

Hawaiian Electric (HE)

\$36.34 (As of 05/13/20)

Price Target (6-12 Months): **\$39.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/19/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: C

Momentum: D

Summary

Hawaiian Electric's first-quarter 2020 earnings declined by double-digit on a year over year basis, while its revenues rose by single-digit. It continues to make systematic investments in utility infrastructure development projects, primarily adding new generation facilities, replacing aging infrastructure. In Hawaii, it is the largest provider of electricity, supplying power to more than 95% of the state's population. However, more than a dozen U.S. utilities were being targets in a wave of cyber attacks in recent past. Such incidents pose a risk for utility providers like Hawaiian Electric. Its current ratio as of Mar 31, 2020, was 0.08, which being less than 1, indicates that this utility might not possess sufficient capital in hand to meet its short-term obligations. In the past year, its shares have underperformed the industry.

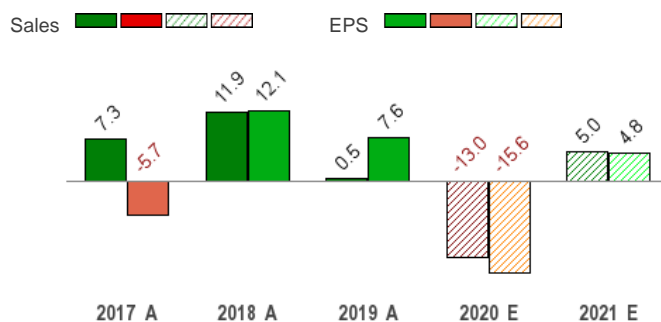
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$55.15 - \$33.51
20 Day Average Volume (sh)	529,366
Market Cap	\$4.0 B
YTD Price Change	-22.5%
Beta	0.18
Dividend / Div Yld	\$1.32 / 3.6%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 29% (73 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-13.4%
Expected Report Date	08/07/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,625 E
2020	677 A				2,500 E
2019	662 A	715 A	772 A	726 A	2,875 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.76 E
2020	\$0.31 A				\$1.68 E
2019	\$0.42 A	\$0.39 A	\$0.58 A	\$0.61 A	\$1.99 A

*Quarterly figures may not add up to annual.

P/E TTM	19.2
P/E F1	21.6
PEG F1	3.9
P/S TTM	1.4

The data in the charts and tables, except sales and EPS estimates, is as of 05/13/2020. The reports text and the analyst-provided sales and EPS estimates are as of 05/14/2020.

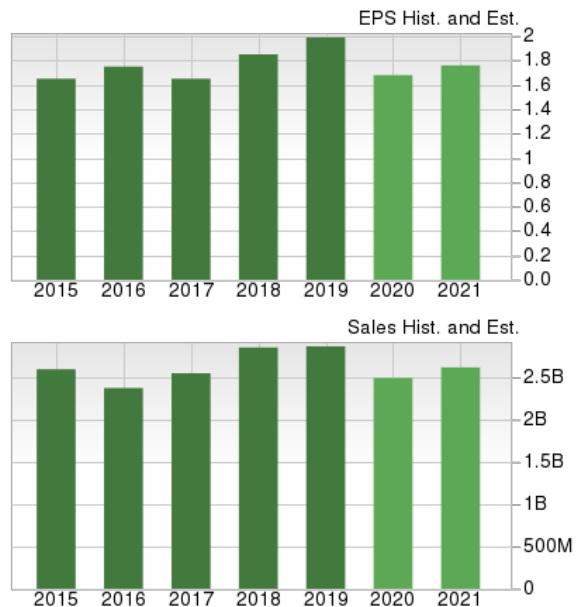
Overview

Honolulu-based **Hawaiian Electric Industries Inc.**, incorporated in 1981, is a holding company with subsidiaries engaged in the electric utility, banking and other businesses operating primarily in the state of Hawaii.

