

## Hawaiian Electric (HE)

**\$34.95** (As of 12/29/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 07/21/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

## Summary

Hawaiian Electric continues to make systematic investments in utility infrastructure development projects, adding new generation facilities and replacing aging infrastructure. In Hawaii, the company is the largest provider of electricity. To offer reliable clean energy, the company aims to integrate 165,000 private solar systems by 2030. It also aims to add 360 MW of grid-scale solar and 157 MW of grid-scale wind. However, the stock's unfavorable financial ratio indicates that it might face difficulty in paying off its debt in time. A comparative analysis of its trailing 12-months P/E ratio reflects a gloomy picture. Moreover, Hawaii's tourism industry suffered dramatically following COVID-19 impacts, which have been hurting the company's sales. In the past year, the company's shares have underperformed the industry.

## Price, Consensus & Surprise



## Data Overview

|                                |                                    |
|--------------------------------|------------------------------------|
| 52-Week High-Low               | <b>\$55.15 - \$31.83</b>           |
| 20-Day Average Volume (Shares) | <b>387,458</b>                     |
| Market Cap                     | <b>\$3.8 B</b>                     |
| Year-To-Date Price Change      | <b>-25.7%</b>                      |
| Beta                           | <b>0.18</b>                        |
| Dividend / Dividend Yield      | <b>\$1.32 / 3.8%</b>               |
| Industry                       | <b>Utility - Electric Power</b>    |
| Zacks Industry Rank            | <b>Bottom 33% (171 out of 255)</b> |

## Sales and EPS Growth Rates (Y/Y %)

|       |  |  |  |  |     |  |  |  |  |
|-------|--|--|--|--|-----|--|--|--|--|
| Sales |  |  |  |  | EPS |  |  |  |  |
|-------|--|--|--|--|-----|--|--|--|--|

|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>0.0%</b>       |
| Last Sales Surprise           | <b>NA</b>         |
| EPS F1 Estimate 4-Week Change | <b>0.0%</b>       |
| Expected Report Date          | <b>02/11/2021</b> |
| Earnings ESP                  | <b>0.0%</b>       |
| P/E TTM                       | <b>18.4</b>       |
| P/E F1                        | <b>20.3</b>       |
| PEG F1                        | <b>12.2</b>       |
| P/S TTM                       | <b>1.4</b>        |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 |       |       |       |       |         |
| 2020 | 677 A | 609 A | 641 A |       |         |
| 2019 | 662 A | 715 A | 772 A | 726 A | 2,875 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 |          |          |          |          |          |
| 2020 | \$0.31 A | \$0.38 A | \$0.59 A |          | \$1.72 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 12/29/2020. The reports text is as of 12/30/2020.

## Overview

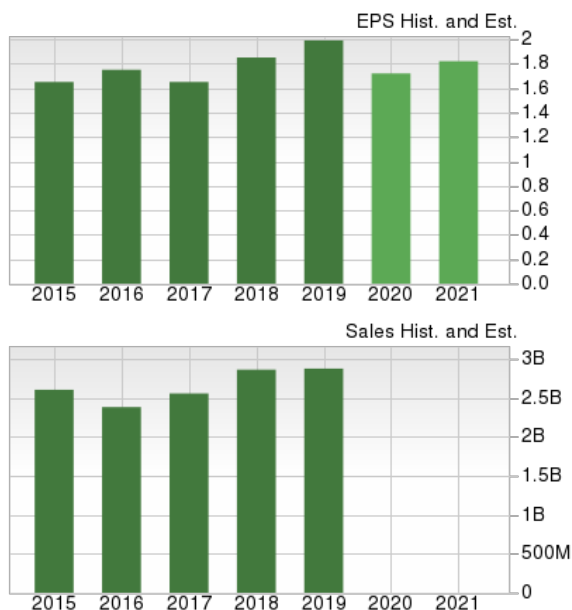
Honolulu-based **Hawaiian Electric Industries Inc.**, incorporated in 1981, is a holding company with subsidiaries engaged in the electric utility, banking and other businesses operating primarily in the state of Hawaii.

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.

Hawaiian Electric's "**Other**" businesses segment is composed of HEI's corporate-level operating, general and administrative expenses and the results of Pacific Current, LLC (Pacific Current). Pacific Current was formed in September 2017 to focus on investing in non-regulated clean energy and sustainable infrastructure in the State of Hawaii to help reach the state's sustainability goals. The "Other" segment also includes ASB Hawaii, Inc. (ASB Hawaii) (a holding company, formerly known as American Savings Holdings, Inc.), which owns ASB.



