



# Edison International (EIX)

Updated January 10<sup>th</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$58	<b>5 Year CAGR Estimate:</b>	7.1%	<b>Volatility Percentile:</b>	52.9%
<b>Fair Value Price:</b>	\$55	<b>5 Year Growth Estimate:</b>	4.0%	<b>Momentum Percentile:</b>	59.6%
<b>% Fair Value:</b>	105%	<b>5 Year Valuation Multiple Estimate:</b>	-1.1%	<b>Growth Percentile:</b>	21.1%
<b>Dividend Yield:</b>	4.2%	<b>5 Year Price Target</b>	\$67	<b>Valuation Percentile:</b>	32.3%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	25.4%

## Overview & Current Events

Edison International is a renewable energy company that is active in energy generation and distribution. Edison International also operates an energy services and a technologies business. The company was founded in 1987 and is headquartered in Rosemead, CA. Edison International has a market capitalization of \$19 billion.

Edison International reported its most recent quarterly results on October 30. During the third quarter of fiscal 2018 Edison International generated revenues of \$4.27 billion, which was 16% more than Edison's revenues during the previous year's third quarter. Edison has been able to grow its margins year-over-year, which allowed the company to earn \$740 million in operating income versus \$550 million during Q3 of 2017. Edison International's earnings-per-share totaled \$1.56 during the most recent quarter, which represents a growth rate of 8.3% compared to the prior year's level. Year-to-date, i.e. during Q1-Q3 of fiscal 2018, Edison International has generated \$9.65 billion in revenues, which is 6% more than during the same period in 2017. Earnings-per-share during the first three quarters of 2018 totaled \$3.21. Edison International's share price reacted very negatively to the wildfires in California during late 2018, which may have been caused or intensified by either Edison International's operations, or by those of other utilities in California, such as PG&E (PCG). It is not yet known whether Edison will be forced to make any payments, but this could put a lid on Edison's share price until the situation has been dissolved one way or another.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$3.68	\$3.24	\$3.35	\$3.23	\$4.55	\$3.78	\$4.33	\$4.15	\$3.94	\$4.51	<b>\$4.35</b>	<b>\$5.29</b>
<b>DPS</b>	\$1.23	\$1.25	\$1.27	\$1.29	\$1.31	\$1.37	\$1.48	\$1.73	\$1.98	\$2.23	<b>\$2.43</b>	<b>\$3.17</b>
<b>Shares</b>	326	326	326	326	326	326	326	326	327	327	<b>328</b>	<b>329</b>

Edison International remained highly profitable during the last financial crisis, as the company's earnings-per-share declined by just 12% between 2008 and 2009, and started to rise again during 2010. Edison International is thus not impacted by the strength of the economy to a significant degree. On the other hand, Edison did not generate strong growth since The Great Recession; its earnings-per-share rose by just 4.3% a year between 2010 and 2017.

Edison International's regulated utility business is a slow grower, which is typical for utilities, but the business is a very stable cash cow. Its non-regulated segments, such as renewable energy production via methods ranging from biomass to wind energy, has the potential to grow at a somewhat higher rate. Due to being non-regulated, this business can be more cyclical than the regulated utility operations. Edison has put a focus on renewable energy when it comes to energy production over the last decades. Among other moves, Edison has also sold coal power plants and shut down a nuclear power plant. This was, at least partially, based on heavy regulation in California, where Edison operates, as California no longer allows utilities to generate electric power from coal.

It is likely that Edison International will be able to grow its earnings-per-share at a low to mid-single digits rate going forward, relatively in line with the growth that the company has generated in the past. Edison International has grown its dividend annually throughout the last decade, with growth accelerating more recently.

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*



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## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	12.4	9.7	10.3	11.8	9.7	12.7	13.0	14.8	17.9	17.2	<b>13.3</b>	<b>12.6</b>
Avg. Yld.	2.7%	4.0%	3.7%	3.4%	3.0%	2.8%	2.6%	2.8%	2.8%	2.9%	<b>4.2%</b>	<b>4.4%</b>

Edison International's valuation was relatively low between 2008 and 2012, but its price-to-earnings ratio expanded starting in 2013. Overall, the median earnings multiple over the last decade is 12.6, which means that shares are trading slightly above the average valuation right now, despite the decline in the company's valuation during the last couple of months. Shares offer a dividend yield of 4.2% right here, which is roughly twice the broad market's yield.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	33.4%	38.5%	37.9%	39.9%	28.8%	36.2%	34.2%	41.7%	50.3%	49.4%	<b>55.9%</b>	<b>59.9%</b>

