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## Utility Valuation Still Looks Full; Risk / Reward Looks Negative, With The Macro Backdrop Improving.

Since 3/12/19 utilities are flat vs. the S&P 500 which is up 2.7% (most of that market alpha being very recent). Utilities are up 10.4% YTD vs the SP500 up 14.4%.

- **Relative P/E vs. The SP500 Is Still Elevated Vs. Historic Averages.**
- **They Screen Less Expensive In Our Bond Regression Model Than From a Few Weeks Ago, But Still Rich.**
- **Absolute Valuation Is Still High As It Compares To What We See As Fair Value In Our Proprietary DDM.**

In Our Last Note on 3/12/19, We Said That the Risk / Reward Didn't Look Too Good For Utilities, but that the direction that we would move relative to the market would be driven by macro factors. At the time our macro and policy teams were cautiously bullish. That thesis has followed through! After trending lower for six months, EVRISI surveys of U.S. companies have improved over the last five weeks. In the past, EVRISI company surveys have turned up within 11 weeks of the upturn in the S&P. This time they did it in 8 weeks. On other fronts we also see positive data. It is worth noting that a few foreign economic indicators have improved too. We are also clearly in a full-fledged global easing cycle.

### We believe the big implications of this backdrop are:

- It will increase the odds that Fed tightening does not lead to a recession.
- It will increase the odds that S&P earnings improve.
- It will increase the odds that the yield curve steepens.

We go through a detailed review of all these topics in this report.

# EVERCORE ISI

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## **Regulated Utilities Update: 4/2/19**

*Utilities Have Kept Up With The Market The Last Few Weeks But Are Tailing Off  
As Global Economic Data And Policy Look Better.*

*Relative P/E vs. The SP500 Is Elevated Vs. Historic Averages.*

*Absolute Valuation Is High As It Compares To Our Proprietary DDM.*

*They Screen Less Expensive In Our Bond Regression Model Given The  
Collapse In Interest Rates The Last Few Weeks, But Rates May Have Turned.*

*Our Macro Team Sees U.S. Growth Improving & Our Policy Team Sees A Global  
Easing Cycle In Process. Confirming The Negative Risk/Reward We Outlined In  
Our Last Update On 3/13/19.*

*We Rate The Following Regulated Names Outperform: FE, SRE, EVRG, NEE,  
CMS.*

*Separately We Still Rate AES, EXC, PEG, NRG, VST Outperform.*

## Our Universe: We Cover 26 Regulated Utilities, 3 Diversified Utilities, 2 IPPs

- Utilities are trading at P/E multiples averaging 20.3x '19, 18.9x '20, and 18.0x '21 EPS and are starting to look more fairly priced.
  - We have not published '21 estimates yet for CNP, DUK, PCG.
  - All of those P/E averages remove the extreme discounts of three stocks: EIX, PCG, and PPL.
- On 12/13/18 the group valuation last peaked by our estimates at 20.9x '18, 19.7x '19, 18.5x '20.
  - The group peaked in '17 on 11/14/17 at 21.8x '17, 20.4x '18, and 18.8x '19.
  - The post-Brexit July '16 highs were 20.5x '16, 19.5x '17 and 18.5x '18.
- Within the Regulated Universe we have Outperform ratings on FE, SRE, EVRG, NEE, & CMS.
  - FE has transitioned back to being a simple utility holding company and has raised the dividend in '19 for the first time in five years.
  - SRE is a special situation with CA exposure but not with the balance sheet risk impairment potential of PCG. We see multiple other upsides.
  - EVRG is a relative value and they are buying back >20% of the stock through mid 2020. The market over-reacted to a modest negative EPS revision.
  - NEE & CMS are differentiated high-quality longer-term EPS and dividend growth stories.
  - We also still like diversified utilities with merchant power exposure—EXC and PEG—because of valuation and potential positive earnings revision catalysts. Despite strong performance we still like NRG and VST too, as they remain undervalued.