Electricity is provided by the company's three subsidiaries: **The Hawaiian Electric Co. (HECO)**, **Maui Electric Co. (MECO)** and **Hawaiian Electric Light Co. (HELCO)**. These utilities are engaged in the production, transmission, distribution, and sale of electricity, serving 95% of Hawaii's population, as the sole public electricity provider on the islands of Hawaii, Oahu, Maui, Lanai, and Molokai.

Hawaiian Electric's banking business centers around its subsidiary American Savings Holdings, Inc. (ASHI) (a holding company) and its subsidiary, American Savings Bank (ASB); HEI Properties, Inc. (HEIPI); Hawaiian Electric Industries Capital Trusts II and III, and The Old Oahu Tug Service, Inc. (TOOTS).

American Savings Bank (ASB) is one of Hawaii's largest financial institutions. The company provides a wide array of banking services. Hawaiian Electric Industries is the largest Hawaii-based company, with a dominant position in the Hawaiian electric public utility market, and the only electric utility in the U.S. to own a bank.



Reasons To Buy:

- ▲ In Hawaii, Hawaiian Electric is the largest provider of electricity, supplying power to more than 95% of the state's population and operating five separate grids. Notably, Hawaii's two major industries — construction and tourism — are the major drivers of electricity consumption. Moreover, the company has experienced eighth consecutive years of housing price appreciation for condos, while that for single-family homes remained stable, in the first quarter. Over the long-run, we expect to witness favorable trends for in housing price, thereby indicating the state's real estate expansion, which would lead to solid demand for electricity. This, in turn, should benefit Hawaiian Electric.

As far as the tourism industry is concerned, growth of 4.8% in visitor expenditures and 5.5% in visitor arrivals was observed through the first two months of 2020, despite the onset of the COVID-19 pandemic. These trends might have boosted the company's results. However, in March, due to the travel ban, Hawaii's tourism industry got hit, which is likely to revive, once the threat of the pandemic mitigates and travel restrictions are removed.

- ▲ Hawaiian Electric continues making systematic investments in utility infrastructure development projects, primarily adding new generation facilities, replacing aging infrastructure and restoring transmission and distribution assets. These initiatives will allow Hawaiian Electric to meet increasing utility demand from customers, besides improving reliability. In 2019, the company invested \$450 million for modernization and improvement of Hawaii's electric grids, 9.4% higher than the prior year's investment. For 2020, the company plans to invest approximately \$360 million in the utility, while for the 2021-2022 period, it intends to invest \$400 million per year. The company is projected to witness a rate base CAGR of 4-6% during the 2020-2022 period.
- ▲ Currently, Hawaiian Electric is engaged in providing its customers with affordable and reliable clean energy, thereby supporting the State of Hawaii's Renewable Portfolio Standard goal of 100% renewable energy by 2045. To this end, the company aims to reliably integrate an estimated total of 165,000 private solar systems by 2030. Additionally, within the same time frame, the company aims to add 360 MW of grid-scale solar and 157 MW of grid-scale wind. As of March 31, 2020, an estimated 29% of single family homes on the islands of Oahu, Hawaii and Maui have installed private rooftop solar systems and approximately 18% of the Utilities' total customers have solar systems. We may expect the company's customers to further move toward adopting a cleaner environment as Hawaiian Electric continues increasing investments to integrate more renewables in its grid.

Hawaiian Electric's strong market penetration, focus on growing its renewable assets and systematic investments in transmission and distribution projects will drive growth over the long haul.

Reasons To Sell:

▼ Across the world, utility companies are digitizing and employing distributed energy resources (DERs) to ensure operational efficiency, reliability, flexibility and safety for consumers. Unfortunately, this digitization comes with the risk of cyberattacks, which has been witnessed recently. To this end, it is imperative to mention that more than a dozen U.S. utilities were targets of a wave of cyberattacks, in recent past, as identified by The Wall Street Journal. Such incidents pose a risk for utility providers like Hawaiian Electric.

Fuel supply disruptions and eminent cyber attacks might deter the stock's growth.

