

## Eversource Energy (ES)

**\$91.26** (As of 02/12/20)

Price Target (6-12 Months): **\$97.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: C

### Summary

Shares of Eversource Energy have outperformed its industry in the past six months. Eversource Energy's investments in renewable energy and expansion of infrastructure will enable it to provide reliable services to customers. The company's regulated \$12.75 billion investment plans will help boost earnings per share by 5-7% over the 2019-2023 time frame from the 2018 level. The company is also working to achieve carbon neutrality by 2030. However, Eversource's decision to shelve the Northern Pass project after the New Hampshire Supreme Court decided against the project's construction is likely to hurt long-term prospects. Dependence on third party and stringent regulation are concerns. Refusal by Connecticut Water will hurt its plans to expand the water business through acquisitions.

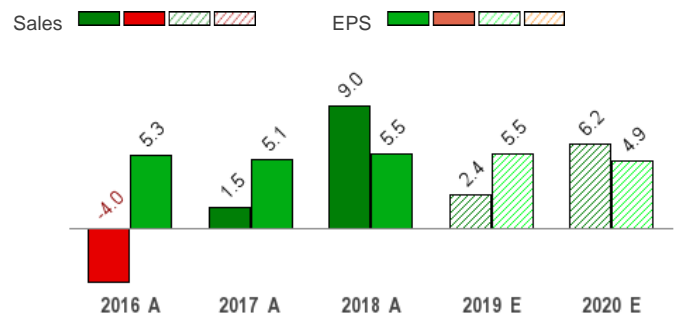
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$93.56 - \$68.38
20 Day Average Volume (sh)	1,745,242
Market Cap	\$29.5 B
YTD Price Change	7.3%
Beta	0.18
Dividend / Div Yld	\$2.27 / 2.3%
Industry	<a href="#">Utility - Electric Power</a>
Zacks Industry Rank	Bottom 42% (147 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.3%
Last Sales Surprise	-6.1%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	02/20/2020
Earnings ESP	-0.7%
P/E TTM	26.7
P/E F1	25.1
PEG F1	4.5
P/S TTM	3.5

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,449 E	1,955 E	2,450 E	2,185 E	9,187 E
2019	2,416 A	1,885 A	2,176 A	2,231 E	8,652 E
2018	2,288 A	1,854 A	2,271 A	2,035 A	8,448 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.03 E	\$0.78 E	\$0.97 E	\$0.84 E	\$3.63 E
2019	\$0.97 A	\$0.74 A	\$0.98 A	\$0.78 E	\$3.46 E
2018	\$0.85 A	\$0.76 A	\$0.93 A	\$0.73 A	\$3.28 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 02/12/2020. The reports text is as of 02/13/2020.

## Overview

Eversource Energy, earlier known as Northeast Utilities, engages in the energy delivery business. The company was founded in 1927. It transmits and delivers electricity and natural gas to over 3.7 million residential, commercial and industrial customers in Connecticut, New Hampshire and Massachusetts. Eversource Energy is currently trading under the ticker symbol "ES" instead of "NU". The company's headquarters have remained at Hartford, CT and Boston, MA.

The reportable segments are as follows:

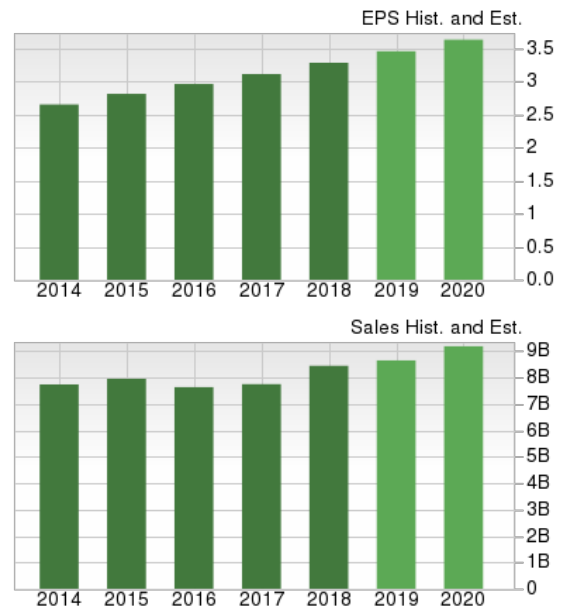
**Electric Distribution:** The segment consists of the distribution businesses of The Connecticut Light and Power Company (CL&P), NSTAR Electric Company (NSTAR Electric), Public Service Company of New Hampshire (PSNH) and Western Massachusetts Electric Company (WMECO), and the regulated electric generation businesses of PSNH and WMECO. The company distributes electricity to retail customers in Connecticut, eastern Massachusetts, New Hampshire and western Massachusetts through this segment. It contributed \$6,957.2 million to its top line and \$460 million to net income in 2018.

