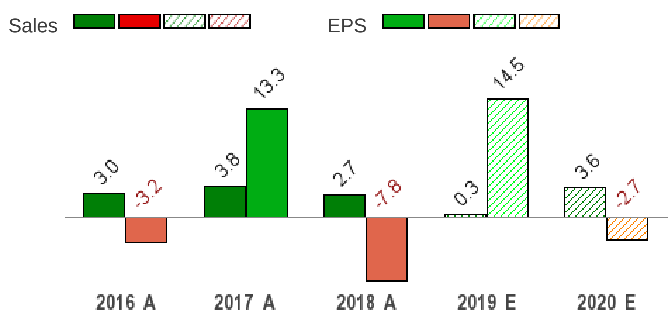
Edison International has a strong portfolio of utility assets and well-managed merchant energy operations, which indicate a lower risk profile than its utility-only peers. In addition, the company boasts a solid financial position backed by strong cash generation capacity. Going forward, management plans to increase its dividend above industry average growth rate on solid cash generation expectations. Shares of Edison International have also outperformed its industry in past year. However, the company's inability to recover costs from decommissioning of nuclear plants can negatively impact its performance. As the company is undertaking several initiatives to make its infrastructure more resilient, costs might escalate in the days ahead. Its current ratio currently lies much below the industry.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$77.47 - $53.40**
20 Day Average Volume (sh)	**1,620,994**
Market Cap	**$27.6 B**
YTD Price Change	**2.1%**
Beta	**0.11**
Dividend / Div Yld	**$2.55 / 3.3%**
Industry	**Utility - Electric Power**
Zacks Industry Rank	**Bottom 31% (176 out of 254)**
Last EPS Surprise	**-2.6%**
Last Sales Surprise	**-12.7%**
EPS F1 Est- 4 week change	**1.6%**
Expected Report Date	**02/27/2020**
Earnings ESP	**-2.4%**
P/E TTM	**16.6**
P/E F1	**16.7**
PEG F1	**3.0**
P/S TTM	**2.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020					13,151 E
2019	2,824 A	2,812 A	3,741 A	3,064 E	12,699 E
2018	2,564 A	2,815 A	4,269 A	3,009 A	12,657 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$0.66 E	$1.24 E	$1.57 E	$1.16 E	$4.62 E
2019	$0.63 A	$1.58 A	$1.49 A	$1.03 E	$4.75 E
2018	$0.80 A	$0.84 A	$1.56 A	$0.94 A	$4.15 A

*Quarterly figures may not add up to annual.

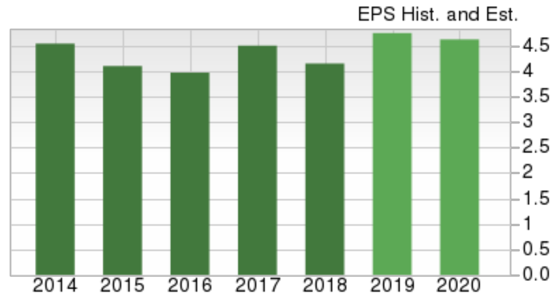
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/17/2020. The reports text is as of 01/20/2020.

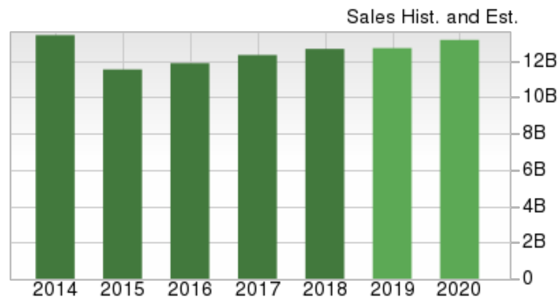
Overview

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 has roughly 5.1 million customer accounts as of Dec 2018. In 2018, SCE's total operating revenue of $12.6 billion was derived from commercial (42.8%), residential (39.3%), industrial (4.3%), public authorities (4.5%), agricultural and other (2.4%), and other (6.7%) customers. The segment's adjusted earnings in 2018 were $4.42 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:

Focus on transmission and distribution infrastructural development programs along with expansion of its operations will help Edison International to boost its top line.

- Edison International enjoys a strong portfolio of regulated utility assets and well-managed merchant energy operations, presents a lower risk profile than its utility-only peers. In addition, the company boasts a solid financial position backed by strong cash generation capacity. As of Sep 30, 2019, Edison International's cash and cash equivalents were $547 million compared with $144 million as of Dec 31, 2018. A stable financial position enables Edison International to maximize shareholder value through the payment of regular dividends. In December 2018, the company raised its annual dividend rate by 1.2% to $2.45 per share. In the first nine months of 2019, the company paid out dividends worth $594 million to its shareholders compared with $591 million in the year-ago quarter.

