

PNM Resources (PNM)

\$38.62 (As of 05/25/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

PNM Resources' first-quarter 2020 earnings were in line with expectations. The company continues to invest in its utility assets to provide reliable services to customers. The company is focused on developing cost-effective power generation units to provide reliable and affordable power, while transitioning to a coal-free generating portfolio by 2040. Recently, it received NMPRC's nod on San Juan retirement. PNM Resources is also focused on meeting New Mexico's increasing renewable energy needs through reliable and clean power. However, shares of the company have underperformed its industry in the past 12 months. Risk of operating in nuclear plants as well as stringent environmental policies and regulations related to climate change are headwinds.

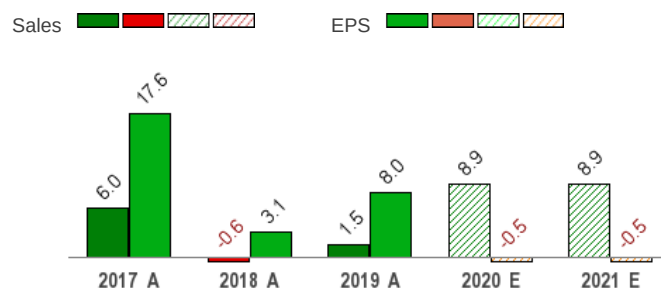
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$56.14 - \$27.08
20 Day Average Volume (sh)	686,248
Market Cap	\$3.1 B
YTD Price Change	-24.0%
Beta	0.59
Dividend / Div Yld	\$1.23 / 3.2%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 28% (70 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.4%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	2.8%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	18.2
P/E F1	18.0
PEG F1	3.3
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,729 E
2020	334 A				1,588 E
2019	350 A	330 A	434 A	408 A	1,458 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.14 E
2020	\$0.18 A				\$2.15 E
2019	\$0.13 A	\$0.37 A	\$1.29 A	\$0.28 A	\$2.16 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 05/25/2020. The reports text is as of 05/26/2020.

Overview

Albuquerque, NM-based PNM Resources was founded in 1917. The company through its subsidiaries is engaged in the distribution of energy and energy-related businesses in the United States. It operates through two segments — **Public Service Company of New Mexico (PNM)** and **Texas-New Mexico Power Company (TNMP)**.

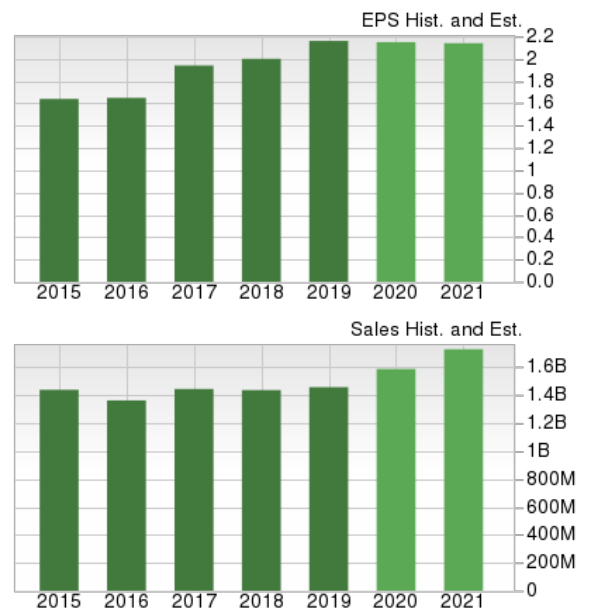
The PNM segment includes the retail electric utility operations of the company. PNM provides integrated electricity services that include the generation, transmission and distribution of electricity for retail electric customers in New Mexico. The segment is also engaged in generation and sale of electricity into the wholesale market as well as providing transmission services to third parties. It generates electricity using coal, natural gas and oil, nuclear fuel, solar, wind as well as geothermal energy sources.

As of Dec 31, 2019, PNM owned or jointly owned 3,206 miles of electric transmission lines, 6,071 miles of distribution overhead lines, 5,934 miles of underground distribution lines (excluding street lighting) and 255 substations. Total net generation capacity of facilities owned or leased by PNM was 2,152 MW.

