

Pinnacle West Capital(PNW)

\$74.12 (As of 05/01/20)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/09/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: B

Summary

Pinnacle West's subsidiary, Arizona Public Service, is the largest and longest-serving electric utility provider in Arizona. The company's long-term capital expenditure plan to strengthen infrastructure and investment in battery storage projects will make its renewable projects more efficient. Cost management is also making a positive impact on margins. Apart from expanding its utility infrastructure, the company continues to focus on enhancing its renewable capacity. It carries investment grade ratings of A3 and A- by Moody's and S&P, respectively. However, in the past 12 months, the company's shares have underperformed the industry. It is subject to comprehensive guidelines by federal, state and local regulatory agencies. Its operations are affected by fluctuations in the commodity price, weather and operational hazards.

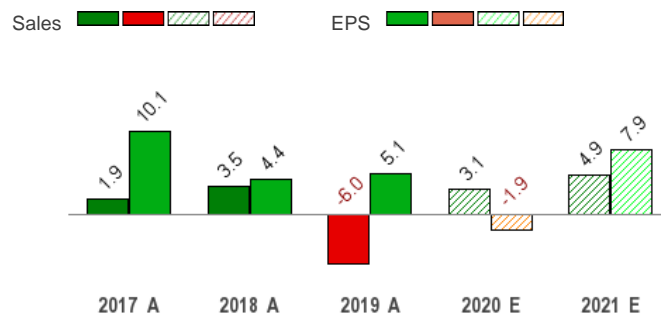
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$105.51 - \$60.05
20 Day Average Volume (sh)	989,818
Market Cap	\$8.3 B
YTD Price Change	-17.6%
Beta	0.37
Dividend / Div Yld	\$3.13 / 4.1%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 21% (53 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	21.3%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-2.9%
Expected Report Date	05/08/2020
Earnings ESP	0.0%
P/E TTM	15.5
P/E F1	15.8
PEG F1	3.2
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,757 E
2020	748 E	886 E	1,215 E	792 E	3,580 E
2019	741 A	870 A	1,191 A	670 A	3,471 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.25 E	\$1.43 E	\$2.61 E	\$0.52 E	\$5.05 E
2020	\$0.16 E	\$1.34 E	\$2.72 E	\$0.42 E	\$4.68 E
2019	\$0.16 A	\$1.28 A	\$2.77 A	\$0.57 A	\$4.77 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 05/01/2020. The reports text is as of 05/04/2020.

Overview

Phoenix, AZ-based Pinnacle West Capital Corporation was incorporated in 1985. The company provides electricity services (wholesale or retail) in the state of Arizona through its subsidiaries. The company is involved in the generation, transmission and distribution of electricity from coal, nuclear, gas, oil and solar.

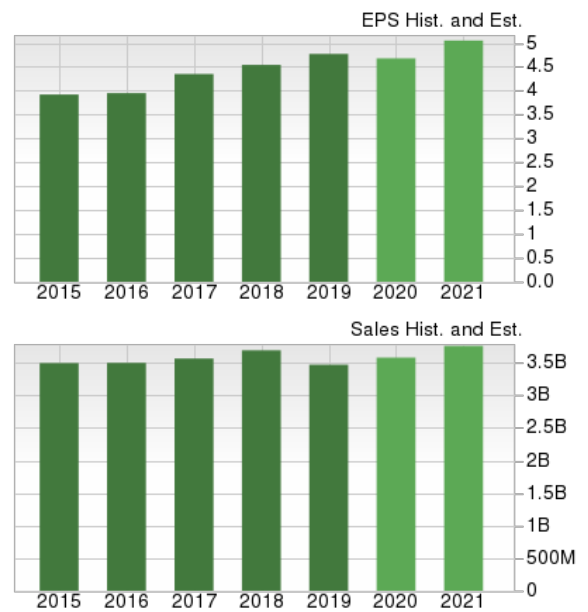
The company's only reportable segment is Regulated Electricity. The company derives 100% of its earnings from this segment. The Regulated Electricity segment consists of traditional regulated retail and wholesale electricity businesses and related activities. It includes electricity generation, transmission and distribution.

