

OGE Energy Corp.(OGE)

\$31.97 (As of 04/13/20)

Price Target (6-12 Months): **\$34.00**

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: F

Momentum: C

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 headwinds. It is pursuing an aggressive investment strategy to upgrade its infrastructure. It plans to spend around \$3.51 billion between 2020 and 2024. Oklahoma's unemployment rate is below the national average, which indicates a stable economy that drive demand for electricity. However, it 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.. Its shares have underperformed the industry in the past year.

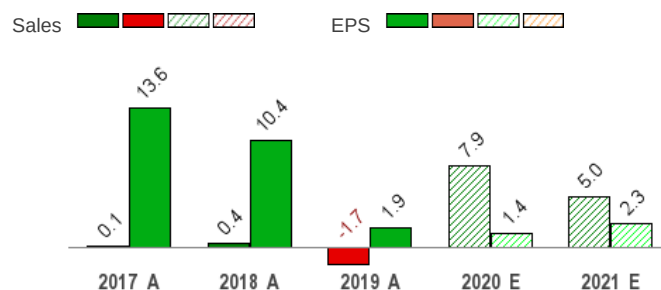
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$46.43 - \$23.01
20 Day Average Volume (sh)	2,231,849
Market Cap	\$6.4 B
YTD Price Change	-28.1%
Beta	0.86
Dividend / Div Yld	\$1.55 / 4.8%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 29% (73 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-37.9%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-2.0%
Expected Report Date	05/07/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,530 E
2020					2,409 E
2019	490 A	514 A	755 A	473 A	2,232 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.24 E
2020					\$2.19 E
2019	\$0.24 A	\$0.50 A	\$1.25 A	\$0.18 A	\$2.16 A

*Quarterly figures may not add up to annual.

P/E TTM	14.7
P/E F1	14.6
PEG F1	3.2
P/S TTM	2.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/13/2020. The reports text is as of 04/14/2020.

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.

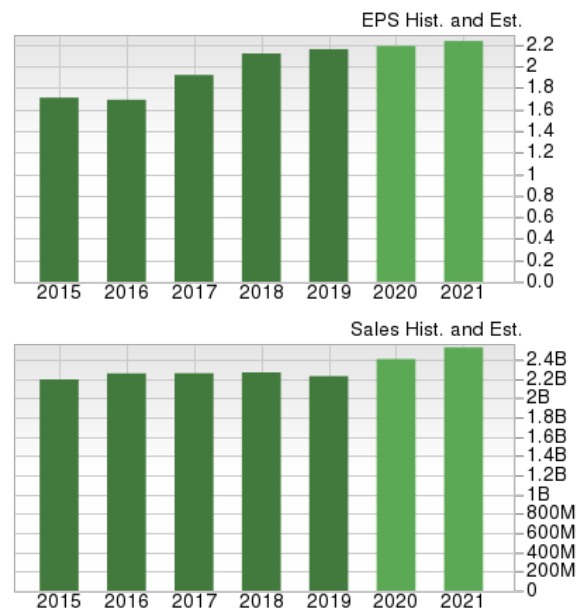
On May 1, 2013, the company completed the formation of a midstream partnership, which included OGE Energy Corp., CenterPoint Energy and ArcLight. The partnership was subsequently named Enable Midstream Partners, LP.

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 provided retail electric services to 857,754 customers, as of Dec 31, 2019, in communities and their contiguous rural and suburban areas. Segment net income in 2019 was \$350.2 million.

Natural Gas Midstream Operations posted net income of \$81.4 million in 2019.

The company had a total generating capacity of 7,081 MW, as of Dec 31, 2019, which is distributed through 13 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 \$3.51 billion between 2020 and 2024. For 2020, the company allocated \$575 million, which includes \$530 million for base transmission, distribution and generation activities and \$45 million for transmission projects. These robust capital spending capabilities hint at enhanced operations, based on which OGE Energy expects a long-term earnings growth rate of 4-6% for its OG&E unit.
- ▲ In May 2019, OG&E received approval from both the Oklahoma Corporation Commission (OCC) and the Federal Energy Regulatory Commission (FERC) for acquiring Oklahoma-based Shady Point plant and the Oklahoma Cogeneration 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, this acquisition will support OGE Energy's aim to further reduce power plant air emissions, particularly mitigating carbon dioxide emissions to 50% by 2030.
- ▲ OGE Energy's Enable Midstream Partners recorded growth for the 16th consecutive quarter in per day natural gas gathered volumes during the fourth 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 basin in the United States. Notably, the company received \$144 million in cash distributions from Enable in 2019 compared to \$109 million received in 2018. These factors reflect the role 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 December 2019, Oklahoma's unemployment rate was 3.4%, below the national average of 3.5%. Such favorable macroeconomic statistics allow analysts to predict a strong economic outlook, which in turn should boost electricity demand. As a result, OGE Energy continues to witness customer additions. In 2019, the company witnessed customer growth of approximately 1% from 2018 levels, witnessing an addition of 8,382 customers. This is likely to drive the company's top line significantly.