## Valuation & Earnings Snapshot (Trading Comps)

Regulated Utilities																
Ticker	Company Name	4/1/19 Price	ISI Rating	Shares Out	Market Cap	2019 Div Yld	2019 Payout	ISI EPS Estimate			P/E Multiple			'18-'21 EPS Growth	Price to Book	Prem. to Group
								2019	2020	2021	2019	2020	2021			
DUK	Duke Energy Corp	\$89.28	In Line	727	64,947	4.2%	76%	5.00	5.25	NA	17.9x	17.0x	NA	NA	1.4x	NA
CNP	CenterPoint Energy Inc	\$30.70	In Line	434	13,324	3.7%	69%	1.68	1.78	NA	18.3x	17.3x	NA	NA	2.7x	NA
PCG	PG&E Corp	\$18.01	In Line	530	9,546	0.0%	0%	4.05	4.35	NA	4.4x	4.1x	NA	NA	0.4x	NA
NEE	NextEra Energy, Inc.	\$190.49	Outperform	486	92,594	2.6%	61%	8.25	9.05	9.55	23.1x	21.0x	19.9x	7.4%	2.5x	11%
PNM	PNM Resources, Inc.	\$46.72	In Line	81	3,772	2.4%	52%	2.15	2.22	2.35	21.7x	21.1x	19.9x	5.6%	2.0x	10%
WEC	WEC Energy Group	\$78.11	In Line	317	24,753	3.0%	67%	3.52	3.72	3.95	22.2x	21.0x	19.8x	6.0%	2.3x	10%
AEE	Ameren Corp	\$72.79	In Line	250	18,230	2.6%	58%	3.25	3.55	3.80	22.4x	20.5x	19.2x	4.1%	2.0x	7%
CMS	CMS Energy Corp	\$54.99	Outperform	286	15,725	2.8%	61%	2.49	2.68	2.88	22.1x	20.5x	19.1x	7.4%	2.9x	6%
NI	NiSource Inc	\$28.18	In Line	384	10,827	2.9%	64%	1.30	1.39	1.48	21.7x	20.3x	19.0x	4.5%	1.8x	6%
XEL	Xcel Energy Inc	\$55.57	In Line	526	29,253	2.9%	62%	2.62	2.80	2.95	21.2x	19.8x	18.8x	6.2%	2.1x	5%
ES	Eversource Energy	\$70.68	In Line	320	22,642	3.0%	62%	3.45	3.65	3.85	20.5x	19.4x	18.4x	5.8%	1.8x	2%
HE	Hawaiian Electric Industries, Inc.	\$40.62	Underperform	111	4,489	3.2%	67%	1.92	2.07	2.22	21.1x	19.6x	18.3x	6.2%	1.9x	2%
ED	Consolidated Edison Inc	\$84.32	Underperform	355	29,909	3.5%	74%	4.00	4.45	4.65	21.1x	19.0x	18.1x	2.8%	1.5x	1%
PNW	Pinnacle West Capital Corp	\$94.88	In Line	114	10,800	3.2%	62%	4.85	5.00	5.25	19.6x	19.0x	18.1x	5.6%	1.9x	1%
AEP	American Electric Power Co Inc	\$82.82	In Line	498	41,246	3.2%	65%	4.10	4.35	4.60	20.2x	19.0x	18.0x	5.3%	2.0x	0%
OGE	OGE Energy Corp	\$42.93	In Line	201	8,607	3.5%	70%	2.13	2.27	2.39	20.1x	18.9x	18.0x	4.0%	2.0x	0%
DTE	DTE Energy Co	\$123.80	In Line	189	23,433	3.1%	62%	6.20	6.55	7.05	20.0x	18.9x	17.6x	3.8%	1.9x	-2%
AGR	Avangrid Inc.	\$50.11	In Line	310	15,519	3.6%	79%	2.25	2.60	2.90	22.3x	19.3x	17.3x	9.5%	1.0x	-4%
EVRG	Eversource Energy	\$57.43	Outperform	214	12,299	3.3%	66%	2.90	3.20	3.35	19.8x	18.0x	17.2x	7.8%	2.0x	-5%
D	Dominion Resources Inc	\$76.69	In Line	820	62,905	4.8%	87%	4.20	4.40	4.60	18.3x	17.4x	16.7x	4.4%	2.7x	-7%
SRE	Sempra Energy	\$126.63	Outperform	292	37,030	3.1%	64%	6.05	7.25	7.60	20.9x	17.5x	16.7x	12.1%	1.8x	-7%
ETR	Entergy Corp	\$94.36	In Line	198	18,649	3.9%	69%	5.30	5.50	5.80	17.8x	17.2x	16.3x	-7.3%	1.8x	-10%
SO	Southern Company Inc	\$51.41	Underperform	1,061	54,542	4.8%	82%	3.00	3.10	3.25	17.1x	16.6x	15.8x	2.0%	1.6x	-12%
FE	FirstEnergy Corp	\$41.45	Outperform	542	22,478	3.7%	65%	2.35	2.50	2.65	17.6x	16.6x	15.7x	0.6%	2.8x	-13%
EIX	Edison International	\$62.70	In Line	326	20,440	3.9%	55%	4.45	4.75	5.10	14.1x	13.2x	12.3x	7.2%	1.7x	-32%
PPL	PPL Corp	\$31.64	In Line	716	22,666	5.2%	67%	2.47	2.54	2.59	12.8x	12.5x	12.2x	2.7%	1.8x	-32%
Regulated Group Average (Excludes PCG for Div Values)						3.4%	66.6%				19.2x	17.9x	17.5x	4.9%	1.94x	
Regulated Group Average (Excluding Stocks: PPL, EIX, and PCG)						3.3%	67.1%				20.3x	18.9x	18.0x	4.9%	2.02x	
Regulated Group Max (Excludes PCG for Div Values)						5.2%	87.4%				23.1x	21.1x	19.9x	12.1%	2.9x	
Regulated Group Min (Excludes PCG for Div Values)						2.4%	52.1%				4.4x	4.1x	12.2x	-7.3%	0.4x	
Diversified Utilities																
Ticker	Company Name	4/1/19 Price	ISI Rating	Shares Out	Market Cap	2019 Div Yld	2019 Payout	ISI EPS Estimate			P/E Multiple			'18-'21 EPS Growth	Price to Book	Prem. to Group
								2019	2020	2021	2019	2020	2021			
PEG	Public Service Enterprise Group Inc	\$58.54	Outperform	507	29,680	3.2%	58%	3.25	3.50	3.65	18.0x	16.7x	16.0x	5.4%	1.9x	-6%
EXC	Exelon Corp	\$49.84	Outperform	976	48,628	2.9%	46%	3.15	3.15	3.15	15.8x	15.8x	15.8x	0.2%	1.4x	-8%
AES	AES Corp	\$17.92	Outperform	662	11,869	3.0%	42%	1.31	1.43	1.53	13.7x	12.5x	11.7x	7.1%	2.8x	-32%
Diversified Group Average						3.1%	49%				15.8x	15.0x	14.5x	4.2%	2.0x	
Diversified Group Max						3.2%	58%				18.0x	16.7x	16.0x	7.1%	2.8x	
Diversified Group Min						2.9%	42%				13.7x	12.5x	11.7x	0.2%	1.4x	

