

Entergy Corporation (ETR)

\$96.56 (As of 05/19/20)

Price Target (6-12 Months): **\$101.00**

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:B

Value: C

Growth: B

Momentum: C

Summary

Entergy Corporation ended first-quarter 2020 with earnings exceeding the Zacks Consensus Estimate but revenues missing 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, Entergy 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.

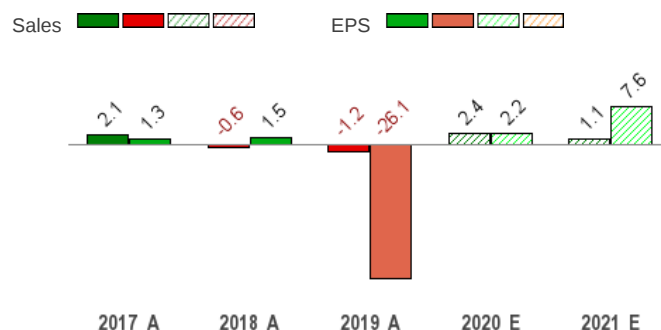
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$135.55 - \$75.20
20 Day Average Volume (sh)	1,569,632
Market Cap	\$19.3 B
YTD Price Change	-19.4%
Beta	0.56
Dividend / Div Yld	\$3.72 / 3.9%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 26% (65 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	21.3%
Last Sales Surprise	-9.4%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	07/29/2020
Earnings ESP	0.0%
P/E TTM	17.0
P/E F1	17.5
PEG F1	2.5
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					11,270 E
2020	2,427 A	2,806 E	3,249 E	2,500 E	11,142 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	\$1.00 E	\$1.54 E	\$2.74 E	\$0.62 E	\$5.94 E
2020	\$1.14 A	\$1.32 E	\$2.60 E	\$0.62 E	\$5.52 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 05/19/2020. The reports text is as of 05/20/2020.

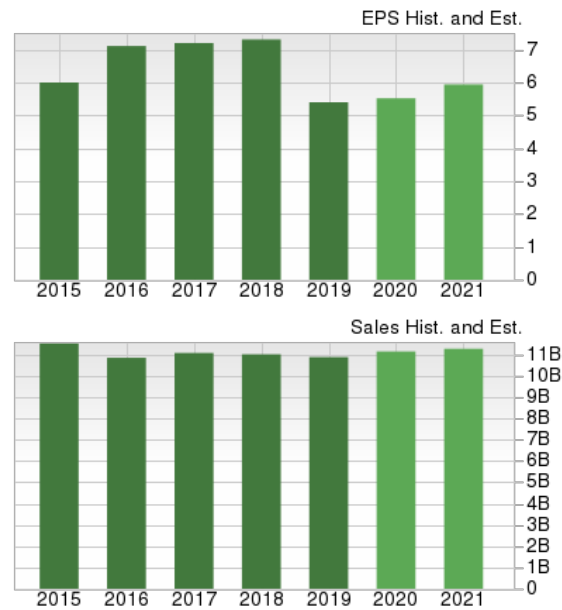
Overview

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 9,000 MW of nuclear fuel capacity. 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. Consolidated net income for this segment in 2019 amounted to \$1,425.6 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 2019 amounted to \$148.9 million.

Consolidated net loss for the Parent & Other segment in 2019 amounted to \$316.3 million.



Reasons To Buy:

▲ In the past 12 months, Entergy's share price has edged down 1.1% compared with the industry's decline of 6.7%. 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. Notably, as of Mar 31, 2020, the company had approximately 1,000 megawatts of renewables in various stages of development. 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.

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 Mar 31, 2020, Entergy's adjusted net investment in the Indian Point units was \$55 million.

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 Mar 31, 2020, Entergy's adjusted net investment in Palisades was \$15 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.

Entergy's disciplined investment in growth projects will give impetus to growth. Its stable liquidity position backed by strong cash generation capacity also boosts growth.

Reasons To Sell:

- ▼ Although the pandemic did not have any material impact on Entergy's operating results or business in the first quarter of 2020, its ongoing and prolonged impacts might dent its second-quarter performance. To this end, Entergy Louisiana expects to witness negative impacts of the COVID-19 pandemic on its customer payment patterns and cash flow activity during 2020.

