



Entergy Corporation (ETR)

Updated August 21st, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$95	5 Year CAGR Estimate:	9.8%	Market Cap:	\$20B
Fair Value Price:	\$101	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/03/23 ¹
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Dividend Payment Date:	12/01/23 ²
Dividend Yield:	4.5%	5 Year Price Target	\$128	Years Of Dividend Growth:	29
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	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 second first quarter totaled \$2.9 billion, which represents a decline of 16% versus the previous year's quarter. This was mainly the result of lower electricity revenues during the period. Revenues were down on a sequential basis. The year-over-year revenue performance during the quarter was weaker compared to the year-over-year growth the company recorded during the previous quarter.

Entergy's earnings-per-share totaled \$1.84 on an adjusted basis during the second quarter, which beat the analyst consensus estimate. Entergy has reiterated its guidance for earnings-per-share for the current year, forecasting a range of \$6.55 to \$6.85, which pencils out to a 4% increase at the midpoint of the guidance range, relative to 2022. Entergy also stated that the company expects further earnings-per-share growth in the coming years, with EPS forecasted to eventually hit \$7.70 in 2025, which would represent an annual growth rate of 7% in the 2024-2025 time frame.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.96	\$5.77	\$5.81	\$6.88	\$5.19	\$5.29	\$5.39	\$5.66	\$6.02	\$6.42	\$6.70	\$8.55
DPS	\$3.32	\$3.32	\$3.34	\$3.42	\$3.50	\$3.58	\$3.66	\$3.74	\$3.86	\$4.16	\$4.28	\$4.96
Shares³	178	179	178	179	181	182	197	201	205	211	215	240

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. 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.

¹ Estimated date

² Estimated date

³ In Millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	13.2	12.9	12.5	10.9	15.0	15.9	22.1	17.5	18.6	17.0	14.2	15.0
Avg. Yld.	5.1%	4.5%	4.6%	4.6%	4.5%	4.3%	3.1%	3.7%	3.4%	3.8%	4.5%	3.9%

Entergy's shares have come down a little since our last update, which is why Entergy is currently valued at around 14 times this year's expected net profits. This is higher relative to how the company's shares were valued a decade ago, but it's cheaper versus the valuation in the last couple of years. We believe that Entergy is slightly undervalued today. Entergy's shares offer a sizeable dividend yield of more than 4% at current prices.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	66.9%	57.5%	57.4%	49.7%	67.4%	67.7%	67.9%	66.1%	64.1%	64.8%	63.9%	58.0%