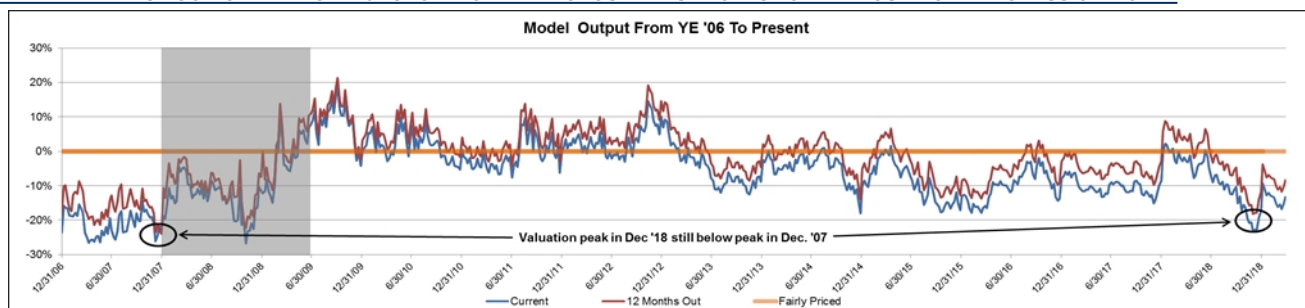
Updated as of 4/1/19 close

Source: FactSet, Evercore ISI Research

## Utilities Are Still Expensive On P/E & In Our Regression Model But Less So Due To Lower Rates

- The group looks fully priced today at 18.0x '21 EPS, a full P/E multiple above fair value in our DDM. They are less expensive in our bond regression model than a few weeks ago, at 7.8% above fair value owing to the big pull back in rates since early/mid March. Utilities are pricing in an “insurance premium” related to concerns about the macro-economic outlook, which could ebb if the EVRISI macro and policy outlook proves prescient.
- Our DDM tells us that utilities are reasonably valued at ~17.0x '21 out one year. They are above that now by almost a full turn.
- Our bond regression model reading is also elevated, but has been muted by the fact that interest rates have fallen significantly since mid-March '19.
  - Regulated utilities look 12.7% expensive on current '19 dividend yields and 7.8% expensive on 12 month out '20 dividend yields.
    - On 12/13/18 at the valuation peak regulated utilities looked 18.6% expensive on '19 dividend yields and 13.6% expensive on '20.
      - The 10yr yield was 2.91% and the Moody's Baa was 5.16%.
    - On 3/12/19 the group was 16.5% expensive on '19 dividend yields and 11.5% expensive on '20.
      - The 10yr yield was 2.64% and the Moody's Baa was 4.89%.
    - Today the group is 12.7% expensive on '19 dividend yields and 7.8% expensive on '20.
      - 10yr yield has fallen to 2.41% and the Moody's Baa has fallen to 4.66%.
    - The P/E multiple on the group has not changed much since 3/12/19 but the bond regression reading screens better given lower rates.
- We had said in our regulated update on 12/3/18 (just before the peak on 12/13/18) that our bond regression model told us that regulated utilities were 23.2% expensive on then current yields and 18.3% expensive 12 months out assuming rates remained unchanged.
  - That elevated reading was just below the readings we saw prior to the '08 recession when the group looked ~25% overvalued as we approached the downturn. So we said we “got the joke” as to why utility stocks were up despite the fact that interest rates were also up meaningfully.
  - We were using '18-'19 not '19-'20 and the Moody's Baa yield was 5.29% with the US 10-yr yield at 3.01%.
  - At the end of the calendar year we rolled our bond yield to dividend yield regression model to reflect updated current and forward dividend yield expectations. So our model now runs off of '19-'20 div yields for current and 12 month forward valuations vs '18-'19 before that. The roll forward lowered the group valuation vs. bonds by ~5% cheaper all things equal given estimate annual dividend growth.
- Today as we said above our bond yield model is telling us the group is 12.7% expensive on current yields and 7.8% expensive 12 months out
  - ~5% of the decline in valuation from 12/3/18 to today is due in part to rolling our model to '19 / '20.
  - ~9% of the decline in valuation is from the Baa moving from 5.29% on 12/3/18 to 4.66% today.
  - These were offset ~3% by an increase in group valuations.

HERE IS OUR DDM BACKTEST GOING BACK TO 1/1/07 SHOWING WHERE GROUP VALUATION IS TODAY IN OUR BOND REGRESSION MODEL



Updated as of 4/1/19 close

Source: FactSet, Evercore ISI Research

## Utilities Look Expensive In Our Regression, But Much Less So Than In Mid December As Rates Are Lower

Regulated utilities looked 18.5% expensive on 12/13/18 on then current yields

Utility Valuation 12/13/18			10 YR Baa	2.91% 5.16%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2019 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	2.30%	2.20%	28.7x	55.7%
	2.52%	2.35%	26.8x	45.5%
	2.74%	2.51%	25.1x	36.6%
	2.96%	2.66%	23.7x	28.7%
	3.18%	2.82%	22.4x	21.6%
	3.40%	2.97%	21.2x	15.3%
- 68% Confidence Interval	3.62%	3.12%	20.2x	9.6%
	3.84%	3.28%	19.2x	4.4%
	4.06%	3.43%	18.4x	-0.2%
	4.28%	3.59%	17.6x	-4.5%
	4.50%	3.74%	16.8x	-8.5%
	4.72%	3.89%	16.2x	-12.1%
	4.94%	4.05%	15.6x	-15.4%
Predicted Valuation	5.16%	4.20%	15.0x	-18.5%
	5.38%	4.36%	14.5x	-21.4%
	5.60%	4.51%	14.0x	-24.1%
	5.82%	4.67%	13.5x	-26.6%
	6.04%	4.82%	13.1x	-29.0%
	6.26%	4.97%	12.7x	-31.2%
+ 68% Confidence Interval	6.48%	5.13%	12.3x	-33.2%
	6.70%	5.28%	11.9x	-35.2%
	6.92%	5.44%	11.6x	-37.0%
	7.14%	5.59%	11.3x	-38.8%
	7.36%	5.75%	11.0x	-40.4%
	7.58%	5.90%	10.7x	-42.0%
+ 95% Confidence Interval	7.80%	6.05%	10.4x	-43.4%

Utility Valuation 4/1/19	10 YR Baa		2.41% 4.66%
	Expected Defensive Index Yld	Implied 2019 P/E	Upside / (Downside) for Index
Confidence Intervals	BBB Yield %		
- 95% Confidence Interval	1.80%	1.85%	34.2x 82.1%
	2.02%	2.00%	31.5x 68.1%
	2.24%	2.15%	29.3x 56.1%
	2.46%	2.31%	27.3x 45.6%
	2.68%	2.46%	25.6x 36.5%
	2.90%	2.62%	24.1x 28.5%
- 68% Confidence Interval	3.12%	2.77%	22.8x 21.3%
	3.34%	2.93%	21.6x 14.9%
	3.56%	3.08%	20.5x 9.2%
Current Valuation	3.78%	3.23%	19.5x 4.0%
	4.00%	3.39%	18.6x -0.8%
	4.22%	3.54%	17.8x -5.1%
	4.44%	3.70%	17.1x -9.1%
Predicted Valuation	4.66%	3.85%	16.4x -12.7%
	4.88%	4.01%	15.8x -16.1%
	5.10%	4.16%	15.2x -19.2%
	5.32%	4.31%	14.6x -22.1%
	5.54%	4.47%	14.1x -24.8%
	5.76%	4.62%	13.7x -27.3%
+ 68% Confidence Interval	5.98%	4.78%	13.2x -29.6%
	6.20%	4.93%	12.8x -31.8%
	6.42%	5.09%	12.4x -33.9%
	6.64%	5.24%	12.0x -35.8%
	6.86%	5.39%	11.7x -37.7%
	7.08%	5.55%	11.4x -39.4%
+ 95% Confidence Interval	7.30%	5.70%	11.1x -41.0%

