

## Eversource Energy (ES)

**\$89.52** (As of 02/27/20)

Price Target (6-12 Months): **\$95.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 05/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: A

### Summary

Eversource Energy's earnings and revenues in the fourth quarter were lower than expected. The company's investments in renewable energy and expansion of infrastructure will enable it to provide reliable services to customers. The company's \$14.2-billion investment plans will help boost earnings per share by 5-7% over the 2020-2024 time frame from the 2019 level. It is also working to achieve carbon neutrality by 2030. Shares of the company have outperformed its industry in the past 12 months. However, Eversource's decision to shelve the Northern Pass project after the 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.

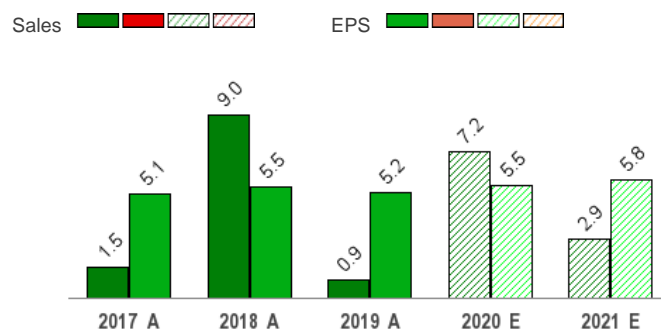
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$99.42 - \$68.38
20 Day Average Volume (sh)	1,806,758
Market Cap	\$29.0 B
YTD Price Change	5.2%
Beta	0.18
Dividend / Div Yld	\$2.27 / 2.4%
Industry	<a href="#">Utility - Electric Power</a>
Zacks Industry Rank	Top 45% (114 out of 254)

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



Last EPS Surprise	-2.6%
Last Sales Surprise	-8.1%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	05/06/2020
Earnings ESP	0.3%
P/E TTM	26.0
P/E F1	24.6
PEG F1	4.4
P/S TTM	3.4

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,585 E	2,028 E	2,347 E	2,264 E	9,408 E
2020	2,329 E	2,213 E	2,132 E	2,227 E	9,142 E
2019	2,416 A	1,885 A	2,176 A	2,050 A	8,526 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.08 E	\$0.86 E	\$1.06 E	\$0.86 E	\$3.85 E
2020	\$1.04 E	\$0.80 E	\$0.98 E	\$0.84 E	\$3.64 E
2019	\$0.97 A	\$0.74 A	\$0.98 A	\$0.76 A	\$3.45 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 02/27/2020. The reports text is as of 02/28/2020.

## 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:

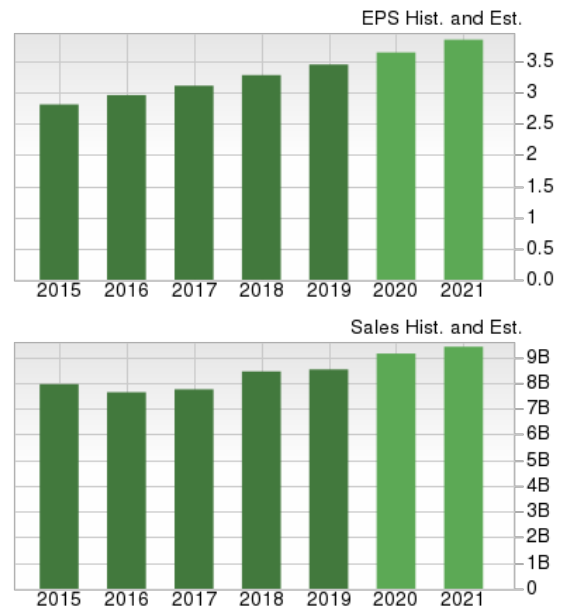
**Electric Distribution:** The segment consists of the distribution businesses of The Connecticut Light and Power Company (CL&P), NSTAR Electric Company (NSTAR Electric), and Public Service Company of New Hampshire (PSNH). This segment owns 40,568 miles of overhead lines and 17,764 miles of underground lines. It contributed \$6,976.5 million to its top line and \$513.3 million to net income in 2019.

**Electric Transmission:** The company owns and controls transmission facilities of CL&P, NSTAR Electric, and PSNH through the segment. It contributed \$1,389 million to its top line and \$460.9 million to net income in 2019.

**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 \$1,062.2 million to its top line and reported a net income of \$96.2 million in 2019.

**Water Distribution:** This segment was created when Eversource acquired Aquarion Water Company in December 2017. It contributed \$214.6 million to its top line and \$34.9 million to net income in 2019.

