Entergy Corporation (ETR)

Updated January 9th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$86	**5 Year CAGR Estimate:**	5.4%	**Volatility Percentile:**	12.5%
Fair Value Price:	$86	**5 Year Growth Estimate:**	1.2%	**Momentum Percentile:**	83.5%
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Growth Percentile:**	2.6%
Dividend Yield:	4.2%	**5 Year Price Target**	$91	**Valuation Percentile:**	42.7%
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Total Return Percentile:**	17.1%

Overview & Current Events

Entergy Corporation is an electric utility that engages in the generation and distribution of electric power. Entergy also owns a smaller natural gas distribution business. Entergy is one of the largest nuclear power plant operators in the United States. Entergy's utility segment operates in Arkansas, Louisiana, Mississippi, and Texas, where the company serves a total of 2.7 million customers. Entergy was founded in 1913, is headquartered in New Orleans, LA, and is currently trading with a market capitalization of $15.6 billion.

Entergy reported its most recent quarterly results on October 31. During the third quarter Entergy has generated revenues of $3.1 billion during the third quarter, which represents a small decline versus revenues of $3.2 billion during the prior year's quarter. During the first three quarters of fiscal 2018 Entergy has been able to grow its revenues slightly. This means Q3's revenue decline is not overly troubling, as results can be cyclical and weather dependent.
Entergy reported earnings-per-share of $3.77 during the third quarter, a substantial increase versus the prior year's level of $2.35, despite the small revenue decline. Tax rate changes boosted Entergy's profitability. Entergy's management guides for earnings-per-share of $6.75 to $7.25 during fiscal 2018. The guidance range was raised substantially (by $0.45 at the midpoint) during the third quarter earnings call. Earnings-per-share of ~$7.00 would represent the highest level of profitability since 2011, when earnings-per-share peaked at $7.55.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$6.20	$6.30	$6.66	$7.55	$6.02	$4.96	$5.77	$5.81	$6.88	$5.19	***$7.00***	***$7.43***
DPS	$3.00	$3.00	$3.24	$3.32	$3.32	$3.32	$3.32	$3.34	$3.42	$3.50	***$3.58***	***$3.80***
Shares	189	189	179	176	178	178	179	178	179	181	***183***	***190***

Entergy remained highly profitable during the last financial crisis as households still require electricity and natural gas during difficult economic periods. On the other hand, Entergy has not been able to grow its profits at an attractive pace over the last decade: Its earnings-per-share during fiscal 2018 (using the midpoint of guidance) will be only 13% higher than the company's earnings-per-share during 2008, which equates to an abysmal growth rate of just 1.2% annually.

Entergy's utility business should continue to grow throughout the coming years, as a rising customer count and inflation will allow for rising revenues. Entergy's nuclear power generation business, on the other hand, will continue to shrink, as additional nuclear power stations are shut down. The two reactors in the Indian Point nuclear power plant, for example, will be shut down in 2020 and 2021, respectively. Shutting down these nuclear power plants will lead to lower revenue generation for this segment in the future, although that will not necessarily go hand in hand with lower earnings, as not all of Entergy's nuclear power plants are operating profitably. The costs for decommissioning Entergy's plants are reflected in the reserves that Entergy has built on its balance sheet for this purpose over the last decades. Depending on the returns that Entergy generates with the reserves on its balance sheet, these reserves could be higher or lower than the actual costs of decommissioning Entergy's power plants, which leads to some degree of uncertainty for Entergy's profits during coming years. There is the potential for one-time costs (but one-time gains are possible as well).

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Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	16.6	12.0	11.6	9.1	11.2	13.2	12.9	12.5	10.9	15.0	***12.3***	***12.3***
Avg. Yld.	2.9%	4.0%	4.2%	4.9%	4.9%	5.1%	4.5%	4.6%	4.6%	4.5%	***4.2%***	***4.2%***

Entergy's price to earnings ratio has been moving up and down in a range of 9 to 17 over the last decade. The median earnings multiple of 12.25 is perfectly in line with the current valuation, which is why multiples will likely not change much in the long run. Shareholders get a dividend yield of 4.2% at current prices.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	48.4%	47.6%	48.6%	44.0%	55.1%	66.9%	57.5%	57.4%	49.7%	67.4%	***51.1%***	***51.1%***

