

OGE Energy Corp.(OGE)

\$45.85 (As of 01/31/20)

Price Target (6-12 Months): **\$49.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/04/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: D

Summary

Being the largest electric utility in Oklahoma, OGE Energy's well-positioned regulated utility and unregulated midstream gas businesses continue to offset the prevailing tailwinds. The company is pursuing an aggressive investment strategy to upgrade its infrastructure and provide seamless services to its customers. OGE Energy plans to spend around \$3 billion between 2019 and 2023. However, OGE Energy faces challenges in the form of severe weather conditions like hurricanes and snowstorms, which result in the breakdown and damage of transmission and distribution lines. Also, environmental regulation tends to increase the cost of planning, design and operation of OG&E facilities. Such hefty expenditure might keep its bottom line under pressure. Its shares underperformed the industry in the past year.

Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$46.33 - \$40.17
20 Day Average Volume (sh)	1,056,745
Market Cap	\$9.2 B
YTD Price Change	3.1%
Beta	0.48
Dividend / Div Yld	\$1.55 / 3.4%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 45% (114 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.7%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	02/27/2020
Earnings ESP	0.0%
P/E TTM	20.3
P/E F1	19.9
PEG F1	4.3
P/S TTM	4.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					2,450 E
2019	490 A	514 A	755 A		2,290 E
2018	493 A	567 A	699 A	512 A	2,270 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$2.30 E
2019	\$0.24 A	\$0.50 A	\$1.25 A	\$0.28 E	\$2.26 E
2018	\$0.27 A	\$0.55 A	\$1.02 A	\$0.27 A	\$2.12 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 01/31/2020. The reports text is as of 02/03/2020.

Overview

Incorporated in 1995, Oklahoma City, OK-based OGE Energy Corp. provides energy and offers physical delivery and related services for both electricity and natural gas, primarily in the south central United States. It is the parent company of Oklahoma Gas and Electric Company ("OG&E") and holder of a 26.3% limited partner interest and 50% general partner interest in Enable Midstream Partners. OG&E is the largest electric utility in Oklahoma and its franchised service territory the Fort Smith, AR area.

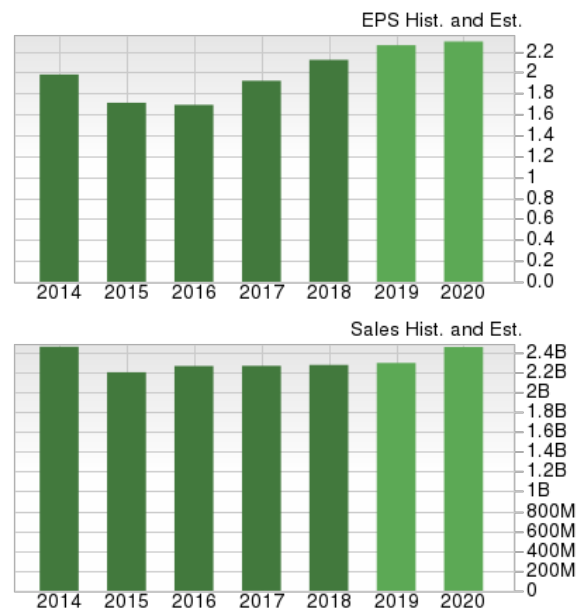
On May 1, 2013, the company completed the formation of a midstream partnership, which included OGE Energy Corp., CenterPoint Energy and Arclight. The partnership was subsequently named Enable Midstream Partners, LP.

OGE Energy operates its business through the electric utility, OG&E and Natural Gas Midstream Operations divisions.

OGE Energy's subsidiary, **OG&E**, is an electric utility in Oklahoma. The electric utility generates, transmits, distributes and sells electric energy in Oklahoma and western Arkansas. It provides retail electric services to 849,372 customers, as of Dec 31, 2018, in communities and their contiguous rural and suburban areas. Segment net income in 2018 was \$328 million.

Natural Gas Midstream Operations posted net income of \$108 million in 2018.

