

Entergy Corporation (ETR)

\$120.80 (As of 02/27/20)

Price Target (6-12 Months): **\$128.00**

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:D

Value: D

Growth: B

Momentum: F

Summary

Entergy Corporation ended the fourth quarter of 2019 with earnings exceeding the Zacks Consensus Estimate and 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 operates along the gulf coast of the United States, which 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 company-operated regions.

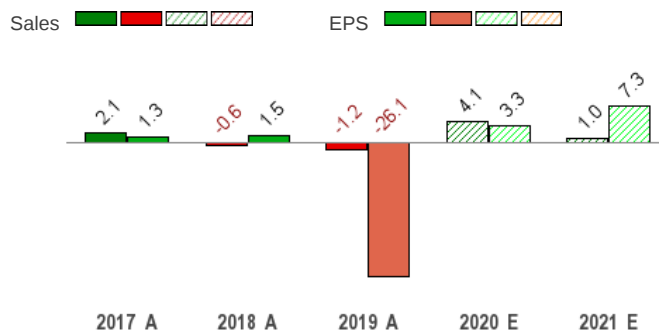
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$135.55 - \$91.60
20 Day Average Volume (sh)	1,409,648
Market Cap	\$24.1 B
YTD Price Change	0.8%
Beta	0.25
Dividend / Div Yld	\$3.72 / 3.1%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 45% (114 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	05/06/2020
Earnings ESP	20.2%
P/E TTM	22.5
P/E F1	21.7
PEG F1	3.1
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					11,431 E
2020	2,738 E	2,850 E	3,152 E	2,472 E	11,321 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					\$5.99 E
2020	\$1.07 E	\$1.39 E	\$2.27 E	\$0.88 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 02/27/2020. The reports text is as of 02/28/2020.

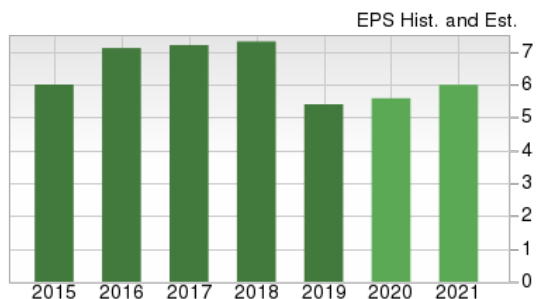
Overview

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 increased 29.6% compared with the industry's growth of 16%. 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 Dec 31, 2019, the company 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, currently planned for Louisiana. It is a 50-megawatt solar project 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. 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.

Entergy has permanently shut down its Pilgrim nuclear power plant on May 31, 2019, and the process of decommissioning has already begun. In August, 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. The company also plans to shut down the Palisades nuclear power plant by the end of 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 Dec 31, 30, 2019, it had cash and cash equivalents of \$426 million. At the end of 2019, the company generated cash from operating activities of \$2.82 billion, up from \$2.39 billion in the prior year. In addition to utilizing funds for growth projects, Entergy continues to focus on maximizing shareholder value through regular payout of dividends. In 2019, the company paid out common stock dividend worth \$711.6 million, reflecting an increase of \$64 million in common stock dividends paid during 2018. Entergy intends to raise its dividend constantly and steadily in sync with its investment strategy.

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:

- ▼ 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 \$17.1 billion as of Dec 31, 2019, compared with \$15.52 billion at 2018 end. Such huge debt levels can turn out to be a major headwind for the company in the days to come. This is because investors try to avoid high-debt stocks as they are more prone to bankruptcy in times of crisis. Moreover, with the current U.S. economy having expanded interest rate in the recent past, the credit market may not turn out to be much favorable for Entergy Corp. Such debt related issues may have caused investors to remain skeptic about the company's growth.
- ▼ Although the company has outperformed its industry in the past year, a comparative analysis of its historical P/E-TTM ratio reflects a relatively gloomy picture that might be a cause for investors' concern. The stock currently has a trailing 12-month P/E-TTM ratio of 23.4. The ratio is higher than the industry's average of 20.01. Therefore, the company's valuation from a P/E-TTM perspective looks stretched compared with its own range during the same time period.

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 Corp Q4 Earnings Beat Estimates, Sales Fall Y/Y

Quarter Ending 12/2019

Entergy Corporation reported fourth-quarter 2018 adjusted earnings of 68 cents per share, which surpassed the Zacks Consensus Estimate of 66 cents by 3%. However, the reported figure decreased 2.85% from 70 cents registered in the year-ago quarter.

Report Date	Feb 19, 2020
Sales Surprise	NA
EPS Surprise	3.03%
Quarterly EPS	0.68
Annual EPS (TTM)	5.37

Excluding the effects of special items, the company reported GAAP earnings of \$1.92 per share against the loss of 36 cents per share a year ago.

For 2019, the company reported adjusted earnings of \$5.40 per share, which outpaced the Zacks Consensus Estimate of \$5.37 by 0.36%. The bottom line also increased 2.1% from \$5.29 in the prior year.

Total Revenues

In the quarter under review, total revenues came in at \$2,462.3 million, which declined 2% from the year-ago quarter's \$2,512.5 million.

For 2019, the company's total revenues amounted to \$10.88 billion, which missed the Zacks Consensus Estimate of \$11.17 billion by 2.6%. Further, the reported figure slipped 1.1% from the year-ago quarter's \$11 billion.

Segment Results

Utility: The segment's quarterly adjusted earnings came in at \$1.14 per share, in line with the prior-year quarter's figure.

Parent & Other: The segment incurred adjusted loss of 46 cents per share compared with a loss of 44 cents in the prior-year quarter.

Entergy Wholesale Commodities (EWC): The segment's quarterly reported earnings came in at \$1.08 per share against a loss of \$2.04 per share registered in the year-ago quarter.

