



# Entergy Corporation (ETR)

Updated August 16<sup>th</sup>, 2022 by Jonathan Weber

## Key Metrics

|                             |       |  |       |                                  |                       |
|-----------------------------|-------|--|-------|----------------------------------|-----------------------|
| <b>Current Price:</b>       | \$122 | <b>5 Year CAGR Estimate:</b>               | 3.2%  | <b>Market Cap:</b>               | \$25B                 |
| <b>Fair Value Price:</b>    | \$95  | <b>5 Year Growth Estimate:</b>             | 5.0%  | <b>Ex-Dividend Date:</b>         | 11/12/22 <sup>1</sup> |
| <b>% Fair Value:</b>        | 129%  | <b>5 Year Valuation Multiple Estimate:</b> | -5.0% | <b>Dividend Payment Date:</b>    | 12/01/22 <sup>2</sup> |
| <b>Dividend Yield:</b>      | 3.3%  | <b>5 Year Price Target</b>                 | \$121 | <b>Years Of Dividend Growth:</b> | 28                    |
| <b>Dividend Risk Score:</b> | B     | <b>Retirement Suitability Score:</b>       | B     | <b>Rating:</b>                   | Hold                  |

## 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 that its revenues during the second quarter totaled \$3.4 billion, which represents an increase of 21% versus the previous year's quarter. This was mainly the result of substantially higher electricity revenues during the period. Revenues also were up on a sequential basis, and the revenue growth rate during the quarter was the highest in the recent past, suggesting that this was somewhat of an outlier quarter.

Entergy's earnings-per-share totaled \$1.78 on an adjusted basis during the second quarter, which beat the analyst estimate easily. Entergy has reinstated its previous guidance for earnings-per-share to fall into a range of \$6.15 to \$6.45, which pencils out to a 5% increase at the midpoint of the guidance range, relative to 2021. Entergy also stated that the company expects further earnings-per-share growth in the coming years, with EPS forecasted to eventually hit \$7.10 in 2024, which would represent an annual growth rate of 6% in the 2023-2024 time frame.

## Growth on a Per-Share Basis

| Year                      | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022          | 2027          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$6.02 | \$4.96 | \$5.77 | \$5.81 | \$6.88 | \$5.19 | \$5.29 | \$5.39 | \$5.66 | \$6.02 | <b>\$6.30</b> | <b>\$8.04</b> |
| <b>DPS</b>                | \$3.32 | \$3.32 | \$3.32 | \$3.34 | \$3.42 | \$3.50 | \$3.58 | \$3.66 | \$3.74 | \$3.86 | <b>\$4.04</b> | <b>\$4.68</b> |
| <b>Shares<sup>3</sup></b> | 178    | 178    | 179    | 178    | 179    | 181    | 182    | 197    | 201    | 205    | <b>210</b>    | <b>230</b>    |

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 at the bottom of the range with our estimate.

<sup>1</sup> Estimated date

<sup>2</sup> Estimated date

<sup>3</sup> 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.



# Entergy Corporation (ETR)

Updated August 16<sup>th</sup>, 2022 by Jonathan Weber

## Valuation Analysis

| Year      | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now  | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 11.2 | 13.2 | 12.9 | 12.5 | 10.9 | 15.0 | 15.9 | 22.1 | 17.5 | 18.6 | 19.4 | 15.0 |
| Avg. Yld. | 4.9% | 5.1% | 4.5% | 4.6% | 4.6% | 4.5% | 4.3% | 3.1% | 3.7% | 3.4% | 3.3% | 3.9% |

Entergy's shares have come risen since our last update, which is why Entergy is currently valued at more than 19 times this year's expected net profits. This is higher relative to how the company's shares were valued over most of the last decade, which is why we see shares as 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 more than 3% at current prices.