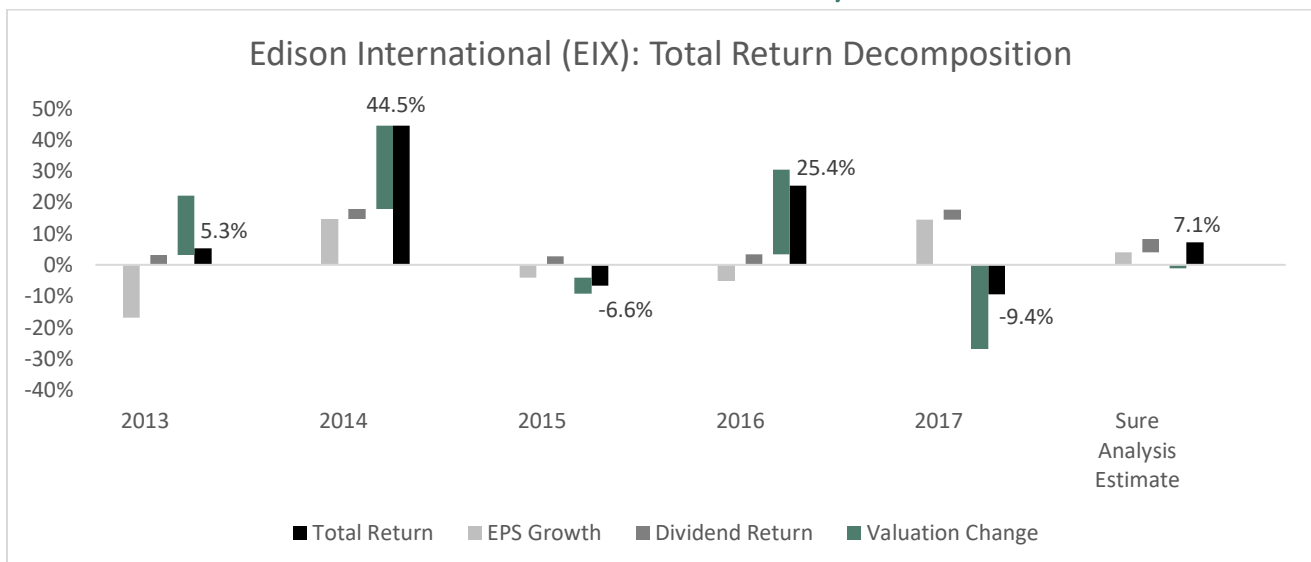
Edison International has raised its dividend very consistently over the last decade, and recently the dividend growth rate has accelerated towards 10%. This was only possible due to an increase in the company's dividend payout ratio, as its earnings-per-share did not grow as consistently. The dividend still looks relatively safe, though, as Edison International's operations are not overly cyclical. The dividend growth rate will likely slow down going forward.

Edison International is one of California's largest utilities, as the company serves about 13 million customers in the state. Due to the regulated nature of the utilities business, Edison International does not have to worry about significant competitive pressures. The company's operations have been very recession-resilient in the past, and this will likely remain the case going forward, as consumers need electricity no matter how well the economy is doing.

## Final Thoughts & Recommendation

Edison International is one of the largest utilities in California, and it operates non-regulated business as well. Its growth has been weak, but the company is recession resistant. Shares look slightly overvalued right here, and the California wildfire situation could lead to hefty fines for the company down the road. We thus rate Edison International's shares a hold for risk tolerant investors, and a sell for risk averse investors.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	14112	12361	9996	10588	11862	12581	13413	11524	11869	12320
<b>Gross Profit</b>	8120	8093	3095	3514	4115	4217	4671	4268	4474	4640
<b>Gross Margin</b>	57.5%	65.5%	31.0%	33.2%	34.7%	33.5%	34.8%	37.0%	37.7%	37.7%
<b>SG&amp;A Exp.</b>	N/A	N/A	7	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>D&amp;A Exp.</b>	1419	1640	1380	1427	1634	1696	1815	2005	2098	2115
<b>Operating Profit</b>	2519	2288	1814	2087	2257	2286	2629	2013	2113	2231
<b>Op. Margin</b>	17.9%	18.5%	18.1%	19.7%	19.0%	18.2%	19.6%	17.5%	17.8%	18.1%
<b>Net Profit</b>	1215	849	1256	-37	-183	915	1612	1020	1311	565
<b>Net Margin</b>	8.6%	6.9%	12.6%	-0.3%	-1.5%	7.3%	12.0%	8.9%	11.0%	4.6%
<b>Free Cash Flow</b>	-563	-1066	-303	-216	-815	-632	-658	284	-478	-241
<b>Income Tax</b>	596	-98	335	568	267	242	443	486	177	281

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	44615	41444	45530	48039	44394	46646	49734	50229	51319	52580
<b>Cash &amp; Equivalents</b>	3916	1673	1389	169	170	146	132	161	96	1091
<b>Acc. Receivable</b>	1045	1070	1016	843	837	904	858	833	776	771
<b>Inventories</b>	553	533	568	350	340	256	281	267	239	242
<b>Total Liabilities</b>	33906	30438	34036	36953	33203	34955	36752	36841	37132	38714
<b>Accounts Payable</b>	1031	1347	1362	1321	1423	1407	1580	1310	1342	1503
<b>Long-Term Debt</b>	13491	10899	12534	9263	9406	10635	12029	11873	12463	14516
<b>Total Equity</b>	9517	9841	10583	10055	9432	9938	10960	11368	11996	11671
<b>D/E Ratio</b>	1.42	1.11	1.18	0.92	1.00	1.07	1.10	1.04	1.04	1.24

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	3.0%	2.0%	2.9%	-0.1%	-0.4%	2.0%	3.3%	2.0%	2.6%	1.1%
<b>Return on Equity</b>	13.5%	8.8%	12.3%	-0.4%	-1.9%	9.4%	15.4%	9.1%	11.2%	4.8%
<b>ROIC</b>	5.6%	3.7%	5.5%	-0.2%	-0.9%	4.3%	6.8%	4.1%	5.1%	2.1%
<b>Shares Out.</b>	326	326	326	326	326	326	326	326	327	327
<b>Revenue/Share</b>	42.89	37.80	30.38	32.18	35.95	38.24	40.77	35.03	35.97	37.56
<b>FCF/Share</b>	-1.71	-3.26	-0.92	-0.66	-2.47	-1.92	-2.00	0.86	-1.45	-0.73

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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