TNMP is a regulated utility operating segment, which provides transmission and distribution services in Texas. It also owns and leases vehicles, service facilities as well as office locations throughout its service territory. As of Dec 31, 2019, TNMP owned 981 miles of overhead electric transmission lines, 7,236 miles of overhead distribution lines, 1,324 miles of underground distribution lines and 125 substations.

In 2019, the PNM and TNMP segment contributed 75% and 25% to total revenues, respectively.

The **Corporate and Other** segment includes PNMR holding company activities, primarily related to corporate level debt and PNMR Services Company.



Reasons To Buy:

- ▲ PNM Resources continues to invest substantially in its utility assets to provide reliable services to its customers. It plans to invest \$3.3 billion through 2020 to 2023. These investments lead to 8.9% rate base growth. The company also expects 5-6% earnings growth rate in the same time frame.

The company's strong earnings will enable management to reward its shareholders. The board of directors aims for a 5-6% growth in dividend rate over the 2020-2023 time period in-line with earnings growth. The company is targeting a long-term dividend payout ratio of 50% to 60%.

Long-term investment plans, phased exit from coal based generation assets, initiatives to provide reliable and affordable clean power will boost the company's performance.

- ▲ In New Mexico, the company received approvals from both FERC and the New Mexico Public Regulation Commission to acquire the Western Spirit Transmission Line in 2021. The transmission line will bring 800 megawatt (MW) new wind power to the existing grid in the US desert southwest state. It is expected to reflect a return of 8-9% for Western Spirit investment recovered through incremental rates in 2021 to 2023.

In April 2020, the company received approval for the abandonment and securitization of the San Juan Generating Station from New Mexico Public Regulation Commission (NMPRC). The company is also focused on the expansion of PNM transmission grid to integrate renewable resources and battery storage.

- ▲ Along with power generation of its own, the company purchases power under long-term power purchase agreements (PPAs). To serve New Mexico retail customers, including a data center located in service territory, PNM has agreements to purchase renewable energy and Renewable Energy Certificates. As of Dec 31, 2019, under these agreements 356 MW, 80 MW, and 15 MW renewable energies are produced from wind, solar-PV, and geothermal facilities, respectively, with expiration dates beginning in December 2034 through December 2046.

- ▲ PNM Resources has a long-standing expertise in fulfilling environmental regulations. The company is focused to develop cost effective power generation units to provide reliable and affordable power. PNM Resource is focused on exiting from its coal-fired generation by 2031 and to have an emissions-free generating portfolio by 2040 to bring cleaner energy sources to its production portfolio. In sync with the same, the company will target an early exit from the Four Corners Power Plant.

Notably, utility bills for PNM customers are below the national and regional averages. Reliability of its services and lower utility bills compared with peers will definitely provide financially distressed customers some support amid the coronavirus crisis.

- ▲ The unprecedented economic crisis calls for enough liquidity to meet the near term obligations. PNM Resources through its multiyear revolving credit facilities, cash balances and the forward equity ensured \$1.2 billion liquidity, which is enough to meet short-term obligations and fund capital investments. Its long-term debt at the end of first-quarter 2020 was \$2,564 million versus \$2,623 million at the end of fourth-quarter 2019. The debt to capital at the end of the quarter was 64.8% compared with 64.2% at the end of fourth quarter 2019, as the company lowered equity mix in total capital.

Its times interest earned ratio is pegged at 1.3 in the first quarter of 2020, lower than 1.6 in the fourth quarter of 2019. Even though the ratio dropped sequentially, a times interest earned ratio more than 1 indicates that the company has more than enough financial flexibility to meet its debt obligations.

Reasons To Sell:

- ▼ In the past 12 months, PNM Resources' shares have lost 18.9% compared with the industry's loss of 7.3%. After retiring coal-fired plants, the company is investing significantly to replace generating capacities. Higher expenditures are exerting pressure on rates. Meanwhile, energy-efficiency initiatives and modernization are denting customer usage. These factors are likely to make a negative impact on the company's operations and cash flows.
- ▼ The company has a 10.2% undivided interest in Palo Verde Nuclear Generating Station (PVNGS). PVNGS represents 14.6% of PNM's generating capacity as of Dec 31, 2019 and is subject to environmental, health and financial risks. The United States Nuclear Regulatory Commission ("NRC") has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities.