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

| Year   | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2027  |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Payout | 55.1% | 66.9% | 57.5% | 57.4% | 49.7% | 67.4% | 67.7% | 67.9% | 66.1% | 64.1% | 64.1% | 58.2% |

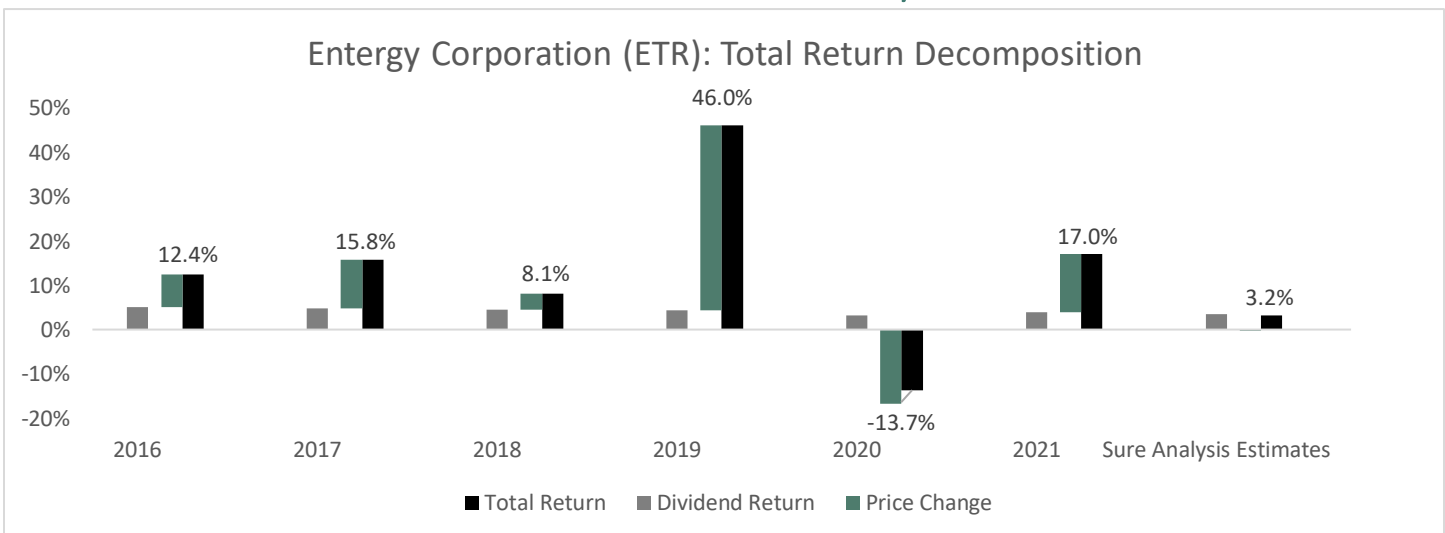
Entergy's dividend payout ratio has risen from roughly 50% one decade ago to more than 60% today. This is not a big surprise, as Entergy increased its dividend regularly during that time frame, whereas earnings-per-share did not move upwards meaningfully during those years. The dividend looks sustainable 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 too strong, 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 in 2022 and beyond. Shares trade above fair value today, which is why we rate Entergy a hold at current prices.

## 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.



# Entergy Corporation (ETR)

Updated August 16<sup>th</sup>, 2022 by Jonathan Weber

## Income Statement Metrics

| Year                    | 2012   | 2013   | 2014   | 2015   | 2016    | 2017    | 2018    | 2019    | 2020    | 2021    |
|-------------------------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|
| <b>Revenue</b>          | 10,302 | 11,391 | 12,495 | 11,513 | 10,846  | 11,074  | 11,009  | 10,879  | 10,114  | 11,743  |
| <b>Gross Profit</b>     | 3,363  | 3,461  | 4,189  | 1,959  | 1,546   | 4,180   | 3,703   | 4,179   | 4,458   | 4,872   |
| <b>Gross Margin</b>     | 32.6%  | 30.4%  | 33.5%  | 17.0%  | 14.3%   | 37.7%   | 33.6%   | 38.4%   | 44.1%   | 41.5%   |
| <b>D&amp;A Exp.</b>     | 1,772  | 2,012  | 2,128  | 2,117  | 2,123   | 2,079   | 2,041   | 2,182   | 2,258   | 2,243   |
| <b>Operating Profit</b> | 1,301  | 1,311  | 2,007  | (453)  | (815)   | 1,899   | 1,002   | 1,681   | 1,796   | 2,109   |
| <b>Op. Margin</b>       | 12.6%  | 11.5%  | 16.1%  | -3.9%  | -7.5%   | 17.1%   | 9.1%    | 15.4%   | 17.8%   | 18.0%   |
| <b>Net Profit</b>       | 868    | 731    | 960    | (157)  | (565)   | 425     | 863     | 1,258   | 1,407   | 1,119   |
| <b>Net Margin</b>       | 8.4%   | 6.4%   | 7.7%   | -1.4%  | -5.2%   | 3.8%    | 7.8%    | 11.6%   | 13.9%   | 9.5%    |
| <b>Free Cash Flow</b>   | (749)  | 367    | 1,233  | 297    | (1,046) | (1,378) | (1,886) | (1,815) | (2,467) | (4,121) |
| <b>Income Tax</b>       | 31     | 226    | 590    | (643)  | (817)   | 543     | (1,037) | (170)   | (122)   | 191     |