**Electric Transmission:** The company owns and controls transmission facilities of CL&P, NSTAR Electric, PSNH and WMECO through the segment. It contributed \$1,286.3 million to its top line and \$430.1 million to net income in 2018.

**Natural Gas Distribution:** The segment serves around 282,000 customers in central and eastern Massachusetts and 222,000 customers in Connecticut through NSTAR Gas Company (NSTAR Gas) and Yankee Gas Services Company (Yankee Gas), respectively. It contributed \$1,022.2 million to its top line and reported a net income of \$93.2 million in 2018.

**Water Distribution:** This segment was created when Eversource acquired Aquarion Water Company in December 2017. It contributed \$211 million to its top line and \$30.9 million to net income in 2018.

**Parent and Other Companies:** This segment contributed \$26.3 million to net income in 2018.



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## Reasons To Buy:

- ▲ In the past six months, shares of Eversource have gained 18.3% compared with the Zacks Electric Power industry's 14.7% rally. Eversource pursues organic growth to expand its operations. It is currently focused on upgrading its electric distribution and transmission infrastructure. Eversource forecasts capital investment of \$12.75 billion within the 2019 to 2023 time frame. Out of the total, the company has plans to invest nearly \$9.1 billion in the 2019-2023 time period in its electric transmission and distribution network. The company's reliability projects, namely Greater Boston Reliability Solutions, Greater Hartford Central Connecticut Solutions and Seacoast Reliability, are progressing per plans.

Strong investment in transmission and distribution networks, along with expansion of renewable operations and its stable financial conditions will act as tailwinds for the company.

The company will invest \$0.6 billion and \$2.3 billion in water utility and gas distribution businesses, respectively, during the 2019-2023 time period. These regulated investments will help the company boost earnings per share by 5-7% over the 2019-2023 time frame from the 2018 level of \$3.25. Successful cost management has allowed the company to lower operating and maintenance costs by more than 20% since 2012. This will continue to have a positive impact on the margins of the company.

- ▲ Eversource Energy's focus on renewable energy generation would help the company to meet renewable energy mandates by state governments and enjoy incentives offered by state and federal programs. Eversource Energy announced its plan to become carbon neutral by 2030. The energy company aims to achieve this goal through a series of targeted steps across its operations to reduce carbon emissions. Eversource Energy and Denmark-based Ørsted have proposed to develop the Bay State Wind project. This wind project, which will have a capacity to produce 4,000 MW of renewable energy, will be located in a 300-square-mile area, nearly 25 miles off the coast of Massachusetts. Eversource and Ørsted each hold a 50% ownership interest in Bay State Wind. Recently, Eversource and Ørsted signed a 25-year contract with the New York State Energy Research & Development Authority related to the supply of 880 MW of offshore wind into the New York market.

In addition, in order to make its natural gas distribution operation safer and more secure, the company has chalked out a long-term plan for the 2016-2023 time period to replace old cast iron and steel pipes with more durable plastic pipes. The company had replaced 59 miles of cast iron and steel pipe with safer and more durable plastic pipe in 2018.

- ▲ The company forayed into water business through acquisition of Aquarion Water Company in December 2017. This will help the company to explore and benefit from the long-term opportunity that water and wastewater service business presently offers. Eversource is planning to further expand its water operation through acquisitions.

