



Hawaiian Electric Industries, Inc. (HE)

Updated March 23rd, 2022, by Robert Abbott

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Current Price:	\$42	5 Year CAGR Estimate:	9.3%	Market Cap:	\$4.6 B
Fair Value Price:	\$45	5 Year Growth Estimate:	4.7%	Ex-Dividend Date¹:	05/19/22
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	1.7%	Dividend Payment Date¹:	06/10/22
Dividend Yield:	3.4%	5 Year Price Target	\$57	Years Of Dividend Growth:	4
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	2.9%

Overview & Current Events

Hawaiian Electric Industries (HE) is a \$4.6 billion holding company with three segments: electrical utilities, banking, and non-regulated clean energy investments. The utilities segment, which serves 95% of the state, brought in 89% of its 2021 revenue. Its rates are governed by a regulator, but the inputs to its electricity are not. Therefore, inflation, and especially higher fuel costs, are critical. Watch, too, for the effects of higher interest rates since HE, like other large utilities, carries a heavy, long-term debt load.

On February 14th, 2022, the Honolulu-based company reported Q4 and full year 2021 results. Earnings-per-share grew 24%, thanks to more cost efficiency at the utilities and lower loan-loss provisions at the bank. The company has noted several positive factors: daily tourist arrivals are growing, unemployment is receding, residential housing prices are up, and the state's GDP is expected to grow significantly this year. At the same time, inflation, including fuel prices, could make travel more expensive and slow GDP growth.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.42	\$1.62	\$1.63	\$1.50	\$2.29	\$1.52	\$1.85	\$1.99	\$1.81	\$2.25	\$2.15	\$2.71
DPS	\$1.24	\$1.24	\$1.24	\$1.24	\$1.24	\$1.24	\$1.24	\$1.28	\$1.32	\$1.36	\$1.40	\$1.76
Shares²	97	100	103	107	108	109	109	109	109	110	110	110

Management forecasts 2022 EPS of \$2.00 to \$2.20 per share, with utilities EPS growth of about 5% per year through 2024, and low single-digit growth from banking. Proportionally, this equates to 4.45% for utilities and 0.22% from banking, for a combined growth rate of 4.67% (on a base of \$2.15). In addition, the company said it expected no new equity issuances this year, and that dividends would grow in line with earnings.

To support its growth, the utilities plan capital expenditures of roughly \$2 billion over the next five years. Funds for Capex are expected to come from retained earnings and debt. Part of that will finance new rooftop solar panels and their installation, some of which will then feedback into the firm's grid. Twenty-one percent of residential customers had rooftop solar while 37% of single-family homes on Oahu had panels at the end of 2021. By developing this new source of power, the company reduces the use and cost of fossil fuels (that must be shipped in from the mainland).

The banking subsidiary, American Savings Bank, saw its net income jump 76% year-over-year, mainly because it reduced its provision for credit losses by nearly \$26 million. Rising interest rates will benefit its net interest margins over time.

The current dividend yield is 3.4%, near its 5-year average. Dividend per share growth was slow in the past; the company started with a quarterly payment of \$0.26 in 1989 and since then has grown to \$0.35. That's just \$0.09 per share over 33 years. However, it has increased the payment for four consecutive years now. The payout ratio is 65%, on par with other utilities.

¹ Estimated date.

² 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	17.7	16.1	20.5	19.3	14.4	23.8	19.8	23.6	19.6	18.4	19.3%	21.0
Avg. Yld.	4.5%	4.7%	5.1%	4.1%	4.1%	3.8%	3.5%	3.4%	3.6%	3.4%	3.4%	3.1%

In the first half of the past decade (2012-2016), the P/E averaged 17.6 per year; in the second half, it averaged 21.0. In the second half, and despite the pandemic's toll, investors paid nearly 20% more for the firm's earnings and dividends. Assuming the capital expenditures work as planned, investors may be prepared to pay even more in the future.

That could offset some or all the dividend increases, leaving the dividend yield relatively flat. The company did repurchase nearly 205,000 shares in 2021, to satisfy the requirements of its DRIP and other rules. There is no indication it plans to buy back shares to increase EPS.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	87%	77%	76%	83%	54%	82%	67%	64%	73%	62%	65%	65%

