

Edison International (EIX)

\$57.73 (As of 03/26/20)

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)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

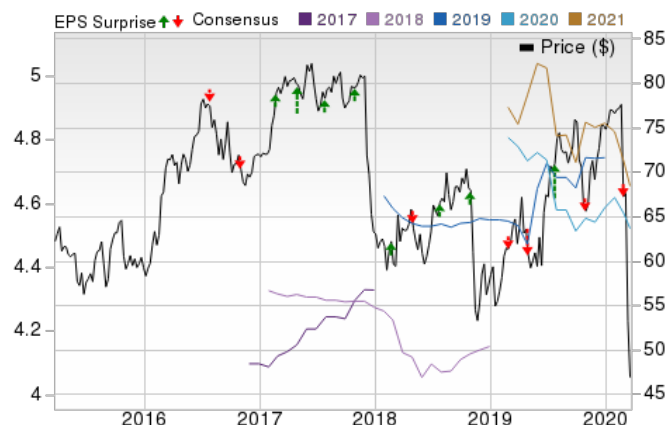
Growth: D

Momentum: C

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. Based on the 2021 GRC request, SCE forecasts capital expenditures for 2020-2023 to be approximately \$19.4-\$21.2 billion. In addition, the company boasts a solid financial position backed by strong cash generation capacity. However, its inability to recover costs from decommissioning of nuclear plants can negatively impact its performance. SCE estimates that it will spend approximately \$7.1 billion undiscounted through 2079 to decommission its nuclear facilities. Its current ratio lies below that of the industry. Moreover, SCE may be held liable for property damages under pending litigation cases. Its shares have also underperformed its industry in the year to date period.

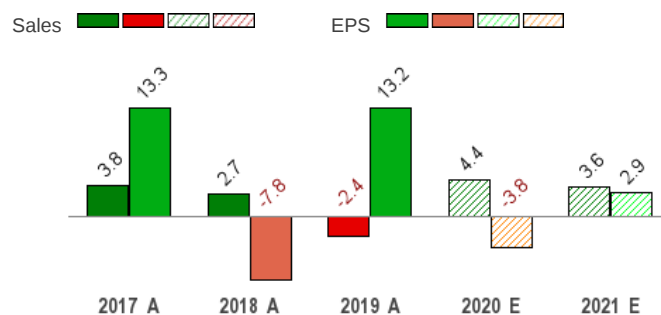
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$78.93 - \$43.63
20 Day Average Volume (sh)	3,978,270
Market Cap	\$20.9 B
YTD Price Change	-23.5%
Beta	0.32
Dividend / Div Yld	\$2.55 / 4.4%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 13% (34 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.8%
Last Sales Surprise	-3.1%
EPS F1 Est- 4 week change	-3.4%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	12.3
P/E F1	12.8
PEG F1	2.3
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					13,363 E
2020					12,893 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					\$4.65 E
2020	\$0.98 E	\$1.00 E	\$1.29 E	\$1.43 E	\$4.52 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.

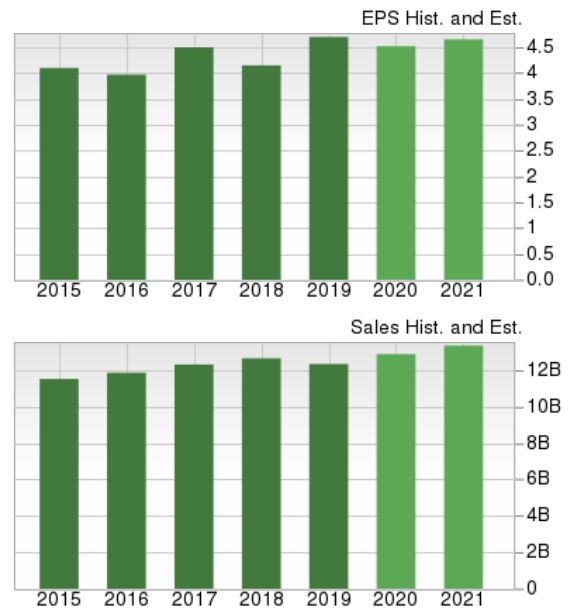
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

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:

- ▲ 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 Dec 31, 2019, Edison International's cash and cash equivalents were \$68 million. A stable financial position enables Edison International to maximize shareholder value through the payment of regular dividends. In 2019, the company paid out dividends worth \$810 million to its shareholders compared with \$788 million in the year-ago quarter.

