

Entergy Corporation (ETR)

\$104.67 (As of 08/07/20)

Price Target (6-12 Months): **\$111.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/07/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

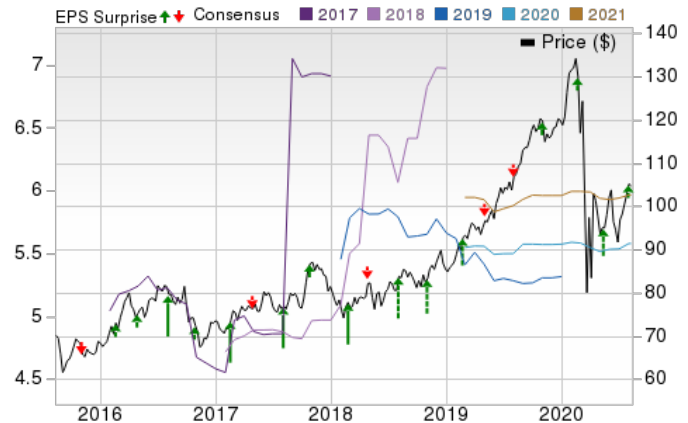
Growth: D

Momentum: D

Summary

Entergy Corporation ended the second quarter of 2020 with earnings surpassing the Zacks Consensus Estimate, while revenues lagging the same. It maintains a stable liquidity position, backed by a strong cash generation capacity, enabling it to make notable investments. It plans to invest \$11.65 billion during the 2020-2022 period and expects grid upgrades, asset replacement and industrial load growth to drive earnings. Its shares have outperformed the industry in the past year. However, it expects overall revenues to be \$120-\$140-million lower as a result of COVID-19 during 2020. Entergy Louisiana expects negative changes during 2020 to its customer payment patterns and cash flow activity. Also, effects of low natural gas prices and power market structure challenges have resulted in reduced market prices for electricity in company-operated regions.

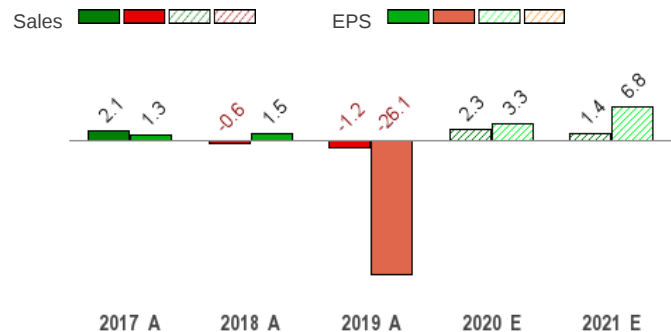
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$135.55 - \$75.20
20 Day Average Volume (sh)	1,132,360
Market Cap	\$21.0 B
YTD Price Change	-12.6%
Beta	0.59
Dividend / Div Yld	\$3.72 / 3.6%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 23% (193 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.7%
Last Sales Surprise	-14.0%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	NA
Earnings ESP	-0.1%
P/E TTM	18.3
P/E F1	18.8
PEG F1	2.7
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					11,294 E
2020	2,427 A	2,413 A	3,249 E	2,500 E	11,134 E
2019	2,610 A	2,666 A	3,141 A	2,462 A	10,879 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.24 E	\$1.23 E	\$2.52 E	\$0.97 E	\$5.96 E
2020	\$1.14 A	\$1.37 A	\$2.57 E	\$0.58 E	\$5.58 E
2019	\$0.82 A	\$1.35 A	\$2.52 A	\$0.68 A	\$5.40 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 08/07/2020. The reports text is as of 08/10/2020.

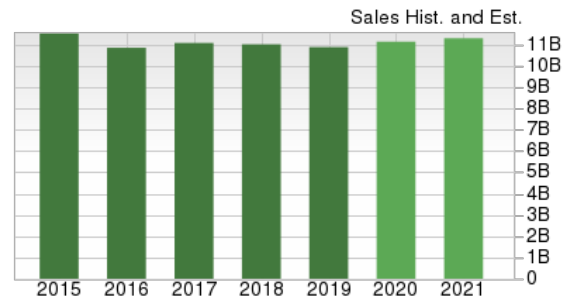
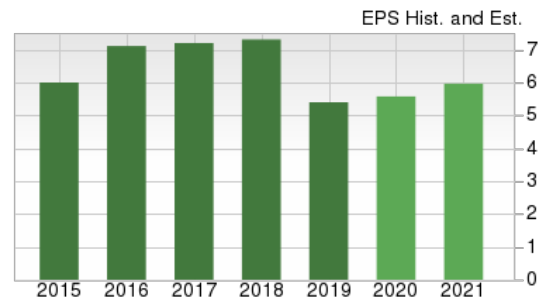
Overview

