



# Edison International (EIX)

Updated September 25<sup>th</sup>, 2019 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$75	<b>5 Year CAGR Estimate:</b>	2.3%	<b>Volatility Percentile:</b>	56.7%
<b>Fair Value Price:</b>	\$57	<b>5 Year Growth Estimate:</b>	4.0%	<b>Momentum Percentile:</b>	72.9%
<b>% Fair Value:</b>	132%	<b>5 Year Valuation Multiple Estimate:</b>	-5.5%	<b>Growth Percentile:</b>	28.0%
<b>Dividend Yield:</b>	3.5%	<b>5 Year Price Target</b>	\$69	<b>Valuation Percentile:</b>	18.2%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	C	<b>Total Return Percentile:</b>	14.9%

## 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 \$27 billion.

Edison International reported its second quarter earnings results on July 25<sup>th</sup>. Earnings-per-share came in at \$1.20, up significantly from the \$0.85 in Q2 2018. Adjusted Q2 core earnings were \$1.58 per share, up significantly from \$0.85 in Q2 2018. This strong growth came as a result of the favorable outcome to the 2018 General Rate Case (GRC), regulatory deferrals related to wildfire insurance and wildfire mitigation costs and higher revenue due to a change in estimate under the FERC formula rate mechanism. Management also reiterated its commitment to improving the company's wildfire risk profile through enhanced operational capabilities in addition to pouring significant investment into grid hardening and resiliency.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$3.24	\$3.35	\$3.23	\$4.55	\$3.78	\$4.33	\$4.15	\$3.94	\$4.51	\$4.15	<b>\$4.50</b>	<b>\$5.47</b>
<b>DPS</b>	\$1.25	\$1.27	\$1.29	\$1.31	\$1.37	\$1.48	\$1.73	\$1.98	\$2.23	\$2.43	<b>\$2.60</b>	<b>\$3.30</b>
<b>Shares<sup>1</sup></b>	326	326	326	326	326	326	326	327	327	326	<b>326</b>	<b>325</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 2.8% a year between 2009 and 2018.

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.

<sup>1</sup> Share count in millions

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	9.7	10.3	11.8	9.7	12.7	13.0	14.8	17.9	17.2	13.7	<b>16.7</b>	<b>12.6</b>
Avg. Yld.	4.0%	3.7%	3.4%	3.0%	2.8%	2.6%	2.8%	2.8%	2.9%	4.3%	<b>3.5%</b>	<b>4.8%</b>

Edison International trades at 16.7 times this year's expected net profits right now. This is less than the valuations Edison International traded at in 2016-2017, but we still believe that Edison International's shares are overvalued. This is due in part to the fact that Edison International's shares were much cheaper in 2009-2013. Investors should also account for the uncertainties introduced by the California wildfires.

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

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	38.5%	37.9%	39.9%	28.8%	36.2%	34.2%	41.7%	50.3%	49.4%	58.6%	<b>57.8%</b>	<b>60.3%</b>

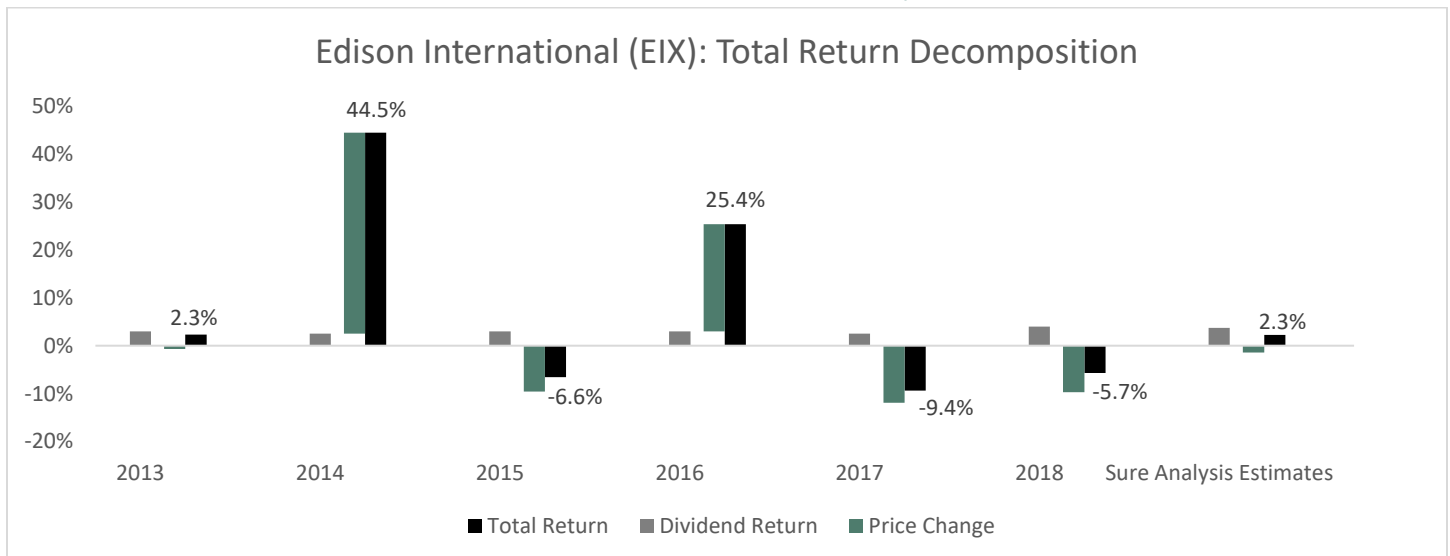
Despite the fact that earnings have seen some ups and downs, Edison International grew its dividend very consistently throughout the last decade. This was only possible due to an increase in the company's dividend payout ratio, as its earnings-per-share did not grow as consistently. The dividend still looks relatively safe, though, as Edison International's operations are not overly cyclical. Its dividend growth rate will likely slow down moving forward.

