

Entergy Corporation (ETR)

\$134.13 (As of 02/14/20)

Price Target (6-12 Months): **\$142.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/07/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

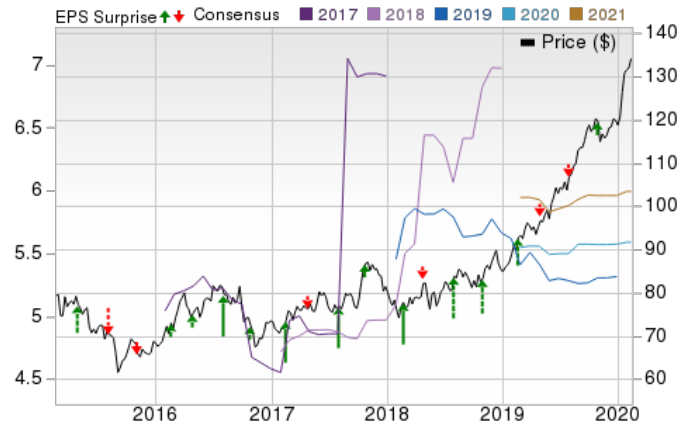
Growth: D

Momentum: A

Summary

Entergy Corporation maintains a stable liquidity position, backed by a strong cash generation capacity, enabling it to make notable investments. It plans to invest \$11.87 billion in the 2019-2021 period and 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. Its shares outperformed the industry in past year. However, Entergy operates along the gulf coast of the United States, an area that sees strong hurricane activity. This exposes its utility plants to damage and expenditure associated with storm-related restoration. Also, effects of persistent low natural gas prices and power market structure challenges have resulted in reduced market prices for electricity in the company-operated regions.

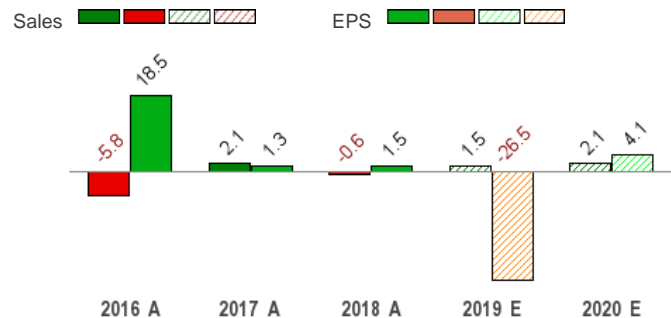
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$134.49 - \$88.88
20 Day Average Volume (sh)	1,030,603
Market Cap	\$26.7 B
YTD Price Change	12.0%
Beta	0.25
Dividend / Div Yld	\$3.72 / 2.8%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 43% (109 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.1%
Last Sales Surprise	-9.6%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	02/19/2020
Earnings ESP	-5.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					11,407 E
2019	2,610 A	2,666 A	3,141 A		11,172 E
2018	2,724 A	2,669 A	3,104 A	2,512 A	11,009 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.13 E	\$1.38 E	\$2.39 E	\$0.70 E	\$5.59 E
2019	\$0.82 A	\$1.35 A	\$2.52 A	\$0.66 E	\$5.37 E
2018	\$1.16 A	\$1.79 A	\$3.77 A	\$0.60 A	\$7.31 A

*Quarterly figures may not add up to annual.

P/E TTM	25.4
P/E F1	24.0
PEG F1	3.4
P/S TTM	2.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/14/2020. The reports text is as of 02/17/2020.