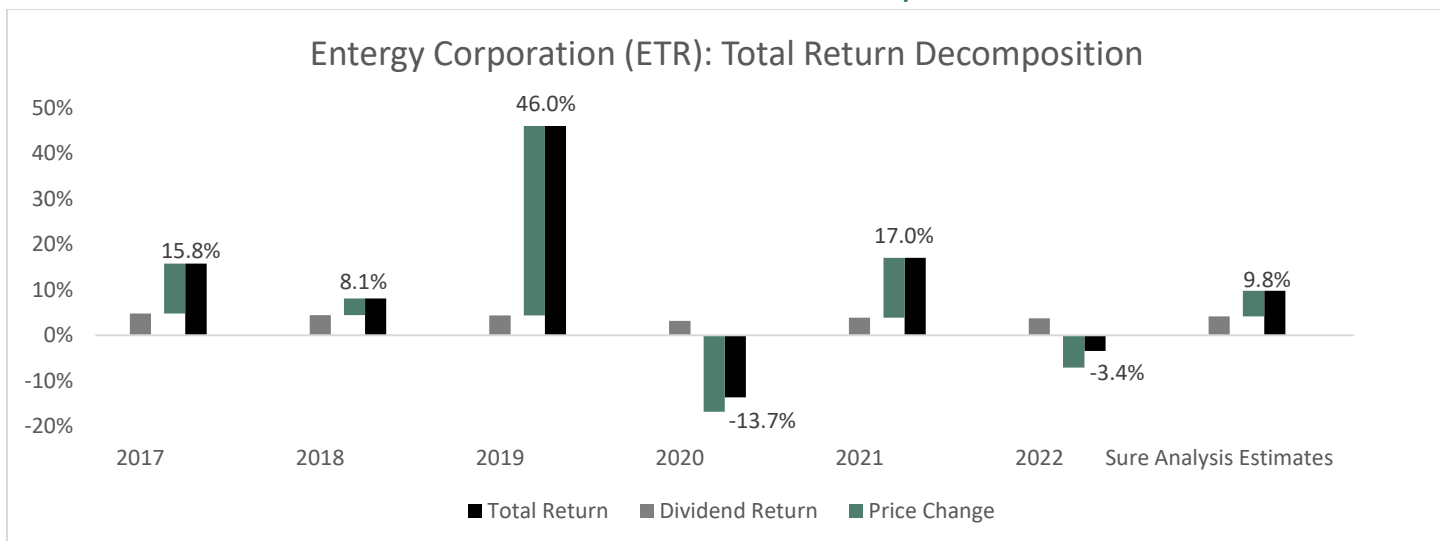
Entergy's dividend payout ratio has risen from roughly 50% one decade ago to more than 60% today. This is not a big surprise, as Entergy increased its dividend regularly during that time frame, whereas earnings-per-share did not move upwards meaningfully during those years. The dividend looks sustainable 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 2023 and beyond. Shares trade slightly below fair value today. We rate Entergy a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	11,391	12,495	11,513	10,846	11,074	11,009	10,879	10,114	11,743	13,764
Gross Profit	3,461	4,189	1,959	1,546	4,180	3,703	4,179	4,458	4,872	5,275
Gross Margin	30.4%	33.5%	17.0%	14.3%	37.7%	33.6%	38.4%	44.1%	41.5%	38.3%
D&A Exp.	2,012	2,128	2,117	2,123	2,079	2,041	2,182	2,258	2,243	2,190
Operating Profit	1,311	2,007	(453)	(815)	1,899	1,002	1,681	1,796	2,109	1,887
Op. Margin	11.5%	16.1%	-3.9%	-7.5%	17.1%	9.1%	15.4%	17.8%	18.0%	13.7%
Net Profit	731	960	(157)	(565)	425	863	1,258	1,407	1,119	1,097
Net Margin	6.4%	7.7%	-1.4%	-5.2%	3.8%	7.8%	11.6%	13.9%	9.5%	8.0%
Free Cash Flow	367	1,233	297	(1,046)	(1,378)	(1,886)	(1,815)	(2,467)	(4,121)	(2,809)
Income Tax	226	590	(643)	(817)	543	(1,037)	(170)	(122)	191	(39)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	43,406	46,414	44,648	45,904	46,707	48,275	51,724	58,239	59,454	58,595
Cash & Equivalents	739	1,422	1,351	1,188	781	481	426	1,759	443	224
Acc. Receivable	636	561	569	643	660	551	588	716	718	758
Inventories	1,124	1,124	1,091	878	906	870	970	1,135	1,196	1,331
Goodwill & Int.	377	377	377	377	377	377	377	377	377	377
Total Liabilities	33,680	36,313	35,391	37,823	38,715	39,431	41,465	47,278	47,749	45,530
Accounts Payable	1,173	1,166	1,072	1,286	1,452	1,496	1,500	2,739	2,610	1,778
Long-Term Debt	13,643	13,884	13,820	15,248	16,654	18,111	19,820	23,997	27,082	26,760
Total Equity	9,632	10,008	9,257	8,082	7,993	8,844	10,224	10,926	11,637	12,967
LTD/E Ratio	1.40	1.37	1.49	1.89	2.08	2.05	1.93	2.19	2.31	2.06

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.7%	2.1%	-0.3%	-1.2%	0.9%	1.8%	2.5%	2.6%	1.9%	1.9%
Return on Equity	7.8%	9.8%	-1.6%	-6.5%	5.3%	10.2%	13.2%	13.3%	9.9%	8.9%
ROIC	3.2%	4.1%	-0.7%	-2.4%	1.8%	3.3%	4.4%	4.3%	3.0%	2.8%
Shares Out.	178	179	178	179	181	182	197	201	205	211
Revenue/Share	63.79	69.30	64.26	60.63	61.34	60.04	55.22	50.29	58.17	66.96
FCF/Share	2.05	6.84	1.66	(5.84)	(7.63)	(10.28)	(9.21)	(12.27)	(20.42)	(13.67)

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

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