The company is presently focused on improving the quality of water services through four water reliability projects. Eversource Energy will invest nearly \$200 million in these projects to improve the quality of water services.

- ▲ The strong performance of Eversource enables it to reward its shareholders through the payment of regular dividend. For 2019, the board of directors has approved a 5.9% hike in annual dividend from 2018 levels. The company plans to increase its dividend annually at a rate that is consistent with the projected earnings growth rate of 5-7%. The current annualized dividend of \$2.27 reflects a dividend yield of 2.35%, better than the Zacks S&P 500 composite's average of 1.78%.

The decline in interest rates is resulting in interest savings of the company in long-term debt issuances and on commercial paper borrowings, wherein rates are down more than 50 basis points from the end of 2018. Eversource Energy will pass on the benefits from low prices to customers and its shareholders.

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## Reasons To Sell:

- ▼ The \$1.6-billion Northern Pass transmission project of Eversource Energy is finally shelved after the New Hampshire Supreme Court upheld the state Site Evaluation Committee's 2018 denial of the project. The company has no way to take this 192-mile transmission project forward. This will definitely have an adverse effect on its growth plans.

The company has already spent nearly \$318 million on this transmission project. Results in the first nine months of the year were impacted by an after-tax impairment charge of \$204.4 million, or 64 cents per share, related to Eversource Energy's investment in the Northern Pass Transmission (NPT) project.

- ▼ Eversource Energy outsource certain business functions to third-party suppliers and service providers. Substandard performance by these third parties could harm its business, reputation and results of operations. The company is apprehensive about cyberattacks in its systems and some of its customers are already impacted by the recent cyberattacks on Energy Services Group.
- ▼ Eversource Energy's operations are subject to federal, state and local legislative requirements, as well as extensive environmental regulations, relating to emission of greenhouse gases and carbon dioxide, air and water pollution, and waste management. Any modification in existing regulations and introduction of new mandates could impact the financial performance of the company.
- ▼ Financial performance of the company, to a great extent depends on its ability to operate transmission and distribution system in an efficient manner. The systems might not function as per expectations due to the breakdown and failure or damage of operating equipment. Underperformance could adversely affect Eversource's financial position, results of operations and cash flows.

In an attempt to expand the water business further from the current level, the company made offers to acquire Connecticut Water Service, Inc., but the offers were not successful. This could impact its plan to further expand the water business.

Failure to get approval on the Northern Pass project, stringent regulations and substandard performance from the third party are headwinds.

## Last Earnings Report

### Eversource Q3 Earnings Beat Estimates, Revenues Miss

Eversource Energy reported third-quarter 2019 operating earnings of 98 cents per share, beating the Zacks Consensus Estimate of 94 cents by 4.3%. The reported earnings also improved 7.7% year over year.

#### Total Revenues

Third-quarter revenues of \$2,176 million lagged the Zacks Consensus Estimate of \$2,318 million by 6.1% and declined 4.2% from the year-ago figure of \$2,271 million.

#### Highlights of the Release

Operating expenses decreased 7.7% year over year to \$1,666.6 million, primarily owing to lower operation and maintenance costs.

Operating income was up 9.3% from the prior-year quarter to \$509.3 million. Interest expenses increased 8% year over year to \$135.2 million in the quarter.

Its earnings in the first nine months of 2019 included after-tax impairment charge of 64 cents related to the company's investment in the Northern Pass Transmission ("NPT") project. However, the project had to be shelved due to an adverse court ruling.

Net income in the quarter under review was \$320.8 million, up 10.1% from \$291.3 million recorded in the year-ago period.

#### Segmental Performance

**Electric Distribution:** Earnings from this segment were up 13.5% from the prior-year quarter to \$197.3 million. The upside was primarily attributable to higher distribution revenues, and lower operation and maintenance expenses.

**Electric Transmission:** Earnings of the segment were down 1.8% year over year to \$107.5 million. The decline was due to the absence of benefits from capitalizing interest and equity costs related to the canceled NPT project.

