



# Edison International (EIX)

Updated March 22<sup>nd</sup>, 2020 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$51	<b>5 Year CAGR Estimate:</b>	11.9%	<b>Market Cap:</b>	\$19B
<b>Fair Value Price:</b>	\$62	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	3/30/20
<b>% Fair Value:</b>	83%	<b>5 Year Valuation Multiple Estimate:</b>	3.9%	<b>Dividend Payment Date:</b>	4/20/20
<b>Dividend Yield:</b>	5.0%	<b>5 Year Price Target</b>	\$75	<b>Years Of Dividend Growth:</b>	15
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	4.1%

## 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 fourth quarter earnings results on February 27<sup>th</sup> and reported adjusted core earnings-per-share of \$0.99, compared to \$0.94 per share a year ago. For the full year, adjusted core earnings-per-share came in at \$4.70, compared to core earnings-per-share of \$4.15 per share in 2018. The increase was largely the result of the adoption of the 2018 General Rate Case (GRC) final decision and higher Federal Energy Regulatory Commission (FERC) revenue due to the settlement of SCE's 2018 Formula Rate proceeding and rate base growth. A headwind was the higher wildfire mitigation expenses and an increase in shares outstanding.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$3.35	\$3.23	\$4.55	\$3.78	\$4.33	\$4.15	\$3.94	\$4.51	\$4.15	\$4.70	<b>\$4.89</b>	<b>\$5.95</b>
<b>DPS</b>	\$1.27	\$1.29	\$1.31	\$1.37	\$1.48	\$1.73	\$1.98	\$2.23	\$2.43	\$2.45	<b>\$2.55</b>	<b>\$3.10</b>
<b>Shares<sup>1</sup></b>	326	326	326	326	326	326	327	327	326	361	<b>361</b>	<b>361</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.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
<b>Avg. P/E</b>	10.3	11.8	9.7	12.7	13.0	14.8	17.9	17.2	13.7	15.3	<b>10.4</b>	<b>12.6</b>
<b>Avg. Yld.</b>	3.7%	3.4%	3.0%	2.8%	2.6%	2.8%	2.8%	2.9%	4.3%	3.6%	<b>5.0%</b>	<b>4.1%</b>

<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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Edison International trades at slightly above 10 times this year's expected net profits right now, which we view as undervalued since the company has not traded at that level since 2010, and its fundamentals have improved markedly since then. While our fair value estimate of 12.6 times earnings is well below the average over the past half-decade, given the current coronavirus linked uncertainty plaguing the economy, we think this is reasonable. As a result, we expect the dividend yield to remain elevated relative to its historic level.

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

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	37.9%	39.9%	28.8%	36.2%	34.2%	41.7%	50.3%	49.4%	58.6%	57.8%	52.1%	52.1%