Source: Zacks Investment Research

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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. In construction, the company experienced price appreciation of 1.2% for condos while that for single-family homes went up 3.3% in the third 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.

However, since March 2020, due to the coronavirus outbreak induced travel ban, Hawaii's tourism industry has been suffering, 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. In August, Hawaiian Electric announced its commitment to convert its entire fleet of light-duty vehicles across the islands, consisting of nearly 400 sedans, SUVs, small vans and light trucks into electric vehicles by 2035, leading the state of Hawaii in electric vehicle fleets.

In October, the company won regulatory approval for the eighth and final solar-plus-storage PPA. Hawaiian Electric expects the completion of Stage 1 and Stage 2 of these projects in anticipated time frames to add nearly 600 MW of renewable energy and 3 gigawatt hours of storage to the company's system by the end of 2023. Such clean energy initiatives should attract more investment in this stock, as the entire world is moving toward adopting a greener environment.

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

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## Reasons To Sell:

▼ Hawaii's tourism industry suffered dramatically with a decline of 71.6% in visitor arrivals through the first nine months of 2020, compared with the prior-year period, primarily due to travel restrictions amid the COVID-19 pandemic. As a result, during the second and third quarters, daily passenger count declined more than 95% to 1,406 passengers on average per day compared with the same time period in 2019. Such reduced visitor arrivals mean lower electricity usage, which, in turn, impacts the company's revenue generation. Notably, the company's revenues were down 16.8% year over year in the third quarter. Since the pandemic is ongoing, Hawaiian Electric's sales might further suffer in the upcoming quarters.

▼ Hawaiian Electric had a long-term debt of \$2,069 million as of Sep 30, 2020, almost in line with \$2,070 million as of Jun 30, 2020. The company's cash equivalents worth \$215 million as of Sep 30, 2020 were significantly lower than its long-term debt level. The company's cash reserve also came in lower than its current debt worth \$290 million as of Sep 30. This indicates a weak solvency position for the company.

Moreover, the company's current ratio, as of Sep 30, 2020, was 0.07, which being less than 1, indicates that this utility might not possess sufficient capital in hand to meet its short-term obligations. The ratio also deteriorated sequentially from 0.12 and was lowest in the trailing four quarters. Such unfavorable financial ratio along with substantial long-term debt level indicates that Hawaiian Electric might 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 19.82 compared with the industry's P/E ratio of 16.51 in the past year. Moreover, shares of Hawaiian Electric have underperformed the industry in a year's time. Shares of the company have declined 25.7% compared with the industry's 9% fall.

Unfavorable financial ratios and COVID-19 impact might cause investors to lose confidence in the stock's growth.

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## Last Earnings Report

### Hawaiian Electric Q3 Earnings Rise Y/Y

Hawaiian Electric reported earnings per share of 59 cents in the third quarter of 2020, which rose 1.7% from 58 cents in the prior-year quarter.

### Total Revenues

Hawaiian Electric's total revenues of \$641.4 million in the third quarter declined 16.8% from the prior-year quarter's \$770.9 million. The decline in revenues can be attributed to decreased contributions from both the Electric Utility and Bank segments.

### Operating Statistics

Total expenses declined 19.6% year over year to \$541.9 million during the third quarter. The decline can be attributed to lower expenses at the Electric Utility segment.

Total operating income improved 3% year over year to \$99.6 million in the third quarter due to lower contributions from the Bank segment.

Net interest expenses amounted to \$22.1 million, slightly down from \$22.4 million in the prior-year quarter.

### Segment Details

**Electric Utility:** Revenues in this segment totaled \$562.6 million, down 18.3% year over year. Meanwhile, net income surged 28.4% to \$60.1 million from \$46.8 million a year ago.

**Banking:** In this segment, revenues totaled \$78.6 million, down 4.7% year over year. Meanwhile, net income came in at \$12.2 million, plunging 49.6% year over year.

### Financial Position

Hawaiian Electric had cash and cash equivalents of \$193.1 million as of Sep 30, 2020, compared with \$196.8 million as of Dec 30, 2019.