**Natural Gas Distribution:** This segment's loss was \$17.1 million compared with a loss of \$12.6 million in the year-ago quarter. The segment's weak results were due to the timing of distribution revenues.

**Water Distribution:** Earnings from this segment were \$17.5 million compared with \$17.6 million in the year-ago quarter.

**Eversource Parent & Other Companies:** The segment's income was \$13.7 million compared with \$1.1 million in the year-ago quarter. The strong results were due to the absence of Access Northeast impairment charges.

#### Financial Highlights

Cash was \$22.7 million as of Sep 30, 2019, down from \$108.1 million on Dec 31, 2018.

Long-term debt (excluding current portion) was \$13.4 billion as of Sep 30, 2019, higher than \$12.3 billion on Dec 31, 2018.

#### Guidance

Eversource reiterated its 2019 earnings guidance in the range of \$3.40-\$3.50 per share. The midpoint of management's 2019 EPS guidance is \$3.45, which is higher than the current Zacks Consensus Estimate of \$3.44 for the period.

Excluding NPT impairment charges, the company expects earnings per share to improve 5-7% over the long term.

Quarter Ending 09/2019

Report Date	Nov 05, 2019
Sales Surprise	-6.13%
EPS Surprise	4.26%
Quarterly EPS	0.98
Annual EPS (TTM)	3.42

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## Recent News

On **Dec 11, 2019**, Eversource Energy announced its plan to become carbon neutral by 2030. The energy company aims to achieve this goal through a series of targeted steps across its operations to reduce carbon emissions.

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## Valuation

Eversource Energy shares are up 18.3% in the last six months period and up 30.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector are up 14.7% and 12.1% in the last six months period, respectively. Over the past year, the Zacks sub-industry was up 21.6% and the sector was up 2.8%.

The S&P 500 index is up 18.8% in the last six months period and 21.4% in the past year.

The stock is currently trading at 24.97X forward 12-month earnings, which compares to 15.48X for the Zacks sub-industry, 14.32X for the Zacks sector and 19.3X for the S&P 500 index.

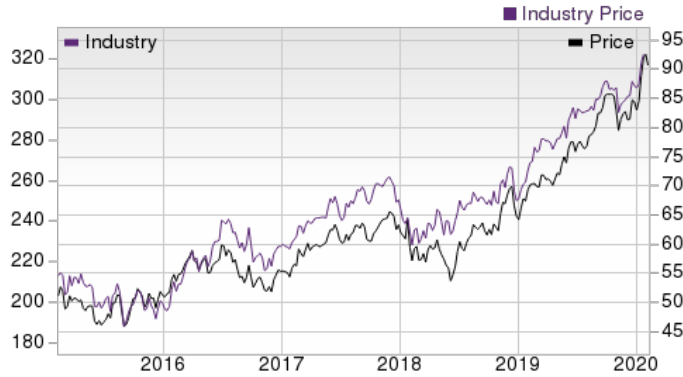
Over the past five years, the stock has traded as high as 25.56X and as low as 15.21X, with a 5-year median of 18.41X. Our Neutral recommendation indicates that the stock will perform in-line the market. Our \$97 price target reflects 26.57X forward 12-month earnings.

The table below shows summary valuation data for ES

Valuation Multiples - ES					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.97	15.48	14.32	19.3
	5-Year High	25.56	15.58	15.36	19.34
	5-Year Low	15.21	11.14	12.58	15.18
	5-Year Median	18.41	13.26	13.84	17.47
P/S F12M	Current	3.21	2.45	3.06	3.56
	5-Year High	3.28	2.45	3.31	3.56
	5-Year Low	1.78	1.54	1.71	2.54
	5-Year Median	2.36	1.87	1.98	3
P/B TTM	Current	2.44	1.96	4.27	4.33
	5-Year High	2.49	1.97	4.27	4.42
	5-Year Low	1.42	1.32	2.02	2.85
	5-Year Median	1.74	1.55	2.58	3.62