The company has a total generating capacity of 6,616 MW, as of Dec 31, 2018, which is distributed through 12 generating stations, including seven power plants, three wind farms and two solar plants.



Reasons To Buy:

- ▲ OGE Energy is the largest electric utility in Oklahoma and its well-positioned regulated utility and unregulated midstream gas businesses carry low risk. The company is pursuing an aggressive investment strategy to upgrade its infrastructure and provide seamless services to its customers. OGE Energy plans to spend around \$3 billion between 2019 and 2023. For 2019, the company allocated \$625 million, which includes \$485 million for base transmission, distribution and generation activities and \$140 million for transmission projects. These robust capital spending capabilities hint at enhanced operations, based on which OGE Energy expects long-term earnings growth rate to be 4-6% for its OG&E unit.
 - ▲ In April 2019, OG&E received approval from the Oklahoma Corporation Commission (OCC) for acquiring Oklahoma-based Shady Point plant and the Oklahoma Cogeneration LLC facility. On receiving other regulatory approvals, the combined 506-MW-generating capacity will favor the company's customers by further reducing OGE Energy's electricity rate. Moreover, these acquisitions will support OGE Energy's aim to further reduce power plant air emissions, particularly mitigating CO2 emissions to 50% by 2030.
 - ▲ OGE Energy's Enable Midstream Partners recorded growth for the 15th consecutive quarter in per day natural gas gathered volumes during the third quarter. The partnership also continues to witness record levels of distributable cash flow and net income as it continues to tie in assets to expand its existing footprint in some of the most prolific oil and gas basins in the United States. Notably, the company received \$37 million in cash distributions from Enable during the third quarter compared to \$35 million received in the third quarter of 2018. These factors reflect the importance of Enable Midstream Partners in OGE Energy's growth story.
 - ▲ A stable economy helps drive demand for electricity and in turn boosts business growth for electricity providers like OGE Energy. Evidently, as of October 2019, Oklahoma's unemployment rate was 3.3%, below the national average of 3.6%. Such favorable macroeconomic statistics allow analysts to predict strong economic outlook, which in turn should boost electricity demand. As a result, OGE Energy continues to witness customer additions. During the third quarter of 2019, the company's new customer growth was 1.1%, which witnessed an addition of 9,100 customers when compared to last year's third quarter. This is capable of boosting the company's top line significantly.
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OGE Energy is the largest electric utility in Oklahoma and its systematic investment in base distribution and generation projects will likely boost its future performance.

Reasons To Sell:

- ▼ Just as a stable economy helps utilities to maintain their top-line trajectory, it is worth mentioning here that the oil and gas sector is subject to inevitable commodity cycles. Some energy and utility companies in Oklahoma are resorting to layoffs in order to survive the depressing oil price environment. This might likely increase the state's unemployment rate. In such a scenario, profitability at OGE Energy will be severely undermined.
- ▼ OGE Energy also faces challenges in the form of severe weather conditions and natural calamities like hurricanes and snowstorms, which result in the breakdown and damage of transmission and distribution lines. This can potentially disrupt normal operations at the company. Enable Midstream Partners' natural gas transportation, storage and gathering business is subject to regulation by the Federal Energy Regulatory Commission (FERC) and state regulators of Oklahoma and Texas. In addition, natural gas prices are extremely volatile; any adverse change in prices would affect the partnership's performance.
- ▼ Environmental regulation tends to increase the cost of planning, design, initial installation and operation of OG&E's facilities. Meanwhile, management is consistently evaluating its compliance with existing and proposed environmental legislation, and regulations and implement appropriate environmental programs in a competitive market. Moreover, it is estimated that OG&E's total expenditures to comply with environmental laws, regulations and requirements for 2019 will be \$50 million. This include capital expenditures for the Dry Scrubbers at Sooner Units 1 and 2 and the conversion of Muskogee Units 4 and 5 to natural gas. Such hefty expenditure might keep the company's bottom line under pressure. Evidently, OGE Energy's share price has underperformed in the past year. It increased 16.4% in the past year compared with the industry's growth of 27%.
- ▼ The stock's current 12-month trailing EV/EBITDA ratio of 15.03 compares unfavorably with the 12-month median. The valuation from an EV/EBITDA perspective looks stretched for the company when compared with its own range in the time period. OGE Energy's EV/EBITDA ratio remained above the industry's EV/EBITDA ratio of 13.06 over the past year. This reflects that the company is overvalued compared with its industry.