In 2020, the company also expects sales to be lower due to the unfavorable weather it experienced in the first quarter alongside the impacts of COVID-19. On a weather-adjusted basis, the company at the end of first-quarter 2020 expected commercial sales to see the largest decline of 9.5% for the full year. Further, industrial sales are expected to be 7% lower, led by the impact on its refinery and fuel customers. On an overall viewpoint, Entergy expects revenues to be \$120-\$140 million lower as a result of COVID-19, during the remaining part of 2020.

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

- ▼ 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 \$18,229 million as of Mar 31, 2020, higher than \$17,079 million as of Dec 31, 2019. Meanwhile, its cash equivalents worth \$1,464 million as of Mar 31, 2020, remained much lower compared to its long-term debt levels. Also, its current debt worth \$3,172 million as of Mar 31, 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 Mar 31, 2020, was 0.66, which 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 higher than the industry's 0.58, as of Mar 31, 2020, and also the quarter-ago figure. Further, the company's interest coverage at the end of first quarter was 2, lower than the sequential level of 2.3. Such unfavorable financial ratios indicate that the company might face difficulties and struggle to meet debt obligations in the near future.

Last Earnings Report

Entergy Q1 Earnings Beat Estimates, Revenues Miss

Entergy Corporation reported first-quarter 2020 adjusted earnings of \$1.14 per share, which exceeded the Zacks Consensus Estimate of 94 cents by 21.3%. Moreover, the reported figure soared 39% from 82 cents registered in the year-ago quarter.

Excluding the effects of special items, the company registered GAAP earnings of 59 cents per share compared with \$1.32 a year ago.

Quarter Ending **03/2020**

Report Date	May 11, 2020
Sales Surprise	-9.39%
EPS Surprise	21.28%
Quarterly EPS	1.14
Annual EPS (TTM)	5.69

Total Revenues

In the quarter under review, total revenues came in at \$2,427.2 million, which lagged the Zacks Consensus Estimate of \$2,679 million by 9.4%. Also, the top line declined 7% from the year-ago quarter's \$2,609.6 million. The year-over-year decline is primarily attributable to lower electric and natural gas sales.

Segment Results

Utility: The segment's quarterly adjusted earnings came in at \$1.59 per share compared with \$1.20 in the prior-year quarter. This was led by higher nuclear insurance refunds as well as lower fossil and nuclear-generation spending.

Parent & Other: The segment incurred adjusted loss of 45 cents per share compared with a loss of 38 cents in the prior-year quarter, primarily due to higher income tax expenses resulting from the IRS settlement related to Hurricane Isaac Act 55 financing.

Entergy Wholesale Commodities (EWC): The segment incurred a loss of 55 cents per share on an as-reported basis against earnings of 50 cents registered in the year-ago quarter. The decline was led by losses on decommissioning trust funds and lower nuclear pricing along with lower other O&M expenses due to the shutdown of the Pilgrim Nuclear Power Station.

Highlights of the Release

Operating expenses in the quarter summed \$2,027.4 million, down 12.8% from \$2,326.3 million in the year-ago quarter.

Interest expenses were \$205.6 million, up 2.3% from \$201 million in the year-ago quarter.

In the reported quarter, total retail customers served by the company grew 0.6% to nearly 2.92 million.

Financial Highlights

As of Mar 31, 2020, Entergy had cash and cash equivalents of \$955.8 million compared with \$425.7 million as of Dec 31, 2019.

Long-term debt was \$16.94 billion as of Mar 31, 2020, compared with \$17.1 billion as of Dec 31, 2019.

At the end of the first three months of 2020, the company generated cash from operating activities of \$659.1 million, up from \$501.2 million in the prior-year quarter.

Guidance

For 2020, Entergy affirms adjusted EPS of \$5.45-\$5.75 per share. The Zacks Consensus Estimate for the company's earnings is currently pegged at \$5.52, below the midpoint of the company's guided range.

Recent News

On **Mar 30, 2020**, Entergy announced that its Louisiana's state-of-the-art Lake Charles Power Station began commercial operation March 28, providing another source of reliable and clean energy to a region that has seen substantial growth in recent years.

Valuation

Entergy's shares are down 19.4% in the year-to-date period and 1.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 15.3% and 17.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 6.7%, whereas the sector is down 21.4%.

The S&P 500 index is down 8.2% in the year-to-date period and up 3% in the past year.