New Orleans, LA based Entergy Corporation, incorporated in 1913, is primarily engaged in electric power production and retail distribution of power. The company has 30,000 megawatt (MW) of generating capacity, including more than 8,000 MW of nuclear fuel capacity. Entergy's regulated generation fleet includes plants that are fully or partially owned by Entergy's utility companies: Entergy Arkansas, LLC; Entergy Louisiana, LLC; Entergy Mississippi, LLC; Entergy New Orleans, LLC; and Entergy Texas, Inc. It distributes electricity to more than 2.9 million customers in Arkansas, Louisiana, Mississippi and Texas. Entergy Corporation's generation mix consists of 67% gas/oil or hydro, 23% nuclear power and 10% coal.

Entergy operates primarily through two business segments: Utility, Parent & Other and Entergy Wholesale Commodities (EWC). The Utility business segment includes the generation, transmission, distribution and sale of electric power in portions of Arkansas, Mississippi, Texas and Louisiana, including the City of New Orleans; it also operates a small natural gas distribution business. The company's total consolidated net income for this segment in 2019 amounted to \$1,425.6 million.

The Entergy Wholesale Commodities business segment includes the ownership, operation, and decommissioning of nuclear power plants located in the northern United States and the sale of the electric power produced by its operating plants to wholesale customers. Entergy Wholesale Commodities also provides services to other nuclear power plant owners and owns interests in non-nuclear power plants that sell the electric power produced by those plants to wholesale customers. The company's total consolidated net loss for this segment in 2019 amounted to \$148.9 million.

Entergy Corporation's total consolidated net loss for the Parent & Other segment in 2019 amounted to \$316.3 million.



Reasons To Buy:

- ▲ The company has plans to invest \$11.65 billion in the 2020-2022 time frame, including \$4.24 billion for generation, \$2.82 billion for utility support, \$2.1 billion for distribution and \$2.4 billion for transmission. The company expects grid upgrades, asset replacement, and industrial load growth to drive earnings. In addition to pursuing growth opportunities in the generation business, the company has a strong project pipeline and as secured, the LPSC approval to replace 100 miles of pipe over the next 10 years.
- ▲ With the major transition that the utility industry is undergoing from using coal as a primary source of electricity to adopting renewables as a preferred resource, Entergy is making steady progress on adding renewable generation to its portfolio. Each of these projects is in process and their in-service dates range from 2019 to 2022. Further, on the renewables front, the company continues its construction work on one of the largest solar facilities, the Capital Region Solar facility. It is a 50-megawatt solar project in Louisiana, which will offset the equivalent of nearly 19,000 passenger vehicle emissions each year, once completed. Entergy plans to purchase the output under a 20-year agreement. Such initiatives are expected to bolster the company's position in the booming renewable energy market. Evidently, Entergy's shares have lost 2.9% in the past year compared with the industry's decline of 4.5%.
- ▲ To reduce volatility at its Entergy Wholesale Commodities (EWC) business, the company took a decision to cease merchant power generation at all EWC power plants by mid-2022. As part of this decision, in January 2019, Entergy wrapped up the sale of its Vermont Yankee nuclear power plant to the subsidiaries of NorthStar Group Services. In 2019, the company signed an agreement to sell 100% of the equity interests in its subsidiaries that own its nuclear plants — Indian Point 1, Indian Point 2 and Indian Point 3 — for decommissioning. The transaction is expected to conclude by May 2021, following the defueling of Indian Point 3. As of Jun 30, 2020, Entergy's adjusted net investment in the Indian Point units was \$175 million.

Entergy's disciplined investment in growth projects will give impetus to growth. Entergy also continues to make steady progress on adding renewable generation to its portfolio.

In August 2019, Entergy completed the sale of the subsidiary that owns the Pilgrim Nuclear Power Station to a Holtec International subsidiary, which will now complete major decommissioning activities at the site. The Pilgrim transaction demonstrates the continued progress on Entergy's exit from merchant power markets. Going ahead, the company plans to shut down the Palisades nuclear power plant by the end of 2022. As of Jun 30, 2020, Entergy's adjusted net investment in Palisades was \$55 million. This strategy of shelling out its merchant power business seems to be attractive as regulated spending offers a secured rate of return and many U.S. reactors are struggling, given low natural gas and power prices in competitive markets. Eventually these divestments will enable Entergy to operate as a pure play utility.

