

PNM Resources (PNM)

\$38.79 (As of 03/26/20)

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:D

Value: D

Growth: C

Momentum: D

Summary

PNM Resources' fourth-quarter earnings per share matched the expectations. The company continues to invest in its utility assets to provide reliable services to customers. It plans to invest \$3.8 billion through 2020 to 2024. 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. It is also focused on meeting New Mexico's increasing renewable energy needs through reliable and clean power. The BB2 transmission line approval will help in delivering low-cost wind energy to its customers. However, shares of the company have underperformed its industry in the past 12 months. Risk of operating in nuclear plants and stringent environmental policies and regulations related to climate change remain headwinds.

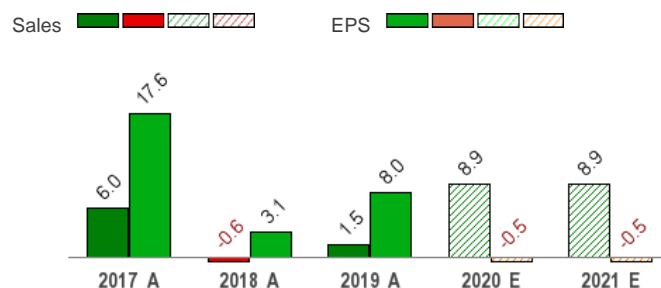
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$56.14 - \$27.08
20 Day Average Volume (sh)	1,029,817
Market Cap	\$3.1 B
YTD Price Change	-23.5%
Beta	0.38
Dividend / Div Yld	\$1.23 / 3.2%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 13% (34 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.4%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-2.7%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	18.7
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					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					\$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, except sales and EPS estimates, is as of 03/26/2020. The reports text and the analyst-provided sales and EPS estimates are as of 03/27/2020.

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)**.

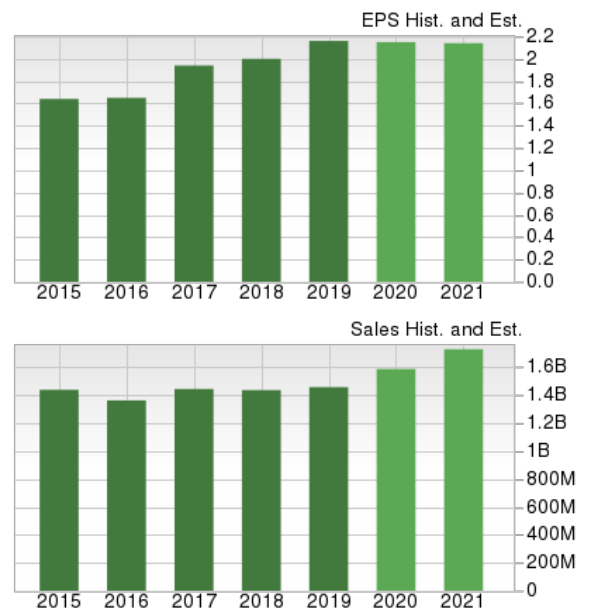
The PNM segment includes the retail electric utility operations of the company. PNM provides integrated electricity services that include the generation, transmission and distribution of electricity for retail electric customers in New Mexico. The segment is also engaged in generation and sale of electricity 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 \$3.8 billion through 2020 to 2024. It intends to spend \$811.7 million, \$992.4 million, \$694.6 million, \$771 million and 546.4 million in 2020, 2021, 2022, 2023 and 2024, respectively.

From 2017 to 2019, PNM and TNMP collectively invested \$1.5 billion in a utility plant that includes substations, power plants, nuclear fuel as well as transmission and distribution systems.

TNMP is allowed to recover its Transmission Cost of Service (TCOS) through a network transmission rate that is approved by the Public Utility Commission of Texas. TNMP made a TCOS filing in Jan 24, 2020, whose rates are expected to be implemented in March 2020.

- ▲ 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. The company is still on its path to exit the San Juan Generating Station and replace it with cleaner energy resources.

The company also received approval for the BB2 transmission line, which will help in delivering 140 MW of low-cost wind energy to customers. It plans to add 3,630 MW under the cumulative capacity addition plans through solar, wind and battery storage from 2023 to 2038 based on recommended San Juan replacement scenario.

- ▲ 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. It plans to exit all coal-fired generation by 2031 and to have an emissions-free generating portfolio by 2040. The company is preparing its system to meet New Mexico's increasing renewable energy requirements cost effectively.

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.

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.

Reasons To Sell:

- ▼ In the past 12 months, PNM Resources' shares have lost 18% compared with the industry's decline of 6.5%. 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.