As of 2/12/2020

## Industry Analysis Zacks Industry Rank: Bottom 42% (147 out of 254)



## Top Peers

Evergy Inc. (EVRG)	Outperform
Ameren Corporation (AEE)	Neutral
DTE Energy Company (DTE)	Neutral
Consolidated Edison Inc (ED)	Neutral
Edison International (EIX)	Neutral
Entergy Corporation (ETR)	Neutral
FirstEnergy Corporation (FE)	Neutral
Xcel Energy Inc. (XEL)	Neutral

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	ES Neutral	X Industry	S&P 500	AEE Neutral	ED Neutral	XEL Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>D</b>	<b>D</b>	<b>B</b>
Market Cap	29.55 B	9.53 B	24.53 B	20.81 B	30.87 B	36.20 B
# of Analysts	6	2	13	5	4	6
Dividend Yield	2.34%	2.71%	1.75%	2.34%	3.19%	2.35%
<b>Value Score</b>	<b>D</b>	-	-	<b>C</b>	<b>D</b>	<b>C</b>
Cash/Price	0.00	0.04	0.04	0.00	0.01	0.02
EV/EBITDA	14.81	11.72	13.98	11.72	12.12	13.29
PEG Ratio	4.56	4.18	2.09	3.95	10.34	4.35
Price/Book (P/B)	2.44	1.87	3.29	2.53	1.70	2.75
Price/Cash Flow (P/CF)	13.69	9.70	13.69	10.98	10.38	11.54
P/E (F1)	25.25	20.71	19.19	24.44	20.68	24.71
Price/Sales (P/S)	3.47	2.43	2.68	3.46	2.46	3.14
Earnings Yield	3.98%	4.76%	5.21%	4.09%	4.83%	4.04%
Debt/Equity	1.11	1.08	0.71	1.05	1.01	1.28
Cash Flow (\$/share)	6.67	4.03	6.92	7.70	8.95	5.98
<b>Growth Score</b>	<b>C</b>	-	-	<b>C</b>	<b>D</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	5.10%	4.47%	10.85%	8.26%	1.98%	5.90%
Proj. EPS Growth (F1/F0)	5.07%	5.44%	7.30%	5.49%	4.30%	5.81%
Curr. Cash Flow Growth	14.10%	6.89%	8.56%	12.97%	6.99%	3.12%
Hist. Cash Flow Growth (3-5 yrs)	4.95%	4.94%	8.36%	8.12%	5.46%	7.68%
Current Ratio	0.59	0.80	1.23	0.65	0.58	0.72
Debt/Capital	52.87%	51.52%	42.91%	51.33%	50.30%	56.14%
Net Margin	10.46%	9.76%	11.81%	13.34%	10.98%	11.90%
Return on Equity	9.28%	9.26%	16.92%	10.10%	7.92%	10.88%
Sales/Assets	0.22	0.24	0.54	0.22	0.23	0.24
Proj. Sales Growth (F1/F0)	6.19%	3.08%	3.96%	3.09%	3.34%	7.40%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>D</b>	<b>C</b>	<b>A</b>
Daily Price Chg	0.09%	0.00%	0.64%	0.36%	-0.33%	0.10%
1 Week Price Chg	-2.01%	0.35%	2.47%	1.89%	-1.30%	-0.69%
4 Week Price Chg	4.51%	3.37%	1.87%	8.15%	4.40%	7.07%
12 Week Price Chg	10.62%	9.46%	6.69%	12.06%	6.37%	11.90%
52 Week Price Chg	30.26%	17.32%	16.42%	20.71%	19.32%	29.58%
20 Day Average Volume	1,745,242	303,520	2,019,212	1,427,476	1,594,311	2,724,523
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.06%
(F1) EPS Est 4 week change	-0.32%	0.00%	-0.06%	-0.43%	-0.94%	0.30%
(F1) EPS Est 12 week change	-0.44%	0.00%	-0.19%	-0.57%	-0.77%	0.24%
(Q1) EPS Est Mthly Chg	2.67%	0.00%	-0.16%	0.22%	0.00%	-2.89%

## 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>D</b>
Growth Score	<b>C</b>
Momentum Score	<b>C</b>
VGM Score	<b>D</b>

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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