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Jan 20, 2020

Hawaiian Electric (HE)

$47.48 (As of 01/17/20)

Price Target (6-12 Months): **$50.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/05/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: C | Growth: C | Momentum: C	

Summary

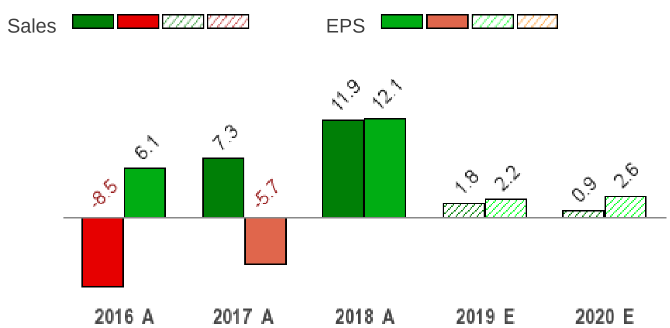
Hawaiian Electric continues making systematic investments in utility infrastructure development projects, primarily adding new generation facilities, replacing aging infrastructure. These initiatives will allow Hawaiian Electric to meet increasing utility demand from customers, besides improving reliability. The company is projected to witness a rate base CAGR of 5-7% during the 2019-2021 period. In the past year, shares of Hawaiian Electric have outperformed the industry. However, the company depends heavily on third-party suppliers for fuel and purchased power. Any delay in the supply of fuels may hurt its performance and result in additional expenses. A rise in operation and maintenance expenses, over the last few quarters, has also been a headwind for the company. This dented its operating profit rate.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$47.64 - $36.01**
20 Day Average Volume (sh)	**336,033**
Market Cap	**$5.2 B**
YTD Price Change	**1.3%**
Beta	**0.24**
Dividend / Div Yld	**$1.28 / 2.7%**
Industry	**Utility - Electric Power**
Zacks Industry Rank	**Bottom 31% (176 out of 254)**
Last EPS Surprise	**0.0%**
Last Sales Surprise	**0.0%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**02/13/2020**
Earnings ESP	**0.0%**
P/E TTM	**25.8**
P/E F1	**24.5**
PEG F1	**4.4**
P/S TTM	**1.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020					2,937 E
2019	662 A	715 A	772 A	763 E	2,912 E
2018	646 A	685 A	768 A	762 A	2,861 A

EPS Estimates

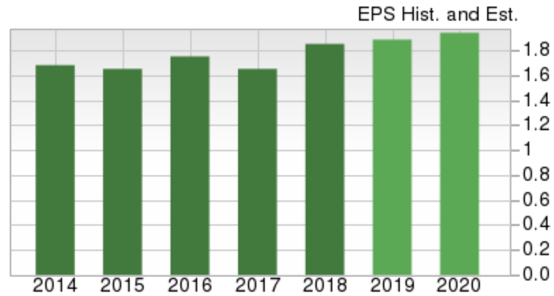
	Q1	Q2	Q3	Q4	Annual*
2020					$1.94 E
2019	$0.42 A	$0.39 A	$0.58 A	$0.50 E	$1.89 E
2018	$0.37 A	$0.42 A	$0.60 A	$0.45 A	$1.85 A

*Quarterly figures may not add up to annual.

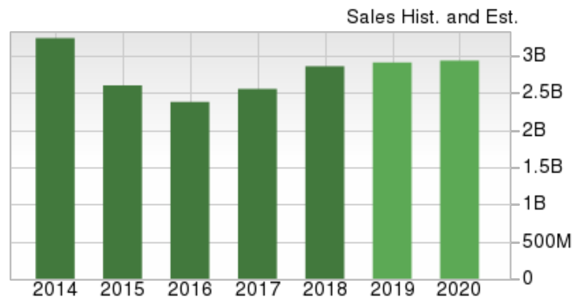
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/17/2020. The reports text is as of 01/20/2020.

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:

- Hawaiian Electric has outperformed its industry in a year's time. Shares of the company have gained 34.4% compared with the industry's 27.6% growth. In Hawaii, it 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, considering the fact that the company has experienced seven consecutive years of housing price appreciation for both single-family homes and condos, management expects the longer-term trend to remain positive. Such favorable trends are expected to boost the state's real estate expansion, leading to solid demand for electricity. This, in turn, should benefit Hawaiian Electric.

> 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.

- Hawaii's tourism industry, being a significant driver for the economy, ended the third quarter of 2019 with solid growth in visitor arrivals. Looking ahead, the Hawaii Tourism Authority (HTA) expects to increase scheduled non-stop seats to Hawaii as the year progresses. This upside can be primarily attributed to an increase in seats from the West Coast, East Coast and Asia. Particularly, the introduction of Southwest Airlines to the Hawaii market is projected to boost visitor arrivals over the next few months. This is expected to bolster electricity demand in the state, thereby allowing the company to earn higher profits.