Depressing oil and gas prices, federal, state and local legislative requirements and uncertain weather conditions are some of the threats associated with the stock.

Last Earnings Report

OGE Energy Q3 Earnings Top Estimates, Revenues Up Y/Y

OGE Energy Corp.'s third-quarter 2019 earnings of \$1.25 per share outpaced the Zacks Consensus Estimate of \$1.15 by 8.7%. The bottom line increased 22.5% from \$1.02 registered in the year-ago quarter. The upside can be primarily attributed to higher contribution from OG&E — a regulated electric utility.

Revenues

OGE Energy's operating revenues of \$755.4 million increased 8.1% from \$698.8 million in the prior-year quarter. The upside can be attributed to year-over-year higher revenues from residential, commercial, oilfield, public authorities and street light as well as system sales.

Operational Highlights

Total sales in the reported quarter amounted to 9 million megawatt-hours (MWh), higher than 8.5 million MWh in the prior-year quarter. Meanwhile, the company's customer count inched up 1.2% to 855,904.

Cost of sales amounted to \$234 million compared with \$244.4 million in the prior-year quarter.

Total operating expenses rose 8.8% year over year to \$247.1 million on higher operation and maintenance expenses, depreciation and amortization expenses as well as higher taxes other than income.

Operating income increased 20.7% to \$274.3 million from the year-ago quarter's \$227.3 million.

Interest expenses totaled \$39.6 million in the third quarter, up from \$38.7 million in the prior-year quarter.

OGE Energy reported net income of \$251 million in the third quarter, up from the prior-year quarter's figure of \$205 million.

Segment Details

OG&E: The segment's net income improved 23.4% to \$227.2 million from \$183.9 million in the prior-year quarter.

Natural Gas Midstream Operations: The segment posted third-quarter net income of \$28.59 million compared with \$28.4 million in the year-ago quarter.

Guidance

Previously, OGE Energy expected 2019 earnings in the range of \$2.05-\$2.20 per share. Now, it expects 2019 earnings per share in the range of \$2.24-\$2.30, whose midpoint of \$2.27 is higher than the Zacks Consensus Estimate of \$2.15.

The company's projected capital expenditure is \$3.4 billion for 2019-2023 period.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	NA
EPS Surprise	8.70%
Quarterly EPS	1.25
Annual EPS (TTM)	2.26

Valuation

OGE Energy's shares are up 11.2% in the past six months period and up 16.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 16.7% and 13.2% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 27% and the sector is up 6.6%.

The S&P 500 index is up 15% in the past six months period and is up 20% in the past year.

The stock is currently trading at 19.91X of forward 12-month earnings, which compares to 15.56X for the Zacks sub-industry, 14.23X for the Zacks sector and 18.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.18X and as low as 12.12X, with a 5-year median of 17.33X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$49 price target reflects 21.3X forward 12-month earnings.

The table below shows summary valuation data for OGE

Valuation Multiples - OGE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.91	15.56	14.23	18.5
	5-Year High	20.18	15.56	15.36	19.34
	5-Year Low	12.12	11.14	12.58	15.18
	5-Year Median	17.33	13.19	13.8	14.46
P/S F12M	Current	3.82	2.45	3.02	3.43
	5-Year High	3.82	2.45	3.31	3.43
	5-Year Low	1.87	1.54	1.71	2.54
	5-Year Median	2.86	1.87	1.98	3
P/B TTM	Current	2.19	1.96	4.24	4.4
	5-Year High	2.27	1.97	4.27	4.54
	5-Year Low	1.43	1.32	2.02	2.85
	5-Year Median	1.93	1.55	2.58	3.62

