

## Hawaiian Electric (HE)

**\$39.09** (As of 04/21/20)

Price Target (6-12 Months): **\$43.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/19/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: B

## Summary

Hawaiian Electric 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. 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. 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. A comparative analysis of Hawaiian Electric's historical PE/TTM ratio reflects a gloomy picture. In the past year, shares of Hawaiian Electric have underperformed the industry.

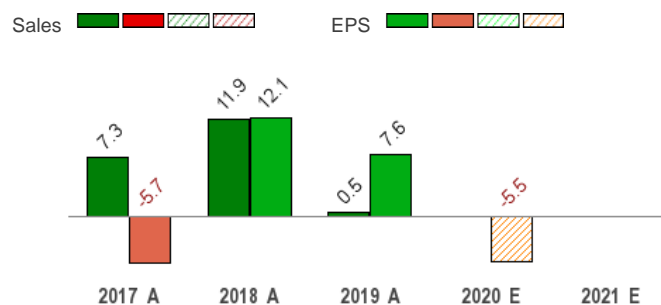
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$55.15 - \$33.51
20 Day Average Volume (sh)	658,086
Market Cap	\$4.4 B
YTD Price Change	-14.6%
Beta	0.33
Dividend / Div Yld	\$1.32 / 3.3%
Industry	<a href="#">Utility - Electric Power</a>
Zacks Industry Rank	Top 26% (65 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	-3.1%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	20.0
P/E F1	20.8
PEG F1	3.7
P/S TTM	1.5

## Sales Estimates (millions of \$)

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

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					
2020					\$1.88 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, including the Zacks Consensus EPS and Sales estimates, is as of 04/21/2020. The reports text is as of 04/22/2020.

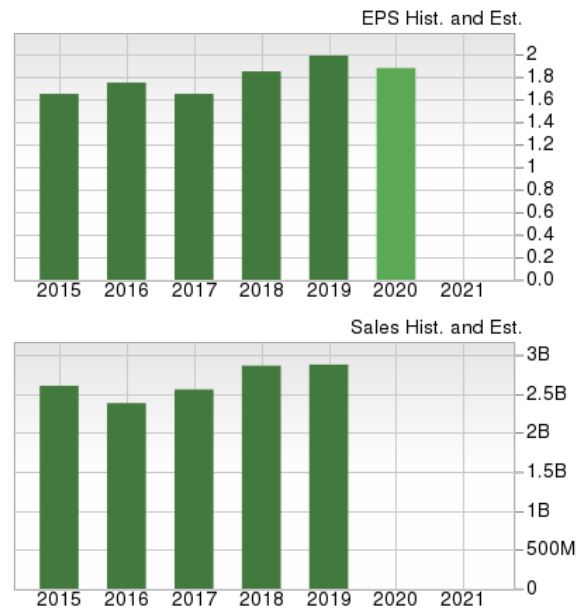
## Overview

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.



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## 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, 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.

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## Reasons To Sell:

- ▼ 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. Moreover, shares of Hawaiian Electric have underperformed its industry in a year's time. Shares of the company have gained 0.5% compared to the industry's 5.2% rise.

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

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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.

#### 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%.

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Quarter Ending **12/2019**

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

## Valuation

Hawaiian Electric's shares are down 14% in the year to date period and up 0.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 8% and 14.3% in the year to date period, respectively. Over the past year, the Zacks sub-industry is up 5.2%, while the sector is down 15.7%.

The S&P 500 index is down 10.3% in the year to date period and up 0.4% in the past year.

