

PNM Resources (PNM)

\$54.32 (As of 01/28/20)

Price Target (6-12 Months): **\$58.00**

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

Shares of PNM Resources have outperformed its industry in the past 12 months. The company continues to invest in its utility assets to provide reliable services to customers. It plans to invest \$3.9 billion between 2019 and 2023 to strengthen operations. It also expects rate-based compound annual growth of 9.6% for the same period. 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 2031. It is also focused on meeting New Mexico's increasing renewable energy needs through reliable and clean power. However, delay in recovering invested capital within time is concerning for the company. Risk of operating in nuclear plants as well as stringent environmental policies and regulations related to climate change are headwinds.

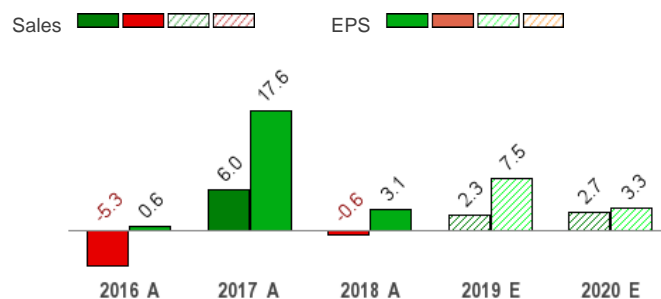
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$54.42 - \$41.14
20 Day Average Volume (sh)	701,886
Market Cap	\$4.3 B
YTD Price Change	7.1%
Beta	0.16
Dividend / Div Yld	\$1.23 / 2.1%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 36% (162 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.4%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.5%
Expected Report Date	02/26/2020
Earnings ESP	0.0%
P/E TTM	27.6
P/E F1	24.6
PEG F1	4.5
P/S TTM	3.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					1,510 E
2019	350 A	330 A	434 A		1,470 E
2018	318 A	352 A	423 A	344 A	1,437 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.15 E	\$0.47 E	\$1.29 E	\$0.31 E	\$2.22 E
2019	\$0.13 A	\$0.37 A	\$1.29 A	\$0.36 E	\$2.15 E
2018	\$0.21 A	\$0.53 A	\$1.08 A	\$0.18 A	\$2.00 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 01/28/2020. The reports text is as of 01/29/2020.

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)**.

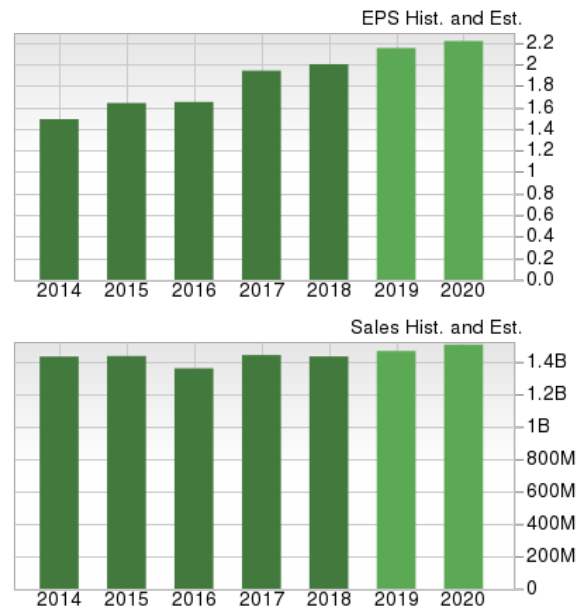
The PNM segment includes the retail electric utility operations of the company. PNM provides integrated electricity services that include the generation, transmission and distribution of electricity for retail electric customers in New Mexico. The segment is also engaged in generation and sale of electricity 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 December 31, 2018, PNM owned or jointly owned 3,206 miles of electric transmission lines, 6,067 miles of distribution overhead lines, 5,885 miles of underground distribution lines (excluding street lighting) and 255 substations. Total net generation capacity of facilities owned or leased by PNM was 2,102 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 December 31, 2018, TNMP owned 997 miles of overhead electric transmission lines, 7,151 miles of overhead distribution lines, 1,260 miles of underground distribution lines and 122 substations.

In 2018, the PNM and TNMP segment contributed 76% and 24% 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:

- ▲ In the past 12 months, PNM Resources' shares have rallied 32% compared with the industry's rise of 27.4%. The company continues to invest substantially in its utility assets to provide reliable services to its customers. It plans to invest \$3.9 billion from 2019 to 2023 and expects rate-based compound annual growth of 9.6% over the same period. The planned expenditure is \$300 million higher than the previous plan, primarily due to investment in system reliability projects at TNMP.