**Parent and Other Companies:** This segment contributed \$8.2 million to net income in 2019.



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## Reasons To Buy:

- ▲ In the past 12 months, shares of Eversource have gained 28.4% compared with the Zacks Electric Power industry's 16% 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 \$14.2 billion within the 2020-2024 time frame. Out of the total, the company has plans to invest nearly \$10.1 billion in the 2020-2024 time period in its electric transmission and distribution network. The company's transmission reliability projects, namely Eastern MA Transmission projects, Greenwich Substation project, Hartford Area Transmission projects 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 \$0.7 billion and \$2.5 billion in water utility and natural gas distribution businesses, respectively, during the 2020-2024 time period. These regulated investments will help the company boost earnings per share by 5-7% over the 2020-2024 time frame from the 2019 level of \$3.45. Successful cost management has allowed it to lower operating and maintenance costs by more than 2% per year on an average in the past seven years, which had a positive impact on margins. The company is expected to continue with its cost-management initiatives.

- ▲ 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. Eversource and Ørsted each hold a 50% ownership interest in Bay State Wind. The Eversource/Ørsted partnership is the largest developer of offshore wind in North America based on 1,714 megawatts that the partnership has contracted.

In order to make its natural gas distribution operation safer and more secure, the company has chalked out a long-term plan for the 2020-2024 time period and plans to invest \$1,085 million to replace old cast iron and steel pipes with more durable plastic pipes. It had replaced 90 miles of cast iron and steel pipes with safer and more durable plastic pipes in 2019.

- ▲ 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 provided to customers.
- ▲ The strong performance of Eversource enables it to reward its shareholders through the payment of regular dividend. Board of directors of the company have been approving hike in the annual dividend rate. The 2020 annual dividend rate is \$2.27, which is 27.5% higher than \$1.78 paid in 2016. 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 2.29%, better than the Zacks S&P 500 composite's average of 1.92%.

The decline in interest rates is resulting in interest savings of the company in long-term debt issuances and on commercial paper borrowings. 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 Q4 Earnings and Revenues Miss Estimates

Eversource Energy reported fourth-quarter 2019 operating earnings of 76 cents per share, lagging the Zacks Consensus Estimate of 78 cents by 2.6%. However, the reported earnings improved 4.1% year over year.

#### Total Revenues

Fourth-quarter revenues of \$2,050.4 million lagged the Zacks Consensus Estimate of \$2,231 million by 8.1%. However, total revenues improved 0.8% from the year-ago figure of \$2,034.9 million.

#### Highlights of the Release

Operating expenses decreased 1.2% year over year to \$1,614.8 million, primarily owing to lower amortization costs.

Operating income was up 8.9% from the prior-year quarter to \$435.6 million. Interest expenses increased 5.9% year over year to \$133.6 million in the quarter.

Net income in the quarter under review was \$250.1 million, up 8.1% from \$231.3 million recorded in the year-ago period.

#### Segmental Performance

**Electric Distribution:** Earnings from this segment were \$90.7 million, up 19% from the prior-year quarter. The upside was primarily attributable to higher distribution revenues, partially offset by increased depreciation cost, and operations and maintenance (O&M) expense.

**Electric Transmission:** Earnings of the segment were up 21.1% year over year to \$118.1 million. The upside was due to increased investment in Eversource Energy's transmission facilities.

**Natural Gas Distribution:** This segment's earnings were down 10.2% year over year to \$38.6 million. The segment's weak results were due to higher O&M and depreciation expenses.

**Water Distribution:** Earnings from this segment were \$8.5 million compared with \$4.5 million in the year-ago quarter.

**Eversource Parent & Other Companies:** The segment's loss was \$5.9 million against earnings of \$10.1 million in the year-ago quarter. The weak results were due to higher effective tax rate.

#### Guidance

Eversource provided its 2020 earnings guidance in the range of \$3.60-\$3.70 per share. The midpoint of management's 2020 EPS guidance is \$3.65, which is higher than the current Zacks Consensus Estimate of \$3.63 for the period.

The company expects earnings to improve 5-7% through 2024 from the 2019 base of \$3.45.

Quarter Ending 12/2019

Report Date	Feb 19, 2020
Sales Surprise	-8.10%
EPS Surprise	-2.56%
Quarterly EPS	0.76
Annual EPS (TTM)	3.45

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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 11.3% in the last six months period and up 28.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector are up 8.1% and 5.4% in the last six months period, respectively. Over the past year, the Zacks sub-industry was up 16% but the sector was down 2.4%.

The S&P 500 index is up 7% in the last six months period and 10.2% in the past year.