▼ Hawaiian Electric has a long-term debt of \$2,275 million as of Mar 31, 2020, slightly higher than \$2,164 million as of Dec 31, 2019. The company's cash equivalents worth \$236 million as of Mar 31, 2020, remained much lower compared to its long-term debt levels. Moreover, its current debt worth \$258 million as of Mar 31, 2020, remains higher than the cash reserve. This indicates a weak solvency position for the company.

Moreover, the company's current ratio as of Mar 31, 2020, was 0.08, 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 at the end of the first quarter stood at 0.53, which increased sequentially from 0.52. The company's interest coverage came in at 3.8 as of Mar 31, 2020, down sequentially from 4. Together these unfavorable financial ratios indicate that Hawaiian Electric might face difficulties and struggle to meet debt obligations in the near future.

▼ A comparative analysis of Hawaiian Electric's historical trailing 12-months P/E ratio reflects a relatively gloomy picture that might be a cause for investors' concern. Evidently, the stock currently has a trailing 12-month P/E ratio of 19.23 compared with the industry's P/E ratio of 14.85 in the past year. Moreover, shares of Hawaiian Electric have underperformed the industry in a year's time. Shares of the company have declined 13% compared to the industry's 7.5% fall.

Last Earnings Report

Hawaiian Electric's Q1 Earnings Down Y/Y, Revenues Up

Hawaiian Electric Industries Inc. reported earnings per share (EPS) of 31 cents in the first quarter of 2020, which declined 26.2% from 42 cents in the prior-year quarter.

Total Revenues

Hawaiian Electric's total revenues of \$677.2 million in the first quarter rose 2.4% from the prior-year quarter's \$661.6 million. The improvement can be attributed to increased contributions from the Electric Utility segment.

Operating Statistics

Total expenses grew 5.8% year over year to \$617.5 million during the first quarter, led by an increase in expenses in both Electric Utility and Bank segments.

Hawaiian Electric's total operating income declined 23.4% year over year to \$59.7 million, driven by lower contributions from the Electric Utility and Bank segments.

Net interest expenses amounted to \$21.8 million, down from \$23.1 million in the prior-year quarter.

Segment Details

Electric Utility: Revenues at this segment totaled \$597.4 million, down 3.3% year over year. Also, net income declined to \$44 million from \$56.6 million a year ago.

Banking: At this segment, revenues summed \$79.7 million, down 4% year over year. Meanwhile, net income declined to \$19.4 million from \$26.1 million a year ago.

Guidance

Hawaiian Electric reaffirmed its earnings guidance for 2020. The company continues to expect earnings in the range of \$1.90-\$2.10 per share. The Zacks Consensus Estimate for 2020 earnings is pegged at \$1.88 per share, just below the company's guided range.

Quarter Ending 03/2020

Report Date	May 05, 2020
Sales Surprise	NA
EPS Surprise	0.00%
Quarterly EPS	0.31
Annual EPS (TTM)	1.89

Valuation

Hawaiian Electric's shares are down 22.4% in the year to date period and 13% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 16.9% and 19.1% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 7.5%, while the sector declined 22.4%.

The S&P 500 index is down 12.4% in the year to date period and 1.4% in the past year.

The stock is currently trading at 19.9X of forward 12-month earnings, which compares to 12.2X for the Zacks sub-industry, 11.6 for the Zacks sector and 20.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.5X and as low as 15.5X, with a 5-year median of 18.8X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$39 price target reflects 21.3X earnings value.

The table below shows summary valuation data for HE

Valuation Multiples - HE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.89	12.16	11.55	20.44
	5-Year High	27.49	15.53	15.32	20.79
	5-Year Low	15.5	11.12	11.35	15.19
	5-Year Median	18.77	13.23	13.78	17.45
P/S F12M	Current	1.35	1.97	2.48	3.18
	5-Year High	1.84	2.45	3.29	3.44
	5-Year Low	0.82	1.54	1.75	2.54
	5-Year Median	1.42	1.88	2.04	3.02
EV/EBITDA TTM	Current	10.23	11.11	15.83	10.2
	5-Year High	12.84	13.31	20.16	12.86
	5-Year Low	8.79	7.81	10.6	8.28
	5-Year Median	9.9	10.31	13.46	10.77

