

## Sempra Energy (SRE)

**\$130.60** (As of 03/10/20)

Price Target (6-12 Months): **\$138.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: B

## Summary

Sempra Energy ended fourth quarter of 2019 on a mixed note. While its earnings surpassed the Zacks Consensus Estimate, revenues missed the consensus mark. The company appears to be well-positioned for growth, given stable earnings from its utility subsidiaries. It continues with systematic investments in its infrastructure development projects and expects to make long-term investments of \$22.8 billion. Growing demand growth for LNG should benefit Sempra Energy. However, its operations are subject to risks associated with the breakdown or failure of equipment. Also, it bears a notable long-term debt and finance leases of \$6.31 billion at 2019 end. Such massive debt levels might hurt the company going ahead. Decrease in cash reserve on account of the Aliso Canyon gas leakage incident remain a cause of concern.

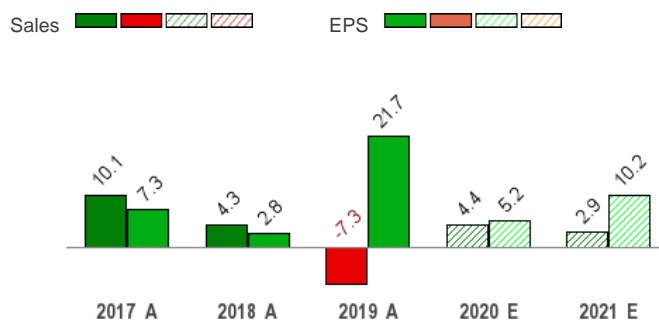
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$161.87 - \$122.18
20 Day Average Volume (sh)	2,071,518
Market Cap	\$38.2 B
YTD Price Change	-13.8%
Beta	0.57
Dividend / Div Yld	\$4.18 / 3.0%
Industry	<a href="#">Utility - Gas Distribution</a>
Zacks Industry Rank	Top 15% (37 out of 253)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.3%
Last Sales Surprise	-4.6%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	05/05/2020
Earnings ESP	-18.3%

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					11,630 E
2020					11,303 E
2019	2,898 A	2,230 A	2,758 A	2,943 A	10,829 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$7.86 E
2020	\$1.80 E	\$1.24 E	\$2.24 E	\$1.66 E	\$7.13 E
2019	\$1.92 A	\$1.10 A	\$1.50 A	\$1.55 A	\$6.78 A

\*Quarterly figures may not add up to annual.

P/E TTM	21.5
P/E F1	18.3
PEG F1	2.4
P/S TTM	3.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/10/2020. The reports text is as of 03/11/2020.

## Overview

Sempra Energy is a southern California-based energy services holding company involved in the sale, distribution, storage and transportation of electricity and natural gas. The company has recently reorganized its subsidiaries under two operating groups: Sempra Utilities and Sempra Infrastructure. The Sempra Utilities group includes the company's utility operations: Southern California Gas Co. (SoCalGas), San Diego Gas & Electric (SDG&E) and Sempra South American Utilities. The Sempra Infrastructure group includes the company's energy infrastructure development activities, investments and operations: Sempra Mexico, Sempra LNG & Midstream and Sempra Renewable.

**San Diego Gas & Electric (SDG&E):** Segment earnings amounted to \$767 million in 2019, compared with \$669 million in 2018.

**Southern California Gas Company (SoCalGas):** Segment earnings amounted to \$641 million in 2019, compared with \$400 million in 2018.

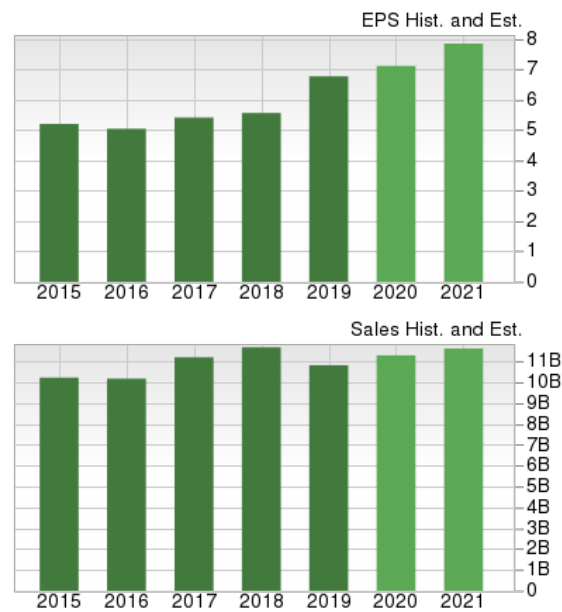
**Sempra Texas Utility:** Segment earnings amounted to \$528 million in 2019, compared with \$400 million in 2018..