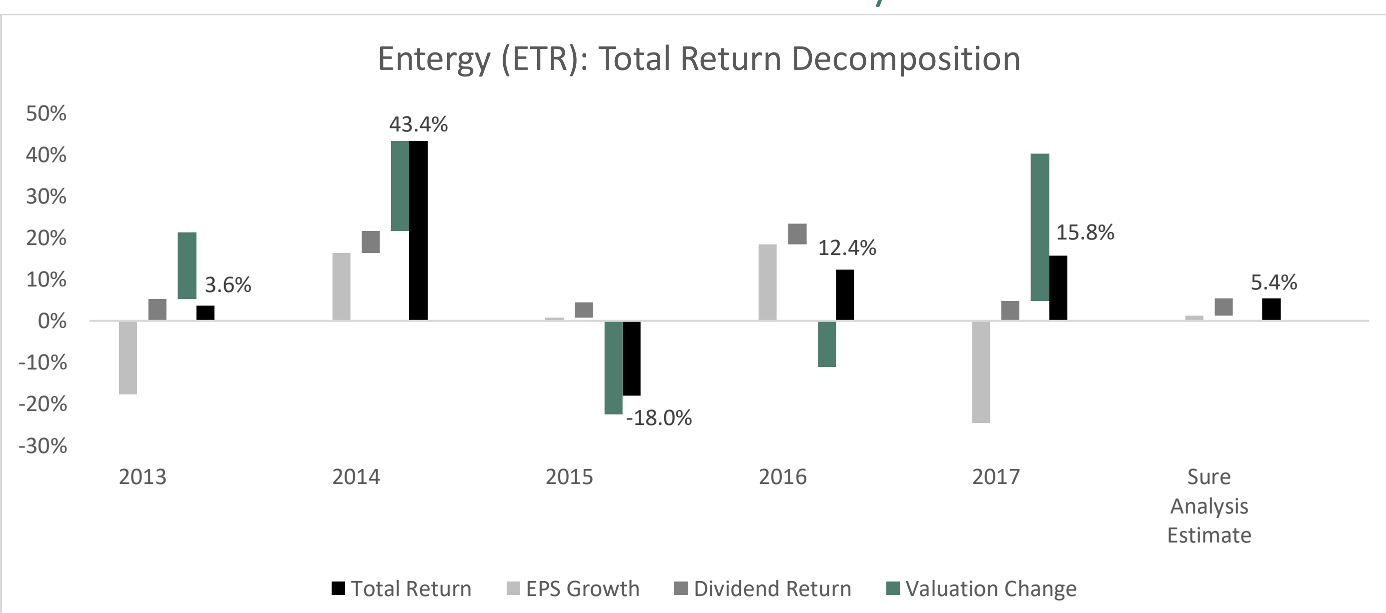
Entergy has been paying out roughly half of its profits to shareholders in the form of dividends throughout most of the last decade, with two years, 2013 and 2017, being outliers due to below-average profitability. The company nevertheless has not cut its dividend once during the last 15 years, and the dividend looks sufficiently safe right here.

Entergy's recession performance was compelling during the last financial crisis, and it is likely that future economic downturns will not significantly impact Entergy either. This makes Entergy a stock that could provide some stability to an investors' portfolio during troubled times. Thanks to its $7.4 billion decommission trust fund Entergy's balance sheet is looking solid, and the company should be able to finance all future cash needs.

Final Thoughts & Recommendation

Entergy is one of the largest nuclear power plant operators in the US. The decline of this business is why the company will likely grow its earnings at a low single digits pace only, despite a solid outlook for Entergy's regulated utility business. Entergy's shares provide a solid yield, and shares are fairly valued. But, total returns will not be high going forward. We rate Entergy as a hold and borderline sell. There are better investments elsewhere in the utility sector.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	13094	10746	11488	11229	10302	11391	12495	11513	10846	11074
Gross Profit	6803	6799	7053	4048	3718	3802	4369	4064	4311	4063
Gross Margin	52.0%	63.3%	61.4%	36.0%	36.1%	33.4%	35.0%	35.3%	39.7%	36.7%
SG&A Exp.	189	199	212	N/A	N/A	N/A	N/A	N/A	N/A	N/A
D&A Exp.	1392	1459	1705	1745	1772	2012	2128	2117	2123	2079
Operating Profit	2343	2263	2268	2013	1657	1653	2187	1652	1949	1782
Op. Margin	17.9%	21.1%	19.7%	17.9%	16.1%	14.5%	17.5%	14.3%	18.0%	16.1%
Net Profit	1241	1251	1270	1367	868	731	960	-157	-565	425
Net Margin	3.1%	3.1%	3.1%	3.3%	2.1%	1.8%	2.3%	-0.4%	-1.3%	1.0%
Free Cash Flow	421	476	1544	-199	-749	367	1233	297	-1046	-1378
Income Tax	603	633	617	286	31	226	590	-643	-817	543

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	36617	37562	38685	40702	43203	43406	46414	44648	45904	46707
Cash & Equivalents	1920	1710	1294	694	533	739	1422	1351	1188	781
Acc. Receivable	1198	678	733	537	537	636	561	569	643	660
Inventories	992	1023	1074	1097	1142	1124	1124	1091	878	906
Goodwill & Int.	377	377	377	377	377	377	377	377	377	377
Total Liabilities	28556	28855	30095	31646	33911	33680	36313	35391	37823	38715
Accounts Payable	1476	998	1181	1069	1217	1173	1166	1072	1286	1452
Long-Term Debt	11774	11448	11771	12345	13435	13643	13884	13820	15248	16654
Total Equity	8061	8707	8590	8961	9197	9632	10008	9257	8082	7993
D/E Ratio	1.46	1.31	1.37	1.38	1.46	1.42	1.39	1.49	1.89	2.08

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	3.5%	3.4%	3.3%	3.4%	2.1%	1.7%	2.1%	-0.3%	-1.2%	0.9%
Return on Equity	15.6%	14.9%	14.7%	15.6%	9.6%	7.8%	9.8%	-1.6%	-6.5%	5.3%
ROIC	6.4%	6.3%	6.3%	6.5%	3.9%	3.2%	4.1%	-0.7%	-2.4%	1.8%
Shares Out.	189	189	179	176	178	178	179	178	179	181
Revenue/Share	65.14	54.87	61.16	62.95	57.96	63.79	69.30	64.26	60.63	61.34
FCF/Share	2.10	2.43	8.22	-1.11	-4.21	2.05	6.84	1.66	-5.84	-7.63

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