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 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 2020 will be \$40 million. This includes 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 expenditures might keep the company's bottom line under pressure. Evidently, OGE Energy's share price has underperformed the industry in the past year. It declined 24.2% in the past year against the industry's growth of 0.7%.
- ▼ The stock's current 12-month trailing EV/SALES ratio of 4.6 compares unfavorably with the 12-month median. The valuation from an EV/SALES perspective looks stretched for the company when compared with its own range in the time period. OGE Energy's EV/SALES ratio remained above the industry's EV/SALES ratio of 3.74 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 Q4 Earnings Miss Estimates, Revenues Down Y/Y

OGE Energy's fourth-quarter 2019 earnings of 18 cents per share missed the Zacks Consensus Estimate of 29 cents by 38%. Moreover, the reported figure plunged 33.3% from 27 cents registered in the year-ago quarter. The downturn can be attributed to the asset impairment at Enable Midstream.

For 2019, the company reported earnings of \$2.16 per share, which improved 1.9% from \$2.12 registered in the prior year.

Quarter Ending **12/2019**

Report Date	Feb 26, 2020
Sales Surprise	NA
EPS Surprise	-37.93%
Quarterly EPS	0.18
Annual EPS (TTM)	2.17

Revenues

OGE Energy's operating revenues of \$472.5 million dropped 7.7% from the prior-year quarter's \$511.8 million. The dip in revenues was primarily a result of lower revenues from contracts.

For 2019, the company generated operating revenues of \$2,231.6 million, which also declined up 1.7% from the prior-year figure of \$2,270.3 million.

Operational Highlights

Total sales in the reported quarter amounted to 6.7 million megawatt-hours (MWh), compared to 6.8 million MWh in the prior-year quarter. Meanwhile, the company's customer count inched up approximately 1% to 857,754.

Cost of sales summed \$161.6 million during the fourth quarter compared with \$228.9 million in the prior-year quarter.

Total operating expenses rose 7% year over year to \$240.6 million on account of higher operation and maintenance expenses, depreciation and amortization expenses as well as higher taxes (other than income).

The company's operating income surged 21.2% in the fourth quarter to \$70.3 million from the year-ago quarter's \$58 million.

Interest expenses totaled \$37.8 million in the fourth quarter, in line with the year ago quarter's figure.

Other Highlights of the Release

OGE Energy reported net income of \$433.6 million in 2019, down from the prior-year figure of \$425.5 million.

OG&E: The segment's net income rose 6.7% to \$350 million in 2019, from \$328 million in 2018.

Natural Gas Midstream Operations: The segment posted net income of \$81 million in 2019, compared with \$109 million in the prior year.

2020 Guidance

OGE Energy expects its earnings for 2020 to lie in the range of \$2.19-\$2.31 per share. The Zacks Consensus Estimate for 2020 earnings is pegged at \$2.28, near the high end of the company's guided range.

Recent News

On **Feb 25, 2020**, Oklahoma Gas and Electric, a subsidiary of Oklahoma City-based OGE Energy Corp., announced today that it will expand its renewable energy portfolio with the construction of two, 5-megawatt (MW) universal solar energy centers in southeast Oklahoma. The company-owned projects will help meet the renewable energy needs of the Chickasaw Nation and Choctaw Nation.

Valuation

OGE Energy's shares are down 28.1% in the year to date period and down 24.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 8.2% and 11.6% in the year to date period, respectively. Over the past year, the Zacks sub-industry is up 0.7%, while the sector is down 16.4%.

The S&P 500 index is down 13.7% in the year to date period and 4.6% in the past year.