  Going forward, management plans to increase its dividend above industry average growth rate towards its target payout ratio of 45% to 55% of SCE earnings in steps over time. This initiative is expected to yield dividend growth at a faster pace than SCE's earnings growth, apart from allowing the company to boost investor interest in the stock. This may have caused the company to outperform its industry in the past year. Shares have gained 45.3% in past year compared with the industry's 27.6% growth.

- SCE currently intends to invest $8.90-$9.10 billion between 2019 and 2020, including an allocation of approximately $4.48 billion and $4.42-4.62 billion for 2019 and 2020, respectively. The investment also includes grid modernization spending of $0.65 billion during the two-year period. Of the total expenses, $8.05 billion has been allotted for traditional investment that focuses on expanding its distribution and transmission facilities, and generating more electricity. SCE also emphasizes on mitigating its 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 and $1 billion of holding company debt. 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.

Reasons To Sell:

Wildfire related costs and absence of sufficient insurance for the same may impact Edison International's financial performance.

- SCE funds decommissioning costs with assets that are currently held in nuclear decommissioning trusts. It is important to mention in this context that, despite the fact that San Onofre is being decommissioned, the presence of spent nuclear fuel still poses a potential risk of a nuclear incident. Federal law limits public liability claims from a nuclear incident to the amount of available financial protection, which is currently approximately $13.9 billion for Palo Verde and $560 million for San Onofre. SCE and other owners of San Onofre and Palo Verde have purchased the maximum private primary insurance available of $450 million per site.

  Now, the CPUC may not allow SCE to recover the required contribution made pursuant to this loss sharing program in the case of one or more nuclear incidents with claims that exceeded $450 million at a nuclear reactor, which is participating in the program. In that case, Edison International's results will be hit.

- Multiple factors have contributed to increased wildfire activity, faster progression of and increased damage from wildfires across SCE's service territory and throughout California. 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's current ratio currently stands at 0.69 compared with the industry average of 0.84. At the end of September 2019, Edison International had $17.07 billion of long-term debt. The high debt level and rising capital servicing costs are denting margins. Moreover, the company's current debt-to-equity ratio stands at 121.4% compared with its industry's level of 117.1%. This substantiates the fact that the stock is highly leveraged when compared to its industry and thus bears higher chance of insolvency. Therefore, investors may get attracted to other growth stocks in the same industry that bear low debt-to-equity ratio to avoid losses.

Last Earnings Report

Edison International Q3 Earnings Lag, Revenues Down Y/Y

Quarter Ending	09/2019
Report Date	Oct 29, 2019
Sales Surprise	-12.68%
EPS Surprise	-2.61%
Quarterly EPS	1.49
Annual EPS (TTM)	4.64

Edison International reported third-quarter 2019 adjusted earnings of $1.49 per share, which missed the Zacks Consensus Estimate of $1.53 by 2.6%. The bottom line deteriorated from the year-ago quarter earnings of $1.56.

Excluding adjustments, quarterly earnings came in at $1.35 per share from continuing operations compared with $1.57 in third-quarter 2018.

The year-over-year bottom-line decline can be attributed to lower revenues as well as operating income.

Total Revenues

Edison International's third-quarter revenues totaled $3.74 billion, which missed the Zacks Consensus Estimate of $4.28 billion by 12.7%. Also, the top line declined 12.4% from the year-ago quarter’s figure of $4.27 billion.

Segment Results

Southern California Edison’s (SCE) third-quarter adjusted earnings came in at $1.59 per share compared with $1.62 a year ago. The downside can be primarily attributed to increase in shares outstanding related to the equity offering in July 2019 and higher wildfire mitigation expenses.

The Parent and Other segment incurred an adjusted loss of 9 cents per share in the quarter under review compared with the year-ago quarter’s loss of 6 cents. The wider core loss was mainly due to higher interest expense as a result of increased borrowings.

Financial Update

As of Sep 30, 2019, Edison International's cash and cash equivalents amounted to $547 million compared with $144 million as of Dec 31, 2018. Long-term debt was $17.07 billion, higher than the 2018-end level of $14.63 billion.

Net cash outflow from operating activities during the first nine months of 2019 was $817 million against cash inflow of $2,271 million in the prior-year period. Total capital expenditures totaled $3,497 million at the end of the third quarter, up from $3,241 million a year ago.

Valuation

Edison International's shares are up 12.3% in the past six months period and up 45.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 12% and 8.9% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 27.6% while the sector is up 7.9%.

The S&P 500 index is up 13.3% in the past six months period and 26.5% in the past year.