Regulated utilities now look 12.7% expensive on current yields

On 12/13/18 if rates stayed unchanged for 12 months utilities looked 13.6% expensive

Utility Valuation 12/13/18		10 YR Baa	2.91% 5.16%	
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2020 P/E	Upside / (Downside) for Index
-95% Confidence Interval	2.30%	2.20%	28.9x	65.2%
	2.52%	2.35%	27.0x	54.3%
	2.74%	2.51%	25.3x	44.8%
	2.96%	2.66%	23.9x	36.4%
	3.18%	2.82%	22.6x	29.0%
-68% Confidence Interval	3.40%	2.97%	21.4x	22.3%
	3.62%	3.12%	20.3x	16.2%
	3.84%	3.28%	19.4x	10.8%
	4.06%	3.43%	18.5x	5.8%
	4.28%	3.59%	17.7x	1.2%
Current Valuation	4.50%	3.74%	17.0x	-2.9%
	4.72%	3.89%	16.3x	-6.8%
	4.94%	4.05%	15.7x	-10.3%
	5.16%	4.20%	15.1x	-13.6%
	Predicted Valuation	5.38%	4.36%	14.6x
5.60%		4.51%	14.1x	-19.5%
5.82%		4.67%	13.6x	-22.2%
6.04%		4.82%	13.2x	-24.7%
6.26%		4.97%	12.8x	-27.0%
+68% Confidence Interval	6.48%	5.13%	12.4x	-29.2%
	6.70%	5.28%	12.0x	-31.3%
	6.92%	5.44%	11.7x	-33.2%
	7.14%	5.59%	11.4x	-35.1%
	7.36%	5.75%	11.1x	-36.8%
+95% Confidence Interval	7.58%	5.90%	10.8x	-38.5%
	7.80%	6.05%	10.5x	-40.0%

Utility Valuation 4/1/19	10 YR Baa		2.41% 4.66%	
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2020 P/E	Upside / (Downside) for Index
-95% Confidence Interval	1.80%	1.85%	34.2x	92.4%
	2.02%	2.00%	31.5x	77.5%
	2.24%	2.15%	29.3x	64.8%
	2.46%	2.31%	27.3x	53.8%
	2.68%	2.46%	25.6x	44.2%
	2.90%	2.62%	24.1x	35.7%
-68% Confidence Interval	3.12%	2.77%	22.7x	28.1%
	3.34%	2.93%	21.5x	21.4%
	3.56%	3.08%	20.5x	15.3%
	3.78%	3.23%	19.5x	9.8%
	4.00%	3.39%	18.6x	4.8%
	4.22%	3.54%	17.8x	0.2%
Current Valuation	4.44%	3.70%	17.1x	-4.4%
Predicted Valuation	4.66%	3.85%	16.4x	-7.8%
	4.88%	4.01%	15.7x	-11.4%
	5.10%	4.16%	15.2x	-14.6%
	5.32%	4.31%	14.6x	-17.7%
	5.54%	4.47%	14.1x	-20.5%
	5.76%	4.62%	13.6x	-23.2%
+68% Confidence Interval	5.98%	4.78%	13.2x	-25.7%
	6.20%	4.93%	12.8x	-28.0%
	6.42%	5.09%	12.4x	-30.2%
	6.64%	5.24%	12.0x	-32.2%
	6.86%	5.39%	11.7x	-34.2%
	7.08%	5.55%	11.4x	-36.0%
+95% Confidence Interval	7.30%	5.70%	11.1x	-37.7%

If rates stay unchanged for the next 12 months, regulated utilities would still look 7.8% expensive

- Today we are discounting corporate bond yields at 4.23% 12 months out, implying a 2.01% 10 Year T-Bond Yield if corporates and treasuries traded to their historic 222bp spread.
- The EVRISI base case forecast for the 10 year and the Moody's Baa bond yield at YE '19 is 3.00% / 5.35%. Slightly wider than the historic spread.
- If we use the EVRISI forecast as a sensitivity utilities would be 18.1% expensive on a 12-month holding period basis, with a current yield of 3.4% growing at 5% annually.