From 2016 to 2018, PNM and TNMP collectively invested \$1,501.7 million in a utility plant that includes substations, power plants, nuclear fuel as well as transmission and distribution systems.

TNMP filed its second key cost filing in 2019 for recovery of \$22 million of transmission investments across its system which was approved in September. These rates were implemented on September 19, and are expected to increase annual revenues by \$3.3 million.

- ▲ 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. Line will have the capacity to move 800 megawatt (MW) of wind energy investments across the state and enable future investment in renewables. The company is still on its path to exit the San Juan Generating Station and replace it with cleaner energy resources.

Moreover, New Mexico Public Regulation Commission approved 157 MW of PNM-owned solar-PV facilities. These facilities include 50 MW of PV facilities of PNM's 2018 renewable energy procurement plan which are expected to be operational by the end of 2019.

The company has received approval for a Power purchase agreement (PPA) through 2044 for the output of New Mexico Wind with current aggregate capacity of 204 MW. It has also received nod for PPA through 2035 for the output of Red Mesa Wind with 102 MW. These agreements will enable the company to replace the production of San Juan generation plant, which will be excluded from its portfolio.

- ▲ 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, while transitioning to a coal-free generating portfolio by 2031. The company is preparing its system to meet New Mexico's increasing renewable energy requirements cost effectively.

Long-term investment plans, abandonment of San Juan coal plant as well as focus on strategies to provide reliable and affordable clean power will boost the company's performance.

Reasons To Sell:

▼ PNM Resources' profitability depends on its capability to recover invested capital through regulated rates and earn fair return from its generating plants. Without timely recovery of invested capital, results of operations could be impacted negatively. 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.

Delay in recovering invested capital within time, risk of operating nuclear plants, stringent environmental policies and regulations are headwinds for the company.

▼ The company has a 10.2% undivided interest in Palo Verde Nuclear Generating Station (PVNGS). PVNGS represents 19.1% of the company's total owned and leased generating capacity 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.

Last Earnings Report

PNM Resources' Earnings Beat Estimates in Q3, Up Y/Y

PNM Resources reported third-quarter 2019 earnings of \$1.29 per share, beating the Zacks Consensus Estimate of \$1.26 by 2.4%. The bottom line increased 19.4% from year-ago quarter's figure of \$1.08. The uptick can be attributed to higher-than-normal temperatures that increased customer usage.

Total Revenues

The company generated total revenues of \$433.6 million in third-quarter 2019, up 2.6% from \$423 million in the year-ago quarter.

Highlights of the Release

Total expenses in the reported quarter amounted to \$293 million, down 0.7% from the year-ago quarter's expenses of \$295 million.

Operating income in the reported quarter was \$140.5 million, up 9.7% from operating income of \$128 million in the year-ago quarter.

Guidance

The company affirmed its 2019 consolidated earnings per share guidance in the range of \$2.05-\$2.11, whose midpoint \$2.08 is lower than Zacks Consensus Estimate of \$2.09.

Quarter Ending 09/2019

Report Date	Nov 01, 2019
Sales Surprise	NA
EPS Surprise	2.38%
Quarterly EPS	1.29
Annual EPS (TTM)	1.97

Recent News

PNM Resources to Issue 5.4M Equity to Repay Debts - Jan 7,2020

PNM Resources has priced its public offering of 5.375 million shares of common stock at \$47.21 per share, subject to certain adjustments, upon physical settlement of the forward sale agreements. The gross proceeds from the issue are expected to be \$260.7 million. The offering was upsized from the previously announced offering of 4.9-million shares of common stock. Closing of the offering is expected on or about Jan 10, 2020, subject to customary closing conditions.

PNM Resources Revises 2019 View and Hikes Dividend –Dec 18,2019

PNM Resources revised its 2019 guidance upwards and issued guidance for 2020. The board of directors announced a 6% hike in annual dividend rate increasing it to \$1.23 per share from \$1.16. The company intends to distribute 50-60% of annual ongoing earnings as dividends. The current annualized dividend yield of the company is 2.38% higher than the Zacks S&P 500 composite's 1.8%.

Valuation

PNM Resources shares are up 9.2% in the last six months period, and 32% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was up 14.2% and 10.7% in the last six months period, respectively. Over the past year, the Zacks sub-industry is up 27.4% and sector is up 7.3%, respectively.

The S&P 500 index is up 9.2% in the last six months period and 22.8% in the past year.

