Entergy Corporation (ETR)

Updated November 10th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$103	**5 Year CAGR Estimate:**	5.0%	**Market Cap:**	$20B
Fair Value Price:	$90	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	11/12/21
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.7%	**Dividend Payment Date:**	12/01/21
Dividend Yield:	3.9%	**5 Year Price Target**	$109	**Years Of Dividend Growth:**	28
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	6.3%

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 November 3. The company reported that its revenues totaled $3.4 billion during the quarter, which represents an increase of 16% versus the previous year's quarter. The sales increase did not impact Entergy's profitability positively, as margins compressed on a year over year basis, which prevented the company from showcasing attractive earnings growth, despite higher revenues.

Entergy's earnings-per-share totaled $2.45 on an adjusted basis during the third quarter, which was almost flat year over year versus $2.44 in Q3 2020, and which missed analyst estimates marginally. Entergy's guidance for 2021 forecasts $5.90 - $6.10 in earnings-per-share, which represents a 6% increase versus the earnings-per-share of $5.66 that Entergy generated during fiscal 2020, assuming Entergy hits the midpoint of the guidance range. The updated and raised guidance shows that Q3's somewhat weak performance was not reflective of the company's overall earnings power, as solid earnings-per-share growth is expected for the current fiscal year. Entergy has raised its dividend by 6.3%, to $1.01 per quarter, in October, lifting the annual payout to $4.04 per share.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$7.55	$6.02	$4.96	$5.77	$5.81	$6.88	$5.19	$5.29	$5.39	$5.66	***$6.00***	***$7.30***
DPS	$3.32	$3.32	$3.32	$3.32	$3.34	$3.42	$3.50	$3.58	$3.66	$3.74	***$4.04***	***$4.57***
Shares[1]	176	178	178	179	178	179	181	182	197	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 consistently; 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 both be shut down by the end of 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 4%.

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[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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	9.1	11.2	13.2	12.9	12.5	10.9	15.0	15.9	22.1	17.5	***17.2***	***15.0***
Avg. Yld.	4.9%	4.9%	5.1%	4.5%	4.6%	4.6%	4.5%	4.3%	3.1%	3.7%	***3.9%***	***4.2%***

Entergy's shares have come down since our last update, which is why Entergy is currently valued at around 17 times this year's expected net profits. This is still higher relative to how the company's shares were valued over most of the last decade, which is why we see shares as slightly overvalued today. We believe that Entergy would be fairly valued at an earnings multiple of around 15. Entergy's shares still offer a sizeable dividend yield of close to 4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	44.0%	55.1%	66.9%	57.5%	57.4%	49.7%	67.4%	67.7%	67.9%	66.1%	***67.3%***	***62.6%***