  Hawaii's 2.7% unemployment rate in September stood well below the national level of 3.5%. Such lower unemployment rate indicates increased purchasing power in the hands of the state's inhabitants, thereby increasing the possibility of the company's customer base expansion. Notably, as the state's economic outlook is positive with Hawaii real GDP expected to rise 1.1% in 2019 and 1.2% in 2020, we may expect Hawaiian Electric to excel in the upcoming quarters.

- 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 2018, the company invested $411 million for modernization and improvement of Hawaii's electric grids, thereby exceeding its goal of investing $400 million. For 2019, the company plans to invest approximately $400 million in the utility, while for the 2020-2021 period it intends to invest $400-$500 million annually. The company is projected to witness a rate base CAGR of 5-7% during the 2019-2021 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 Sep 30, 2019, an estimated 29% of single-family homes on the islands of Oahu, Hawaii and Maui installed private rooftop solar systems, and approximately 17% of the company's 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 renewable in its grid.

Reasons To Sell:

Commodity price fluctuations and rising expenses might substantially deter company's growth.

- Despite investing substantially in renewable projects, increasingly stringent government regulations for curbing emissions is a major cause of concern. Environmental compliance requires more investments in the installation of low-emission systems at its generation facilities, which may have an adverse impact on margins.

- Hawaiian Electric utilizes natural gas as a key fuel for power production. So, if the company encounters any disruption or delays in fuel supplies, this will consequently affect the company's ability to generate power, which in turn may negatively impact its profit margins.

- Fluctuations in the oil price in the global market also may hamper stocks like Hawaiian Electric. During 2018, the company's fuel oil price expenses increased 29.4% from the prior year, which played a vital role in escalating the company's total expenses by 15.6%. Moreover, A rise in operation and maintenance expenses, over the past few quarters, has also been a headwind for the company. Such rising expenses have dented the company's operating profit rate.

  Moreover, the company depends heavily on third-party suppliers for fuel and purchased power. Any delay in the supply of fuels may impact the company's performance adversely and result in additional expenses. Although the price of crude oil fluctuates month to month, the same has been increasing for the last few months. This, in turn, can be expected to push expenses for Hawaiian Electric. Notably, the company's total expenses in the first nine months of 2019 has increased 11% from the same period in 2018 to $171 million.

- A comparative analysis of Hawaiian Electric's historical PE/TTM ratio reflects a relatively gloomy picture that might be a cause for investors' concern. Evidently, the stock currently has a trailing 12-month PE/TTM ratio of 25.04 compared to the broader industry's PE/TTM ratio of 18.05 in the last year.

Last Earnings Report

Hawaiian Electric Q3 Earnings Match Estimates, Fall Y/Y

Quarter Ending	09/2019
Report Date	Nov 01, 2019
Sales Surprise	0.01%
EPS Surprise	0.00%
Quarterly EPS	0.58
Annual EPS (TTM)	1.84

Hawaiian Electric Industries Inc. (HE - Research Report) reported earnings per share (EPS) of 58 cents in the third quarter of 2019, which came in line with the Zacks Consensus Estimate. The bottom line declined 3.3% from 60 cents in the prior-year quarter.

The year-over-year downside in earnings can be attributed to higher expenses incurred in the reported quarter.

Total Revenues

Hawaiian Electric's total revenues of $771.5 million in the third quarter surpassed the Zacks Consensus Estimate of $771 million by 0.01%. The top line rose 0.5% year over year. The improvement can be attributed to increased contributions from both the Electric Utility and Bank segments.

Operating Statistics

Total expenses increased 0.6% year over year to $674.2 million during the third quarter.

Total operating income declined 0.8% year over year to $97.3 million due to lower contributions from the Electric Utility segment.

Net interest expenses amounted to $22.4 million, up from $22.5 million in the prior-year quarter.

Segment Details

Electric Utility: Revenues at this segment totaled $688.3 million, up a mere 0.1% year over year. Also, net income decreased 5.9% to $46.8 million from $49.7 million a year ago.

Banking: At this segment, revenues totaled $83.2 million, up 3.4% year over year. Net income came in at $22.8 million, up 7.9%.

Financial Position

Hawaiian Electric had cash and cash equivalents of $177 million as of Sep 30, 2019, compared with $169.2 million as of Dec 30, 2018.

Long-term debt, other than bank, was $1,885.5 million as of Sep 30, 2019, compared with $1,879.6 million as of Dec 31, 2018.

In the first nine months of 2019, net cash inflow from operating activities totaled $341.4 million compared with cash inflow of $257.7 million in the first nine months of 2018.

Guidance

Hawaiian Electric reaffirmed its earnings guidance for 2019. The company continues to expect earnings of $1.85-$2.05 per share. The Zacks Consensus Estimate for 2019 earnings is pegged at $1.88, which lies below the midpoint of the company guided range.

Valuation

Hawaiian Electric's shares are up 8.8% in the last six months period and 34.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector are up 12.1% and 8.9% in the last six months, respectively. Over the past year, while the Zacks sub-industry went up 27.6%, and the sector went up 7.9%.