**Sempra Mexico:** Segment earnings amounted to \$253 million in 2019, compared with \$237 million in 2018.

**Sempra Renewables:** Segment earnings amounted to \$59 million in 2019, compared with \$328 million in 2018.

**Sempra LNG:** The segment reported losses of \$6 million in 2019, compared with \$617 million in 2018.

**Parent and Other:** The segment reported losses of \$515 million in 2019 against earnings of \$620 million in 2018.



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## Reasons To Buy:

▲ Sempra Energy appears to be well positioned, given its stable earnings from utility subsidiaries. Moreover, the company continues with systematic investments in its infrastructure development projects. For the 2020-2024 period, the company expects to make investments of approximately \$22.8 billion including \$8.9 billion for SDG&E, \$9 billion for SoCalGas, \$0.7 billion for Sempra Texas Utility, \$1.9 billion for Sempra Mexico and \$2.3 billion for Sempra LNG. Through these investments, the company aims at vigorously modernizing its electric transmission lines and substation infrastructure.

Systematic investments in infrastructure development should bode well for Sempra Energy's growth. Also the company's progress in LNG terminal projects are appreciating

▲ As significant worldwide demand growth for LNG continues to rise, Sempra Energy is well positioned with strategically-located opportunities in North America. In LNG business, during 2019, the company made notable progress by putting Train 1 of Cameron LNG into service and starting production at Train 2. Sempra Energy is also engaged in advance commercial discussions with potential partners for its LNG development projects. In March 2020, the company finalized an engineering, procurement and construction (EPC) contract with Bechtel Corporation for its proposed Port Arthur LNG liquification project. The recent agreement will facilitate Sempra in making a final investment decision by the third quarter of 2020.

To this end, it is imperative to mention that the U.S. Energy Information Administration (EIA) expects U.S. LNG exports to continue to grow and average 6.5 Bcf/d in 2020 and 7.7 Bcf/d in 2021, as facilities gradually ramp up to full production. Sempra will certainly play an important role in the nation achieving this target, with the second and third trains of its Cameron LNG facility set to come into service this year. Moreover, in this regard, from 2020 through 2024, Sempra LNG and its joint venture with IEnova expect to make capital expenditures and investments of approximately \$2.4 billion.

▲ In an attempt to transform itself into North America's premier energy infrastructure company, toward the end of September 2019, the company signed an agreement to divest stake in its Peruvian businesses to China Yangtze Power International. Sempra Energy is expected to earn cash worth \$3.59 billion from this deal. Furthermore, in October, Sempra Energy signed an agreement to divest equity stake in its Chilean businesses to State Grid International Development Limited (SGID). Sempra Energy will receive \$2.23 billion in cash from the deal.

By divesting its non-core assets, the company aims to reinvest the proceeds into higher growth markets, namely California, Texas and Mexico, in the liquefied natural gas export markets. This, in turn, will enable Sempra Energy to focus on the delivery of cleaner and more secure forms of energy to its U.S. as well as overseas consumers. Notably, these decisions come as part of the company's Vision 2022 plan that includes a disciplined, three-phase execution of portfolio optimization and divestitures, for strengthening its focus on North American business model.

▲ Sempra Energy has consistently been paying dividends at increasing rates, courtesy of its solid cash flow from operations. Notably, its cash flow from operating activities came in at \$3,088 million at the end of 2019. Furthermore, the company hiked its dividend by 8% in February 2020. On average, Sempra has grown its dividend by more than 10% annually for the last decade, which is one of the highest dividend growth rates in the utility industry, per its management. Currently, the company sustains its annual dividend increase target at 8-9% over the next several years. Its efforts to maximize shareholder value through the payment of regular dividends will likely retain investors' interest in the stock.

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## Reasons To Sell:

- ▼ The Aliso Canyon gas leak is a massive leak from a natural gas well connected to the Aliso Canyon underground storage facility near Porter Ranch, Los Angeles, CA since Oct 23, 2015. Aliso Canyon is the second largest gas storage facility of its kind in the U.S. and belongs to the Southern California Gas Company, a unit of Sempra Energy. The facility represents 63% of the SoCalGas-owned natural gas storage capacity. On Jan 6, 2016, Governor Jerry Brown issued a state of emergency. SS25, the leaking well, was permanently sealed on Feb 18, 2016. As of Dec 31, 2019, the company witnessed \$200 million decrease in its cash reserve for Aliso Canyon incident.
- ▼ The current U.S. Administration indicated its intention to revise or replace international trade agreements, such as North American Free Trade Agreement (NAFTA). In November 2018, President Trump signed the United States, Mexico-Canada Agreement (USMCA), which, if approved by the legislatures of the U.S., Mexico and Canada, would replace NAFTA. U.S. and Mexico approved the USMCA in January 2020 and June 2019, respectively, but Canada is yet to give its approval. A shift in U.S. trade policies could materially affect Sempra's LNG development opportunities, as well as trade opportunities between Mexico and the United States.
- ▼ The company already bears a notable long-term debt and finance leases of \$6.31 billion as of Dec 31 30, 2019. Such massive debt levels can turn out to be a major headwind for the company going ahead. This is because investors try to avoid high debt burden stocks as they are more prone to bankruptcy in times of crisis.
- ▼ A comparative analysis of the company's forward 12-month Price/Sales ratio indicates a relatively gloomy picture that might be a cause for investors' concern. Consequently, the stock currently has a trailing 12-month Price/Sales ratio of 3.41. The level compares unfavorably when compared to its historical levels. Also, the company's Price/Sales ratio has been above the industry's Price/Sales ratio of 2.34 in the past year.