Long-term debt was \$2,068.9 million as of Jun 30, 2020, compared with \$1,964.4 million as of Dec 31, 2019.

During the first nine months of 2020, net cash inflow from operating activities totaled \$312.3 million compared with cash inflow of \$3141.4 million in the first nine months of 2019.

### Guidance

Hawaiian Electric has reaffirmed its earnings guidance for the electric utility unit in the range of \$1.46-\$1.54 for 2020.

Quarter Ending 09/2020

| Report Date      | Nov 06, 2020 |
|------------------|--------------|
| Sales Surprise   | NA           |
| EPS Surprise     | 0.00%        |
| Quarterly EPS    | 0.59         |
| Annual EPS (TTM) | 1.89         |

## Recent News

On **Dec 21, 2020**, Hawaiian Electric announced that the company has opened three new electric vehicle (EV) fast-charging stations for the public at the Queen Kaahumanu Center in Central Maui, Piilani Village Shopping Center in South Maui and Lahaina Aquatic Center in West Maui. Owned and operated by Hawaiian Electric, the publicly-accessible DC fast chargers offer a lower rate during daytime hours to encourage charging when solar energy is typically abundant.

The new DC fast chargers can provide about 43 miles of additional range for a typical EV in 15 minutes. The fast charger supports CHAdeMO (used mostly by EVs like the Nissan Leaf and the Tesla with their proprietary adaptor) and CCS (used by American and European EVs like the BMW i3 and as an option on the Chevy Bolt). Charging sessions can be initiated in multiple ways, including smartphone apps to credit cards.

On **Nov 12, 2020**, Hawaiian Electric announced that Puna Geothermal Venture (PGV) has begun supplying electricity to the Hawaii Island grid, two and a half years after the eruption of the Kilauea volcano put it out of operation.

The delivery of electricity from the geothermal facility, one of the largest and most reliable renewable energy resources in the state, began on Nov. 5. Testing will take place over several weeks with production gradually increasing. Before the eruption, the plant produced 38 megawatts, representing about 15 percent of the island's firm generation capacity.

The return of PGV increases Hawaiian Electric's generation reserve margins, ensuring there is electricity available for periods of high demand when other generators are out of service for maintenance.

On **Oct 7, 2020**, Hawaiian Electric announced that Paeahu Solar, a utility-scale renewable energy plus battery project in South Maui, has been approved by the Public Utilities Commission (PUC). It is one of four projects planned to come online over the next three years on Maui as part of Hawaiian Electric's efforts to meet the island's energy needs with local, renewable resources.

Innergex, an experienced renewable energy developer based in Canada, will build and operate the 15-megawatt (MW) solar array with a 60-megawatt-hour battery energy storage system on approximately 200 acres leased from Ulupalakua Ranch, mauka of Piilani Highway in Kihei. As part of its 25-year contract with Innergex, Hawaiian Electric will purchase power from Paeahu Solar at 12 cents per kilowatt hour (kWh).

## Valuation

Hawaiian Electric's shares are down 3.7% in the past six months period and 25.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 9.6% and 8.1% in the past six months period, respectively. Over the past year, the Zacks sub-industry is down 9%, whereas the sector is down 7.9%.

The S&P 500 index is up 21.1% in the past six months period and 17.7% in the past year.

The stock is currently trading at 19.1X of forward 12-month earnings, which compares to 14.8X for the Zacks sub-industry, 13.3X for the Zacks sector and 23X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.5X and as low as 15.7X, with a 5-year median of 19.1X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$37 price target reflects 20.3X 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       | 19.12 | 14.8         | 13.32  | 23      |
|                         | 5-Year High   | 27.49 | 15.39        | 15.39  | 23.79   |
|                         | 5-Year Low    | 15.67 | 11.83        | 11.4   | 15.3    |
|                         | 5-Year Median | 19.08 | 13.5         | 13.83  | 17.81   |
| P/S F12M                | Current       | 1.28  | 2.43         | 2.75   | 4.37    |
|                         | 5-Year High   | 1.84  | 2.56         | 3.2    | 4.37    |
|                         | 5-Year Low    | 0.84  | 1.64         | 1.74   | 3.17    |
|                         | 5-Year Median | 1.44  | 2.08         | 2.13   | 3.67    |
| EV/EBITDA TTM           | Current       | 9.71  | 11.96        | 17.55  | 16.92   |
|                         | 5-Year High   | 12.53 | 13.21        | 19.43  | 16.96   |
|                         | 5-Year Low    | 8.67  | 8.04         | 10.75  | 9.56    |
|                         | 5-Year Median | 9.98  | 11.1         | 14.24  | 13.18   |