Through its wholly owned subsidiary, Arizona Public Service Company (APS), Pinnacle West transmits and distributes electricity to roughly 1.3 million residential, commercial and industrial customers. Excluding half of the Phoenix metropolitan area, the Tucson metropolitan area and Mohave County in northwestern Arizona, APS provides electric service to most of the counties in Arizona.

The company derives the majority of its revenues from APS. Pinnacle West's generation capacity owned or leased roughly 6,316 megawatts ("MW") of regulated generation and maintained a mix of both long-term and short-term power purchase agreements including purchase of renewable energy.

In 2019, the major energy sources supplied by the company were Nuclear (31.2%), followed by Gas, Oil and Other (25.5%) as well as Coal (22.7%). Meanwhile, Renewables and Purchased Power contributed 7.4% and 13.2% to the company's total power supplied, respectively.

Other subsidiaries of Pinnacle West are El Dorado Investment Company (El Dorado) and Bright Canyon Energy Corporation (BCE).



Reasons To Buy:

- ▲ Pinnacle West carries investment grade ratings of A3 and A- by Moody's and S&P, respectively. A higher rating denotes higher credit worthiness, thereby ensuring access to cheap financing options. The solid credit rating will allow the company to secure funds from the market at favorable conditions.

At the end of the fourth quarter of, the 2019 company's long-term debt was \$4,884 million compared with \$5,038 million at the end of third-quarter 2019. Moreover, its current debt to capital is 46.80% compared with the industry's average of 50.95%. However, the company's times interest earned ratio came in at 3.3 at the end of fourth quarter of 2019, down from 3.7 at the end of the third quarter. Even if the ratio is down sequentially, the ratio at the end of fourth quarter indicates that the firm will be able to meet debt obligations in the near future without any difficulties.

Through the implementation of Lean Sigma- a cost management mechanism, the company is trying to lower O&M expenses as well as enhance customer's and shareholder's value. As a result of cost-management initiatives, the company was able to reduce O&M in 2019, despite mildest Metro Phoenix cooling season in 10 years. Pinnacle West expects to continue with its cost-savings initiatives by reducing O&M by approximately \$20 million in 2020.

- ▲ Pinnacle West's subsidiary, Arizona Public Service, is the largest and longest-serving electric utility provider in Arizona. The state is witnessing a gradual economic recovery fueled by the rapidly developing Phoenix Metropolitan Area. The Metro Phoenix region continues to have job growth above the national average resulting in demand growth for utility services from commercial and residential sector. In 2019, many new companies moved into APS's service territory. The company successfully connected two new data centers to its power grid — including the Microsoft data center. Moreover, it has started preparations for adding six data center feeds in 2020.

In 2019, employment in Metro Phoenix increased 2.9% compared with 1.6% for the entire United States. Construction employment increased 9.6% and manufacturing employment rose 5.2%. Robust job growth rates continue to have a positive impact on the Metro Phoenix area's commercial and residential real estate market. APS witnessed retail customer base growth of 2.2% in the fourth quarter 2019. Based on the improving economic conditions in Arizona, the company projected its annual retail customer growth in the range of 1.5-2.5% for 2020 through 2022.

- ▲ Pinnacle West projects capital expenditure of \$1,331 million, \$1,650 million and \$1,725 million for 2020, 2021 and 2022, respectively. The company expects to invest heavily in infrastructure upgrades to serve its expanding customer base. Of the total planned capital expenditure, the company aims to invest \$1.45 billion and \$0.6 billion to upgrade and strengthen its distribution and transmission systems, respectively, in 2020-2022 time period. The ongoing investment and planned future investment will assist the company to make its systems clean, make its services affordable, reliable and developing innovative program to assist its customers.
- ▲ Apart from expanding its utility infrastructure, Pinnacle West continues to focus on enhancing its renewable capacity. As of Dec 31, 2019 Pinnacle West's renewable diverse portfolio of existing and planned renewable resources amounted to 1,923 MW, which includes solar, wind, geothermal, biomass and biogas. Of this portfolio, 1,828 MW are currently in operation and 95 MW are under construction. The company plans to invest \$1.66 billion in clean generation in the 2020-2022 time period.