The S&P 500 index is up 13.3% in the last six months period and 26.5% in the past year.

The stock is currently trading at 24.38X forward 12-month earnings, which compares to 15X for the Zacks sub-industry, 13.83X for the Zacks sector and 19.20X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.86X and as low as 15.50X, with a 5-year median of 18.62X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $50 price target reflects 25.64X 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	24.38	15	13.83	19.2
	5-Year High	24.86	15	15.33	19.34
	5-Year Low	15.5	11.19	12.61	15.17
	5-Year Median	18.62	13.09	13.7	17.44
P/S F12M	Current	1.76	2.33	2.98	3.57
	5-Year High	1.8	2.33	3.26	3.57
	5-Year Low	0.82	1.5	1.7	2.54
	5-Year Median	1.41	1.83	1.95	3
P/B TTM	Current	2.31	1.91	4.16	4.55
	5-Year High	2.31	1.91	4.16	4.55
	5-Year Low	1.49	1.32	2.01	2.85
	5-Year Median	1.78	1.55	2.55	3.61

As of 01/17/2020

Industry Analysis **Zacks Industry Rank:** Bottom 31% (176 out of 254)

Top Peers

Allete, Inc. **(ALE)**	Neutral
Avista Corporation **(AVA)**	Neutral
Black Hills Corporation **(BKH)**	Neutral
Edison International **(EIX)**	Neutral
IDACORP, Inc. **(IDA)**	Neutral
OGE Energy Corporation **(OGE)**	Neutral
PNM Resources, Inc. (Holding Co.) **(PNM)**	Neutral
Portland General Electric Company **(POR)**	Neutral

Industry Comparison Industry: Utility - Electric Power

Industry Peers

	HE Neutral	X Industry	S&P 500	ALE Neutral	OGE Neutral	POR Neutral
VGM Score	C	-	-	D	D	D
Market Cap	5.17 B	9.42 B	24.65 B	4.32 B	9.14 B	5.26 B
# of Analysts	2	2	13	1	2	2
Dividend Yield	2.70%	2.70%	1.73%	2.81%	3.40%	2.62%
Value Score	C	-	-	C	D	C
Cash/Price	0.04	0.04	0.04	0.02	0.00	0.00
EV/EBITDA	11.85	11.45	14.11	13.60	12.48	10.49
PEG Ratio	4.40	3.96	2.08	3.09	4.67	4.65
Price/Book (P/B)	2.31	1.95	3.39	1.96	2.18	2.05
Price/Cash Flow (P/CF)	11.26	9.39	13.81	11.53	12.20	8.84
P/E (F1)	24.47	20.02	19.19	22.23	19.89	22.84
Price/Sales (P/S)	1.78	2.34	2.69	3.12	4.02	2.50
Earnings Yield	4.09%	4.88%	5.21%	4.50%	5.04%	4.39%
Debt/Equity	0.94	1.08	0.72	0.64	0.76	0.96
Cash Flow ($/share)	4.22	4.03	6.94	7.25	3.74	6.66
Growth Score	C	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	3.31%	4.40%	10.56%	4.40%	7.35%	3.40%
Proj. EPS Growth (F1/F0)	2.92%	5.41%	7.57%	4.44%	1.55%	7.97%
Curr. Cash Flow Growth	13.89%	7.23%	14.73%	16.00%	12.09%	8.20%
Hist. Cash Flow Growth (3-5 yrs)	6.78%	4.93%	9.00%	10.78%	1.72%	7.96%
Current Ratio	0.08	0.81	1.24	0.61	0.79	0.81
Debt/Capital	48.75%	51.70%	42.99%	38.89%	43.28%	49.01%
Net Margin	6.98%	9.75%	11.14%	14.23%	19.94%	9.62%
Return on Equity	9.23%	9.57%	17.16%	8.54%	11.20%	7.95%
Sales/Assets	0.22	0.24	0.55	0.27	0.21	0.26
Proj. Sales Growth (F1/F0)	0.87%	3.33%	4.16%	2.35%	NA	0.92%
Momentum Score	C	-	-	B	D	F
Daily Price Chg	0.47%	0.42%	0.27%	0.05%	0.13%	0.60%
1 Week Price Chg	-1.00%	0.44%	0.39%	0.21%	0.32%	2.34%
4 Week Price Chg	1.67%	3.86%	2.95%	2.19%	3.33%	4.37%
12 Week Price Chg	4.08%	3.20%	7.76%	-4.17%	4.80%	2.44%
52 Week Price Chg	30.69%	19.16%	22.29%	10.98%	13.56%	28.35%
20 Day Average Volume	336,033	277,517	1,536,375	209,048	1,038,406	443,503
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.39%
(F1) EPS Est 12 week change	-1.77%	-0.13%	-0.40%	0.00%	0.44%	-0.39%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	NA	NA	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	C
Momentum Score	C
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

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