As of 12/29/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 33% (171 out of 255)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                        | Rec          | Rank |
|-----------------------------------------|--------------|------|
| Portland General Electric Company (POR) | Outperform   | 2    |
| Allete, Inc. (ALE)                      | Neutral      | 3    |
| Avista Corporation (AVA)                | Neutral      | 3    |
| Black Hills Corporation (BKH)           | Neutral      | 3    |
| Edison International (EIX)              | Neutral      | 2    |
| IDACORP, Inc. (IDA)                     | Neutral      | 3    |
| PNM Resources, Inc. (PNM)               | Neutral      | 3    |
| OGE Energy Corporation (OGE)            | Underperform | 5    |

The positions listed should not be deemed a recommendation to buy, hold or sell.

| Industry Comparison Industry: Utility - Electric Power |         |            |           | Industry Peers |              |            |
|--------------------------------------------------------|---------|------------|-----------|----------------|--------------|------------|
|                                                        | HE      | X Industry | S&P 500   | ALE            | OGE          | POR        |
| Zacks Recommendation (Long Term)                       | Neutral | -          | -         | Neutral        | Underperform | Outperform |
| Zacks Rank (Short Term)                                | 3       | -          | -         | 3              | 5            | 2          |
| VGM Score                                              | B       | -          | -         | C              | C            | B          |
| Market Cap                                             | 3.80 B  | 9.56 B     | 25.66 B   | 3.19 B         | 6.20 B       | 3.73 B     |
| # of Analysts                                          | 1       | 3          | 13        | 1              | 2            | 2          |
| Dividend Yield                                         | 3.79%   | 3.38%      | 1.49%     | 4.02%          | 5.19%        | 3.91%      |
| Value Score                                            | B       | -          | -         | C              | C            | B          |
| Cash/Price                                             | 0.06    | 0.06       | 0.06      | 0.03           | 0.01         | 0.07       |
| EV/EBITDA                                              | 8.83    | 10.03      | 14.52     | 10.58          | 9.97         | 8.05       |
| PEG F1                                                 | 12.17   | 3.95       | 2.80      | NA             | 4.27         | 4.86       |
| P/B                                                    | 1.64    | 1.59       | 3.63      | 1.30           | 1.69         | 1.44       |
| P/CF                                                   | 7.62    | 8.14       | 13.81     | 8.47           | 7.87         | 5.98       |
| P/E F1                                                 | 20.32   | 17.42      | 22.02     | 18.54          | 15.24        | 26.64      |
| P/S TTM                                                | 1.43    | 1.88       | 2.82      | 2.77           | 2.94         | 1.75       |
| Earnings Yield                                         | 4.94%   | 5.65%      | 4.40%     | 5.39%          | 6.58%        | 3.77%      |
| Debt/Equity                                            | 0.89    | 1.06       | 0.70      | 0.66           | 0.95         | 1.07       |
| Cash Flow (\$/share)                                   | 4.57    | 4.37       | 6.93      | 7.24           | 3.94         | 6.97       |
| Growth Score                                           | C       | -          | -         | C              | C            | C          |
| Historical EPS Growth (3-5 Years)                      | 3.83%   | 4.86%      | 9.71%     | 3.04%          | 11.27%       | 5.22%      |
| Projected EPS Growth (F1/F0)                           | -13.57% | 2.27%      | 1.26%     | -7.80%         | -5.79%       | -34.52%    |
| Current Cash Flow Growth                               | 8.40%   | 5.82%      | 5.23%     | 0.42%          | 5.55%        | 4.88%      |
| Historical Cash Flow Growth (3-5 Years)                | 6.81%   | 6.02%      | 8.33%     | 8.19%          | 3.09%        | 5.53%      |
| Current Ratio                                          | 0.07    | 0.90       | 1.38      | 0.42           | 0.94         | 0.78       |
| Debt/Capital                                           | 47.51%  | 51.58%     | 41.97%    | 39.67%         | 48.83%       | 51.79%     |
| Net Margin                                             | 8.10%   | 8.39%      | 10.40%    | 15.33%         | -9.15%       | 7.67%      |
| Return on Equity                                       | 9.06%   | 9.92%      | 14.99%    | 7.29%          | 10.44%       | 9.97%      |
| Sales/Assets                                           | 0.19    | 0.22       | 0.50      | 0.20           | 0.20         | 0.25       |
| Projected Sales Growth (F1/F0)                         | 0.00%   | 0.00%      | 0.35%     | -6.89%         | 0.00%        | -0.60%     |
| Momentum Score                                         | B       | -          | -         | D              | D            | A          |
| Daily Price Change                                     | -0.14%  | 0.00%      | -0.53%    | -0.36%         | -1.18%       | -0.95%     |
| 1-Week Price Change                                    | -2.56%  | -0.56%     | -0.44%    | 0.36%          | 0.03%        | -0.79%     |
| 4-Week Price Change                                    | -3.55%  | 0.81%      | 0.57%     | 7.22%          | -5.14%       | -0.67%     |
| 12-Week Price Change                                   | 0.12%   | 7.56%      | 13.26%    | 13.86%         | -4.20%       | 14.22%     |
| 52-Week Price Change                                   | -25.74% | -10.43%    | 6.23%     | -24.39%        | -30.25%      | -25.27%    |
| 20-Day Average Volume (Shares)                         | 387,458 | 351,922    | 1,797,784 | 280,394        | 958,484      | 576,475    |
| EPS F1 Estimate 1-Week Change                          | 0.00%   | 0.00%      | 0.00%     | 0.00%          | 0.00%        | 0.00%      |
| EPS F1 Estimate 4-Week Change                          | 0.00%   | 0.00%      | 0.00%     | 0.00%          | 0.00%        | 66.88%     |
| EPS F1 Estimate 12-Week Change                         | 1.18%   | 0.72%      | 3.71%     | 0.00%          | -3.33%       | 81.63%     |
| EPS Q1 Estimate Monthly Change                         | NA%     | 0.00%      | 0.00%     | 0.00%          | NA           | -8.79%     |