Reasons To Sell:

- ▼ Entergy has experienced adverse changes during the second quarter to its customer payment patterns and its operating cash flow activity due to the COVID-19 pandemic, and expects them to continue throughout 2020. As of Jun 30, 2020, Entergy Louisiana recorded regulatory asset expenses of \$10.7 million associated with the COVID-19 pandemic, whereas Entergy Mississippi, Entergy New Orleans and Entergy Texas recorded regulatory asset expenses of \$6 million, \$4.8 million and \$4.1 million respectively, for associated COVID-19 impacts.

Entergy continues to expect a decline in sales volume during 2020 due to the COVID-19 pandemic, especially in the commercial and industrial customer classes. From an overall viewpoint, Entergy expects revenues to be \$120-\$140 million lower as a result of COVID-19 for the remaining part of 2020.

- ▼ The effects of sustained low natural gas prices and power market structure challenges have resulted in lower market prices for electricity in the power regions, where the Entergy Wholesale Commodities nuclear power plants are located. In addition, the current market design, under which the plants operate, does not adequately compensate merchant nuclear plants for their environmental and fuel diversity benefits in the region. These conditions were primary factors leading to Entergy's decision to shut down its nuclear power plants before the end of their operating licenses.
- ▼ Entergy Corp. has a long-term debt of \$18,278 million as of Jun 30, 2020, slightly higher than \$18,229 million as of Mar 31, 2020. Meanwhile, its cash equivalents were worth \$935 million as of Jun 30, 2020, which declined sequentially from \$1,464 million and remained much lower compared to its long-term debt levels. Also, its current debt worth \$3,151 million as of Jun 30, 2020, remains much higher than the cash reserve. This indicates that the company's solvency position is weak and thus may spook investors, given the prevailing uncertainty in the COVID-19-affected market scenario.

Moreover, the company's current ratio as of Jun 30, 2020 was 0.58, which declined sequentially from 0.66, and also 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 is 0.65, which is the highest in the past four quarters. Such unfavorable financial ratios indicate that the company might face difficulties and struggle to meet its debt obligations in the near future.

Entergy continues to expect a decline in sales volume during 2020 due to the COVID-19 pandemic, which could be a growth deterrent.

Last Earnings Report

Entergy's Q2 Earnings Beat Estimates, Revenues Fall Y/Y

Entergy Corporation reported second-quarter 2020 adjusted earnings of \$1.37 per share, which surpassed the Zacks Consensus Estimate of \$1.23 by 11.4%. Moreover, the bottom line improved 1.5% from \$1.35 per share in the year-ago quarter.

Excluding the effects of special items, the company registered GAAP earnings of \$1.79 per share compared with \$1.22 a year ago.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	-14.02%
EPS Surprise	12.68%
Quarterly EPS	1.37
Annual EPS (TTM)	3.51

Total Revenues

In the quarter under review, total revenues came in at \$2,412.8 million, which lagged the Zacks Consensus Estimate of \$2,806 million by 14%. Also, the top line fell 9.5% from the year-ago quarter's \$2,666.2 million.

Segment Results

Utility: The segment's quarterly adjusted earnings came in at \$1.71 per share compared with \$1.70 in the prior-year quarter.

Parent & Other: The segment incurred an adjusted loss of 34 cents per share compared with a loss of 35 cents in the prior-year quarter.

Entergy Wholesale Commodities (EWC): The segment registered earnings of 42 cents per share on an as-reported basis against a loss of 13 cents in the year-ago quarter.

Highlights of the Release

Operating expenses in the quarter summed \$1,973.5 million, down 15.2% from \$2,327.4 million in the year-ago quarter.

Interest expenses were \$216.8 million, up 7.8% from \$201.1 million in the year-ago quarter.

In the reported quarter, total retail customers served by the company increased 1.1% to nearly 2.94 million.

Financial Highlights

As of Jun 30, 2020, Entergy had cash and cash equivalents of \$935.5 million compared with \$425.7 million as of Dec 31, 2019.

Long-term debt was \$18.28 billion as of Jun 30, 2020, compared with \$17.08 billion as of Dec 31, 2019.

At the end of the first half of 2020, the company generated cash from operating activities of \$1,448.3 million, down from \$1,053.1 million in the prior-year quarter.

Guidance

For 2020, Entergy reaffirms adjusted EPS of \$5.45-\$5.75 per share. The Zacks Consensus Estimate for the company's earnings is currently pegged at \$5.54, below the midpoint of the company's guidance range.

Valuation

Entergy's shares are down 12.6% in the year-to-date period and 2.9% the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 11.2% and 11.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 4.5% whereas the sector is down 7.8%.

The S&P 500 index is up 4.1% in the year-to-date period and 9.9% in the past year.

The stock is currently trading at 18X of forward 12-month earnings, which compares to 14X for the Zacks sub-industry, 13X for the Zacks sector and 22.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.9X and as low as 10.7X, with a 5-year median of 15.3X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$111 price target reflects 19.1X forward 12-month earnings.