## Right Now Absolute & Relative Valuation Is Unpalatable & Risk / Reward Skews Negative

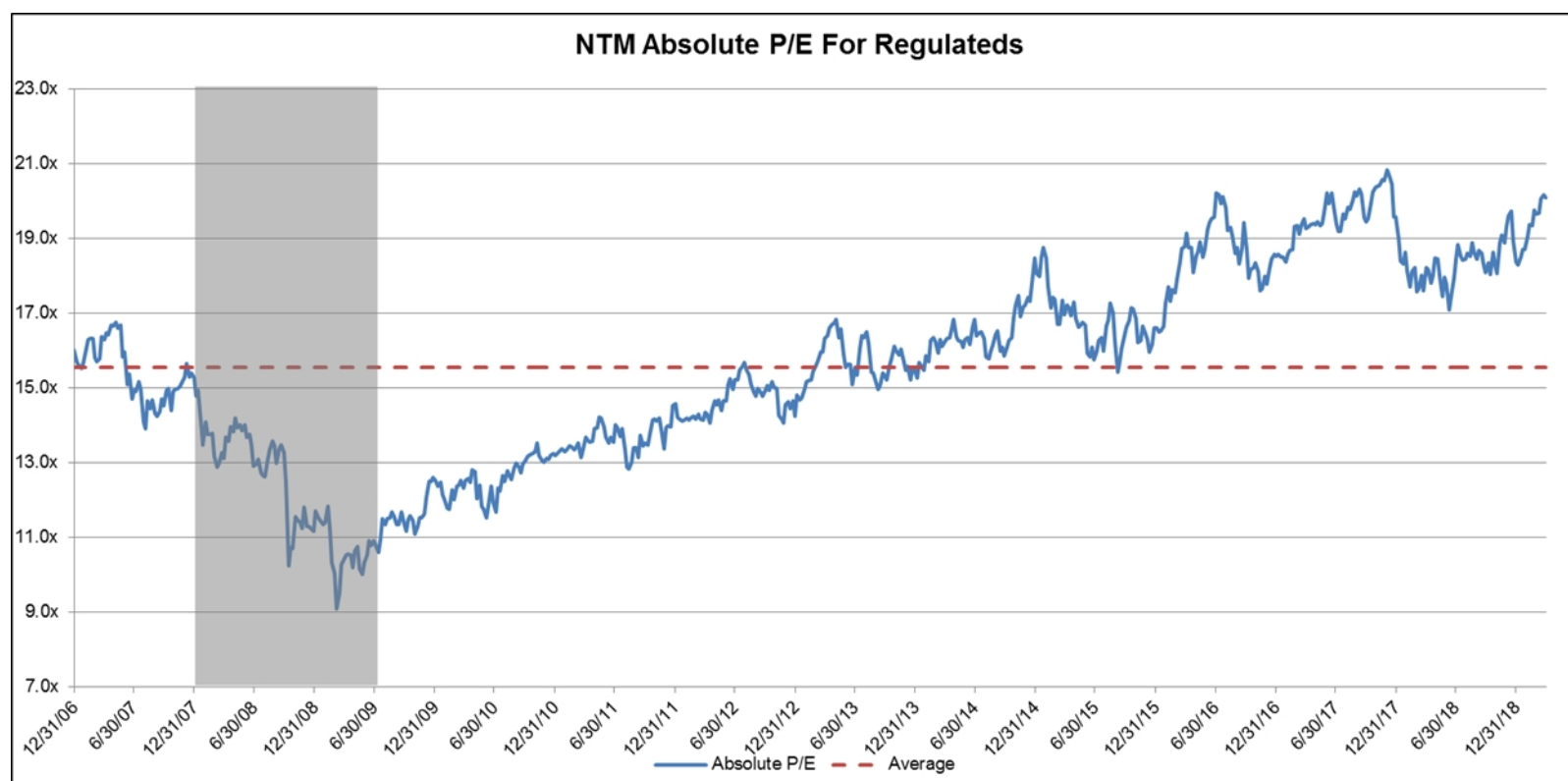
- On 3/13/19 in our last update we noted that our policy and macro teams were cautiously bullish. Since then the SP500 is up 2.7% and utilities are basically flat (with a chunk of that market alpha on 4/1/19).
- FactSet absolute NTM PE peaked on 12/3/17 at 20.84x. On 3/12/19 it was 19.87x.
- FactSet consensus NTM relative P/E to the SP500 on 12/13/18 was 1.31x. On 3/12/19 it was 1.23x.
  - Today the FactSet consensus NTM absolute P/E is 19.88x, relatively stable from 19.87x in our last update on 3/12/19.
    - The absolute peak on 12/3/17 was 20.84x. The prior peak was 7/15/16 (Post Brexit) at 19.93x.
    - Since '06 the average NTM absolute P/E is 15.56x. Since '95 it is 14.14x.
  - Today the FactSet consensus NTM relative P/E to the SP500 is 1.22x. Which is relatively stable from our last update on 3/12/19 of 1.23x.
    - Post Brexit vote that number was 1.17x, which we hit again mid November '18.
    - Since '16 the average relative P/E has been 1.08x. Since '95 it has been 0.92x.
- Absolute valuation is still high. Relative valuation vs. the market is high but lower than mid-December. The bond regression reading as we said earlier is also not great but improved due to lower interest rates (which seem to be inflecting higher). We said on 3/13/19 that the risk/reward didn't look too good but the direction that we move relative to the markets was a different question, which if you took our macro and strategy teams' views to heart, would have biased you to a negative risk/reward. Several weeks hence we are seeing that thesis evolve. Our team's views are summarized on page 10.

### REVIEW OF '18 PERFORMANCE:

- Utilities outperformed the market in FY '18 on a calendar year basis
  - Excluding PCG regulated names were up 4.4% in '18 vs the S&P500 down 6.2%, corresponding to an outperformance of 10.6%.
  - In '17 regulated names underperformed the market by 7.1%, up 12.3% vs the S&P500 up 19.4%.
- From BOY '18 until 2/8/18 utilities declined 10.2% vs. the SP500 declining 3.5%.
  - Looking back to peak valuation on 11/14/17, utilities fell 16.6% through 2/8/18 vs. a flat SP500.
  - After that utilities rose modestly for the most part until they bottomed again on 6/11/18.
- By 6/11/18 utilities had traded back down, hitting a modestly higher low than seen on 2/8/18.
  - Valuation in terms of '19 P/E and '20 P/E looked better than on 2/8/18 (see chart on page 11)...
  - But Interest rates had moved substantially higher. From 2/8/18 to 6/11/18 the 10 year was up from 2.85% to 2.96% and the Moody's Baa bond yield average up from 4.48% to 4.85%.
  - So they were screening cheaper on absolute and relative P/E to the SP500 and were approaching a tantalizing entry point in our bond regression model but we missed the inflection point.
- From 6/11/18 through YE '18 utilities were up 14.1% vs. the SP500 down 9.9%, 24% outperformance, with the absolute peak in valuation on 12/13/18.
  - From 6/11/18 to 9/9/18 regulated utilities ripped 13.6% compared to the S&P up only 3.2%.
  - From 9/9/18 through 9/26/18 Regulated names hit a brief air-pocket and declined (4.4%) vs the S&P up 1.2%. On 9/26/18 relative NTM PE was 1.06x.
  - From 9/26 to 12/13 utilities outperformed the S&P by 21.7% rising 12.9% vs. the S&P down 8.8%.
  - From 12/13/18 to YE regulateds fell 6.6% vs the S&P down just 5.4%.
- Within the group leadership shifted in June '18 with more traditional "defensive" utilities and some special situations leading the way higher, reducing the alpha contribution driven by some of the diversified and merchant power stocks that had led the group since Q4 '17 (for more on this see page 11).

## NTM FactSet Consensus P/E Has Moved Up Since Early February

- Today NTM absolute P/E is 19.88x using FactSet consensus vs the absolute peak on 12/3/17 of 20.84x. The prior peak was 7/15/16 (Post Brexit) at 19.93x.
- Since '06 the average NTM absolute P/E is 15.56x. Since '95 it is 14.14x.



