

OGE Energy Corp.(OGE)

\$32.30 (As of 07/21/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/17/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: C

Summary

OGE Energy is the largest electric utility in Oklahoma. The company'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 and provide seamless services to its customers. OGE Energy plans to spend around \$3.51 billion between 2020 and 2024. However, its unfavorable financial ratios might have caused investors to lose confidence in this stock's credibility. The company's shares underperformed its industry in the past year. Decreased demand resulting from the COVID-19 pandemic caused extreme volatility in oil and natural gas commodity prices, which affected Enable Midstream. This, in turn, resulted in OGE Energy incurring an impairment charge of \$780 million.

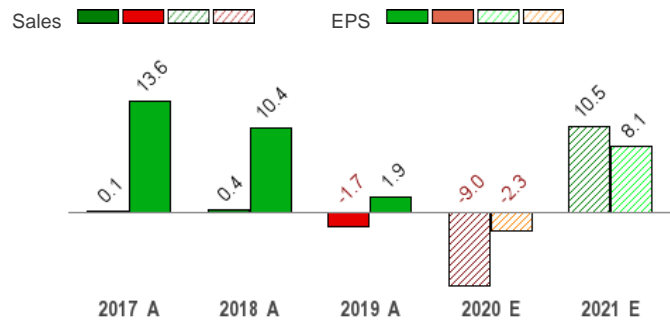
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$46.43 - \$23.01
20 Day Average Volume (sh)	1,369,714
Market Cap	\$6.5 B
YTD Price Change	-27.4%
Beta	0.74
Dividend / Div Yld	\$1.55 / 4.8%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 36% (161 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	27.8%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/06/2020
Earnings ESP	0.0%
P/E TTM	15.0
P/E F1	15.3
PEG F1	3.3
P/S TTM	3.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,245 E
2020	431 A				2,031 E
2019	490 A	514 A	755 A	473 A	2,232 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.28 E
2020	\$0.23 A	\$0.55 E			\$2.11 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.

The data in the charts and tables, except sales and EPS estimates, is as of 07/21/2020. The reports text and the analyst-provided sales and EPS estimates are as of 07/22/2020.

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. With about 7,122 megawatts of capacity, the company's generation portfolio represents a balanced approach to generating electricity through a diversity of fuel types—50 percent natural gas, 39% coal, and 11% renewable energy.

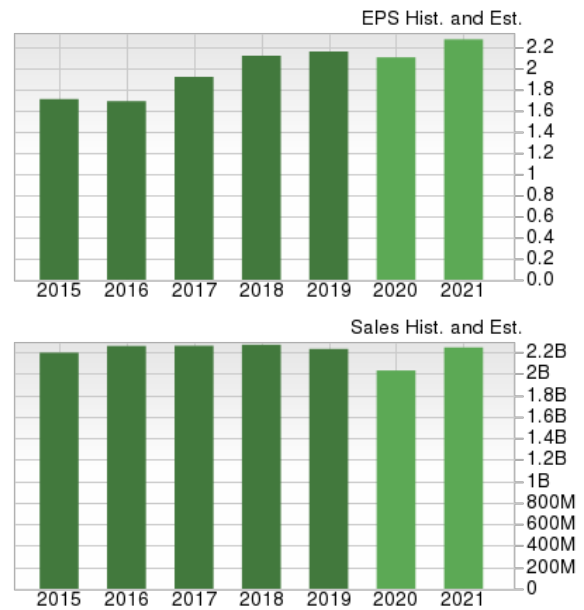
On May 1, 2013, the company completed the formation of a midstream partnership, which included OGE Energy Corp., CenterPoint Energy and Arclight. The partnership was subsequently named Enable Midstream Partners, LP.

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.

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.

▲ In February 2020, OGE Energy announced its grid enhancement plan, under which it aims to invest \$800 million over five years. The plan focuses on the installation of new technology, equipment, and communication systems that promote a self-healing grid, thereby making it more secure, reliable, resilient and efficient for the benefit of all customers. Initial construction of these projects began in April and is progressing according to plan. Moreover, in Arkansas, the company received a final order from the commission with rates taking effect on Apr 1, which will allow a revenue increase of \$5.2 million. OGE Energy has begun work on the next round of grid enhancements on its Arkansas circuit. Such initiatives along with positive rate review outcomes can be expected to boost OGE Energy's growth trajectory.

▲ OG&E's current business strategy has reduced carbon dioxide emissions by over 40% compared to 2005 levels. During the same period, emissions of ozone-forming nitrogen oxide (NOx) have been reduced by approximately 75% and emissions of sulfur dioxide (SO2) have been reduced by approximately 90%. Going ahead, OG&E expects to further reduce carbon dioxide emissions to 50% of 2005 levels by 2030. To achieve this target, OG&E has converted two coal-fired generating units at the Muskogee Station to natural gas among other measures. Moreover, its deployment of Smart Grid technology helps to reduce peak load demand.