Incidents at nuclear facilities of other operators, which have an impact on the industry, may lead the NRC to impose additional requirements and regulations on all facilities, including PVNGS. A major accident at a nuclear facility anywhere in the world can compel NRC to limit or prohibit the operation or licensing of any domestic nuclear unit and to promulgate new regulations that require significant capital expenditures and/or lead to higher operating costs.
- ▼ The company's utilities are subject to numerous federal, state and local environmental laws as well as regulations, including those related to climate change. These regulatory bodies may impose significant compliance costs as well as significantly limit or affect their operations and financial results. Environmental policies and regulations are persistent concerns for PNM Resources.

Risk of operating in nuclear plants and stringent environmental policies and regulations related to climate change remain headwinds for the company.

Last Earnings Report

PNM Resources' Q1 Earnings Meet Estimates, Revenues Down Y/Y

PNM Resources reported first-quarter 2020 earnings of 18 cents per share, which were in line with the Zacks Consensus Estimate. The bottom line surged 63.6% from the year-ago quarter's reported figure of 11 cents.

On a GAAP basis, the company incurred a loss of 19 cents per share against an earnings of 23 cents in the year-ago quarter.

Quarter Ending 03/2020

Report Date	Apr 13, 2020
Sales Surprise	NA
EPS Surprise	2.38%
Quarterly EPS	0.18
Annual EPS (TTM)	2.12

Total Revenues

Electric Operating revenues amounted to \$333.6 million in the first quarter, down 4.6% from \$349.6 million in year-ago quarter.

Highlights of the Release

Total operating expenses in the quarter under review amounted to \$285.8 million, down 8.6% from expenses of \$312.9 million in the year-ago quarter.

Operating income in the quarter under review was \$47.7 million, up 30% from \$36.7 million in 2018.

Total weather-normalized retail load inched up 1.1% year over year in March 2020 in the PNM segment. It is within the company's previously-projected range of 0.5-1.5%.

At TNMP, weather-normalized demand-based load increased 3.8% year over year in March 2020 and weather-normalized volumetric load increased 3.7% in March 2020 on a year-over-year basis,

In April, the New Mexico Public Regulation Commission approved its application for abandonment and securitization of the San Juan Generating Station.

Public Service Company of New Mexico announced that it will defer its general rate review planned for the second quarter of 2020 in response to the COVID-19 crisis.

Guidance

The company reaffirmed its 2020 consolidated earnings per share guidance in the range of \$2.16-\$2.26, whose midpoint of \$2.21 is higher the Zacks Consensus Estimate of \$2.15.

Recent News

PNM Resource Receives NMPRC's Nod on San Juan Retirement - Apr 1, 2020

PNM Resource announced that its unit, PNM, received approval for the abandonment and securitization of the San Juan Generating Station from New Mexico Public Regulation Commission (NMPRC).

Under the Energy Transition Act (ETA), the company filed the application on Jul 1, 2019. The company will close the coal plant after the expiration of the participation and coal supply agreements in June 2022. PNM Resource is focused on exiting from its coal-fired generation by 2031 and bring cleaner energy sources to its production portfolio. In sync with the same, the company will target an early exit from the Four Corners Power Plant.

Valuation

PNM Resources shares are down 24.1% in the year to date period, and 18.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 14.9% and 17.1% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 7.3% and sector is down 21.7%, respectively.

The S&P 500 index is down 8.1% in the year to date period and up 4.5 % in the past year.

The stock is currently trading at 16.94X of forward 12 months earnings, which compares to 12.67X for the Zacks sub-industry, 11.96X for the Zacks sector and 21.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.96X and as low as 13.62X, with a 5-year median of 19.66X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$41 price target reflects 18.06X of forward 12 months earnings.