## Balance Sheet Metrics

| Year                          | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Total Assets</b>           | 43,203 | 43,406 | 46,414 | 44,648 | 45,904 | 46,707 | 48,275 | 51,724 | 58,239 | 59,454 |
| <b>Cash &amp; Equivalents</b> | 533    | 739    | 1,422  | 1,351  | 1,188  | 781    | 481    | 426    | 1,759  | 443    |
| <b>Acc. Receivable</b>        | 537    | 636    | 561    | 569    | 643    | 660    | 551    | 588    | 716    | 718    |
| <b>Inventories</b>            | 1,142  | 1,124  | 1,124  | 1,091  | 878    | 906    | 870    | 970    | 1,135  | 1,196  |
| <b>Goodwill &amp; Int.</b>    | 377    | 377    | 377    | 377    | 377    | 377    | 377    | 377    | 377    | 377    |
| <b>Total Liabilities</b>      | 33,911 | 33,680 | 36,313 | 35,391 | 37,823 | 38,715 | 39,431 | 41,465 | 47,278 | 47,749 |
| <b>Accounts Payable</b>       | 1,217  | 1,173  | 1,166  | 1,072  | 1,286  | 1,452  | 1,496  | 1,500  | 2,739  | 2,610  |
| <b>Long-Term Debt</b>         | 13,435 | 13,643 | 13,884 | 13,820 | 15,248 | 16,654 | 18,111 | 19,820 | 23,997 | 27,082 |
| <b>Total Equity</b>           | 9,197  | 9,632  | 10,008 | 9,257  | 8,082  | 7,993  | 8,844  | 10,224 | 10,926 | 11,637 |
| <b>LTD/E Ratio</b>            | 1.45   | 1.40   | 1.37   | 1.49   | 1.89   | 2.08   | 2.05   | 1.93   | 2.19   | 2.31   |

## Profitability & Per Share Metrics

| Year                    | 2012   | 2013  | 2014  | 2015  | 2016   | 2017   | 2018    | 2019   | 2020    | 2021    |
|-------------------------|--------|-------|-------|-------|--------|--------|---------|--------|---------|---------|
| <b>Return on Assets</b> | 2.1%   | 1.7%  | 2.1%  | -0.3% | -1.2%  | 0.9%   | 1.8%    | 2.5%   | 2.6%    | 1.9%    |
| <b>Return on Equity</b> | 9.6%   | 7.8%  | 9.8%  | -1.6% | -6.5%  | 5.3%   | 10.2%   | 13.2%  | 13.3%   | 9.9%    |
| <b>ROIC</b>             | 3.9%   | 3.2%  | 4.1%  | -0.7% | -2.4%  | 1.8%   | 3.3%    | 4.4%   | 4.3%    | 3.0%    |
| <b>Shares Out.</b>      | 178    | 178   | 179   | 178   | 179    | 181    | 182     | 197    | 201     | 205     |
| <b>Revenue/Share</b>    | 57.96  | 63.79 | 69.30 | 64.26 | 60.63  | 61.34  | 60.04   | 55.22  | 50.29   | 58.17   |
| <b>FCF/Share</b>        | (4.21) | 2.05  | 6.84  | 1.66  | (5.84) | (7.63) | (10.28) | (9.21) | (12.27) | (20.42) |

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.