Edison International belongs to 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 larger publicly traded utilities. Earnings should resume growth during 2019, but the annual total return outlook is not strong (2.3%) due to a 3.5% dividend yield, 4% annual growth outlook, and a 5.5% headwind from multiple contraction. The yield is attractive and Edison's growth outlook has improved, but the risk of wildfire liabilities and the somewhat high valuation means we rate the stock a sell.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	12361	9996	10588	11862	12581	13413	11524	11869	12320	12657
<b>Gross Profit</b>	8093	3095	3514	4115	4217	4671	4268	4444	4603	4454
<b>Gross Margin</b>	65.5%	31.0%	33.2%	34.7%	33.5%	34.8%	37.0%	37.4%	37.4%	35.2%
<b>D&amp;A Exp.</b>	1640	1380	1427	1634	1696	1815	2005	2098	2115	1940
<b>Operating Profit</b>	2288	1814	2087	2257	2286	2629	2013	2083	2194	2195
<b>Op. Margin</b>	18.5%	18.1%	19.7%	19.0%	18.2%	19.6%	17.5%	17.5%	17.8%	17.3%
<b>Net Profit</b>	849	1256	-37	-183	915	1612	1020	1311	565	-423
<b>Net Margin</b>	6.9%	12.6%	-0.3%	-1.5%	7.3%	12.0%	8.9%	11.0%	4.6%	-3.3%
<b>Free Cash Flow</b>	-1066	-303	-216	-815	-632	-658	284	-495	-247	-1332
<b>Income Tax</b>	-98	335	568	267	242	443	486	177	281	-739

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	41444	45530	48039	44394	46646	49734	50229	51319	52580	56715
<b>Cash &amp; Equivalents</b>	1673	1389	169	170	146	132	161	96	1091	144
<b>Acc. Receivable</b>	1070	1016	843	837	904	858	833	776	771	782
<b>Inventories</b>	533	568	350	340	256	281	267	239	242	282
<b>Total Liabilities</b>	30438	34036	36953	33203	34955	36752	36841	37132	38714	44063
<b>Accounts Payable</b>	1347	1362	1321	1423	1407	1580	1310	1342	1503	1511
<b>Long-Term Debt</b>	10899	12534	9263	9406	10635	12029	11873	12463	14516	15431
<b>Total Equity</b>	9841	10583	10055	9432	9938	10960	11368	11996	11671	10459
<b>D/E Ratio</b>	1.11	1.18	0.92	1.00	1.07	1.10	1.04	1.04	1.24	1.48

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	2.0%	2.9%	-0.1%	-0.4%	2.0%	3.3%	2.0%	2.6%	1.1%	-0.8%
<b>Return on Equity</b>	8.8%	12.3%	-0.4%	-1.9%	9.4%	15.4%	9.1%	11.2%	4.8%	-3.8%
<b>ROIC</b>	3.7%	5.5%	-0.2%	-0.9%	4.3%	6.8%	4.1%	5.1%	2.1%	-1.5%
<b>Shares Out.</b>	326	326	326	326	326	326	326	327	327	326
<b>Revenue/Share</b>	37.80	30.38	32.18	35.95	38.24	40.77	35.03	35.97	37.56	38.83
<b>FCF/Share</b>	-3.26	-0.92	-0.66	-2.47	-1.92	-2.00	0.86	-1.50	-0.75	-4.09

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

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