The stock is currently trading at 17X of forward 12-month earnings, which compares to 12.6X for the Zacks sub-industry, 11.9X for the Zacks sector and 21.3X 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 15.1X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$101 price target reflects 17.8X 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	17	12.62	11.9	21.34
	5-Year High	23.89	15.53	15.32	21.34
	5-Year Low	10.65	11.12	11.4	15.23
	5-Year Median	15.1	13.23	13.78	17.49
P/S F12M	Current	1.72	2	2.54	3.34
	5-Year High	2.35	2.45	3.29	3.44
	5-Year Low	0.87	1.54	1.75	2.53
	5-Year Median	1.26	1.88	2.04	3.01
EV/EBITDA TTM	Current	10.03	11.4	17.19	10.79
	5-Year High	13.14	13.3	20.15	12.86
	5-Year Low	5.81	7.81	10.6	8.26
	5-Year Median	9	10.31	13.48	10.78

As of 05/19/2020

Industry Analysis Zacks Industry Rank: Top 26% (65 out of 254)



Top Peers

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

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)	3	-	-	3	3	3
VGM Score	B	-	-	D	A	B
Market Cap	19.33 B	7.23 B	19.91 B	17.44 B	8.56 B	11.56 B
# of Analysts	4	3	14	4	4	2
Dividend Yield	3.85%	3.67%	2.14%	2.80%	6.81%	3.28%
Value Score	C	-	-	C	B	D
Cash/Price	0.08	0.07	0.07	0.00	0.11	0.00
EV/EBITDA	8.91	9.10	12.09	10.72	8.19	11.88
PEG Ratio	2.53	3.31	2.68	3.02	2.66	3.47
Price/Book (P/B)	1.90	1.46	2.75	2.12	1.64	2.10
Price/Cash Flow (P/CF)	5.89	7.56	10.68	9.02	3.83	9.85
P/E (F1)	17.70	16.97	19.96	20.51	13.31	19.22
Price/Sales (P/S)	1.81	1.77	2.01	3.01	0.78	3.23
Earnings Yield	5.72%	5.78%	4.83%	4.87%	7.51%	5.20%
Debt/Equity	1.78	1.05	0.76	1.14	2.64	1.06
Cash Flow (\$/share)	16.39	4.15	7.01	7.84	4.45	4.70
Growth Score	B	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	0.30%	4.94%	10.87%	7.69%	11.63%	7.03%
Proj. EPS Growth (F1/F0)	2.22%	1.56%	-10.48%	2.84%	-28.49%	4.33%
Curr. Cash Flow Growth	-3.90%	3.75%	5.51%	2.50%	10.42%	10.43%
Hist. Cash Flow Growth (3-5 yrs)	0.41%	5.54%	8.55%	6.59%	6.62%	6.17%
Current Ratio	0.66	0.88	1.28	0.62	1.03	0.55
Debt/Capital	63.50%	50.78%	44.46%	53.27%	66.49%	50.57%
Net Margin	10.50%	10.48%	10.59%	13.51%	-5.28%	17.12%
Return on Equity	11.40%	9.54%	16.27%	9.62%	15.75%	12.03%
Sales/Assets	0.21	0.22	0.55	0.20	0.32	0.22
Proj. Sales Growth (F1/F0)	2.42%	0.00%	-2.49%	3.02%	-34.60%	0.00%
Momentum Score	C	-	-	D	C	B
Daily Price Chg	-2.88%	-1.77%	-1.38%	-2.19%	-2.57%	-2.97%
1 Week Price Chg	-0.03%	-3.27%	-4.56%	-2.96%	-9.63%	-4.25%
4 Week Price Chg	2.01%	-0.18%	6.08%	-4.55%	9.86%	-6.80%
12 Week Price Chg	-23.55%	-19.53%	-13.96%	-15.45%	-30.42%	-20.15%
52 Week Price Chg	-1.15%	-15.61%	-7.85%	-4.90%	-42.28%	-3.66%
20 Day Average Volume	1,569,632	465,078	2,586,392	2,017,354	9,439,206	1,496,586
(F1) EPS Est 1 week change	-0.05%	0.00%	0.00%	-0.07%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.18%	-0.38%	-4.62%	-0.58%	-0.52%	-1.23%
(F1) EPS Est 12 week change	-1.21%	-3.68%	-16.58%	-0.43%	-20.99%	-1.23%
(Q1) EPS Est Mthly Chg	0.00%	-1.04%	-10.10%	-0.39%	-14.00%	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	C
Growth Score	B
Momentum Score	C
VGM Score	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.

Disclosures

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