



# Pinnacle West Capital Corp. (PNW)

Updated May 15<sup>th</sup>, 2022 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$73	<b>5 Year CAGR Estimate:</b>	5.0%	<b>Market Cap:</b>	\$8.29 B
<b>Fair Value Price:</b>	\$68	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	07/30/22 <sup>1</sup>
<b>% Fair Value:</b>	107%	<b>5 Year Valuation Multiple Estimate:</b>	-1.4%	<b>Dividend Payment Date:</b>	09/01/22
<b>Dividend Yield:</b>	4.6%	<b>5 Year Price Target</b>	\$76	<b>Years Of Dividend Growth:</b>	10
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## Overview & Current Events

Pinnacle West Capital is a holding company based in Phoenix, Arizona. The company was initially known as Arizona Public Service Company, then later reorganized as a holding company, AZP Group Inc., in February 1985. In 1987, it changed its name to what is now known as Pinnacle West Capital, which trades under the ticker symbol PNW. Its principal subsidiary, Arizona Public Service (APS), provides electricity service to more than 1.3 million Arizona homes and businesses. The company has the generating capacity to produce 6,300 megawatts, and it employs more than 6,000 in Arizona and New Mexico. PNW has been paying a dividend for 27 years and growing the dividend consecutively for the past ten years. Pinnacle West Capital has a market capitalization of \$8.29 billion.

On May 4th, 2022, Pinnacle West Capital reported first-quarter results for Fiscal Year (FY)2022. Because of the recent general rate case outcome results, first-quarter results are lower. The unfavorable rate case decision was the primary driver for the lower quarter-over-quarter results. Operating revenue grew 12.5% year over year for the quarter, from \$696.4 million to \$783.5 million. The increase in revenue is driven by higher customer usage and growth. The influx of people moving to Arizona makes the company's territory among the fastest-growing nation. However, operating expenses increased 12.3% year-over-year. This was due to higher fuel and purchased power costs. Thus, net income for the quarter was down (47.5)% compared to 1Q2021.

On a per-share basis, the company made \$0.15 per share for the quarter and earned \$0.37 per share in 1Q2021. This is a decrease of (59.4)%.

We expected PNW to generate earnings-per-share of \$4.00 per share for 2022. This would represent a (26.9)% decrease compared to 2021. This decrease is caused by recent rate changes by Arizona Public Service Co. (APS).

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$3.50	\$3.66	\$3.58	\$3.92	\$3.95	\$4.35	\$4.54	\$4.77	\$4.87	\$5.47	<b>\$4.00</b>	<b>\$4.42</b>
<b>DPS</b>	\$2.12	\$2.20	\$2.30	\$2.41	\$2.53	\$2.66	\$2.82	\$3.18	\$3.18	\$3.24	<b>\$3.42</b>	<b>\$3.78</b>
<b>Shares<sup>2</sup></b>	111.0	111.0	111.0	112.0	112.0	112.0	113.0	113.0	113.0	113.0	<b>113.0</b>	<b>113.0</b>

We expect continued growth for PNW to be primarily driven by more people coming to Arizona. We predict that Pinnacle West Capital will continue to grow earnings at a 2% rate for the next five years. This would give us \$4.42 per share in earnings for 2027. Our expected 2% growth rate is lower than the 10-year average growth rate of 5.1%.

PNW's net margin has been improving over the past decade, growing from a low of 10.5% in 2011 to 15.4% last year. This could continue to be a growth driver as well.

The company has increased its dividend each year for the past ten years. The dividend growth rate has been 4.8% for the past ten years and 5.2% for the past five years. We expect PNW to grow its dividend at a 2% yearly rate, which would align with its expected earnings growth. Still, the company has a reasonable payout ratio to cover its dividend.

<sup>1</sup> Ex-Dividend and Dividend Payment Dates are estimates.

<sup>2</sup> Share count is 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.*



# Pinnacle West Capital Corp. (PNW)

Updated May 15<sup>th</sup>, 2022 by Felix Martinez

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.6	14.5	19.1	16.5	19.8	19.6	18.8	18.9	16.4	12.9	18.3	17.1
Avg. Yld.	4.2%	4.2%	3.4%	3.7%	3.2%	3.1%	3.3%	3.3%	4.0%	4.7%	4.6%	5.0%

Over the past decade, PNW has traded with an average P/E ratio of 17.1. We think this is a fair P/E for a high-quality utility company like PNW. Currently, PNW trades hands with a P/E of 18.3. This is not a reasonable valuation for long-term investors who like high-yield utility companies. Looking at the dividend yield, we see that the current yield is also higher than the company's ten-year average yield. For the past 10-years, PNW has had an average dividend yield of 3.7%.

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

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	60.6%	60.1%	64.2%	61.5%	64.1%	61.1%	62.1%	66.7%	65.3%	59.2%	86%	86%