The company announced its goal to deliver 100% clean carbon-free electricity to customers by 2050, which includes a near-term target of 65% clean energy by 2030 with 45% renewable energy. The company also committed to exit coal by 2031.

Pinnacle West's investments in clean power generation, transmission & distribution lines will help it to serve customers efficiently. Improving economic conditions is also driving demand.

Reasons To Sell:

- ▼ In the past 12 months, shares of Pinnacle West have lost 20.7% compared with the industry's 6.3% loss. The company's operations are exposed to fluctuations in commodity price and transportation cost of electricity and natural gas. Potential volatility in market prices of fuel, electricity and other renewable energy commodities could create operational risks for the company. In addition, deregulation or restructuring of the electric industry may result in increased competition for the company.
- ▼ Since the company's operations are fully regulated, it has to count upon regulatory authorities for the timely recovery of investments through rate relief. Moreover, the company has nuclear generation facilities which need to undergo scrupulous safety, security and other licensing requirements. The company will be affected by unplanned outage in nuclear plants stemming from safety reasons and unexpected production stoppage.
- ▼ The company, along with its subsidiaries, is subject to numerous environmental laws and regulations, and changes in, or liabilities under, existing or new laws or regulations. Cost of complying with new regulations could increase cost of operations while failure to meet the same might impact its business.
- ▼ Unfavorable weather condition can hurt the company's profits. Fluctuation in the weather is a risk. Overall adverse weather conditions in 2019 lowered gross margin by \$37 million or 25 cents per share.

Pinnacle West's growth could be deterred by fluctuations in commodity prices, stringent environmental regulations and unplanned outages in nuclear generation facilities.

Recent News

Pinnacle West Capital to Cut 100% Emission by 2050 – Jan 22, 2020

Pinnacle West Capital Corporation announced that its subsidiary Arizona Public Service Company ("APS") has set a target to deliver 100% clean electricity to customers by 2050. The company's nearer-term target will be to supply 65% of its total electricity from clean sources by 2030, with 45% being generated from renewable sources. Pinnacle West Capital operates through its wholly-owned subsidiary APS.

Valuation

Pinnacle West Capital shares are down 17.7% in the year to date period, and 20.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 15.1% and 17.4% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 6.3% and Zacks Utility sector is down 21.3%.

The S&P 500 index is down 12.1% in the year to date period and 3.7% in the past year.

The stock is currently trading at 15.43X of forward 12 months earnings, which compares to 12.45X for the Zacks sub-industry, 11.73X for the Zacks sector and 20.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.18X and as low as 12.79X, with a 5-year median of 18.19X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$78 price target reflects 16.38X of forward 12 months earnings.

The table below shows summary valuation data for PNW

Valuation Multiples - PNW					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.43	12.45	11.73	20.18
	5-Year High	21.18	15.53	15.32	20.18
	5-Year Low	12.79	11.12	11.35	15.19
	5-Year Median	18.19	13.23	13.79	17.44
P/S F12M	Current	2.29	2.02	2.5	3.19
	5-Year High	3.15	2.45	3.29	3.44
	5-Year Low	1.72	1.54	1.75	2.54
	5-Year Median	2.46	1.88	2.04	3.01
P/B TTM	Current	1.5	1.52	3.11	3.75
	5-Year High	2.1	1.94	4.05	4.55
	5-Year Low	1.27	1.21	2.01	2.84
	5-Year Median	1.76	1.56	2.6	3.64