Possible shift in U.S. trade policies and several operational risks could hurt the company's performance in the future.

## Last Earnings Report

### Sempra Energy Beats on Q4 Earnings, Misses on Revenues

Sempra Energy fourth-quarter 2019 earnings per share (EPS) came in at \$1.55, which surpassed the Zacks Consensus Estimate of \$1.31 by 18.3%. However, the bottom line declined 48.8% from \$3.03 registered in the prior-year quarter.

The year-over-year downside can be attributed to absence of gain on sale of assets, which the company had witnessed in the year-ago comparable period.

For 2019, the company generated adjusted EPS of \$6.78, up from \$5.15 at the end of 2018. The full-year bottom line beat the Zacks Consensus Estimate of \$6.17 by 9.9%.

Quarter Ending **12/2019**

Report Date	Feb 27, 2020
Sales Surprise	-4.56%
EPS Surprise	18.32%
Quarterly EPS	1.55
Annual EPS (TTM)	6.07

### Total Revenues

In the quarter under review, total revenues of \$2,943 million increased 4.1% year over year on higher contributions from its Utilities (up 8.8%) business. The top line, however, missed the consensus mark of \$3,084 million by 4.6%.

For 2019, Sempra Energy recorded revenues of \$10.83 billion, up 7.2% from the prior year's figure. The full-year top line, however, missed the consensus mark of \$11.16 billion by 3%.

### Segment Update

**San Diego Gas & Electric (SDG&E):** Quarterly earnings amounted to \$185 million compared with the year-ago quarter's \$148 million.

**Southern California Gas Company (SoCalGas):** At this segment, quarterly earnings totaled \$204 million in the fourth quarter of 2019 compared with \$156 million registered in the prior-year quarter.

**Sempra Texas Utility:** Earnings at this segment came in at \$109 million in the reported quarter compared with \$88 million in the year-ago quarter.

**Sempra Mexico:** The segment recorded net earnings of \$39 million compared with \$76 million in the year-ago quarter.

**Sempra Renewables:** The segment did not record any earnings in the fourth quarter against earnings of \$382 million in the third quarter of 2018.

**Sempra LNG:** The segment reported loss of \$19 million against the year-ago quarter's earnings of \$147 million.

**Parent and Other:** Quarterly loss at this division narrowed to \$132 million from the year-ago quarter's loss of \$174 million.

### Financial Update

As of Dec 31, 2019, Sempra Energy's cash and cash equivalents totaled \$108 million compared with \$102 million as of Dec 31, 2018.

Long-term debt and finance leases amounted to \$20,785 million as of Dec 31, 2019 compared with \$20,903 million at 2018 end.

Cash flow from operating activities was \$3,088 million at the end of 2019, down from \$3,516 million at the end of 2018.

In the reported quarter, the company's total capital expenditures, investments and acquisitions were \$5,505 million compared with \$13,712 million in the fourth quarter of 2018.

### 2020 Guidance

Sempra Energy reiterated its earnings guidance for 2020. The company continues to expect earnings of \$6.70-\$7.50 per share. The Zacks Consensus Estimate for full-year earnings stands at \$7.10, in line with the midpoint of the projected view.

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## Valuation

Sempra Energy's shares are down 7.9% in the past six months period and up 8.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 19.1% and 2.3% in the past six months period, respectively. Over the past year, the Zacks sub-industry is down 12.3 % , whereas the sector is down 7.6%.

The S&P 500 index is down 3% in the past six months period and is up 4.4% in the past year.

The stock is currently trading at 18X of forward 12-month earnings, which compares to 16X for the Zacks sub-industry, 12.9X for the Zacks sector and 19.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.9X and as low as 16.4X, with a 5-year median of 20.4X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$138 price target reflects 18.9X forward 12-month earnings.