OG&E is also deploying more renewable energy sources that do not emit greenhouse gases. Notably, its service territory borders one of the nation's best wind resource areas. The Southwest Power Pool (SPP) has authorized the construction of transmission lines capable of bringing renewable energy out of the wind resource areas in western Oklahoma, the Texas Panhandle and western Kansas to load centers by planning for more transmission to be built in the area. In addition to increasing overall system reliability, these new transmission resources should provide greater access to additional wind resources, which are currently constrained due to existing transmission delivery limitations.

Reasons To Sell:

- ▼ OGE Energy's cash and cash equivalents were \$145.9 million at the end of first-quarter 2020, while its long-term debt was \$3,196 million as of Mar 31, 2020. Its current debt was \$375 million at the end of first quarter. Therefore, both its long-term debt as well as current debt remained higher than its cash reserve. This reflects the fact that the company does not hold a very strong solvency position, which is further evident from the sequential deterioration in its financial ratios. Evidently, the company's first-quarter 2020 interest coverage was negative.

Unfavorable financial ratios indicates poor the stock's solvency position. Also COVID-19 led volatility in oil and natural gas pricing has been hurting the company

Additionally, the company's debt-to-capital ratio of 0.50 as of Mar 31, 2020 increased sequentially from 0.44 and was also the highest in the last four quarters. Its current ratio of 0.61 at the end of first-quarter 2020 declined sequentially and was also the lowest in the past four quarters. Further, the fact that the current ratio came in less than 1 indicates that the company might not have sufficient capital in hand to pay off its debt. Such unfavorable financial ratios of OGE Energy might have caused investors to lose confidence in the stock, which was reflected in its price performance. Evidently, the company's shares have slumped 24.1% in the past year, underperforming its industry's decline of 6.8%.

- ▼ As of Mar 31, 2020, OGE Energy estimated that the fair value of its investment in Enable was below the book value and concluded that the decline in value was not temporary due to the severity of the decline. It is imperative to mention in this context that beginning March 2020, oil and natural gas commodity prices experienced extreme volatility, primarily attributable to decreased demand resulting from the COVID-19 pandemic as well as actions of the Organization of Petroleum Exporting Countries and other oil exporting nations. Since Enable Midstream operates in the oil and gas industry, the resultant impact of the aforementioned market volatility had a significant impact on it.

Accordingly, the company incurred an impairment charge of \$780 million on its investment in Enable during the first quarter. This impairment loss dragged down the company's first-quarter bottom line to a loss of \$2.46 per share. Given the uncertainty surrounding the pandemic and its adverse impact, the near-term outlook of the midstream oil and gas industry remains dim. This indicates no near-term material improvement in the impairment loss that OGE Energy incurred from the partnership, which may further impact its operating results.

- ▼ The stock's current 12-month trailing EV/SALES ratio of 4.2 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 3.55 over the past year. This reflects that the company is overvalued compared with its industry
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Last Earnings Report

OGE Energy Q1 Earnings Top Estimates, Revenues Drop Y/Y

OGE Energy's first-quarter 2020 adjusted earnings of 23 cents per share surpassed the Zacks Consensus Estimate of 18 cents by 27.8%.

Including one-time items, the company reported GAAP loss of \$2.46 per share against earnings of 24 cents in the year-ago quarter.

The downside can be attributed to a \$780 million impairment charge related to Enable Midstream.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	NA
EPS Surprise	27.78%
Quarterly EPS	0.23
Annual EPS (TTM)	2.16

Revenues

OGE Energy's operating revenues of \$431.3 million dropped 12% from the prior-year quarter's \$490 million. The decline in revenues primarily resulted from lower contract revenues.

Operational Highlights

Total sales in the reported quarter amounted to 6.8 million megawatt-hours (MWh) compared with 7 million MWh in the prior-year quarter. Meanwhile, the company's customer count inched up approximately 0.8% to 859,628.

Cost of sales was \$135 million in the first quarter compared with \$212.6 million in the prior-year quarter.

Total operating expenses rose 5.4% year over year to \$240 million on account of higher operation and maintenance expenses as well as depreciation and amortization expenses.

The company's operating income grew 13.3% from the year-ago quarter's \$49.7 million to \$56.3 million.

Interest expenses totaled \$38.3 million in the first quarter, compared with \$34.6 million in the year-ago quarter.

Other Highlights of the Release

OGE Energy reported a net loss of \$491.8 million in first-quarter 2020, significantly down from the prior year's \$47.1 million.

OG&E: Segment net income remained flat year over year at \$20 million in the reported quarter, as the recovery of additional assets placed into service was partially offset by unfavorable weather.

Natural Gas Midstream Operations: The segment posted a net loss of \$568 million in first- quarter 2020 against earnings of \$22 million in the previous year quarter.

2020 Guidance

OGE Energy still expects its 2020 earnings in the range of \$2.19-\$2.31 per share. The Zacks Consensus Estimate for 2020 earnings is pegged at \$2.11, lower than the company provided guidance.

Valuation

OGE Energy's shares are down 27.4% in the year to date period and 24.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 13.3% and 13.8% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 6.8%, while the sector declined 9.7%.

