Entergy Corporation (ETR)

Updated June 3rd, 2019 by Jonathan Weber

Key Metrics

Current Price:	$97	**5 Year CAGR Estimate:**	-0.6%	**Volatility Percentile:**	9.1%
Fair Value Price:	$66	**5 Year Growth Estimate:**	2.9%	**Momentum Percentile:**	89.7%
% Fair Value:	147%	**5 Year Valuation Multiple Estimate:**	-7.3%	**Growth Percentile:**	12.3%
Dividend Yield:	3.8%	**5 Year Price Target**	$76	**Valuation Percentile:**	5.6%
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Total Return Percentile:**	3.4%

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 $19.3 billion.

Entergy Corporation reported its first quarter earnings results on May 1. The company reported that its revenues totaled $2.61 billion during the first quarter of 2019, which represents a decline versus the revenues of $2.72 billion that Entergy generated during the previous year's first quarter. The revenue decline can be attributed to lower revenues for the electric business primarily, whereas the natural gas and the competitive businesses unit performed solidly.

Entergy's earnings-per-share at the utility segment totaled $1.20 on an operational basis, whereas EWC reported an operational loss of $0.38 per share, which equates to consolidated earnings-per-share of $0.82 for Entergy as a whole.

Entergy continues to guide for earnings-per-share of $5.10 to $5.50 during fiscal 2019, which would represent a marginal increase of 0.2% versus the earnings-per-share of $5.29 that Entergy generated during fiscal 2018, assuming Entergy hits the midpoint of the guidance range. Adjusted for the weather impact during 2018, when above-average temperatures led to above-average electricity sales, the guidance midpoint represents weather-adjusted earnings-per-share growth of 7.7% in 2019, which is a rather strong result for a utility.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$6.30	$6.66	$7.55	$6.02	$4.96	$5.77	$5.81	$6.88	$5.19	$5.29	***$5.30***	***$6.10***
DPS	$3.00	$3.24	$3.32	$3.32	$3.32	$3.32	$3.34	$3.42	$3.50	$3.58	***$3.64***	***$4.00***
Shares	189	179	176	178	178	179	178	179	181	182	***183***	***187***

Entergy remained highly profitable during the last financial crisis, which is not surprising, as households still require electricity during difficult economic periods. However, Entergy has not been able to grow its profits over time; its earnings-per-share during fiscal 2018 were lower than the company's earnings-per-share during 2009.

Entergy's utility business, which is the much more profitable unit compared to EWC, 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.

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 years. 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.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.0	11.6	9.1	11.2	13.2	12.9	12.5	10.9	15.0	15.9	***18.3***	***12.5***
Avg. Yld.	4.0%	4.2%	4.9%	4.9%	5.1%	4.5%	4.6%	4.6%	4.5%	4.3%	***3.8%***	***5.2%***

Entergy's shares trade for more than 18 times 2019's net profits currently, using the midpoint of management's guidance. This is a substantial premium relative to how the company's shares were valued in the past, which does not bode well for Entergy's future total returns, as multiple normalization towards the long-term median price-to-earnings multiple in the low double digits would result in a huge total return headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	47.6%	48.6%	44.0%	55.1%	66.9%	57.5%	57.4%	49.7%	67.4%	67.7%	***68.7%***	***65.6%***