The stock is currently trading at 14.2X of forward 12-month earnings, which compares to 13.4X for the Zacks sub-industry, 12.5X for the Zacks sector and 18.1X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.2X and as low as 12.1X, with a 5-year median of 17.5X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$34 price target reflects 15X 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	14.15	13.4	12.48	18.1
	5-Year High	20.18	15.53	15.39	19.34
	5-Year Low	12.05	11.12	11.38	15.19
	5-Year Median	17.46	13.23	13.82	17.45
P/S F12M	Current	2.65	2.17	2.65	3.07
	5-Year High	3.62	2.45	3.29	3.44
	5-Year Low	1.87	1.54	1.75	2.54
	5-Year Median	2.9	1.88	2.03	3.01
EV/EBITDA TTM	Current	11.3	12.29	16.87	10.17
	5-Year High	18.82	13.59	19.48	12.87
	5-Year Low	9.2	7.81	10.61	8.27
	5-Year Median	12.21	10.21	13.24	10.78

As of 04/13/2020

Industry Analysis Zacks Industry Rank: Top 29% (73 out of 253)



Top Peers

Hawaiian Electric Industries, Inc. (HE)	Outperform
Pacific Gas & Electric Co. (PCG)	Outperform
IDACORP, Inc. (IDA)	Neutral
Alliant Energy Corporation (LNT)	Neutral
NiSource, Inc (NI)	Neutral
NRG Energy, Inc. (NRG)	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	D	A
Market Cap	6.40 B	7.42 B	19.08 B	12.58 B	9.83 B	7.51 B
# of Analysts	2	2	14	2	4	2
Dividend Yield	4.85%	3.23%	2.19%	2.96%	3.27%	4.00%
Value Score	C	-	-	D	D	A
Cash/Price	0.00	0.05	0.06	0.00	0.01	0.05
EV/EBITDA	9.90	9.74	11.58	12.39	11.43	7.62
PEG Ratio	3.27	3.72	2.06	3.82	3.95	0.13
Price/Book (P/B)	1.55	1.48	2.58	2.37	1.88	4.55
Price/Cash Flow (P/CF)	8.12	7.87	10.19	10.90	7.87	4.69
P/E (F1)	15.03	17.61	17.15	21.02	19.30	5.44
Price/Sales (P/S)	2.87	1.89	2.07	3.45	1.89	0.76
Earnings Yield	6.85%	5.62%	5.67%	4.76%	5.17%	18.38%
Debt/Equity	0.77	1.06	0.70	1.06	1.54	3.79
Cash Flow (\$/share)	3.94	4.27	7.01	4.70	3.27	6.39
Growth Score	F	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	9.17%	4.77%	10.92%	6.44%	-1.23%	86.28%
Proj. EPS Growth (F1/F0)	1.39%	3.31%	-1.91%	5.63%	0.95%	39.27%
Curr. Cash Flow Growth	5.55%	3.60%	5.93%	10.43%	14.00%	19.04%
Hist. Cash Flow Growth (3-5 yrs)	3.09%	5.68%	8.55%	6.17%	3.26%	-2.48%
Current Ratio	0.65	0.83	1.24	0.43	0.49	1.31
Debt/Capital	43.56%	51.32%	42.36%	50.58%	56.75%	79.18%
Net Margin	19.43%	10.79%	11.64%	15.56%	7.37%	45.19%
Return on Equity	10.64%	9.86%	16.74%	11.52%	10.13%	-120.17%
Sales/Assets	0.20	0.23	0.54	0.22	0.23	0.96
Proj. Sales Growth (F1/F0)	0.00%	0.00%	0.45%	0.00%	5.33%	-3.76%
Momentum Score	C	-	-	B	B	C
Daily Price Chg	-1.69%	-2.36%	-2.62%	-3.50%	-3.27%	-2.54%
1 Week Price Chg	22.35%	13.76%	16.01%	17.70%	18.19%	17.36%
4 Week Price Chg	4.41%	11.09%	14.48%	7.82%	22.78%	20.45%
12 Week Price Chg	-29.95%	-15.28%	-21.69%	-10.29%	-11.47%	-22.21%
52 Week Price Chg	-24.24%	-8.11%	-14.14%	9.74%	-8.11%	-29.11%
20 Day Average Volume	2,231,849	740,220	3,634,618	2,271,726	3,825,788	3,965,940
(F1) EPS Est 1 week change	-1.57%	0.00%	0.00%	0.00%	-0.37%	0.00%
(F1) EPS Est 4 week change	-2.01%	-0.09%	-5.74%	0.00%	-0.93%	0.00%
(F1) EPS Est 12 week change	-4.78%	-0.49%	-8.41%	0.00%	-2.91%	-2.73%
(Q1) EPS Est Mthly Chg	NA%	0.00%	-10.28%	NA	-25.00%	0.00%

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	F
Momentum Score	C
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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