Entergy Corporation (ETR)

Updated November 6th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$105	**5 Year CAGR Estimate:**	2.9%	**Market Cap:**	$21B
Fair Value Price:	$85	**5 Year Growth Estimate:**	3.5%	**Ex-Dividend Date:**	11/10/20
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.2%	**Dividend Payment Date:**	12/01/20
Dividend Yield:	3.6%	**5 Year Price Target**	$101	**Years Of Dividend Growth:**	27
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	2.2%

Overview & Current Events

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

Entergy Corporation reported its third quarter earnings results on October 28. The company reported that its revenues totaled $2.9 billion during the quarter, which represents a decline of 8% versus the previous year's quarter. The sales decline did not hurt Entergy's profitability, however, as margins rose year over year.

Entergy's earnings-per-share in the utility segment totaled $2.74 on an adjusted basis, which was down 4% from the previous year's quarter. EWC recorded unadjusted net earnings of $0.15 per share, which was positively impacted by other income during the quarter. All in all, Entergy generated adjusted earnings-per-share of $2.44 during the third quarter, which was down year-over-year, although by only 3%. Entergy's guidance for 2020's earnings-per-share has been raised to $5.60 - $5.70, which represents a mid-single-digit increase versus the earnings-per-share of $5.39 that Entergy generated during fiscal 2019, assuming Entergy hits the midpoint of the guidance range. Entergy is not seeing any meaningful impacts from the coronavirus crisis so far, which is not a big surprise, as the company's customers still require electricity to power their homes, despite the economic downturn that has occurred.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$6.66	$7.55	$6.02	$4.96	$5.77	$5.81	$6.88	$5.19	$5.29	$5.39	***$5.65***	***$6.71***
DPS	$3.24	$3.32	$3.32	$3.32	$3.32	$3.34	$3.42	$3.50	$3.58	$3.66	***$3.80***	***$4.30***
Shares[1]	179	176	178	178	179	178	179	181	182	201	***205***	***220***

Entergy remained highly profitable during the last financial crisis, which is not surprising, as households still need electricity during difficult economic periods. Entergy has, however, not been able to grow its profits over time; its earnings-per-share during fiscal 2019 were lower than the company's earnings-per-share during 2010.

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 by 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. Entergy is forecasting that its earnings-per-share will grow meaningfully, by 5%-7% a year in the long run, but due to a weaker track record we are more conservative with our estimate of 3.5%.

[1] 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	11.6	9.1	11.2	13.2	12.9	12.5	10.9	15.0	15.9	22.1	***18.6***	***15.0***
Avg. Yld.	4.2%	4.9%	4.9%	5.1%	4.5%	4.6%	4.6%	4.5%	4.3%	3.1%	***3.6%***	***4.3%***

Entergy's shares have given back some of last year's gains in fiscal 2020 so far, but shares still trade at close to 19 times this year's expected net profits. 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 would result in meaningful total return headwinds.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	48.6%	44.0%	55.1%	66.9%	57.5%	57.4%	49.7%	67.4%	67.7%	67.9%	***67.3%***	***64.1%***

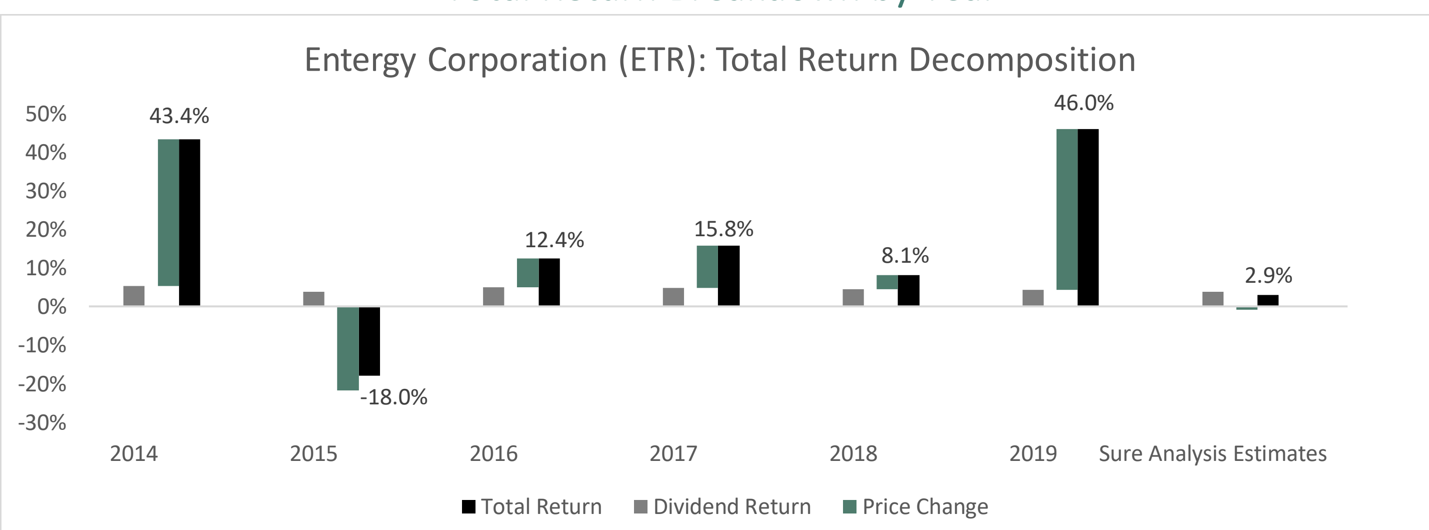
Entergy's dividend payout ratio has risen from roughly 50% one decade ago to nearly 70% today. This is not a big surprise, as Entergy has increased its dividend regularly during that time frame, whereas earnings-per-share did not move upwards meaningfully during those years. The dividend looks sustainable 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, such as the one caused by the coronavirus pandemic, will not impact Entergy too much either. This makes Entergy a stock that could provide some stability to an investors' portfolio during troubled times. Thanks to its $7 billion decommissioning fund for its nuclear plants, Entergy's balance sheet is looking solid.