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

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.

- ▲ 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 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.
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Reasons To Sell:

- ▼ 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. SCE estimates that it will spend approximately \$7.1 billion undiscounted through 2079 to decommission its nuclear facilities.

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

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. 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. Further, the company's shares have lost 23.4% in year to date period compared with the industry's 22.1% decline.
 - ▼ Edison International's current ratio currently stands at 0.65 compared with the industry average of 0.74. At the end of September 2019, Edison International had \$17.86 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 122.4% compared with its industry's level of 119.4%. This substantiates the fact that the stock is 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.
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Last Earnings Report

Edison International's Q4 Earnings Miss, Revenues Fall

Edison International reported fourth-quarter 2019 adjusted earnings of 99 cents per share, which missed the Zacks Consensus Estimate of \$1.04 by 4.8%. The bottom line, however, climbed 5.3% from the 94 cents registered in the year-ago quarter.

Excluding adjustments, quarterly earnings came in at 40 cents per share from continuing operations as against the loss of \$4.39 per share reported in the year-earlier quarter.

For 2019, the company's adjusted earnings of \$4.70 per share lagged the Zacks Consensus Estimate of \$4.75 by 1.1%. However, the reported figure increased 13.3% from the prior year's \$4.15.

Quarter Ending **12/2019**

Report Date	Feb 27, 2020
Sales Surprise	-3.07%
EPS Surprise	-4.81%
Quarterly EPS	0.99
Annual EPS (TTM)	4.69

Total Revenues

Edison International's fourth-quarter revenues came in at \$2,970 million, missing the Zacks Consensus Estimate of \$3,064 million by 3.1%. Moreover, the top-line figure edged down 1.3% from the year-ago quarter's \$3,009 million.

For 2019, the company's revenues totaled \$12,347 million, which missed the Zacks Consensus Estimate of \$12,470 million by 1% as well as dropped 2.4% from the year-ago quarter's \$12,657 million.

Operational Highlights

In the December-end quarter, total operating expenses plummeted 46.9% year over year to \$2,683 million, mainly on account of reduced wildfire-related claims, net of insurance recoveries.

Operation and maintenance costs rose 4.3% year over year to \$760 million, while purchased power and fuel costs slid 6.7% to \$991 million. Depreciation and amortization expenses also declined 2.1% year on year to \$470 million.

Edison International posted an operating income of \$287 million in the fourth quarter, as against the loss of \$2,041 million reported in the prior-year quarter.

Interest expenses were \$222 million, higher than the \$196 million recorded in the prior-year quarter.

Segment Results

Southern California Edison's (SCE) quarterly earnings came in at 54 cents per share, as against the year-ago quarter's net loss of \$4.38 per share. This upside chiefly resulted from the adoption of the 2018 General Rate Case (GRC) final decision and higher Federal Energy Regulatory Commission (FERC) revenues.

The Parent and Other segment incurred a loss of 14 cents per share in the October-December period, wider than the year-ago quarter's loss of 11 cents. The downside is primarily a result of higher interest expenses and corporate expenses.

Financial Update

As of Dec 31, 2019, cash and cash equivalents were \$68 million compared with \$144 million as of Dec 31, 2018.

Long-term debt amounted to \$17.86 billion, higher than the 2018-end level of \$14.63 billion.

Net cash used in operating activities during 2019 was \$307 million as against the cash inflows of \$3,177 million in the prior year.

Total capital expenditures summed \$4,877 million at 2019 end, up from the previous year's \$4,509 million.

Valuation

Edison International's shares are down 23.4% in the year to date period and 7.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 22.2% and 23.9% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 13.4% while the sector is down 27.2%.

The S&P 500 index is down 23.1% in the year to date period and 12.8% in the past year.