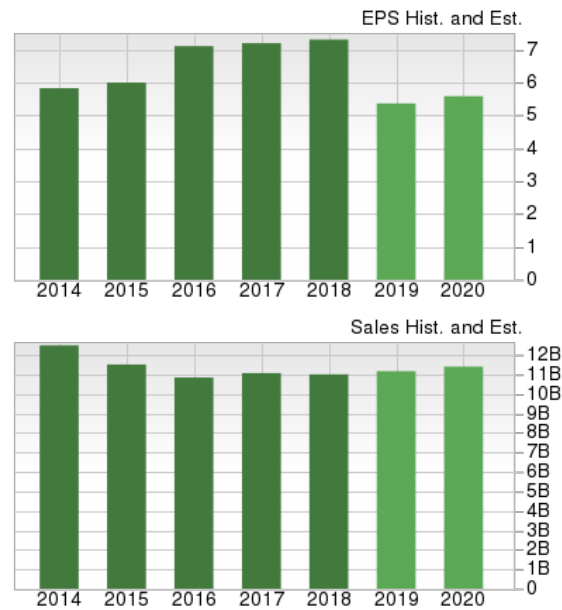
Overview

New Orleans, LA based Entergy Corporation (ETR), 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 10,000 MW of nuclear fuel capacity. It distributes electricity to 2.8 million customers in Arkansas, Louisiana, Mississippi and Texas. Entergy Corporation's generation mix consists of 66% gas/oil or hydro, 24% 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. Consolidated net income for this segment in 2018 amounted to \$1,495 million.

The Entergy Wholesale Commodities business segment includes the ownership and operation of six nuclear power plants located in the northern U.S. and sale of the electric power thereof to wholesale customers. This business also provides services to other nuclear power plant owners. Entergy Wholesale Commodities also owns interests in non-nuclear power plants selling the electric power produced by those plants to wholesale customers. Consolidated net loss for this segment in 2018 amounted to \$340.6 million.

Consolidated net loss for the Parent & Other segment in 2018 amounted to \$291.9 million.



Reasons To Buy:

▲ In the past twelve months, Entergy's share price has increased 49.3% compared to the industry's growth of 23.2%. The company has plans to invest \$11.87 billion in the 2019–2021-time frame, including \$4.52 billion for generation, \$3.46 billion for distribution and \$2.48 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.

Entergy's disciplined investment in growth projects will give impetus to growth. Its pollution control measures and cost-containment efforts are noticeable.

▲ 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. To this end, the company currently boasts approximately 1,000 megawatts of renewables in various stages of development. Each of these projects are in process and their in-service dates range from 2019 to 2022. Further, on the renewables front, the company has begun construction on one of the largest solar facilities, the Capital Region Solar facility, in Louisiana. It is a 50-megawatt solar project that will offset the equivalent of nearly 19,000 passenger vehicles 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.

▲ 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. Earlier this year, it 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 be complete by third-quarter 2021, following the defueling of Indian Point 3.

Entergy has permanently shut down its Pilgrim nuclear power plant on May 31 and the process of decommissioning has already begun. The company also plans to shut down the Palisades nuclear power plant on May 31, 2022. 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.

▲ The company maintains a stable liquidity position backed by strong cash generation capacity. As of Sep 30, 2019, it had cash and cash equivalents of \$955.8 million compared with \$481 million at 2018 end. At the end of Sep 30, 2019, the company generated cash from operating activities of \$1,064.8 million, up from \$779.6 million in the prior-year quarter. In addition to utilizing funds for growth projects, Entergy continues to focus on maximizing shareholder value through regular payout of dividends. During third-quarter 2019, the company paid out common stock dividend worth \$180.9 million compared with \$161 million in the prior-year quarter. Entergy intends to raise its dividend constantly and steadily in sync with its investment strategy.

Reasons To Sell:

- ▼ Entergy operates along the gulf coast of the U.S., a high-risk area that sees strong hurricane activity. This exposes the company's utility plants to damage and expenditure associated with storm-related restoration, which at times may be difficult to fully recover through rate relief. Entergy's assets are also subject to unplanned outages that might disrupt the operational pace.
- ▼ 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.
- ▼ The company had a notable long-term debt of \$16.94 billion as of Sep 30, 2019, compared with \$15.52 billion at 2018 end. Such massive debt levels can turn out to be a major headwind for the company, going ahead. This is because investors try to avoid high-debt stocks as they are more prone to bankruptcy in times of crisis.
- ▼ Although the company has outperformed its industry in the past year, a comparative analysis of its historical Price/Cash Flow (P/CF) ratio reflects a relatively gloomy picture that might be a cause for investors' concern. The stock currently has a trailing 12-month P/CF ratio of 8.94. The ratio is higher than the industry's average of 8.74 as well as the company's mid-point of 8.56.