Source: Zacks Investment Research

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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 maintain a 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    | <b>B</b> |
| Growth Score   | <b>C</b> |
| Momentum Score | <b>B</b> |
| VGM Score      | <b>B</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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## Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

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**Returns quoted represent past performance which is no guarantee of future results.** Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

## Glossary of Terms and Definitions

**52-Week High-Low:** The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

**20-Day Average Volume (Shares):** The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

**Daily Price Change:** This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

**1-Week Price Change:** This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

**4-Week Price Change:** This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

**12-Week Price Change:** This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

**52-Week Price Change:** This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

**Market Cap:** The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

**Year-To-Date Price Change:** Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

**# of Analysts:** Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

**Beta:** A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

**Dividend:** The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

**Dividend Yield:** The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

**S&P 500 Index:** The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

**Industry:** One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

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**Zacks Industry Rank:** The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

**Last EPS Surprise:** The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

**Last Sales Surprise:** The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

**Expected Report Date:** This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

**Earnings ESP:** The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

**Periods:**

**TTM:** Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

**F1:** Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

**F2:** Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

**F12M:** Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

**P/E Ratio:** The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

**PEG Ratio:** The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

**P/S Ratio:** The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

**Cash/Price Ratio:** The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

**EV/EBITDA Ratio:** The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

**EV/Sales Ratio:** The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

**EV/CF Ratio:** The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

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**EV/FCF Ratio:** The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

**P/EBITDA Ratio:** The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

**P/B Ratio:** The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

**P/TB Ratio:** The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

**P/CF Ratio:** The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

**P/FCF Ratio:** The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

**Earnings Yield:** The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ( $3/35 = 0.0857$ ) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

**Debt/Equity Ratio:** The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

**Cash Flow (\$/share):** Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

**Current Ratio:** The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

**Debt/Capital Ratio:** Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

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**Net Margin:** Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

**Return on Equity:** Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

**Sales/Assets Ratio:** The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

**Historical EPS Growth (3-5 Years):** This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

**Projected EPS Growth (F1/F0):** This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

**Current Cash Flow Growth:** It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

**Historical Cash Flow Growth (3-5 Years):** This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

**Projected Sales Growth (F1/F0):** This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

**EPS F1 Estimate 1-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

**EPS F1 Estimate 4-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

**EPS F1 Estimate 12-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

**EPS Q1 Estimate Monthly Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.