The table below shows summary valuation data for SRE

Valuation Multiples - SRE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	17.97	15.95	12.85	19.34
	5-Year High	24.92	23.03	15.36	15.18
	5-Year Low	16.4	15.95	12.58	17.42
	5-Year Median	20.37	20.39	13.77	16.58
P/S F 12M	Current	3.36	1.72	2.74	3.05
	5-Year High	4.02	2.3	3.31	3.44
	5-Year Low	1.72	1.01	1.76	2.54
	5-Year Median	2.49	1.66	2.03	3.01
P/B TTM	Current	1.89	3.82	3.45	4.4
	5-Year High	2.35	3.91	4.07	4.4
	5-Year Low	1.55	2.01	2.02	2.85
	5-Year Median	1.95	2.53	2.59	3.59

As of 03/10/2020

## Industry Analysis Zacks Industry Rank: Top 15% (37 out of 253)



## Top Peers

Atmos Energy Corporation (ATO)	Neutral
Consolidated Edison Inc (ED)	Neutral
NewJersey Resources Corporation (NJR)	Neutral
Northwest Natural Gas Company (NWN)	Neutral
ONE Gas, Inc. (OGS)	Neutral
ONEOK, Inc. (OKE)	Neutral
UGI Corporation (UGI)	Neutral
Southwest Gas Corporation (SWX)	Underperform

Industry Comparison Industry: Utility - Gas Distribution				Industry Peers		
	SRE Neutral	X Industry	S&P 500	ATO Neutral	OGS Neutral	OKE Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>D</b>	<b>D</b>	<b>A</b>
Market Cap	38.17 B	4.03 B	20.21 B	12.89 B	4.47 B	15.72 B
# of Analysts	5	2	13	4	4	9
Dividend Yield	2.96%	2.96%	2.18%	2.18%	2.55%	9.83%
<b>Value Score</b>	<b>C</b>	-	-	<b>D</b>	<b>C</b>	<b>B</b>
Cash/Price	0.00	0.01	0.05	0.01	0.00	0.00
EV/EBITDA	13.95	12.23	12.36	14.75	12.14	10.77
PEG Ratio	2.26	3.08	1.78	3.14	4.26	0.74
Price/Book (P/B)	1.89	1.78	2.77	2.10	2.09	2.52
Price/Cash Flow (P/CF)	10.45	10.35	11.04	13.66	12.15	8.95
P/E (F1)	17.33	17.74	16.09	22.44	23.41	10.29
Price/Sales (P/S)	3.52	1.56	2.17	4.45	2.70	1.55
Earnings Yield	5.46%	5.50%	6.20%	4.46%	4.27%	9.70%
Debt/Equity	1.06	0.95	0.70	0.71	0.60	2.01
Cash Flow (\$/share)	12.50	3.61	7.01	7.72	6.96	4.25
<b>Growth Score</b>	<b>F</b>	-	-	<b>D</b>	<b>C</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	3.89%	6.00%	10.85%	9.11%	12.30%	18.81%
Proj. EPS Growth (F1/F0)	5.10%	7.39%	6.14%	7.99%	2.92%	20.34%
Curr. Cash Flow Growth	12.92%	7.77%	6.09%	12.19%	10.48%	11.06%
Hist. Cash Flow Growth (3-5 yrs)	8.55%	7.61%	8.52%	11.14%	9.29%	22.18%
Current Ratio	0.36	0.78	1.24	0.96	0.58	0.73
Debt/Capital	48.80%	48.80%	42.57%	41.37%	37.65%	66.76%
Net Margin	19.97%	8.18%	11.69%	18.36%	11.30%	12.58%
Return on Equity	9.65%	9.05%	16.74%	9.25%	8.85%	20.27%
Sales/Assets	0.17	0.32	0.54	0.22	0.30	0.50
Proj. Sales Growth (F1/F0)	4.38%	4.89%	3.71%	12.00%	5.66%	19.12%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>B</b>	<b>C</b>	<b>B</b>
Daily Price Chg	2.22%	2.03%	4.87%	0.29%	1.54%	-0.18%
1 Week Price Chg	1.50%	3.88%	-0.67%	7.75%	7.29%	-8.26%
4 Week Price Chg	-17.63%	-11.67%	-15.65%	-11.67%	-10.07%	-49.92%
12 Week Price Chg	-13.00%	-9.63%	-13.60%	-2.96%	-9.63%	-48.16%
52 Week Price Chg	5.32%	-14.46%	-2.27%	3.97%	-4.66%	-43.03%
20 Day Average Volume	2,071,518	435,144	2,778,843	1,126,287	327,003	4,811,950
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.16%	0.00%	-0.84%
(F1) EPS Est 4 week change	0.37%	0.00%	-0.16%	0.16%	-0.28%	-2.44%
(F1) EPS Est 12 week change	1.26%	-1.03%	-0.57%	0.70%	-1.03%	-1.48%
(Q1) EPS Est Mthly Chg	-8.40%	0.00%	-0.49%	1.31%	0.00%	-4.65%

## 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	F
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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