

Hawaiian Electric (HE)

\$49.65 (As of 02/19/20)

Price Target (6-12 Months): **\$57.00**

Long Term: 6-12 Months

Zacks Recommendation: Outperform

(Since: 02/16/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: C

Momentum: C

Summary

Hawaiian Electric fourth-quarter earnings increased on a year-over-year basis. However, revenues declined. The company continues to make systematic investments in utility infrastructure development projects, primarily adding new generation facilities, replacing aging infrastructure. 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. These initiatives will allow the company to meet increasing utility demand from customers. In the past year, shares of Hawaiian Electric have outperformed the industry. However, more than a dozen U.S. utilities that were targets in a recent wave of cyberattacks have been identified by The Wall Street Journal. Such incidents pose a risk for utility providers like Hawaiian Electric.

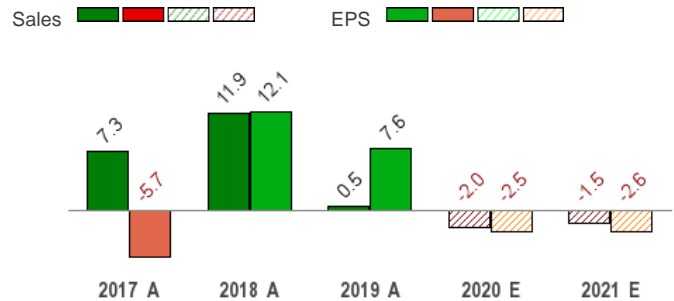
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$50.55 - \$37.42
20 Day Average Volume (sh)	400,708
Market Cap	\$5.4 B
YTD Price Change	6.0%
Beta	0.25
Dividend / Div Yld	\$1.32 / 2.6%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 43% (145 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/05/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,775 E
2020					2,817 E
2019	662 A	715 A	772 A	726 A	2,875 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.89 E
2020					\$1.94 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.

The data in the charts and tables, except sales and EPS estimates, is as of 02/19/2020. The reports text and the analyst-provided sales and EPS estimates are as of 02/20/2020.

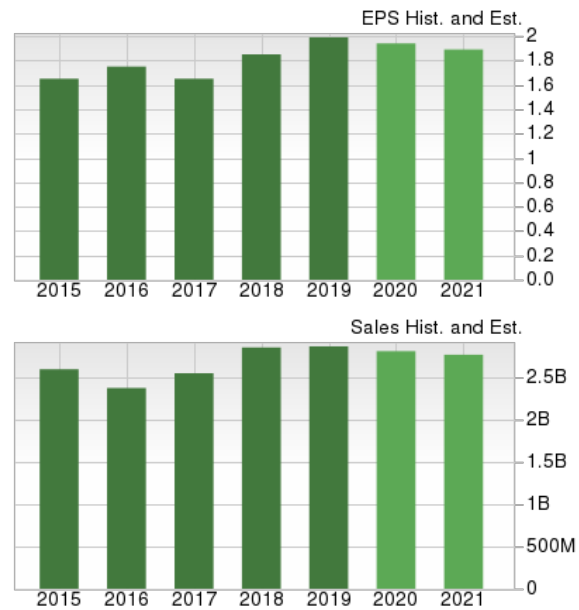
Overview

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 34.8% compared with the industry's 27.4% 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 2019 with a record level of visitors, reflecting solid annual growth of 5.4% 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 last March and its recent expansion in the region with new routes are projected to boost visitor arrivals in the coming days. This is expected to bolster electricity demand in the state, thereby allowing the company to earn higher profits.

Hawaii's 2.6% unemployment rate in December was 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 0.9% in 2020 and 1.1% in 2021, we 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 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 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.

Risks

- 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.
 - 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 recent wave of cyberattacks as identified by The Wall Street Journal. Such incidents pose a risk for utility providers like Hawaiian Electric.
 - 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 24.8 compared with the industry's PE/TTM ratio of 20.94 in the last year.
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Last Earnings Report

Hawaiian Electric Q4 Earnings Improve, Revenues Fall Y/Y

Hawaiian Electric reported earnings per share (EPS) of 61 cents for the fourth quarter of 2019, which improved 35.6% from 45 cents in the prior-year quarter.

The year-over-year upside can be attributed to higher noninterest income, largely related to the sales of former properties.

For 2019, the company posted EPS of \$1.99, up 7.7% from the year-ago number of \$1.85.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	NA
EPS Surprise	0.00%
Quarterly EPS	0.61
Annual EPS (TTM)	2.00

Total Revenues

Hawaiian Electric's total revenues of \$726 million in the fourth quarter declined 4.7% year over year. The decline was due to lower contributions from both the Electric Utility and Bank segments.

For 2019, the company recorded revenues of \$2.87 billion, which rose 0.5% from the year-ago number of \$2.86 billion.

Operating Statistics

Total expenses decreased 7.7% year over year to \$625.2 million during the fourth quarter.

Total operating income improved 19% year over year to \$100.8 million driven by higher contributions from the Electric Utility as well as Bank segments.

Net interest expenses amounted to \$21.8 million, down from \$22.6 million in the prior-year quarter.

Segment Details

Electric Utility: Revenues at this segment totaled \$645.3 million, down 5.2% year over year. Also, net income increased 28.5% to \$45.4 million from \$35.3 million a year ago.

Banking: At this segment, revenues totaled \$80.6 million, down 0.8% year over year. Net income came in at \$28.2 million, up 29.7%.

Valuation

Hawaiian Electric's shares are up 12.2% in the last six months period and 33.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector are up 15.9% and 13.3% in the last six months, respectively. Over the past year, while the Zacks sub-industry went up 26.5%, and the sector went up 6.6%.