As of 05/13/2020

Industry Analysis Zacks Industry Rank: Top 29% (73 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Portland General Electric Company (POR)	Outperform	3
Allete Inc (ALE)	Neutral	3
Avista Corporation (AVA)	Neutral	3
Black Hills Corporation (BKH)	Neutral	3
Edison International (EIX)	Neutral	3
IDACORP Inc (IDA)	Neutral	3
OGE Energy Corporation (OGE)	Neutral	3
PNM Resources Inc Holding Co (PNM)	Neutral	3

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	HE	X Industry	S&P 500	ALE	OGE	POR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	F	-	-	C	D	B
Market Cap	3.97 B	6.93 B	18.76 B	2.69 B	5.78 B	3.71 B
# of Analysts	1	2.5	14	1	2	2
Dividend Yield	3.63%	3.72%	2.23%	4.76%	5.37%	3.72%
Value Score	F	-	-	C	D	B
Cash/Price	0.06	0.06	0.06	0.02	0.02	0.01
EV/EBITDA	9.38	9.02	11.39	9.02	9.11	8.08
PEG Ratio	3.75	3.29	2.54	NA	3.72	3.31
Price/Book (P/B)	1.74	1.42	2.56	1.13	1.63	1.41
Price/Cash Flow (P/CF)	7.95	7.40	10.04	7.17	7.33	5.94
P/E (F1)	20.87	16.52	18.48	14.46	13.71	17.44
Price/Sales (P/S)	1.37	1.75	1.91	2.25	2.66	1.75
Earnings Yield	4.62%	6.01%	5.09%	6.91%	7.31%	5.74%
Debt/Equity	1.00	1.05	0.75	0.59	0.90	0.99
Cash Flow (\$/share)	4.57	4.15	7.01	7.24	3.94	6.97
Growth Score	C	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	4.17%	4.94%	10.82%	3.68%	10.82%	4.00%
Proj. EPS Growth (F1/F0)	-15.58%	1.20%	-10.51%	0.00%	-2.55%	-0.63%
Curr. Cash Flow Growth	8.40%	3.63%	5.83%	0.42%	5.55%	4.88%
Hist. Cash Flow Growth (3-5 yrs)	6.81%	5.54%	8.52%	8.19%	3.09%	5.53%
Current Ratio	0.08	0.88	1.27	0.44	0.61	0.80
Debt/Capital	50.35%	50.78%	44.25%	37.10%	47.35%	49.74%
Net Margin	7.16%	10.48%	10.59%	15.18%	-4.85%	10.46%
Return on Equity	9.19%	9.54%	16.36%	7.86%	10.86%	8.59%
Sales/Assets	0.21	0.22	0.54	0.22	0.20	0.26
Proj. Sales Growth (F1/F0)	0.00%	0.00%	-2.55%	0.87%	0.00%	-0.84%
Momentum Score	D	-	-	C	B	B
Daily Price Chg	-1.28%	-1.08%	-2.85%	-1.44%	-3.61%	-3.31%
1 Week Price Chg	0.24%	0.13%	3.23%	0.23%	2.44%	1.57%
4 Week Price Chg	-11.75%	-3.65%	-0.28%	-9.74%	-7.35%	-15.26%
12 Week Price Chg	-26.81%	-23.71%	-23.80%	-35.27%	-36.15%	-33.40%
52 Week Price Chg	-12.96%	-16.13%	-13.31%	-36.15%	-30.66%	-22.11%
20 Day Average Volume	529,366	435,113	2,552,088	441,605	1,461,410	779,541
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-3.88%	0.00%
(F1) EPS Est 4 week change	-13.40%	-1.04%	-6.15%	0.00%	-3.88%	-7.77%
(F1) EPS Est 12 week change	-12.50%	-3.68%	-16.21%	0.00%	-8.28%	-8.12%
(Q1) EPS Est Mthly Chg	NA%	-5.09%	-12.28%	0.00%	NA	-25.00%

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	F
Growth Score	C
Momentum Score	D
VGM Score	F

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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