Valuation

PNM Resources shares are down 23.5% in the year to date period, and 18% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 16% and 18.5% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 6.5% and sector is down 22%, respectively.

The S&P 500 index is down 18.3% in the year to date period and 7.5% in the past year.

The stock is currently trading at 17.62X of forward 12 months earnings, which compares to 12.11X for the Zacks sub-industry, 11.38X for the Zacks sector and 15.91X 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 19.65X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$41 price target reflects 18.63X 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	17.62	12.11	11.38	15.91
	5-Year High	25.96	15.53	15.4	19.34
	5-Year Low	13.62	11.12	11.38	15.18
	5-Year Median	19.65	13.23	13.83	17.42
P/S F12M	Current	2.03	2.21	2.43	2.85
	5-Year High	2.93	2.45	3.29	3.43
	5-Year Low	1.31	1.54	1.75	2.54
	5-Year Median	2.06	1.87	2.03	3
P/B TTM	Current	1.77	1.42	2.78	3.54
	5-Year High	2.55	1.87	4.04	4.56
	5-Year Low	1.08	1.15	2.02	2.85
	5-Year Median	1.7	1.56	2.59	3.63

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 13% (34 out of 253)



Top Peers

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

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	PNM Neutral	X Industry	S&P 500	ALE Neutral	AVA Neutral	IDA Neutral
VGM Score	D	-	-	D	D	D
Market Cap	3.09 B	7.08 B	18.50 B	3.22 B	2.71 B	4.45 B
# of Analysts	1	2	13	1	3	1
Dividend Yield	3.17%	3.42%	2.35%	3.96%	4.02%	3.04%
Value Score	D	-	-	C	D	D
Cash/Price	0.00	0.06	0.07	0.02	0.00	0.06
EV/EBITDA	11.70	9.78	11.16	10.21	8.52	11.29
PEG Ratio	3.21	3.44	1.74	NA	3.74	7.74
Price/Book (P/B)	1.77	1.38	2.44	1.38	1.38	1.80
Price/Cash Flow (P/CF)	6.52	7.38	9.87	8.61	8.25	10.94
P/E (F1)	17.61	16.47	15.29	17.36	20.16	19.35
Price/Sales (P/S)	2.03	1.89	1.93	2.60	2.01	3.30
Earnings Yield	5.54%	6.04%	6.47%	5.76%	4.97%	5.17%
Debt/Equity	1.51	1.06	0.70	0.60	0.98	0.70
Cash Flow (\$/share)	5.95	4.27	7.01	7.24	4.88	8.07
Growth Score	C	-	-	F	D	D
Hist. EPS Growth (3-5 yrs)	6.41%	4.77%	10.85%	3.90%	-1.71%	3.99%
Proj. EPS Growth (F1/F0)	-0.46%	3.97%	2.89%	0.00%	14.75%	-1.08%
Curr. Cash Flow Growth	8.83%	3.60%	5.93%	0.42%	-1.99%	2.71%
Hist. Cash Flow Growth (3-5 yrs)	7.55%	5.47%	8.55%	8.19%	3.30%	4.23%
Current Ratio	0.30	0.83	1.23	0.53	0.57	1.51
Debt/Capital	59.94%	50.58%	42.57%	37.49%	49.43%	41.28%
Net Margin	5.11%	10.38%	11.64%	14.96%	14.64%	17.30%
Return on Equity	9.68%	9.68%	16.74%	7.77%	6.07%	9.57%
Sales/Assets	0.21	0.24	0.54	0.23	0.23	0.21
Proj. Sales Growth (F1/F0)	0.00%	1.61%	2.37%	10.75%	2.30%	0.00%
Momentum Score	D	-	-	A	A	B
Daily Price Chg	13.12%	6.25%	6.21%	8.38%	8.08%	6.54%
1 Week Price Chg	-27.67%	-15.68%	-16.96%	-15.84%	-19.64%	-16.44%
4 Week Price Chg	-21.72%	-15.60%	-15.70%	-14.89%	-17.11%	-14.50%
12 Week Price Chg	-21.94%	-15.87%	-23.67%	-22.60%	-15.19%	-16.40%
52 Week Price Chg	-17.99%	-13.55%	-13.99%	-23.97%	-0.32%	-10.64%
20 Day Average Volume	1,029,817	840,784	4,286,768	508,340	877,134	443,191
(F1) EPS Est 1 week change	0.00%	0.00%	-0.15%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.71%	0.00%	-2.28%	0.00%	2.92%	0.00%
(F1) EPS Est 12 week change	-2.49%	0.00%	-3.22%	-4.52%	2.39%	0.00%
(Q1) EPS Est Mthly Chg	NA%	0.00%	-1.60%	NA	33.33%	NA

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	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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