As of 01/31/2020

Industry Analysis Zacks Industry Rank: Top 45% (114 out of 255)



Top Peers

Hawaiian Electric Industries, Inc. (HE)	Neutral
IDACORP, Inc. (IDA)	Neutral
Alliant Energy Corporation (LNT)	Neutral
NiSource, Inc (NI)	Neutral
NRG Energy, Inc. (NRG)	Neutral
Pacific Gas & Electric Co. (PCG)	Neutral
Pinnacle West Capital Corporation (PNW)	Neutral
Portland General Electric Company (POR)	Neutral

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	OGE Neutral	X Industry	S&P 500	LNT Neutral	NI Neutral	NRG Neutral
VGM Score	D	-	-	D	C	A
Market Cap	9.18 B	9.18 B	23.55 B	14.27 B	10.95 B	9.28 B
# of Analysts	2	2	13	2	4	2
Dividend Yield	3.38%	2.66%	1.81%	2.56%	2.73%	0.33%
Value Score	C	-	-	D	D	A
Cash/Price	0.00	0.04	0.04	0.01	0.00	0.03
EV/EBITDA	12.52	11.68	13.97	14.84	26.92	9.83
PEG Ratio	4.35	4.14	1.97	4.24	4.14	0.16
Price/Book (P/B)	2.19	1.95	3.21	2.87	2.20	NA
Price/Cash Flow (P/CF)	12.26	9.67	13.36	13.55	10.12	7.92
P/E (F1)	19.97	20.69	18.42	24.33	21.35	6.58
Price/Sales (P/S)	4.04	2.44	2.60	3.92	2.08	0.96
Earnings Yield	5.02%	4.75%	5.43%	4.11%	4.67%	15.21%
Debt/Equity	0.76	1.08	0.72	1.11	1.58	-4.01
Cash Flow (\$/share)	3.74	4.04	6.92	4.38	2.89	4.66
Growth Score	C	-	-	D	C	A
Hist. EPS Growth (3-5 yrs)	7.35%	4.40%	10.68%	6.06%	-2.70%	91.38%
Proj. EPS Growth (F1/F0)	1.55%	5.33%	7.59%	6.09%	5.98%	25.64%
Curr. Cash Flow Growth	12.09%	7.42%	10.81%	11.59%	9.76%	21.62%
Hist. Cash Flow Growth (3-5 yrs)	1.72%	4.94%	8.78%	6.04%	1.91%	-1.05%
Current Ratio	0.79	0.80	1.22	0.53	0.41	1.24
Debt/Capital	43.28%	51.52%	42.99%	51.71%	57.32%	NA
Net Margin	19.94%	9.93%	11.69%	14.86%	9.70%	10.85%
Return on Equity	11.20%	9.26%	17.33%	11.43%	9.70%	-53.61%
Sales/Assets	0.21	0.24	0.55	0.23	0.24	0.99
Proj. Sales Growth (F1/F0)	%	3.21%	4.12%	NA	6.05%	-2.95%
Momentum Score	D	-	-	C	B	C
Daily Price Chg	-0.93%	-0.59%	-1.98%	-0.10%	0.72%	-0.73%
1 Week Price Chg	-0.26%	1.12%	-1.09%	3.10%	0.14%	-1.50%
4 Week Price Chg	4.06%	4.90%	-2.11%	10.68%	7.84%	-4.92%
12 Week Price Chg	6.75%	9.57%	2.15%	15.26%	9.86%	-7.87%
52 Week Price Chg	11.97%	17.30%	14.15%	33.48%	7.44%	-9.83%
20 Day Average Volume	1,056,745	300,297	1,808,632	1,416,953	2,836,488	2,279,015
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.22%	0.00%	0.00%	0.00%	0.18%	-1.06%
(F1) EPS Est 12 week change	0.22%	-0.15%	-0.09%	0.41%	0.00%	2.31%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	NA	0.00%	-19.30%

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	D
VGM Score	D

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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