The stock is currently trading at 24.41X of forward 12 months earnings, which compares to 15.2X for the Zacks sub-industry, 14.08X for the Zacks sector and 18.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.96X and as low as 15.31X, with a 5-year median of 19.58X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$58 price target reflects 26.12X 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	24.41	15.2	14.08	18.62
	5-Year High	25.96	15.2	15.33	19.34
	5-Year Low	15.31	11.19	12.61	15.18
	5-Year Median	19.58	13.09	13.7	17.45
P/S F12M	Current	2.86	2.38	2.96	3.46
	5-Year High	2.86	2.38	3.26	3.46
	5-Year Low	1.31	1.5	1.7	2.54
	5-Year Median	2.05	1.83	1.95	3
P/B TTM	Current	2.49	1.94	4.2	4.43
	5-Year High	2.49	1.95	4.23	4.56
	5-Year Low	1.32	1.32	2.01	2.85
	5-Year Median	1.55	1.55	2.56	3.62

As of 01/28/2020

Industry Analysis Zacks Industry Rank: Bottom 36% (162 out of 255)



Top Peers

Allete, Inc. (ALE)	Neutral
Avista Corporation (AVA)	Neutral
IDACORP, Inc. (IDA)	Neutral
NorthWestern Corporation (NWE)	Neutral
Pampa Energia S.A. (PAM)	Neutral
Pattern Energy Group Inc. (PEGI)	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	B	-	-	F	D	F
Market Cap	4.33 B	9.17 B	23.90 B	4.30 B	3.33 B	5.63 B
# of Analysts	2	2	13	1	1	1
Dividend Yield	2.14%	2.67%	1.8%	2.82%	3.10%	2.40%
Value Score	C	-	-	D	C	D
Cash/Price	0.00	0.04	0.04	0.02	0.00	0.05
EV/EBITDA	13.46	11.69	14.05	13.56	11.61	14.12
PEG Ratio	4.49	4.09	2.00	NA	7.34	9.80
Price/Book (P/B)	2.49	1.77	3.28	1.95	1.75	2.28
Price/Cash Flow (P/CF)	9.93	9.57	13.57	11.48	9.89	14.22
P/E (F1)	24.58	20.69	18.76	23.18	25.77	24.49
Price/Sales (P/S)	2.97	2.43	2.63	3.11	2.46	4.12
Earnings Yield	4.07%	4.74%	5.33%	4.31%	3.88%	4.08%
Debt/Equity	1.48	1.07	0.72	0.64	1.02	0.74
Cash Flow (\$/share)	5.47	4.04	6.89	7.25	5.06	7.86
Growth Score	B	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	6.50%	4.40%	10.68%	4.40%	-1.12%	3.79%
Proj. EPS Growth (F1/F0)	3.02%	5.33%	7.63%	1.13%	2.65%	2.70%
Curr. Cash Flow Growth	2.88%	7.11%	13.04%	16.00%	7.95%	4.64%
Hist. Cash Flow Growth (3-5 yrs)	6.22%	4.94%	8.78%	10.78%	4.86%	4.60%
Current Ratio	0.36	0.80	1.24	0.61	0.62	2.08
Debt/Capital	59.57%	51.51%	42.99%	38.89%	50.49%	42.64%
Net Margin	-0.64%	9.76%	11.47%	14.23%	14.19%	15.52%
Return on Equity	9.18%	9.28%	17.21%	8.54%	5.96%	8.79%
Sales/Assets	0.21	0.24	0.54	0.27	0.23	0.21
Proj. Sales Growth (F1/F0)	3.21%	3.08%	4.10%	1.67%	2.28%	NA
Momentum Score	B	-	-	D	C	C
Daily Price Chg	1.10%	0.40%	0.90%	-0.02%	0.73%	-0.09%
1 Week Price Chg	4.01%	1.12%	-1.09%	0.45%	0.61%	2.68%
4 Week Price Chg	7.12%	4.40%	0.46%	2.51%	3.95%	4.58%
12 Week Price Chg	10.23%	7.77%	4.15%	-0.73%	5.26%	5.98%
52 Week Price Chg	29.49%	18.86%	18.27%	11.12%	21.28%	18.69%
20 Day Average Volume	701,886	286,054	1,730,811	193,761	304,130	185,016
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-4.52%	0.00%	0.00%
(F1) EPS Est 4 week change	0.45%	0.00%	0.00%	-4.52%	-0.51%	0.00%
(F1) EPS Est 12 week change	0.53%	-0.19%	-0.13%	-4.52%	0.00%	0.00%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	NA	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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