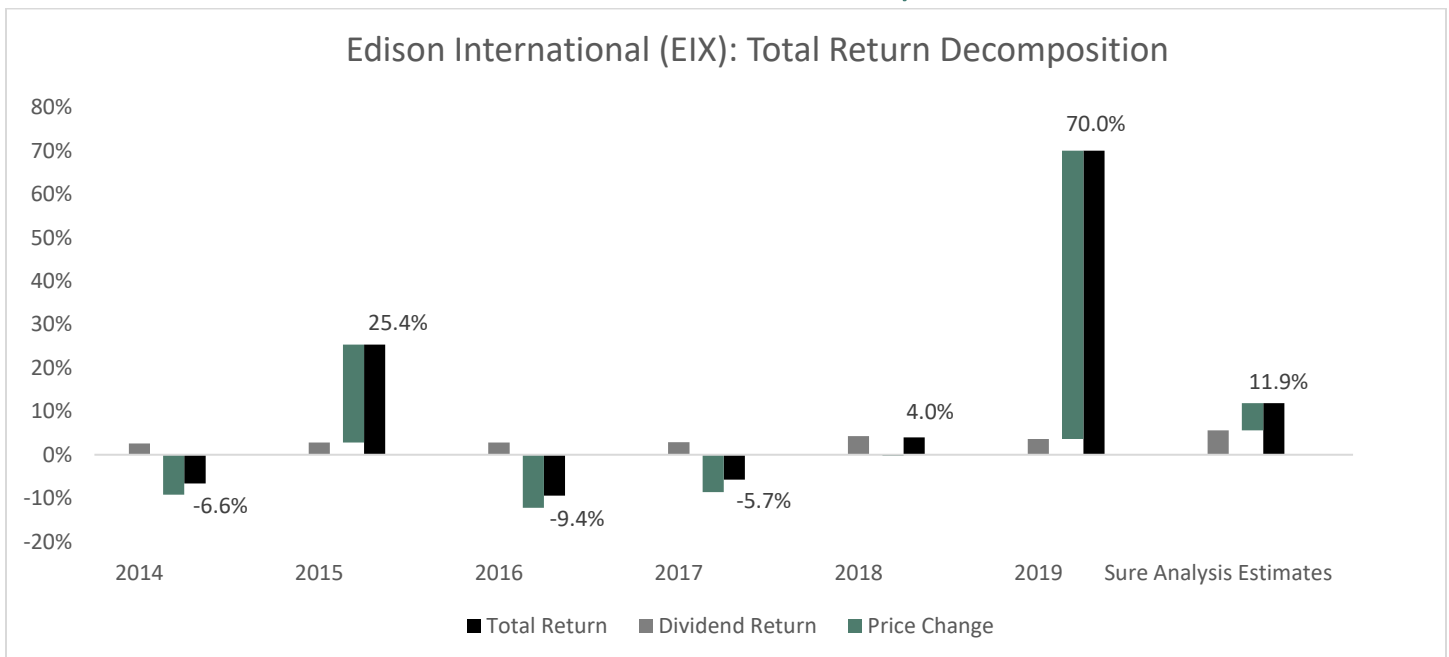
Despite the fact that earnings have seen some ups and downs, Edison International grew its dividend very consistently throughout the last decade. This was only possible due to an increase in the company's dividend payout ratio, as its earnings-per-share did not grow as consistently. The dividend still 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 continue to grow over the long term with population and economic growth, but fire risks and regulatory overhang from California's government will drag on total returns. That being said, the recent selloff means that the company trades at one of its most attractive valuations in quite some time and offers a very safe 4%+ yield. We expected total annualized returns over the next half decade to be around 11.9%, making the stock a buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	9,996	10,588	11,862	12,581	13,413	11,524	11,869	12,320	12,657	12,347
<b>Gross Profit</b>	3,095	3,514	4,115	4,217	4,671	4,268	4,444	4,603	4,454	4,490
<b>Gross Margin</b>	31.0%	33.2%	34.7%	33.5%	34.8%	37.0%	37.4%	37.4%	35.2%	36.4%
<b>D&amp;A Exp.</b>	1,380	1,427	1,634	1,696	1,815	2,005	2,098	2,115	1,940	1,803
<b>Operating Profit</b>	1,814	2,087	2,257	2,286	2,629	2,013	2,083	2,194	2,195	2,366
<b>Op. Margin</b>	18.1%	19.7%	19.0%	18.2%	19.6%	17.5%	17.5%	17.8%	17.3%	19.2%
<b>Net Profit</b>	1,308	22	(92)	1,015	1,724	1,133	1,434	689	(302)	1,405
<b>Net Margin</b>	13.1%	0.2%	-0.8%	8.1%	12.9%	9.8%	12.1%	5.6%	-2.4%	11.4%
<b>Free Cash Flow</b>	(303)	(216)	(815)	(632)	(658)	284	(495)	(247)	(1,332)	(5,184)
<b>Income Tax</b>	335	568	267	242	443	486	177	281	(739)	(278)

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	45,530	48,039	44,394	46,646	49,734	50,229	51,319	52,580	56,715	64,382
<b>Cash &amp; Equivalents</b>	1,389	169	170	146	132	161	96	1,091	144	68
<b>Acc. Receivable</b>	1,016	843	837	904	858	833	776	771	782	838
<b>Inventories</b>	568	350	340	256	281	267	239	242	282	364
<b>Total Liabilities</b>	34,036	36,953	33,203	34,955	36,752	36,841	37,132	38,714	44,063	48,886
<b>Accounts Payable</b>	1,362	1,321	1,423	1,407	1,580	1,310	1,342	1,503	1,511	1,752
<b>Long-Term Debt</b>	12,534	9,263	9,406	10,635	12,029	11,873	12,463	14,516	15,431	18,893
<b>Total Equity</b>	10,583	10,055	9,432	9,938	10,960	11,368	11,996	11,671	10,459	13,303
<b>D/E Ratio</b>	1.18	0.92	1.00	1.07	1.10	1.04	1.04	1.24	1.48	1.42

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	3.0%	0.0%	-0.2%	2.2%	3.6%	2.3%	2.8%	1.3%	-0.6%	2.3%
<b>Return on Equity</b>	12.8%	0.2%	-0.9%	10.5%	16.5%	10.1%	12.3%	5.8%	-2.7%	11.8%
<b>ROIC</b>	5.7%	0.1%	-0.4%	4.7%	7.3%	4.5%	5.5%	2.5%	-1.1%	4.5%
<b>Shares Out.</b>	326	326	326	326	326	326	327	327	326	326
<b>Revenue/Share</b>	30.38	32.18	35.95	38.24	40.77	35.03	35.97	37.56	38.83	36.21
<b>FCF/Share</b>	(0.92)	(0.66)	(2.47)	(1.92)	(2.00)	0.86	(1.50)	(0.75)	(4.09)	(15.20)

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

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