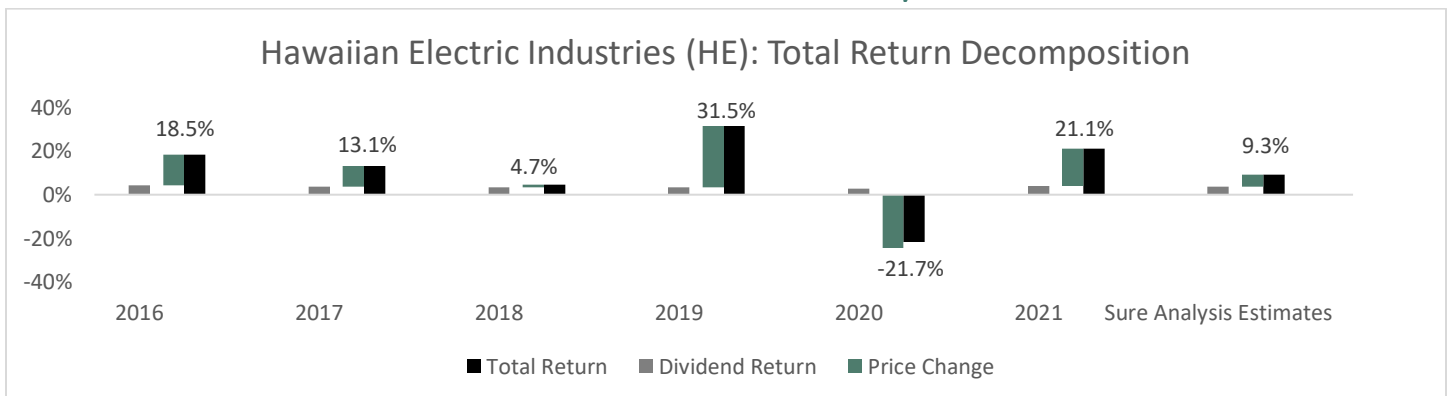
As a utility with a strong balance sheet, a near-monopoly on Hawaii's power, and addressing the threat of future power sources, Hawaiian Electric's dividend should be safe. Even when it and the state economy suffered from COVID-19, it was still able to increase the dividend. From a quality perspective, the utilities and banking segments are well-capitalized and generate enough cash flow to both pay dividends and reinvest in future growth.

The apparent competitive advantage for the utilities segment is that it is in a regulated space and faces little risk that another large company might challenge it. The banking segment, on the other hand, operates in a highly competitive market. The banking segment develops and introduces new products and services to consumers and commercial customers to maintain its competitive edge. As noted, the company went through the economic setbacks of 2020 largely unscathed, indicating it was able to remain resilient through that recession. With the bulk of its business in a near-monopoly, it enjoys financial protection available to few other dividend-paying companies.

Final Thoughts & Recommendation

We expect an average total return of 9.3% per year over the next five years, stemming from a 3.4% starting yield, 4.7% growth and the potential for a small tailwind from the valuation. These estimates could be higher if Hawaiian Electric continues to aggressively trim utility costs, or they could be lower if inflation increases even more. Investors searching for consistent and reliable income will want to keep Hawaiian Electric on their list of candidates. Growth and value investors should look elsewhere, as this is a slow and steady name trading at a fair price. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3,375	3,238	3,240	2,603	2,381	2,556	2,861	2,874	2,580	2,850
Gross Profit	284	318	333	323	356	346	333	348	311	386
Gross Margin	8.4%	9.8%	10.3%	12.4%	14.9%	13.5%	11.7%	12.1%	12.1%	13.5%
D&A Exp.	158	167	183	196	205	222	256	278	291	279
Operating Profit	284	318	333	323	356	346	333	348	311	386
Op. Margin	8.4%	9.8%	10.3%	12.4%	14.9%	13.5%	11.7%	12.1%	12.1%	13.5%
Net Profit	141	164	170	162	250	167	204	220	200	248
Net Margin	4.2%	5.1%	5.2%	6.2%	10.5%	6.5%	7.1%	7.6%	7.7%	8.7%
Free Cash Flow	(92)	(28)	(39)	(7)	166	(10)	(7)	55	46	61
Income Tax	77	86	96	93	124	109	51	52	41	63

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	10,149	10,340	11,185	11,782	12,426	12,534	13,104	13,745	15,004	15,823
Cash & Equivalents	220	220	176	300	278	262	169	197	341	306
Acc. Receivable	363	347	314	243	238	263	326	301	281	344
Goodwill & Int.	82	82	82	82	82	82	82	82	82	82
Total Liabilities	8,555	8,613	9,395	9,854	10,359	10,437	10,942	11,465	12,667	13,432
Accounts Payable	212	212	186	139	143	194	215	221	182	206
Long-Term Debt	1,702	1,843	1,916	2,010	1,812	1,993	2,064	2,265	2,338	2,464
Total Equity	1,594	1,727	1,791	1,928	2,067	2,097	2,162	2,280	2,338	2,391
D/E Ratio	1.07	1.07	1.07	1.04	0.88	0.95	0.95	0.99	1.00	1.03

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.4%	1.6%	1.6%	1.4%	2.1%	1.3%	1.6%	1.6%	1.4%	1.6%
Return on Equity	9.0%	9.9%	9.7%	8.7%	12.5%	8.0%	9.6%	9.9%	8.6%	10.5%
ROIC	4.3%	4.8%	4.7%	4.2%	6.4%	4.2%	4.9%	5.0%	4.3%	5.2%
Shares Out.	97	100	103	107	108	109	109	109	109	110
Revenue/Share	34.67	32.51	31.47	24.39	21.98	23.46	26.21	26.27	23.59	26.01
FCF/Share	(0.94)	(0.28)	(0.38)	(0.07)	1.53	(0.09)	(0.07)	0.50	0.42	0.56

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

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