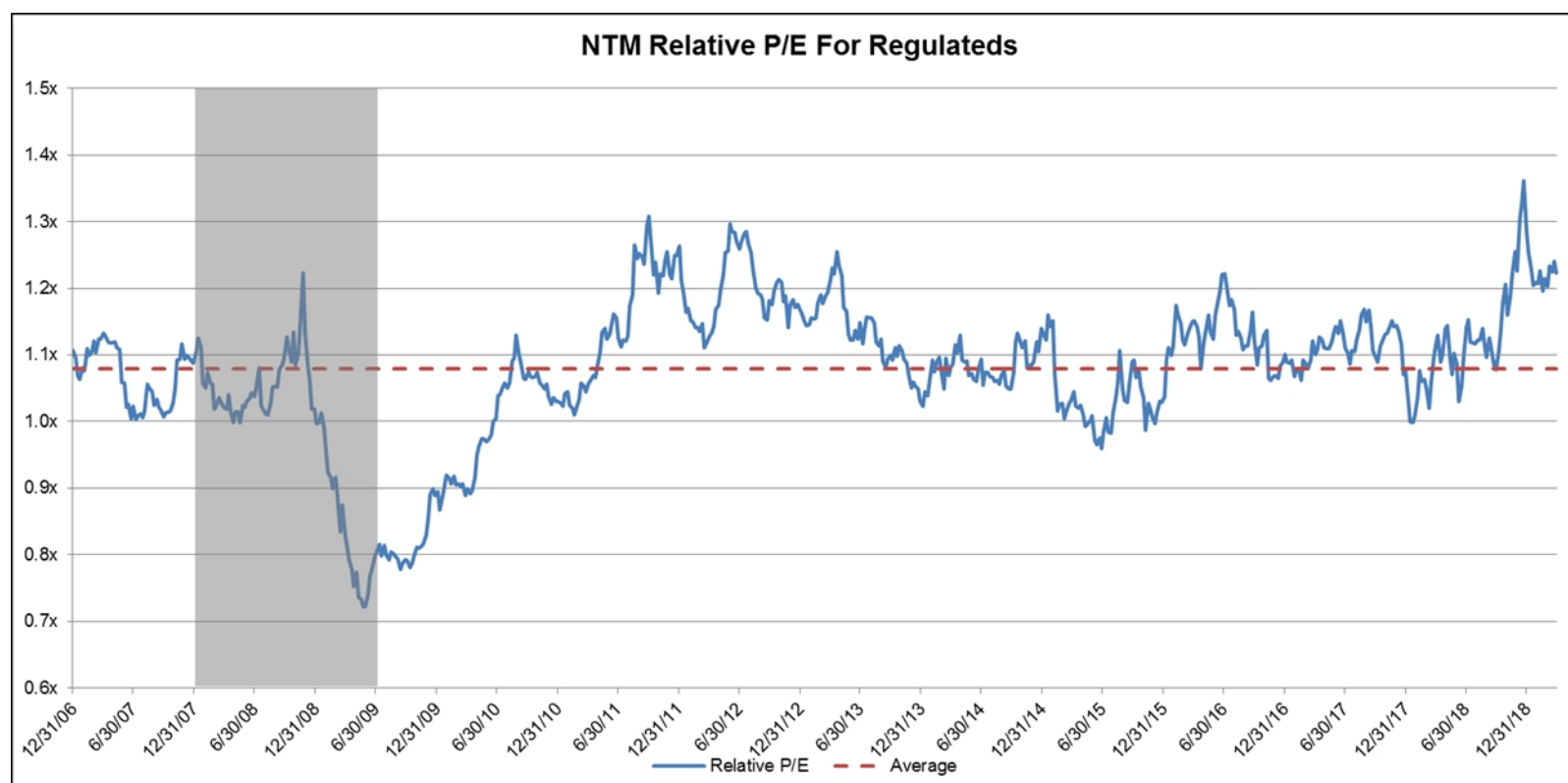
Updated as of 4/1/19 close

Source: FactSet, Evercore ISI Research



## NTM FactSet Relative P/E Has Moved Up Slightly Since Early February

- The relative P/E post Brexit vote was 1.17x, which we hit in mid November '18. At 1.22x the relative P/E now is more elevated, but below prior peaks; it was slightly above 1.19x on 2/6/19.
- The average relative P/E since 2006 is 1.08x. Since '95 it is 0.92x.



Updated as of 4/1/19 close

Source: FactSet, Evercore ISI Research



## The Group Is A Bit Expensive & Risk/Reward Looks Skewed Lower

- The group is trading at a lower absolute defensive P/E premium than the extreme risk off environments of 7/16 (post Brexit) and 11/17, but bond yields were much lower in both those instances.
- Looking at our bond regression model, on 12/13—the most recent peak—the 10-year yield was 2.91% and the Moody's Baa corporate bond yield average was 5.16% -- a 225bp spread.
  - They were 18.6% expensive on '19 yields and 13.3% on '20 yields if bond yields remain unchanged in our bond regression model.
- Today the 10-year bond yield is 2.41% and the Moody's Baa corporate bond yield average is 4.66% -- a 225bp spread.
  - In our bond regression model the group now looks 12.7% expensive on expected '19 dividend yield.
  - They are 7.8% expensive on '20 dividend yields (a year out) if bond yields remain unchanged in our bond regression model.
  - The "breakeven" Baa corporate bond yield average at which the group is fairly priced 12 months from now is ~4.23%, which implies a 2.01% 10-year bond yield at an average historic spread of 222bp.
  - So we look overvalued. Rising to higher levels would probably require or presage a view that there is a further big risk off move in the market with further declines in Treasury and corporate bond yields. Right now yields seem to be inflecting higher again.

	Post Brexit Peak 7/15/2016	2017 Top 11/14/2017	Utes Bottom 2/8/2018	2nd Bottom 6/11/2018	Peak 12/13/2018	YE 12/31/2018	2/6/2019	3/12/2019	Current 4/1/2019
Regulated P/E '16	20.1x								
Regulated P/E '17	19.6x	21.8x							
Regulated P/E '18		20.5x	16.7x	16.9x	19.8x	18.4x	18.9x		
Regulated P/E '19			15.6x	15.7x	18.6x	17.3x	17.9x	19.2x	19.2x
Regulated P/E '20						16.2x	16.7x	17.9x	17.9x
Regulated P/E '21								17.7x	17.5x
Relative NTM Reg P/E to S&P500	1.17x	1.17x	1.06x	1.03x	1.31x	1.28x	1.19x	1.23x	1.22x
Regulated Dividend Yield	3.2%	3.1%	3.9%	3.9%	3.3%	3.5%	3.4%	3.4%	3.4%
10 Year Yield	1.59%	2.38%	2.85%	2.96%	2.91%	2.69%	2.70%	2.64%	2.41%
Moody's Baa Bond Yield	4.26%	4.31%	4.48%	4.85%	5.16%	5.14%	5.03%	4.89%	4.66%
Valuation vs. Corporate Bonds*	-5.1%	-9.7%	3.5%	1.1%	-23.4%	-11.4%	-13.3%	-16.5%	-12.7%

\*Represents upside/downside to predicted valuation using Evercore ISI's proprietary dividend yield/bond yield regression looking at current yield vs. the corporate bond yields. Column 2/6/19 and 12/31/18 valuation vs. corporate bonds is reflective of '19 dividend yields. All other columns based on '20 dividend yields. P/Es are inclusive of EIX, PCG, and PPL.