The stock is currently trading at 12.7X of forward 12-month earnings, which compares to 11.2X for the Zacks sub-industry, 10.6X for the Zacks sector and 14.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.6X and as low as 10.3X, with a 5-year median of 16.1X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$62 price target reflects 13.6X 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 F 12M	Current	12.68	11.21	10.61	14.92
	5-Year High	19.59	15.53	15.4	19.34
	5-Year Low	10.25	11.12	10.61	14.92
	5-Year Median	16.07	13.23	13.83	17.42
P/S F 12M	Current	1.61	2.21	2.23	2.68
	5-Year High	2.15	2.45	3.29	3.43
	5-Year Low	1.19	1.54	1.75	2.54
	5-Year Median	1.77	1.87	2.03	3
EV/EBITDA TTM	Current	9.95	11.1	15.21	9.16
	5-Year High	15.73	13.4	19.33	12.88
	5-Year Low	6.62	7.81	10.6	8.27
	5-Year Median	8.53	10.12	13.19	10.78

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 13% (34 out of 253)



Top Peers

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

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	EIX Neutral	X Industry	S&P 500	AEE Neutral	CMS Neutral	XEL Neutral
VGM Score	C	-	-	C	B	B
Market Cap	20.93 B	7.08 B	18.50 B	17.92 B	16.18 B	30.38 B
# of Analysts	3	2	13	5	4	5
Dividend Yield	4.42%	3.42%	2.35%	2.72%	2.86%	2.97%
Value Score	B	-	-	D	D	D
Cash/Price	0.00	0.06	0.07	0.00	0.01	0.01
EV/EBITDA	9.87	9.78	11.16	10.74	11.97	11.38
PEG Ratio	2.21	3.44	1.74	3.42	3.01	3.44
Price/Book (P/B)	1.34	1.38	2.44	2.18	3.20	2.29
Price/Cash Flow (P/CF)	5.83	7.38	9.87	9.29	9.51	9.27
P/E (F1)	12.16	16.47	15.29	20.92	21.35	20.70
Price/Sales (P/S)	1.70	1.89	1.93	3.03	2.36	2.64
Earnings Yield	7.83%	6.04%	6.47%	4.78%	4.69%	4.84%
Debt/Equity	1.15	1.06	0.70	1.09	2.38	1.31
Cash Flow (\$/share)	9.90	4.27	7.01	7.84	5.99	6.25
Growth Score	D	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	1.39%	4.77%	10.85%	8.19%	6.76%	5.90%
Proj. EPS Growth (F1/F0)	-3.83%	3.97%	2.89%	3.88%	7.13%	5.98%
Curr. Cash Flow Growth	7.87%	3.60%	5.93%	2.50%	6.78%	7.69%
Hist. Cash Flow Growth (3-5 yrs)	0.92%	5.47%	8.55%	6.59%	7.74%	8.62%
Current Ratio	0.64	0.83	1.23	0.57	0.86	0.68
Debt/Capital	53.55%	50.58%	42.57%	52.09%	70.41%	56.80%
Net Margin	10.89%	10.38%	11.64%	14.01%	9.93%	11.90%
Return on Equity	11.73%	9.68%	16.74%	10.29%	14.28%	10.74%
Sales/Assets	0.20	0.24	0.54	0.21	0.27	0.23
Proj. Sales Growth (F1/F0)	4.42%	1.61%	2.37%	5.00%	4.02%	8.38%
Momentum Score	C	-	-	C	A	B
Daily Price Chg	7.26%	6.25%	6.21%	7.77%	6.79%	4.25%
1 Week Price Chg	-12.00%	-15.68%	-16.96%	-17.36%	-20.58%	-24.25%
4 Week Price Chg	-17.82%	-15.60%	-15.70%	-10.76%	-9.36%	-10.70%
12 Week Price Chg	-22.39%	-15.87%	-23.67%	-4.29%	-7.73%	-7.17%
52 Week Price Chg	-7.13%	-13.55%	-13.99%	-0.91%	3.13%	3.12%
20 Day Average Volume	3,978,270	840,784	4,286,768	2,911,269	4,092,797	6,729,156
(F1) EPS Est 1 week change	0.00%	0.00%	-0.15%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.36%	0.00%	-2.28%	0.23%	0.00%	0.00%
(F1) EPS Est 12 week change	-2.62%	0.00%	-3.22%	0.24%	-0.28%	0.41%
(Q1) EPS Est Mthly Chg	25.64%	0.00%	-1.60%	0.00%	0.00%	0.00%

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	D
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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