The stock is currently trading at 16.6X of forward 12-month earnings, which compares to 14.99X for the Zacks sub-industry, 13.83X for the Zacks sector and 19.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.59X and as low as 10.49X, with a 5-year median of 16.15X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $82 price target reflects 17.7X 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	16.6	14.99	13.83	19.2
	5-Year High	19.59	14.99	15.33	19.34
	5-Year Low	10.49	11.19	12.61	15.17
	5-Year Median	16.15	13.09	13.7	17.44
P/S F12M	Current	2.09	2.33	2.98	3.57
	5-Year High	2.15	2.33	3.26	3.57
	5-Year Low	1.19	1.5	1.7	2.54
	5-Year Median	1.73	1.83	1.95	3
P/B TTM	Current	1.8	1.91	4.16	4.55
	5-Year High	1.93	1.91	4.16	4.55
	5-Year Low	1.08	1.32	2.01	2.85
	5-Year Median	1.61	1.55	2.55	3.61

As of 01/17/2020

Industry Analysis **Zacks Industry Rank:** Bottom 31% (176 out of 254)

Top Peers

Ameren Corporation **(AEE)**	Neutral
CMS Energy Corporation **(CMS)**	Neutral
DTE Energy Company **(DTE)**	Neutral
Eversource Energy **(ES)**	Neutral
Entergy Corporation **(ETR)**	Neutral
FirstEnergy Corporation **(FE)**	Neutral
Xcel Energy Inc. **(XEL)**	Neutral
CenterPoint Energy, Inc. **(CNP)**	Underperform

Industry Comparison Industry: Utility - Electric Power

Industry Peers

	EIX Neutral	X Industry	S&P 500	AEE Neutral	CMS Neutral	XEL Neutral
VGM Score	F	-	-	C	D	D
Market Cap	27.60 B	9.42 B	24.65 B	19.62 B	18.63 B	34.28 B
# of Analysts	4	2	13	5	5	6
Dividend Yield	3.31%	2.70%	1.73%	2.48%	2.33%	2.48%
Value Score	D	-	-	C	D	C
Cash/Price	0.02	0.04	0.04	0.00	0.02	0.03
EV/EBITDA	27.83	11.45	14.11	11.25	13.99	12.81
PEG Ratio	3.03	3.96	2.08	3.71	4.01	4.12
Price/Book (P/B)	1.80	1.95	3.39	2.39	3.73	2.61
Price/Cash Flow (P/CF)	7.62	9.39	13.81	10.36	11.69	11.05
P/E (F1)	16.66	20.02	19.19	22.95	24.59	23.47
Price/Sales (P/S)	2.23	2.34	2.69	3.26	2.71	2.95
Earnings Yield	6.00%	4.88%	5.21%	4.35%	4.07%	4.27%
Debt/Equity	1.11	1.08	0.72	1.05	2.43	1.28
Cash Flow ($/share)	10.10	4.03	6.94	7.70	5.62	5.92
Growth Score	F	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	0.35%	4.40%	10.56%	8.26%	6.54%	5.63%
Proj. EPS Growth (F1/F0)	-2.63%	5.41%	7.57%	6.27%	7.23%	6.57%
Curr. Cash Flow Growth	-8.10%	7.23%	14.73%	12.97%	6.77%	9.42%
Hist. Cash Flow Growth (3-5 yrs)	1.37%	4.93%	9.00%	8.12%	8.07%	8.08%
Current Ratio	0.78	0.81	1.24	0.65	1.06	0.72
Debt/Capital	52.64%	51.70%	42.99%	51.33%	70.82%	56.14%
Net Margin	-1.60%	9.75%	11.14%	13.34%	9.03%	11.15%
Return on Equity	11.98%	9.57%	17.16%	10.10%	12.80%	10.35%
Sales/Assets	0.21	0.24	0.55	0.22	0.27	0.24
Proj. Sales Growth (F1/F0)	3.56%	3.33%	4.16%	4.32%	2.14%	6.22%
Momentum Score	B	-	-	B	D	F
Daily Price Chg	0.52%	0.42%	0.27%	0.68%	0.41%	0.52%
1 Week Price Chg	0.96%	0.44%	0.39%	1.22%	1.20%	-0.06%
4 Week Price Chg	4.82%	3.86%	2.95%	5.70%	5.21%	2.38%
12 Week Price Chg	6.61%	3.20%	7.76%	2.92%	1.86%	1.29%
52 Week Price Chg	43.82%	19.16%	22.29%	18.92%	28.78%	28.96%
20 Day Average Volume	1,620,994	277,517	1,536,375	1,288,625	1,367,843	2,652,670
(F1) EPS Est 1 week change	0.82%	0.00%	0.00%	-0.05%	-0.19%	0.00%
(F1) EPS Est 4 week change	1.59%	0.00%	0.00%	0.10%	-0.19%	-0.06%
(F1) EPS Est 12 week change	2.04%	-0.13%	-0.40%	-0.60%	0.30%	-0.12%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-1.81%	0.00%

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	F
Momentum Score	B
VGM Score	F

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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