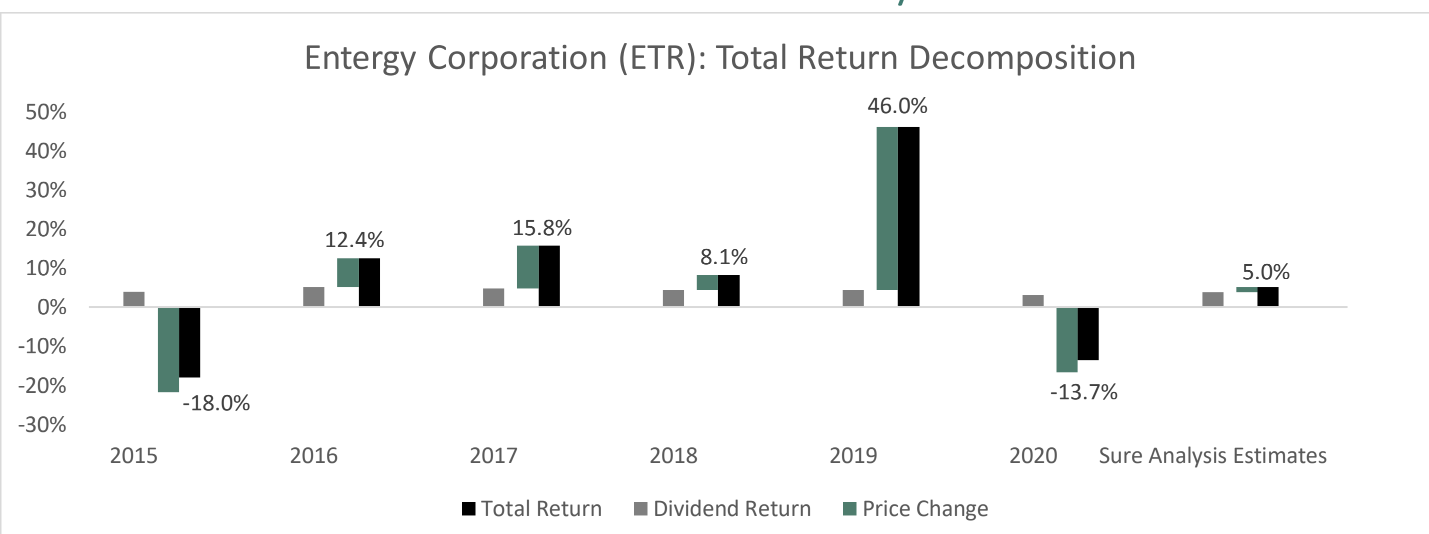
Entergy's dividend payout ratio has risen from roughly 50% one decade ago to more than 60% today. This is not a big surprise, as Entergy increased its dividend regularly during that time frame, whereas earnings-per-share did not move upwards meaningfully during those years. The dividend looks sustainable 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 will not impact Entergy too much, either. The company has also fared quite well during the current pandemic. This makes Entergy a stock that could provide stability to an investors' portfolio during troubled times. Thanks to its multi-billion-dollar 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 trade slightly above fair value today, which is why we rate Entergy a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	11,229	10,302	11,391	12,495	11,513	10,846	11,074	11,009	10,879	10,114
Gross Profit	4,048	3,363	3,461	4,189	1,959	1,546	4,180	3,703	4,179	4,458
Gross Margin	36.0%	32.6%	30.4%	33.5%	17.0%	14.3%	37.7%	33.6%	38.4%	44.1%
D&A Exp.	1,745	1,772	2,012	2,128	2,117	2,123	2,079	2,041	2,182	2,258
Operating Profit	2,013	1,301	1,311	2,007	(453)	(815)	1,899	1,002	1,681	1,796
Op. Margin	17.9%	12.6%	11.5%	16.1%	-3.9%	-7.5%	17.1%	9.1%	15.4%	17.8%
Net Profit	1,367	868	731	960	(157)	(565)	425	863	1,258	1,407
Net Margin	12.2%	8.4%	6.4%	7.7%	-1.4%	-5.2%	3.8%	7.8%	11.6%	13.9%
Free Cash Flow	(199)	(749)	367	1,233	297	(1,046)	(1,378)	(1,886)	(1,815)	(2,467)
Income Tax	286	31	226	590	(643)	(817)	543	(1,037)	(170)	(122)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	40,702	43,203	43,406	46,414	44,648	45,904	46,707	48,275	51,724	58,239
Cash & Equivalents	694	533	739	1,422	1,351	1,188	781	481	426	1,759
Acc. Receivable	537	537	636	561	569	643	660	551	588	716
Inventories	1,097	1,142	1,124	1,124	1,091	878	906	870	970	1,135
Goodwill & Int.	377	377	377	377	377	377	377	377	377	377
Total Liabilities	31,646	33,911	33,680	36,313	35,391	37,823	38,715	39,431	41,465	47,278
Accounts Payable	1,069	1,217	1,173	1,166	1,072	1,286	1,452	1,496	1,500	2,739
Long-Term Debt	12,345	13,435	13,643	13,884	13,820	15,248	16,654	18,111	19,820	23,997
Total Equity	8,961	9,197	9,632	10,008	9,257	8,082	7,993	8,844	10,224	10,926
D/E Ratio	1.36	1.45	1.40	1.37	1.49	1.89	2.08	2.05	1.93	2.19

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.4%	2.1%	1.7%	2.1%	-0.3%	-1.2%	0.9%	1.8%	2.5%	2.6%
Return on Equity	15.6%	9.6%	7.8%	9.8%	-1.6%	-6.5%	5.3%	10.2%	13.2%	13.3%
ROIC	6.5%	3.9%	3.2%	4.1%	-0.7%	-2.4%	1.8%	3.3%	4.4%	4.3%
Shares Out.	176	178	178	179	178	179	181	182	197	201
Revenue/Share	62.95	57.96	63.79	69.30	64.26	60.63	61.34	60.04	55.22	50.29
FCF/Share	(1.11)	(4.21)	2.05	6.84	1.66	(5.84)	(7.63)	(10.28)	(9.21)	(12.27)

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