Operation at high-risk areas with strong hurricane activities and price fluctuations in wholesale power markets could be a growth deterrent.

Last Earnings Report

Entergy Q3 Earnings Beat Estimates, Revenues Up Y/Y

Entergy Corporation reported third-quarter 2019 adjusted earnings of \$2.52 per share, which surpassed the Zacks Consensus Estimate of \$2.31 by 9.1%. Moreover, the reported figure rose 7.2% from \$2.35 per share in the year-ago quarter.

Excluding the effects of special items, the company registered GAAP earnings of \$1.82 per share compared with \$2.92 a year ago.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	-9.64%
EPS Surprise	9.09%
Quarterly EPS	2.52
Annual EPS (TTM)	5.29

Total Revenues

In the quarter under review, total revenues came in at \$3,140.6 million, which lagged the Zacks Consensus Estimate of \$3,476 million by 9.6%. However, the top line grew 1.2% from the year-ago quarter's \$3,104.3 million.

Segment Results

Utility: The segment's quarterly adjusted earnings came in at \$2.88 per share compared with \$2.75 in the prior-year quarter. The increase can be attributed to higher sales volume, primarily in the unbilled period, and lower nuclear generation O&M expenses.

Parent & Other: The segment incurred an adjusted loss of 36 cents per share compared with a loss of 40 cents in the prior-year quarter.

Entergy Wholesale Commodities (EWC): The segment registered loss of 70 cents per share on an as-reported basis against earnings of 31 cents in the year-ago quarter.

Highlights of the Release

Operating expenses in the quarter summed \$2,620.6 million, down 7.5% from \$2,833.3 million in the year-ago quarter.

Interest expenses were \$201.4 million, up 3.1% from \$195.3 million in the year-ago quarter.

Total retail customers served by the company rose 0.5% to nearly 2.92 million.

Financial Highlights

As of Sep 30, 2019, Entergy had cash and cash equivalents of \$955.8 million compared with \$481 million as of Dec 31, 2018.

Long-term debt was \$16.94 billion as of Sep 30, 2019, compared with \$15.52 billion as of Dec 31, 2018.

At the end of Sep 30, 2019, the company generated cash from operating activities of \$1,064.8 million, up from \$779.6 million in the prior-year quarter.

Guidance

For 2019, Entergy narrowed its operational earnings view to \$5.25-\$5.45 per share from \$5.15-\$5.45. The Zacks Consensus Estimate for the company's earnings is currently pegged at \$5.30, lower than the mid-point of the company's guided range.

Recent News

On **Dec 16, 2019**, Entergy announced that its customers have saved approximately \$1.3 billion on electric bills since its utility subsidiaries became members of Midcontinent Independent System Operator, a regional transmission organization. The estimated \$1.3 billion in savings realized between 2014 and 2018 is largely because, through participation in MISO, Entergy is part of a large pool of generating facilities that stretch across the vast MISO footprint.

Valuation

Entergy's shares are up 22.1% in the past six months and 49.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 14% and 11.5% in the six months period, respectively. Over the past year, the Zacks sub-industry is up 23.2% whereas the sector is up 3.7%.

The S&P 500 index is up 16.1% in the six months period and 21% in the past year.

The stock is currently trading at 23.78X of forward 12-month earnings, which compares to 15.71X for the Zacks sub-industry, 14.51X for the Zacks sector and 19.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.78X and as low as 10.65X, with a 5-year median of 14.82X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$142 price target reflects 25.18X 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	23.78	15.71	14.51	19.35
	5-Year High	23.78	15.71	15.36	19.35
	5-Year Low	10.65	11.14	12.58	15.18
	5-Year Median	14.82	13.26	13.84	17.47
P/S F12M	Current	2.34	2.48	3.09	3.58
	5-Year High	2.34	2.48	3.31	3.58
	5-Year Low	0.87	1.54	1.71	2.54
	5-Year Median	1.24	1.87	1.98	3
P/B TTM	Current	2.66	1.99	4.32	4.68
	5-Year High	2.66	1.99	4.32	4.68
	5-Year Low	1.09	1.32	2.02	2.85
	5-Year Median	1.7	1.55	2.58	3.62