The table below shows summary valuation data for ETR

Valuation Multiples - ETR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.01	14.03	12.95	22.81
	5-Year High	23.89	15.4	15.29	22.81
	5-Year Low	10.65	11.1	11.32	15.25
	5-Year Median	15.32	13.19	13.73	17.55
P/S F12M	Current	1.87	2.36	2.75	3.67
	5-Year High	2.35	2.45	3.29	3.67
	5-Year Low	0.87	1.54	1.75	2.53
	5-Year Median	1.28	1.9	2.07	3.04
EV/EBITDA TTM	Current	10.5	12.74	17.83	12.99
	5-Year High	13.14	13.62	20.4	12.99
	5-Year Low	5.81	7.81	10.61	8.24
	5-Year Median	9.1	10.45	13.89	10.89

As of 08/07/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (193 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Ameren Corporation (AEE)	Neutral	3
CMS Energy Corporation (CMS)	Neutral	2
CenterPoint Energy, Inc. (CNP)	Neutral	3
DTE Energy Company (DTE)	Neutral	3
Edison International (EIX)	Neutral	3
FirstEnergy Corporation (FE)	Neutral	3
Alliant Energy Corporation (LNT)	Neutral	3
The AES Corporation (AES)	Underperform	4

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	ETR	X Industry	S&P 500	AEE	CNP	LNT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	C	-	-	B	C	C
Market Cap	20.96 B	9.24 B	23.30 B	20.29 B	11.12 B	13.65 B
# of Analysts	4	3	14	5	4	2
Dividend Yield	3.55%	3.34%	1.76%	2.41%	2.94%	2.78%
Value Score	B	-	-	C	B	C
Cash/Price	0.04	0.06	0.07	0.00	0.09	0.00
EV/EBITDA	9.40	9.83	13.32	11.86	8.07	13.30
PEG Ratio	2.68	3.64	2.94	3.52	3.19	4.10
Price/Book (P/B)	2.01	1.58	3.19	2.46	1.32	2.48
Price/Cash Flow (P/CF)	6.39	7.97	12.51	10.49	4.59	11.63
P/E (F1)	18.76	17.85	22.02	23.74	15.94	22.70
Price/Sales (P/S)	2.01	1.93	2.53	3.49	1.14	3.85
Earnings Yield	5.33%	5.59%	4.37%	4.21%	6.27%	4.40%
Debt/Equity	1.75	1.05	0.77	1.14	1.30	1.06
Cash Flow (\$/share)	16.39	4.27	6.94	7.84	4.45	4.70
Growth Score	D	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	-2.08%	4.83%	10.46%	7.69%	11.63%	7.03%
Proj. EPS Growth (F1/F0)	61.67%	0.83%	-6.80%	3.34%	-28.49%	4.33%
Curr. Cash Flow Growth	-3.90%	6.78%	5.39%	2.50%	10.42%	10.43%
Hist. Cash Flow Growth (3-5 yrs)	0.41%	6.02%	8.55%	6.59%	6.62%	6.17%
Current Ratio	0.58	0.90	1.33	0.62	0.58	0.55
Debt/Capital	63.60%	50.91%	44.50%	53.27%	56.58%	50.57%
Net Margin	11.95%	10.97%	10.13%	13.51%	-6.87%	18.37%
Return on Equity	11.36%	9.34%	14.39%	9.62%	13.92%	12.49%
Sales/Assets	0.20	0.22	0.51	0.20	0.29	0.21
Proj. Sales Growth (F1/F0)	2.35%	0.00%	-1.51%	1.36%	-36.55%	0.00%
Momentum Score	D	-	-	B	F	C
Daily Price Chg	2.33%	0.83%	0.90%	1.38%	0.69%	2.59%
1 Week Price Chg	2.41%	0.00%	0.14%	0.91%	-3.70%	1.37%
4 Week Price Chg	8.52%	6.18%	8.95%	11.58%	7.70%	13.41%
12 Week Price Chg	10.25%	10.66%	18.90%	19.59%	18.11%	19.11%
52 Week Price Chg	-2.21%	-10.93%	1.18%	7.68%	-26.66%	6.58%
20 Day Average Volume	1,132,360	330,842	2,057,775	1,417,298	7,138,135	1,252,326
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.78%	0.00%	1.36%	0.71%	0.00%	0.00%
(F1) EPS Est 12 week change	1.14%	0.00%	1.57%	0.42%	-1.73%	-0.82%
(Q1) EPS Est Mthly Chg	-0.67%	-0.32%	0.54%	2.44%	-10.38%	NA

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	B
Growth Score	D
Momentum Score	D
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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