The S&P 500 index is up 1.3% in the year to date period and 9.1% in the past year.

The stock is currently trading at 14.7X of forward 12-month earnings, which compares to 14X for the Zacks sub-industry, 13 for the Zacks sector and 23X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.2X and as low as 10.5X, with a 5-year median of 17.4X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$34 price target reflects 15.5X 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	14.69	14	12.97	23.01
	5-Year High	20.18	15.53	15.32	23.01
	5-Year Low	10.5	11.12	11.4	15.25
	5-Year Median	17.44	13.23	13.78	17.52
P/S F12M	Current	2.65	2.3	2.7	3.51
	5-Year High	3.62	2.45	3.29	3.51
	5-Year Low	1.87	1.54	1.75	2.53
	5-Year Median	2.94	1.9	2.06	3.02
EV/EBITDA TTM	Current	6.99	12.77	18.33	12.1
	5-Year High	18.82	13.6	20.87	12.86
	5-Year Low	6.18	7.81	10.59	8.25
	5-Year Median	12.21	10.4	13.79	10.88

As of 07/21/2020

Industry Analysis Zacks Industry Rank: Bottom 36% (161 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Hawaiian Electric Industries, Inc. (HE)	Neutral	3
IDACORP, Inc. (IDA)	Neutral	3
Alliant Energy Corporation (LNT)	Neutral	2
NiSource, Inc (NI)	Neutral	4
Pinnacle West Capital Corporation (PNW)	Neutral	3
Portland General Electric Company (POR)	Neutral	2
NRG Energy, Inc. (NRG)	Underperform	4
Pacific GasElectric Co. (PCG)	Underperform	5

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	OGE	X Industry	S&P 500	LNT	NI	NRG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	2	4	4
VGM Score	D	-	-	C	C	C
Market Cap	6.47 B	9.10 B	22.70 B	12.66 B	9.11 B	8.18 B
# of Analysts	2	2	14	2	4	3
Dividend Yield	4.80%	3.40%	1.81%	3.00%	3.53%	3.58%
Value Score	D	-	-	C	B	B
Cash/Price	0.02	0.06	0.06	0.00	0.02	0.10
EV/EBITDA	9.82	9.82	13.09	12.62	10.92	7.76
PEG Ratio	3.40	3.67	3.03	3.80	3.49	0.16
Price/Book (P/B)	1.82	1.62	3.12	2.30	1.87	5.47
Price/Cash Flow (P/CF)	8.20	8.08	12.23	10.79	7.29	5.25
P/E (F1)	15.62	18.14	22.36	21.05	18.64	6.49
Price/Sales (P/S)	2.98	1.87	2.42	3.54	1.84	0.85
Earnings Yield	6.53%	5.47%	4.31%	4.75%	5.38%	15.42%
Debt/Equity	0.90	1.02	0.75	1.06	1.61	4.09
Cash Flow (\$/share)	3.94	4.27	6.94	4.70	3.27	6.39
Growth Score	D	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	10.82%	5.04%	10.82%	7.03%	0.21%	49.73%
Proj. EPS Growth (F1/F0)	-2.55%	0.34%	-9.08%	4.33%	-3.22%	30.56%
Curr. Cash Flow Growth	5.55%	5.82%	5.51%	10.43%	14.00%	19.04%
Hist. Cash Flow Growth (3-5 yrs)	3.09%	6.02%	8.55%	6.17%	3.26%	-2.48%
Current Ratio	0.61	0.90	1.31	0.55	0.77	1.22
Debt/Capital	47.35%	50.53%	44.41%	50.57%	57.66%	80.35%
Net Margin	-4.85%	10.41%	10.54%	17.12%	4.85%	42.14%
Return on Equity	10.86%	9.18%	15.38%	12.03%	9.54%	-15,555.52%
Sales/Assets	0.20	0.22	0.54	0.22	0.22	0.88
Proj. Sales Growth (F1/F0)	0.00%	0.00%	-2.40%	0.00%	0.20%	-4.24%
Momentum Score	C	-	-	F	D	D
Daily Price Chg	2.90%	0.69%	0.86%	0.56%	0.25%	0.33%
1 Week Price Chg	4.59%	3.04%	3.82%	3.53%	3.27%	2.31%
4 Week Price Chg	5.62%	4.64%	3.42%	5.93%	4.20%	1.61%
12 Week Price Chg	-0.40%	1.16%	9.22%	0.16%	-11.32%	-0.53%
52 Week Price Chg	-24.13%	-13.31%	-3.38%	2.30%	-18.52%	-2.78%
20 Day Average Volume	1,369,714	351,868	2,069,527	1,433,386	3,193,251	2,149,018
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.13%
(F1) EPS Est 4 week change	0.00%	0.00%	0.13%	0.00%	-0.20%	-0.13%
(F1) EPS Est 12 week change	-3.88%	-1.09%	-3.85%	-0.82%	-3.95%	-7.26%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	NA	0.00%	0.00%

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.

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	D
Growth Score	D
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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