Updated as of 4/1/19 close

Source: FactSet, Evercore ISI Research

## We Are Seeing Further Signs That Our Macro / Policy Teams' Cautiously Bullish Stance In Mid-March Was Justified

**Our Chief Economist Ed Hyman continues to note strength of several key US economic indicators, as well as some foreign economic indicators.** We have been in a global economic slowdown, and as a result inflation has slowed. We are clearly in a full-fledged global easing cycle as well, with the most recent addition being the window opening for the PBoC to cut RRR in April. Also there is pretty strong evidence that growth is now improving domestically. After trending lower for six months, EVRISI surveys of U.S. companies have improved over the last five weeks. In the past, EVRISI company surveys have turned up within 11 weeks of the upturn in the S&P. This time they did it in 8 weeks. On other fronts we also see positive data with unemployment claims going in the right direction and existing and new housing sales have improved. It is worth noting that a few foreign economic indicators have improved too, most importantly China's composite PMI, which has been up for the last three months. So this is further validation of the thesis we summarized in our last note on 3/13/19 when we indicated our macro and policy call was cautiously bullish.

### **The big implications of this backdrop are:**

- It will increase the odds that Fed tightening does not lead to a recession.
- It will increase the odds that S&P earnings improve.
- It will increase the odds that the yield curve steepens (not good for utilities).

## Utilities Stock Performance: Utes Laggards From '18 Have Outpaced the Market YTD

- Utilities rallied through the back half of '18, and overall have lagged the S&P500 YTD in '19 (10.4% vs 14.4%).
- Stock selection matters!
  - In FY '18 the top 5 best regulated performers were up 14.0% while the bottom 5 worst regulated performers were down 5.5% (excluding PCG). Also PEG was up 4.6%, EXC was up 17.9%. NRG was up 39.5% and VST was up 24.9%.
  - YTD the top 5 best regulated performers are up 15.6% whilst the bottom 5 are up 5.1% (excluding PCG). PEG is up 13.4%, EXC is up 11.3%. VST is up 14.3% and NRG is up 5.6%.
  - In terms of group leadership YTD only 2 were top performers in '18 (AES and VST) and they are not regulated.
  - The regulated names in the top 10 YTD that were index or worse performers in '18: SO, SRE, PNM, XEL, PPL, DTE.

FY17		FY18		Bottom to Recent Top 6/11/18 to 12/13/18		Top to YE 12/13/18-YE '18		Bottom to YE 6/11/18-YE '18		YTD YTD '19	
1	IPPs 75.7%	1	IPPs 32.2%	1	Regulated 22.2%	1	S&P 500 (5.4%)	1	Regulated 14.1%	1	S&P 500 14.4%
2	S&P 500 19.4%	2	Diversified 19.7%	2	Diversified 19.8%	2	Diversified (5.7%)	2	Diversified 13.0%	2	Diversified 12.0%
3	Index 16.1%	3	Index 7.0%	3	Index 19.7%	3	Regulated (6.6%)	3	Index 11.8%	3	Index 10.4%
4	Regulated 12.3%	4	Regulated 4.4%	4	IPPs 17.0%	4	Index (6.7%)	4	IPPs 8.2%	4	IPPs 9.9%
5	Diversified 10.5%	5	S&P 500 (6.2%)	5	S&P 500 (4.7%)	5	IPPs (7.5%)	5	S&P 500 (9.9%)	5	Regulated 9.6%

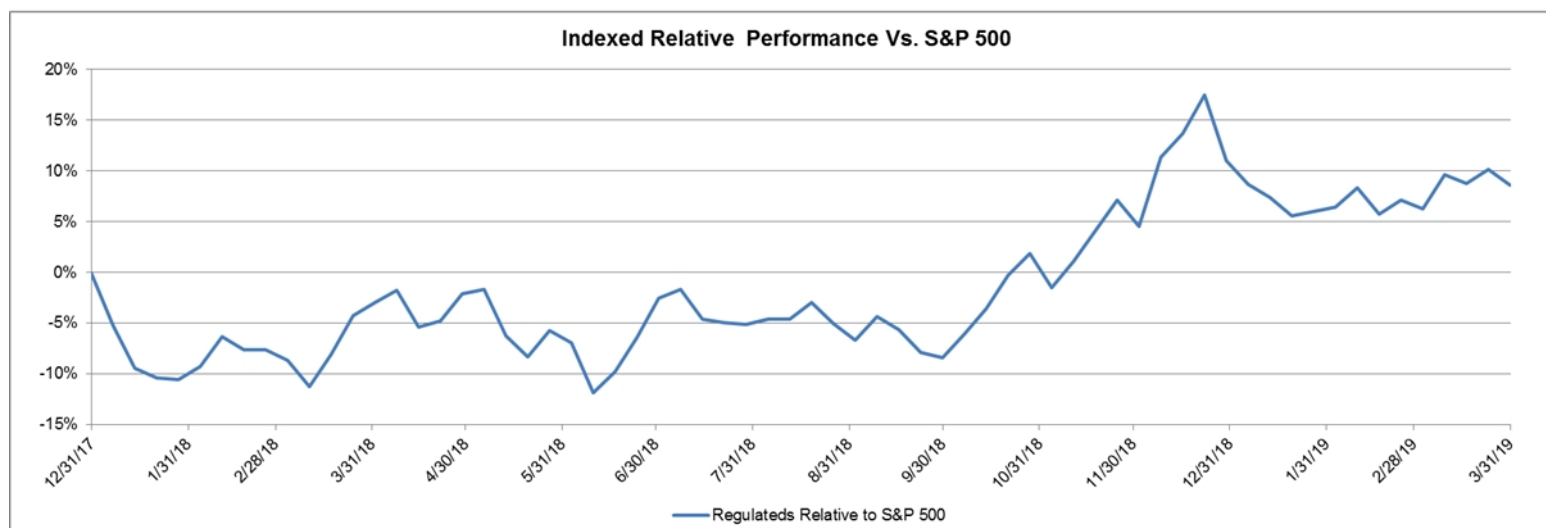
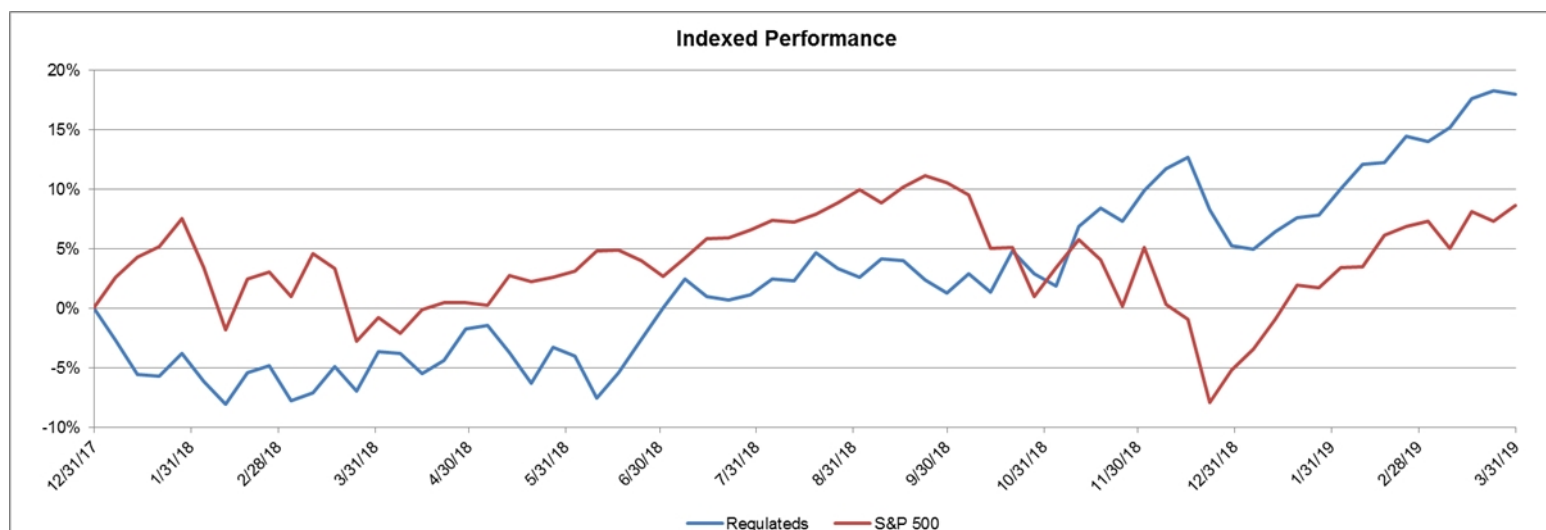
  