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 43% (109 out of 255)



Top Peers

Ameren Corporation (AEE)	Neutral
The AES Corporation (AES)	Neutral
CMS Energy Corporation (CMS)	Neutral
CenterPoint Energy, Inc. (CNP)	Neutral
DTE Energy Company (DTE)	Neutral
Edison International (EIX)	Neutral
FirstEnergy Corporation (FE)	Neutral
Alliant Energy Corporation (LNT)	Neutral

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	ETR Neutral	X Industry	S&P 500	AEE Neutral	CNP Neutral	LNT Neutral
VGM Score	C	-	-	D	B	D
Market Cap	26.71 B	9.75 B	24.61 B	21.35 B	13.65 B	14.36 B
# of Analysts	4	2	13	5	6	2
Dividend Yield	2.77%	2.70%	1.78%	2.28%	4.23%	2.54%
Value Score	C	-	-	C	B	D
Cash/Price	0.04	0.04	0.04	0.00	0.07	0.01
EV/EBITDA	16.30	11.83	14.06	11.94	12.76	14.91
PEG Ratio	3.43	4.25	2.09	4.05	3.39	4.26
Price/Book (P/B)	2.66	1.99	3.29	2.60	2.07	2.89
Price/Cash Flow (P/CF)	7.15	9.83	13.65	11.27	6.73	13.64
P/E (F1)	23.99	21.00	19.21	25.08	16.73	24.48
Price/Sales (P/S)	2.44	2.47	2.70	3.55	1.13	3.94
Earnings Yield	4.17%	4.75%	5.19%	3.99%	6.00%	4.08%
Debt/Equity	1.69	1.08	0.71	1.05	2.12	1.11
Cash Flow (\$/share)	18.75	4.03	6.92	7.70	4.04	4.38
Growth Score	D	-	-	C	C	D
Hist. EPS Growth (3-5 yrs)	4.11%	4.47%	10.85%	8.26%	8.50%	6.06%
Proj. EPS Growth (F1/F0)	4.10%	5.19%	7.17%	5.49%	-3.85%	6.09%
Curr. Cash Flow Growth	0.51%	6.89%	8.56%	12.97%	22.44%	11.59%
Hist. Cash Flow Growth (3-5 yrs)	2.60%	4.94%	8.36%	8.12%	5.78%	6.04%
Current Ratio	0.72	0.80	1.23	0.65	0.99	0.53
Debt/Capital	62.21%	51.52%	42.91%	51.33%	62.67%	51.71%
Net Margin	7.38%	9.76%	11.81%	13.34%	6.23%	14.86%
Return on Equity	11.13%	9.33%	16.86%	10.10%	14.51%	11.43%
Sales/Assets	0.22	0.24	0.54	0.22	0.37	0.23
Proj. Sales Growth (F1/F0)	2.11%	3.09%	3.85%	3.09%	0.26%	NA
Momentum Score	A	-	-	D	D	C
Daily Price Chg	0.67%	0.48%	0.06%	1.21%	0.00%	0.61%
1 Week Price Chg	0.32%	0.35%	2.47%	1.89%	0.91%	-1.74%
4 Week Price Chg	7.35%	4.14%	0.59%	9.57%	0.48%	5.21%
12 Week Price Chg	15.73%	11.29%	6.98%	15.43%	10.76%	11.91%
52 Week Price Chg	49.55%	18.17%	16.62%	25.73%	-11.84%	33.11%
20 Day Average Volume	1,030,603	303,194	2,020,569	1,377,664	4,379,321	1,334,265
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.27%	0.00%	-0.05%	-0.43%	-2.01%	0.00%
(F1) EPS Est 12 week change	0.31%	0.00%	-0.17%	-0.57%	-5.25%	0.00%
(Q1) EPS Est Mthly Chg	40.63%	0.00%	-0.24%	0.22%	3.88%	NA

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	C
Growth Score	D
Momentum Score	A
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.