Highlights of the Release

Operating expenses in the quarter summed \$2.21 billion, down 19.2% from \$2.74 billion in the year-ago quarter.

Operating income during the quarter totaled \$248.5 million against the loss of \$228.9 million in the year-ago quarter.

Interest expenses were \$187.9 million, up 4.4% from \$180 million in the year-ago quarter.

In the reported quarter, total retail customers served by the company increased 0.8% to nearly 2.92 million.

Financial Highlights

As of Dec 31, 2019, the company had cash and cash equivalents of \$425.7 million compared with \$481 million as of Dec 31, 2018.

Long-term debt was \$17.1 billion at the end of the fourth quarter compared with \$15.52 billion as of Dec 31, 2018.

At the end of 2019, the company generated cash from operating activities of \$2.82 billion, down from \$2.39 billion in the prior year.

Guidance

For 2020, Entergy expects its operational earnings to remain in the band of \$5.45-\$5.75 per share. The Zacks Consensus Estimate for the company's earnings is currently pegged at \$5.59, slightly lower than the midpoint 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 6.9% in the past six months and 29.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 8% and 5.4% in the six months period, respectively. Over the past year, the Zacks sub-industry is up 16% whereas the sector is down 2.4%.

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

The stock is currently trading at 21.4X of forward 12-month earnings, which compares to 15X for the Zacks sub-industry, 13.8X for the Zacks sector and 17.8X 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 14.9X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$128 price target reflects 22.8X 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	21.39	14.97	13.83	17.81
	5-Year High	23.89	15.58	15.36	19.34
	5-Year Low	10.65	11.14	12.58	15.18
	5-Year Median	14.86	13.26	13.83	17.47
P/S F12M	Current	2.12	2.41	2.95	3.28
	5-Year High	2.35	2.45	3.31	3.43
	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	2.35	1.91	4.12	4.51
	5-Year High	2.63	2.01	4.35	4.9
	5-Year Low	1.09	1.32	2.02	2.85
	5-Year Median	1.7	1.55	2.59	3.62

As of 02/27/2020

Industry Analysis Zacks Industry Rank: Top 45% (114 out of 254)



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	D	-	-	D	B	F
Market Cap	24.13 B	8.68 B	22.59 B	20.07 B	12.13 B	13.46 B
# of Analysts	4	2	13	5	3	2
Dividend Yield	3.08%	2.94%	1.92%	2.43%	4.80%	2.77%
Value Score	D	-	-	C	B	D
Cash/Price	0.02	0.04	0.04	0.00	0.08	0.00
EV/EBITDA	10.01	10.79	13.29	11.53	12.19	14.37
PEG Ratio	3.09	3.85	1.93	3.76	2.98	3.84
Price/Book (P/B)	2.35	1.66	3.03	2.45	1.45	2.54
Price/Cash Flow (P/CF)	7.37	8.92	12.33	10.41	5.43	11.68
P/E (F1)	21.65	18.83	17.79	23.49	14.88	22.52
Price/Sales (P/S)	2.22	2.22	2.47	3.40	0.99	3.69
Earnings Yield	4.62%	5.22%	5.60%	4.25%	6.71%	4.44%
Debt/Equity	1.67	1.09	0.70	1.09	1.70	1.06
Cash Flow (\$/share)	16.39	4.05	7.02	7.84	4.45	4.70
Growth Score	B	-	-	C	C	D
Hist. EPS Growth (3-5 yrs)	2.35%	4.49%	10.85%	8.26%	8.50%	6.44%
Proj. EPS Growth (F1/F0)	3.38%	4.74%	6.79%	3.64%	-9.31%	5.63%
Curr. Cash Flow Growth	-3.90%	3.45%	6.53%	2.50%	10.42%	9.30%
Hist. Cash Flow Growth (3-5 yrs)	0.41%	5.08%	8.38%	8.12%	5.78%	6.17%
Current Ratio	0.54	0.79	1.22	0.57	0.99	0.43
Debt/Capital	61.98%	52.09%	42.37%	52.09%	63.02%	50.58%
Net Margin	11.57%	10.09%	11.57%	14.01%	6.43%	15.56%
Return on Equity	11.02%	9.67%	16.80%	10.29%	14.04%	11.52%
Sales/Assets	0.21	0.24	0.54	0.21	0.36	0.22
Proj. Sales Growth (F1/F0)	4.07%	2.64%	4.06%	5.57%	0.24%	0.00%
Momentum Score	F	-	-	D	C	C
Daily Price Chg	-3.86%	-3.49%	-0.98%	-4.27%	0.33%	-4.98%
1 Week Price Chg	-3.11%	0.29%	-0.94%	-1.67%	-7.03%	-1.00%
4 Week Price Chg	-8.29%	-6.84%	-6.27%	-0.40%	-9.41%	-7.52%
12 Week Price Chg	2.01%	1.03%	-3.33%	8.63%	-2.54%	3.35%
52 Week Price Chg	29.43%	6.05%	6.81%	14.50%	-19.84%	19.80%
20 Day Average Volume	1,409,648	311,791	2,109,774	1,666,502	5,501,006	1,410,533
(F1) EPS Est 1 week change	-0.09%	0.00%	0.00%	0.35%	0.21%	0.00%
(F1) EPS Est 4 week change	-0.09%	0.00%	-0.08%	0.35%	-1.42%	0.00%
(F1) EPS Est 12 week change	0.22%	0.00%	-0.22%	-0.06%	-5.35%	0.00%
(Q1) EPS Est Mthly Chg	-5.33%	0.00%	-0.61%	-2.79%	10.29%	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	D
Growth Score	B
Momentum Score	F
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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