The table below shows summary valuation data for PNM

Valuation Multiples -PNM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.94	12.67	11.96	21.5
	5-Year High	25.96	15.53	15.32	21.5
	5-Year Low	13.62	11.12	11.4	15.23
	5-Year Median	19.66	13.23	13.78	17.49
P/S F12M	Current	2.01	2.01	2.55	3.33
	5-Year High	2.93	2.45	3.29	3.44
	5-Year Low	1.31	1.54	1.75	2.53
	5-Year Median	2.07	1.88	2.04	3.01
P/B TTM	Current	1.82	1.72	3.43	4.04
	5-Year High	2.55	1.94	4.05	4.56
	5-Year Low	1.08	1.21	2.01	2.83
	5-Year Median	1.72	1.57	2.61	3.65

As of 05/22/2020

Industry Analysis Zacks Industry Rank: Top 28% (70 out of 248)



Top Peers

Company (Ticker)	Rec	Rank
Allete, Inc. (ALE)	Neutral	3
Avista Corporation (AVA)	Neutral	3
Hawaiian Electric Industries, Inc. (HE)	Neutral	4
IDACORP, Inc. (IDA)	Neutral	3
NorthWestern Corporation (NWE)	Neutral	3
Pampa Energia S.A. (PAM)	Neutral	3
Portland General Electric Company (POR)	Neutral	3
TerraForm Power, Inc. (TERP)	Neutral	3

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	PNM	X Industry	S&P 500	ALE	AVA	IDA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	C	B	D
Market Cap	3.07 B	7.06 B	20.16 B	2.77 B	2.56 B	4.45 B
# of Analysts	1	3	14	1	3	1
Dividend Yield	3.19%	3.55%	2.11%	4.62%	4.26%	3.04%
Value Score	C	-	-	C	B	D
Cash/Price	0.01	0.07	0.07	0.03	0.01	0.03
EV/EBITDA	11.51	9.20	12.07	9.20	8.24	11.62
PEG Ratio	3.36	3.35	2.72	NA	3.65	7.36
Price/Book (P/B)	1.82	1.53	2.77	1.17	1.31	1.80
Price/Cash Flow (P/CF)	6.47	7.59	10.95	7.39	7.80	10.92
P/E (F1)	18.40	17.28	20.22	14.90	19.36	19.36
Price/Sales (P/S)	2.04	1.81	2.12	2.32	1.91	3.45
Earnings Yield	5.58%	5.71%	4.71%	6.71%	5.17%	5.16%
Debt/Equity	1.52	1.05	0.76	0.59	0.97	0.74
Cash Flow (\$/share)	5.95	4.15	6.96	7.24	4.88	8.07
Growth Score	B	-	-	C	C	D
Hist. EPS Growth (3-5 yrs)	6.38%	4.94%	10.87%	3.68%	-1.83%	3.82%
Proj. EPS Growth (F1/F0)	-0.46%	1.56%	-10.31%	0.00%	13.03%	-1.30%
Curr. Cash Flow Growth	8.83%	3.90%	5.46%	0.42%	-1.99%	2.71%
Hist. Cash Flow Growth (3-5 yrs)	7.55%	5.54%	8.55%	8.19%	3.30%	4.23%
Current Ratio	0.26	0.88	1.29	0.44	0.48	1.91
Debt/Capital	60.15%	50.78%	44.54%	37.10%	49.17%	42.62%
Net Margin	2.92%	10.48%	10.54%	15.18%	9.68%	17.69%
Return on Equity	9.98%	9.54%	16.27%	7.86%	6.75%	9.27%
Sales/Assets	0.21	0.22	0.54	0.22	0.22	0.20
Proj. Sales Growth (F1/F0)	0.00%	0.00%	-2.49%	0.87%	2.55%	0.00%
Momentum Score	B	-	-	D	D	B
Daily Price Chg	-0.26%	0.30%	0.12%	0.11%	-0.13%	1.57%
1 Week Price Chg	-5.44%	-3.27%	-4.56%	-11.08%	-9.77%	-7.69%
4 Week Price Chg	-5.12%	-2.22%	5.28%	-5.44%	-11.40%	-3.89%
12 Week Price Chg	-22.26%	-14.38%	-8.60%	-26.95%	-21.62%	-14.65%
52 Week Price Chg	-19.35%	-15.23%	-6.15%	-35.31%	-10.13%	-15.39%
20 Day Average Volume	686,248	479,061	2,645,192	473,333	401,989	278,896
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	2.79%	-0.15%	-3.80%	0.00%	-4.75%	-0.22%
(F1) EPS Est 12 week change	0.00%	-3.88%	-16.57%	0.00%	-1.80%	-0.22%
(Q1) EPS Est Mthly Chg	NA%	-1.01%	-7.64%	0.00%	-4.00%	NA

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	C
Growth Score	B
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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