The stock is currently trading at 24.35X forward 12-month earnings, which compares to 14.97X for the Zacks sub-industry, 13.83X for the Zacks sector and 17.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.14X and as low as 15.21X, with a 5-year median of 18.43X. Our Neutral recommendation indicates that the stock will perform in-line the market. Our \$95 price target reflects 25.88X 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	24.35	14.97	13.83	17.81
	5-Year High	26.14	15.58	15.36	19.34
	5-Year Low	15.21	11.14	12.58	15.18
	5-Year Median	18.43	13.27	13.83	17.46
P/S F12M	Current	3.15	2.41	2.95	3.28
	5-Year High	3.38	2.45	3.31	3.43
	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	2.39	1.91	4.12	4.51
	5-Year High	2.56	2.01	4.35	4.9
	5-Year Low	1.42	1.32	2.02	2.85
	5-Year Median	1.74	1.56	2.59	3.62

As of 2/27/2020

## Industry Analysis Zacks Industry Rank: Top 45% (114 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>C</b>	<b>C</b>
Market Cap	28.98 B	8.68 B	21.35 B	20.07 B	27.77 B	34.02 B
# of Analysts	6	2	13	5	4	5
Dividend Yield	2.39%	2.94%	2.02%	2.43%	3.68%	2.50%
<b>Value Score</b>	<b>D</b>	-	-	<b>C</b>	<b>C</b>	<b>C</b>
Cash/Price	0.00	0.04	0.04	0.00	0.04	0.02
EV/EBITDA	14.62	10.79	12.70	11.53	10.40	12.89
PEG Ratio	4.44	3.85	1.84	3.76	9.26	3.85
Price/Book (P/B)	2.39	1.66	2.92	2.45	1.52	2.57
Price/Cash Flow (P/CF)	13.21	8.92	11.89	10.41	8.86	10.38
P/E (F1)	24.59	18.83	16.90	23.49	18.52	23.18
Price/Sales (P/S)	3.40	2.22	2.39	3.40	2.21	2.95
Earnings Yield	4.07%	5.22%	5.90%	4.25%	5.40%	4.32%
Debt/Equity	1.11	1.09	0.70	1.09	1.06	1.31
Cash Flow (\$/share)	6.78	4.05	6.94	7.84	9.39	6.25
<b>Growth Score</b>	<b>D</b>	-	-	<b>C</b>	<b>C</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	5.00%	4.49%	10.85%	8.26%	1.89%	5.90%
Proj. EPS Growth (F1/F0)	5.60%	4.74%	6.79%	3.64%	2.80%	5.98%
Curr. Cash Flow Growth	3.84%	3.45%	5.92%	2.50%	12.02%	7.69%
Hist. Cash Flow Growth (3-5 yrs)	8.38%	5.08%	8.38%	8.12%	7.14%	7.68%
Current Ratio	0.59	0.79	1.23	0.57	0.68	0.68
Debt/Capital	52.87%	52.09%	42.53%	52.09%	51.49%	56.80%
Net Margin	10.66%	10.09%	11.57%	14.01%	10.69%	11.90%
Return on Equity	9.35%	9.67%	16.80%	10.29%	8.02%	10.74%
Sales/Assets	0.22	0.24	0.54	0.21	0.22	0.23
Proj. Sales Growth (F1/F0)	7.22%	2.64%	4.07%	5.57%	3.85%	8.38%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>D</b>	<b>B</b>	<b>B</b>
Daily Price Chg	-4.22%	-3.49%	-3.99%	-4.27%	-5.13%	-5.12%
1 Week Price Chg	2.46%	0.29%	-0.94%	-1.67%	-4.37%	0.80%
4 Week Price Chg	-3.96%	-6.84%	-9.83%	-0.40%	-12.19%	-5.69%
12 Week Price Chg	8.96%	1.03%	-6.79%	8.63%	-4.04%	4.36%
52 Week Price Chg	28.23%	6.05%	2.79%	14.50%	0.90%	18.21%
20 Day Average Volume	1,806,758	311,791	2,169,477	1,666,502	1,753,823	2,977,243
(F1) EPS Est 1 week change	0.09%	0.00%	0.00%	0.35%	0.07%	0.11%
(F1) EPS Est 4 week change	0.37%	0.00%	-0.09%	0.35%	-0.37%	0.59%
(F1) EPS Est 12 week change	-0.07%	0.00%	-0.24%	-0.06%	-1.14%	0.41%
(Q1) EPS Est Mthly Chg	0.97%	0.00%	-0.72%	-2.79%	0.00%	-2.70%

## 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	D
Momentum Score	A
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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