The stock is currently trading at 20.2X of forward 12-month earnings, which compares to 13.4X for the Zacks sub-industry, 12.4X for the Zacks sector and 19.5X 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 18.7X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$43 price target reflects 21.7X 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	20.19	13.38	12.44	19.52
	5-Year High	27.49	15.53	15.39	19.52
	5-Year Low	15.5	11.12	11.38	15.19
	5-Year Median	18.65	13.23	13.82	17.45
P/S F12M	Current	1.48	2.17	2.64	3.2
	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	2.03	3.01
EV/EBITDA TTM	Current	10.54	12.26	16.79	10.51
	5-Year High	12.84	13.59	19.48	12.87
	5-Year Low	8.79	7.81	10.61	8.27
	5-Year Median	9.87	10.23	13.27	10.78

As of 04/20/2020

## Industry Analysis Zacks Industry Rank: Top 26% (65 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
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	2
OGE Energy Corporation (OGE)	Neutral	3
PNM Resources, Inc. (Holding Co.) (PNM)	Neutral	3
Portland General Electric Company (POR)	Neutral	1

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	HE	X Industry	S&P 500	ALE	OGE	POR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	1
VGM Score	B	-	-	C	D	D
Market Cap	4.37 B	7.44 B	19.37 B	2.83 B	6.06 B	4.29 B
# of Analysts	1	2	14	1	2	2
Dividend Yield	3.30%	3.37%	2.23%	4.52%	5.12%	3.21%
Value Score	C	-	-	C	C	D
Cash/Price	0.05	0.05	0.05	0.02	0.00	0.01
EV/EBITDA	9.84	9.53	11.66	9.33	9.55	8.99
PEG Ratio	3.74	3.64	2.20	NA	4.10	3.95
Price/Book (P/B)	1.91	1.46	2.61	1.21	1.46	1.65
Price/Cash Flow (P/CF)	8.76	7.65	10.30	7.55	7.68	6.88
P/E (F1)	20.79	17.40	17.85	15.23	13.81	18.62
Price/Sales (P/S)	1.52	1.88	2.04	2.28	2.71	2.02
Earnings Yield	4.70%	5.69%	5.48%	6.57%	7.24%	5.38%
Debt/Equity	0.95	1.06	0.71	0.60	0.77	1.05
Cash Flow (\$/share)	4.57	4.27	7.01	7.24	3.94	6.97
Growth Score	A	-	-	F	F	D
Hist. EPS Growth (3-5 yrs)	4.14%	4.77%	10.92%	3.90%	9.17%	3.79%
Proj. EPS Growth (F1/F0)	-5.53%	2.90%	-3.67%	0.00%	1.39%	7.74%
Curr. Cash Flow Growth	8.40%	3.60%	5.93%	0.42%	5.55%	4.88%
Hist. Cash Flow Growth (3-5 yrs)	6.81%	5.53%	8.55%	8.19%	3.09%	5.53%
Current Ratio	0.08	0.83	1.24	0.53	0.65	0.96
Debt/Capital	49.08%	50.95%	42.83%	37.49%	43.56%	51.32%
Net Margin	7.65%	10.79%	11.64%	14.96%	19.43%	10.08%
Return on Equity	9.86%	9.86%	16.74%	7.77%	10.64%	8.36%
Sales/Assets	0.21	0.23	0.54	0.23	0.20	0.26
Proj. Sales Growth (F1/F0)	0.00%	0.00%	-0.39%	0.87%	0.00%	2.12%
Momentum Score	B	-	-	A	B	A
Daily Price Chg	-4.67%	-3.33%	-2.18%	-6.31%	-4.60%	-5.65%
1 Week Price Chg	-7.94%	-1.07%	0.42%	-5.70%	-2.49%	-3.24%
4 Week Price Chg	16.57%	23.37%	26.24%	4.65%	27.80%	20.72%
12 Week Price Chg	-17.07%	-19.06%	-20.02%	-34.32%	-33.50%	-20.84%
52 Week Price Chg	-2.29%	-6.70%	-12.49%	-31.20%	-26.90%	-4.23%
20 Day Average Volume	658,086	576,383	3,036,163	431,876	1,992,674	828,628
(F1) EPS Est 1 week change	-3.09%	0.00%	-0.14%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.09%	-1.14%	-6.66%	0.00%	-2.01%	0.00%
(F1) EPS Est 12 week change	-3.09%	-1.62%	-10.02%	-4.52%	-4.58%	0.00%
(Q1) EPS Est Mthly Chg	NA%	0.00%	-9.67%	NA	NA	0.00%

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## 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.

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### 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	A
Momentum Score	B
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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