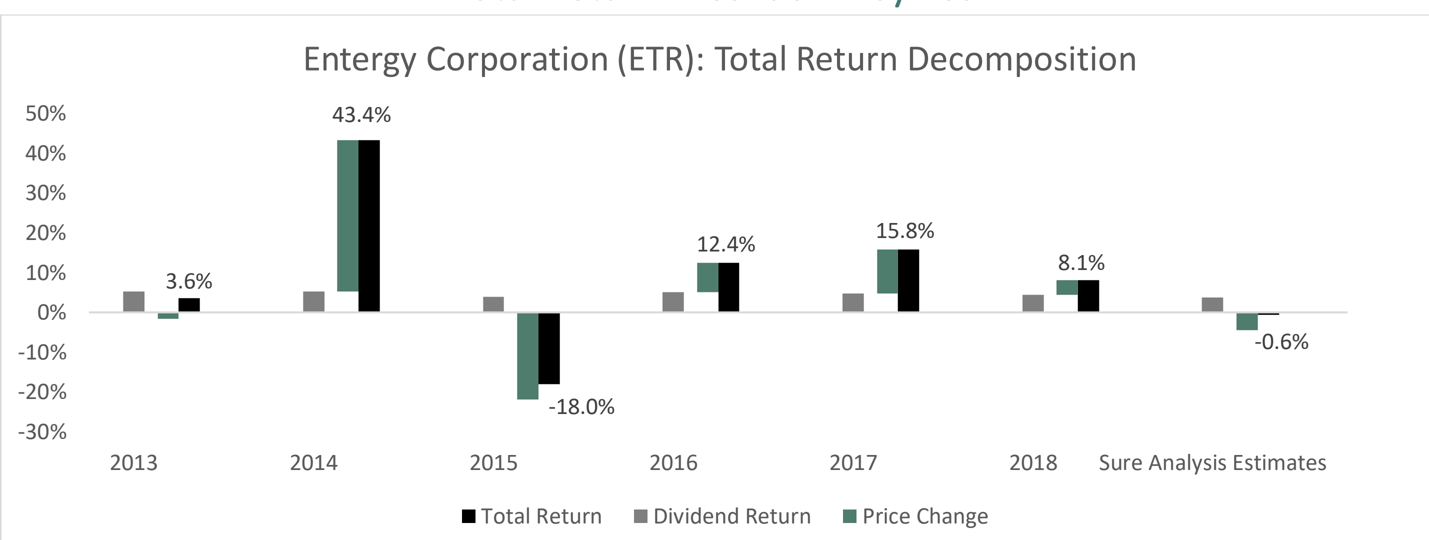
Entergy's dividend payout ratio has risen from roughly 50% one decade ago to roughly 70% today. This is not a big surprise, as Entergy has increased its dividend regularly, although not during every year, during that time frame, whereas earnings-per-share did not move upwards during those years. The dividend looks sustainable for now, and according to management, Entergy should be able to grow its earnings-per-share more regularly going forward, which will likely result in a stabilizing or even moderately declining payout ratio.

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 for its nuclear plants, Entergy's balance sheet is looking solid, and the company should be able to finance all future cash needs.

Final Thoughts & Recommendation

Entergy is a utility that is focused on electricity. Its growth track record is not strong at all, but that was mostly based on the ongoing wind-down of its nuclear power generation segment. As that continues to shrink, the more promising electric utility segment could provide improved growth rates going forward. Shares look massively overvalued, though, which is why we rate the stock a sell at current prices.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	10746	11488	11229	10302	11391	12495	11513	10846	11074	11009
Gross Profit	6799	7053	4048	3718	3802	4369	4064	4311	4063	3703
Gross Margin	63.3%	61.4%	36.0%	36.1%	33.4%	35.0%	35.3%	39.7%	36.7%	33.6%
D&A Exp.	1459	1705	1745	1772	2012	2128	2117	2123	2079	2041
Operating Profit	2263	2268	2013	1657	1653	2187	1652	1949	1782	1002
Op. Margin	21.1%	19.7%	17.9%	16.1%	14.5%	17.5%	14.3%	18.0%	16.1%	9.1%
Net Profit	1251	1270	1367	868	731	960	-157	-565	425	863
Net Margin	11.6%	11.1%	12.2%	8.4%	6.4%	7.7%	-1.4%	-5.2%	3.8%	7.8%
Free Cash Flow	476	1544	-199	-749	367	1233	297	-1046	-1378	-1886
Income Tax	633	617	286	31	226	590	-643	-817	543	-1037

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	37562	38685	40702	43203	43406	46414	44648	45904	46707	48275
Cash & Equivalents	1710	1294	694	533	739	1422	1351	1188	781	481
Acc. Receivable	678	733	537	537	636	561	569	643	660	551
Inventories	1023	1074	1097	1142	1124	1124	1091	878	906	870
Goodwill & Int.	377	377	377	377	377	377	377	377	377	377
Total Liabilities	28855	30095	31646	33911	33680	36313	35391	37823	38715	39431
Accounts Payable	998	1181	1069	1217	1173	1166	1072	1286	1452	1496
Long-Term Debt	11448	11771	12345	13435	13643	13884	13820	15248	16654	18111
Total Equity	8707	8590	8961	9197	9632	10008	9257	8082	7993	8844
D/E Ratio	1.31	1.37	1.38	1.46	1.42	1.39	1.49	1.89	2.08	2.05

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.4%	3.3%	3.4%	2.1%	1.7%	2.1%	-0.3%	-1.2%	0.9%	1.8%
Return on Equity	14.9%	14.7%	15.6%	9.6%	7.8%	9.8%	-1.6%	-6.5%	5.3%	10.2%
ROIC	6.3%	6.3%	6.5%	3.9%	3.2%	4.1%	-0.7%	-2.4%	1.8%	3.3%
Shares Out.	189	179	176	178	178	179	178	179	181	182
Revenue/Share	54.87	61.16	62.95	57.96	63.79	69.30	64.26	60.63	61.34	60.04
FCF/Share	2.43	8.22	-1.11	-4.21	2.05	6.84	1.66	-5.84	-7.63	-10.28

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