Final Thoughts & Recommendation

Entergy is an electricity-focused utility that also operates a shrinking nuclear power generation segment. Its growth track record is not strong at all, but that was partially based on the impact of the ongoing wind-down of its nuclear power generation segment. The more promising electric utility segment should provide improved growth rates over the coming years. Shares currently look overvalued, however, which is why we rate the stock a sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	11,488	11,229	10,302	11,391	12,495	11,513	10,846	11,074	11,009	10,879
Gross Profit	7,053	4,048	3,718	3,802	4,369	4,064	4,382	4,180	3,703	4,179
Gross Margin	61.4%	36.0%	36.1%	33.4%	35.0%	35.3%	40.4%	37.7%	33.6%	38.4%
D&A Exp.	1,705	1,745	1,772	2,012	2,128	2,117	2,123	2,079	2,041	2,182
Operating Profit	2,268	2,013	1,657	1,653	2,187	1,652	2,020	1,899	1,002	1,681
Op. Margin	19.7%	17.9%	16.1%	14.5%	17.5%	14.3%	18.6%	17.1%	9.1%	15.4%
Net Profit	1,270	1,367	868	731	960	(157)	(565)	425	863	1,258
Net Margin	11.1%	12.2%	8.4%	6.4%	7.7%	-1.4%	-5.2%	3.8%	7.8%	11.6%
Free Cash Flow	1,544	(199)	(749)	367	1,233	297	(1,046)	(1,378)	(1,886)	(1,815)
Income Tax	617	286	31	226	590	(643)	(817)	543	(1,037)	(170)

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	38,685	40,702	43,203	43,406	46,414	44,648	45,904	46,707	48,275	51,724
Cash & Equivalents	1,294	694	533	739	1,422	1,351	1,188	781	481	426
Acc. Receivable	733	537	537	636	561	569	643	660	551	588
Inventories	1,074	1,097	1,142	1,124	1,124	1,091	878	906	870	970
Goodwill & Int.	377	377	377	377	377	377	377	377	377	377
Total Liabilities	30,095	31,646	33,911	33,680	36,313	35,391	37,823	38,715	39,431	41,465
Accounts Payable	1,181	1,069	1,217	1,173	1,166	1,072	1,286	1,452	1,496	1,500
Long-Term Debt	11,771	12,345	13,435	13,643	13,884	13,820	15,248	16,654	18,111	19,820
Total Equity	8,590	8,961	9,197	9,632	10,008	9,257	8,082	7,993	8,844	10,224
D/E Ratio	1.37	1.38	1.46	1.42	1.39	1.49	1.89	2.08	2.05	1.94

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.3%	3.4%	2.1%	1.7%	2.1%	-0.3%	-1.2%	0.9%	1.8%	2.5%
Return on Equity	14.7%	15.6%	9.6%	7.8%	9.8%	-1.6%	-6.5%	5.3%	10.2%	13.2%
ROIC	6.3%	6.5%	3.9%	3.2%	4.1%	-0.7%	-2.4%	1.8%	3.3%	4.4%
Shares Out.	179	176	178	178	179	178	179	181	182	201
Revenue/Share	61.16	62.95	57.96	63.79	69.30	64.26	60.63	61.34	60.04	55.22
FCF/Share	8.22	(1.11)	(4.21)	2.05	6.84	1.66	(5.84)	(7.63)	(10.28)	(9.21)

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