The S&P 500 index is up 16.9% in the last six months period and 23.3% in the past year.

The stock is currently trading at 25.57X forward 12-month earnings, which compares to 15.82X for the Zacks sub-industry, 14.61X for the Zacks sector and 19.30X for the S&P 500 index.

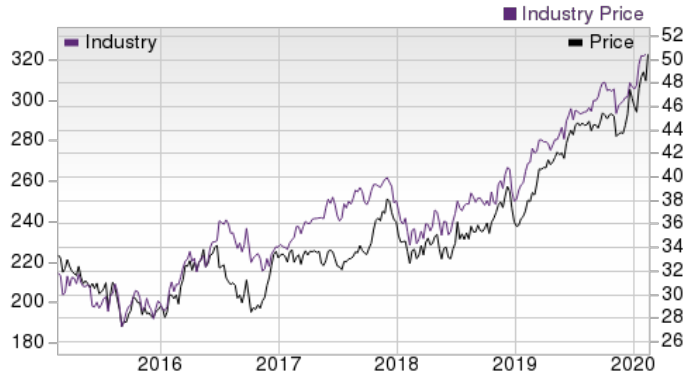
Over the past five years, the stock has traded as high as 26.25X and as low as 15.50X, with a 5-year median of 18.62X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$57 price target reflects 29.38X earnings value.

The table below shows summary valuation data for HE

Valuation Multiples - HE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.57	15.82	14.61	19.3
	5-Year High	26.25	15.82	15.36	19.34
	5-Year Low	15.5	11.14	12.58	15.18
	5-Year Median	18.62	13.26	13.84	17.47
P/S F12M	Current	1.84	2.51	3.11	3.57
	5-Year High	1.84	2.51	3.31	3.57
	5-Year Low	0.82	1.54	1.71	2.54
	5-Year Median	1.41	1.87	1.98	3
P/B TTM	Current	2.41	2.01	4.35	4.66
	5-Year High	2.45	2.01	4.35	4.68
	5-Year Low	1.49	1.32	2.02	2.85
	5-Year Median	1.78	1.55	2.58	3.62

As of 02/19/2020

Industry Analysis Zacks Industry Rank: Bottom 43% (145 out of 255)



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 Outperform	X Industry	S&P 500	ALE Neutral	OGE Neutral	POR Neutral
VGM Score	B	-	-	F	B	C
Market Cap	5.41 B	9.91 B	24.59 B	4.15 B	9.05 B	5.56 B
# of Analysts	1	2	13	1	2	2
Dividend Yield	2.58%	2.67%	1.78%	3.08%	3.43%	2.48%
Value Score	C	-	-	D	C	C
Cash/Price	0.03	0.04	0.04	0.02	0.00	0.00
EV/EBITDA	12.25	11.81	14.21	12.29	12.39	10.90
PEG Ratio	4.60	4.24	2.09	NA	4.67	4.97
Price/Book (P/B)	2.41	1.85	3.28	1.77	2.16	2.17
Price/Cash Flow (P/CF)	11.77	9.84	13.59	11.08	12.08	9.35
P/E (F1)	25.59	20.92	19.17	22.34	19.69	24.16
Price/Sales (P/S)	1.88	2.46	2.68	3.34	3.98	2.62
Earnings Yield	3.91%	4.76%	5.18%	4.48%	5.09%	4.15%
Debt/Equity	0.94	1.08	0.70	0.60	0.76	0.96
Cash Flow (\$/share)	4.22	4.03	6.93	7.24	3.74	6.66
Growth Score	C	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	4.14%	4.44%	10.84%	3.90%	7.35%	3.79%
Proj. EPS Growth (F1/F0)	-2.51%	4.90%	7.00%	0.00%	1.55%	7.74%
Curr. Cash Flow Growth	13.89%	4.12%	7.81%	0.42%	12.09%	8.20%
Hist. Cash Flow Growth (3-5 yrs)	6.78%	4.91%	8.25%	8.19%	1.72%	7.96%
Current Ratio	0.08	0.81	1.24	0.53	0.79	0.81
Debt/Capital	48.75%	51.52%	42.37%	37.49%	43.28%	49.01%
Net Margin	7.65%	10.08%	11.69%	14.96%	19.94%	10.08%
Return on Equity	9.94%	9.36%	16.86%	7.77%	11.20%	8.39%
Sales/Assets	0.21	0.24	0.55	0.23	0.21	0.26
Proj. Sales Growth (F1/F0)	0.00%	3.08%	4.05%	10.75%	NA	2.12%
Momentum Score	C	-	-	D	A	C
Daily Price Chg	-1.29%	0.00%	0.38%	-1.41%	-1.82%	-0.24%
1 Week Price Chg	4.69%	1.95%	1.65%	-1.04%	0.37%	1.90%
4 Week Price Chg	3.76%	3.38%	0.86%	-3.93%	-0.46%	4.40%
12 Week Price Chg	13.02%	12.04%	4.56%	-0.39%	7.11%	11.81%
52 Week Price Chg	30.73%	16.02%	14.15%	-0.01%	7.77%	25.50%
20 Day Average Volume	400,708	302,837	1,989,235	220,781	953,241	598,199
(F1) EPS Est 1 week change	1.04%	0.00%	0.00%	0.00%	0.00%	-0.39%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.03%	-4.52%	0.00%	0.00%
(F1) EPS Est 12 week change	0.00%	0.00%	-0.21%	-4.52%	-0.22%	0.00%
(Q1) EPS Est Mthly Chg	NA%	0.00%	-0.40%	NA	NA	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	C
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.

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