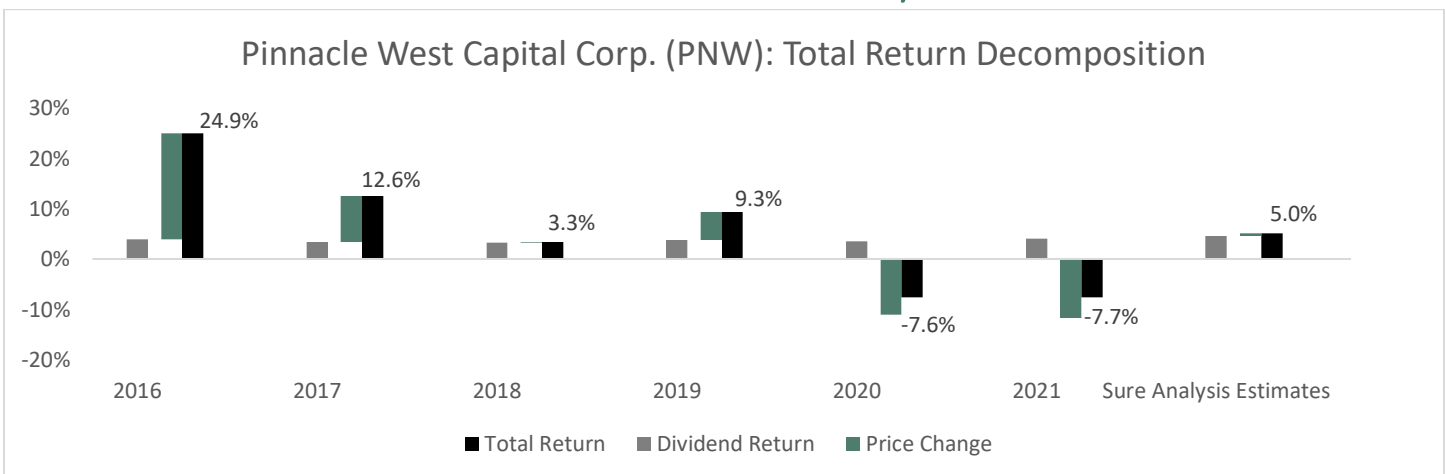
Pinnacle West Capital's advantage is its utility, which tends to be monopoly-like. Investors often hold utility stocks for their defensive nature. People will always need to power their homes and businesses. However, PNW shows that earnings can decrease during a recession. For example, during the Great Recession from 2008 to 2009, PNW's earning per share fell from \$2.96 in 2007 to \$2.12 in 2008. Earnings did bounce back in 2009 and further in 2010 to \$3.08. During the COVID-19 pandemic, PNW has so far fared even better.

Even though earnings fell significantly during the Great Recession, the dividend was not cut. This shows that PNW is committed to paying its dividends. The Debt-to-Equity ratio (D/E) is 1.4 for the year, which is fair. The company currently has an S&P credit rating of A-, which is investment-grade quality. Also, PNW has an interest coverage ratio of 4.2. Thus, the company has a very healthy balance sheet.

## Final Thoughts & Recommendation

Pinnacle West Capital Corp is a high-quality utility company at a reasonable price. The company continues to produce a very reliable and growing dividend. At the current price, PNW is over our fair value estimate. We forecast total shareholder returns of 5.0% per year for the next five years. Thus, this stock earns a hold rating because of the low expected total return.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# Pinnacle West Capital Corp. (PNW)

Updated May 15<sup>th</sup>, 2022 by Felix Martinez

## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	3,302	3,455	3,492	3,495	3,499	3,565	3,691	3,471	3,587	3,804
<b>Gross Profit</b>	1,422	1,434	1,404	1,526	1,491	1,635	1,578	1,487	1,635	1,697
<b>Gross Margin</b>	43.1%	41.5%	40.2%	43.7%	42.6%	45.9%	42.8%	42.8%	45.6%	44.6%
<b>D&amp;A Exp.</b>	481	492	496	572	565	611	651	664	686	719
<b>Operating Profit</b>	852	846	811	855	836	910	774	672	788	805
<b>Operating Margin</b>	25.8%	24.5%	23.2%	24.4%	23.9%	25.5%	21.0%	19.4%	22.0%	21.2%
<b>Net Profit</b>	382	406	398	437	442	488	511	538	551	619
<b>Net Margin</b>	11.6%	11.8%	11.4%	12.5%	12.6%	13.7%	13.8%	15.5%	15.3%	16.3%
<b>Free Cash Flow</b>	282	137	189	18	(252)	(291)	99	(235)	(360)	-613
<b>Income Tax</b>	237	231	221	238	236	258	134	(16)	78	110

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	13,380	13,509	14,289	15,028	16,004	17,019	17,664	18,479	20,020	22,003
<b>Cash &amp; Equivalents</b>	26	10	8	39	9	14	6	10	60	10
<b>Accounts Receivable</b>	277	300	298	275	250	305	268	266	314	392
<b>Inventories</b>	249	260	256	280	283	289	294	346	334	367
<b>Goodwill &amp; Int. Ass.</b>	162	158	120	124	90	257	263	291	283	274
<b>Total Liabilities</b>	9,277	9,168	9,770	10,309	11,068	11,883	12,315	12,926	14,268	15,982
<b>Accounts Payable</b>	221	285	295	297	265	256	277	346	319	393
<b>Long-Term Debt</b>	3,414	3,490	3,538	3,820	4,324	4,967	5,215	5,747	6,483	7,356
<b>Shareholder's Equity</b>	3,973	4,194	4,367	4,584	4,804	5,007	5,223	5,431	5,634	5,906
<b>LTD/E Ratio</b>	0.86	0.83	0.81	0.83	0.90	0.99	1.00	1.06	1.15	1.25

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	2.9%	3.0%	2.9%	3.0%	2.8%	3.0%	2.9%	3.0%	2.9%	2.9%
<b>Return on Equity</b>	9.8%	9.9%	9.3%	9.8%	9.4%	10.0%	10.0%	10.1%	10.0%	10.7%
<b>ROIC</b>	5.1%	5.3%	5.0%	5.3%	5.0%	5.0%	4.9%	4.9%	4.7%	4.8%
<b>Shares Out.</b>	111.0	111.0	111.0	112.0	112.0	112.0	113.0	113.0	113.0	113.0
<b>Revenue/Share</b>	29.87	31.18	31.41	31.33	31.23	31.73	32.80	30.78	31.76	33.61
<b>FCF/Share</b>	2.55	1.24	1.70	0.16	(2.25)	(2.59)	0.88	(2.08)	(3.19)	-5.42

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.