As of 05/01/2020

Industry Analysis Zacks Industry Rank: Top 21% (53 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Pacific Gas & Electric Co. (PCG)	Outperform	3
Portland General Electric Company (POR)	Outperform	3
Ameren Corporation (AEE)	Neutral	3
The AES Corporation (AES)	Neutral	2
Entergy Corporation (ETR)	Neutral	3
Alliant Energy Corporation (LNT)	Neutral	3
NRG Energy, Inc. (NRG)	Neutral	3
OGE Energy Corporation (OGE)	Neutral	3

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	PNW	X Industry	S&P 500	NRG	OGE	PCG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	A	D	B
Market Cap	8.34 B	7.28 B	20.61 B	8.26 B	6.07 B	5.37 B
# of Analysts	3	3	14	2	2	2
Dividend Yield	4.22%	3.37%	2.11%	3.64%	5.11%	0.00%
Value Score	C	-	-	A	C	B
Cash/Price	0.00	0.05	0.06	0.05	0.00	0.28
EV/EBITDA	9.08	9.74	11.87	8.13	9.81	-0.84
PEG Ratio	3.12	3.58	2.47	0.14	4.11	1.00
Price/Book (P/B)	1.50	1.44	2.67	5.00	1.47	1.00
Price/Cash Flow (P/CF)	6.91	7.95	10.66	5.25	8.00	1.06
P/E (F1)	15.59	17.27	19.01	5.91	13.84	2.51
Price/Sales (P/S)	2.40	1.85	2.10	0.84	2.72	0.31
Earnings Yield	6.31%	5.66%	5.05%	16.89%	7.23%	39.74%
Debt/Equity	0.88	1.06	0.72	3.79	0.77	0.32
Cash Flow (\$/share)	11.14	4.27	7.01	6.39	3.94	10.06
Growth Score	D	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	6.10%	4.77%	10.88%	86.28%	9.17%	4.64%
Proj. EPS Growth (F1/F0)	-1.96%	1.56%	-7.32%	40.78%	1.39%	2.67%
Curr. Cash Flow Growth	-2.09%	3.66%	5.92%	19.04%	5.55%	3.97%
Hist. Cash Flow Growth (3-5 yrs)	6.02%	5.53%	8.55%	-2.48%	3.09%	5.38%
Current Ratio	0.50	0.83	1.23	1.31	0.65	1.33
Debt/Capital	46.80%	50.95%	43.84%	79.18%	43.56%	24.31%
Net Margin	15.51%	10.69%	11.08%	45.19%	19.43%	-44.64%
Return on Equity	9.80%	9.86%	16.44%	-120.17%	10.64%	21.88%
Sales/Assets	0.19	0.23	0.54	0.96	0.20	0.20
Proj. Sales Growth (F1/F0)	4.07%	0.00%	-1.42%	-4.27%	0.00%	2.02%
Momentum Score	B	-	-	B	B	A
Daily Price Chg	-1.99%	-1.99%	-2.39%	-3.20%	-3.05%	1.24%
1 Week Price Chg	-3.47%	-3.65%	-1.74%	3.92%	-1.39%	-7.01%
4 Week Price Chg	7.27%	6.90%	17.07%	20.66%	8.24%	28.50%
12 Week Price Chg	-21.43%	-18.11%	-18.53%	-11.37%	-31.49%	-36.82%
52 Week Price Chg	-17.28%	-8.90%	-9.82%	-15.26%	-23.46%	-49.24%
20 Day Average Volume	989,818	488,074	2,641,413	2,977,513	1,503,151	8,136,908
(F1) EPS Est 1 week change	-2.30%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.91%	-0.88%	-6.62%	1.09%	-2.01%	-1.59%
(F1) EPS Est 12 week change	-3.64%	-2.25%	-13.28%	-0.62%	-4.58%	-0.86%
(Q1) EPS Est Mthly Chg	2.60%	-2.02%	-11.97%	10.11%	NA	12.39%

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	D
Momentum Score	B
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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