FY17		FY18		6/11/18 to 12/13/18		12/13/18-YE '18		6/11/18-YE '18		YTD '19	
1	NRG 133.3%	1	NRG 39.5%	1	ES 33.8%	1	EIX (3.6%)	1	ES 24.9%	1	AES 24.9%
2	AGR 38.1%	2	AES 38.3%	2	NRG 30.9%	2	CNP (3.8%)	2	DUK 22.2%	2	SO 18.4%
3	NEE 34.0%	3	FE 27.3%	3	WEC 29.8%	3	EXC (3.9%)	3	NRG 21.4%	3	SRE 17.9%
4	XEL 21.7%	4	VST 24.9%	4	AEP 29.7%	4	NEE (4.6%)	4	AEP 20.8%	4	PNM 14.4%
5	PEG 21.3%	5	OGE 23.2%	5	XEL 29.2%	5	FE (4.8%)	5	WEC 20.1%	5	VST 14.3%
6	PNM 20.8%	6	EXC 17.9%	6	PNM 29.0%	6	ETR (4.9%)	6	OGE 20.0%	6	WEC 13.6%
7	AEP 20.6%	7	NEE 14.1%	7	AEE 28.8%	7	DUK (5.1%)	7	XEL 19.7%	7	XEL 13.6%
8	CNP 19.4%	8	AEE 13.7%	8	DUK 28.6%	8	AGR (5.3%)	8	AEE 19.5%	8	PEG 13.4%
9	NI 19.1%	9	EVRG 10.8%	9	DTE 28.4%	9	EVRG (5.7%)	9	DTE 19.3%	9	PPL 13.1%
10	ED 19.0%	10	ETR 10.1%	10	PNW 27.5%	10	OGE (5.9%)	10	PNM 18.7%	10	DTE 13.1%
11	VST 18.2%	11	CMS 8.0%	11	OGE 27.3%	11	D (6.0%)	11	CMS 18.1%	11	AEE 12.3%
12	ES 17.8%	12	WEC 7.6%	12	CMS 27.1%	12	HE (6.3%)	12	PNW 17.8%	12	PNW 12.2%
13	CMS 16.8%	13	DUK 6.9%	13	AES 25.0%	13	ES (6.7%)	13	FE 16.1%	13	NI 12.0%
14	WEC 16.8%	14	ES 6.1%	14	PPL 23.2%	14	PEG (6.7%)	14	D 15.7%	14	HE 11.8%
15	AEE 15.8%	15	XEL 5.6%	15	D 23.0%	15	AEP (7.0%)	15	ETR 15.5%	15	AEP 11.7%
16	ETR 15.5%	16	AEP 5.0%	16	FE 21.8%	16	DTE (7.2%)	16	AES 14.7%	16	CMS 11.5%
17	EXC 14.7%	17	HE 4.7%	17	HE 21.5%	17	CMS (7.2%)	17	EXC 14.7%	17	EIX 11.5%
18	DTE 14.5%	18	PEG 4.6%	18	ETR 21.3%	18	NRG (7.2%)	18	CNP 14.1%	18	FE 11.4%
19	HE 13.1%	19	SRE 4.5%	19	NI 20.4%	19	SRE (7.2%)	19	HE 13.9%	19	EXC 11.3%
20	DUK 12.9%	20	PNM 4.2%	20	ED 19.6%	20	AEE (7.4%)	20	PPL 13.4%	20	ED 11.2%
21	PNW 12.6%	21	DTE 4.0%	21	EXC 19.3%	21	XEL (7.5%)	21	NEE 13.3%	21	ETR 10.7%
22	D 9.8%	22	CNP 3.5%	22	NEE 18.7%	22	WEC (7.6%)	22	EVRG 11.9%	22	OGE 10.5%
23	SRE 9.5%	23	PNW 3.3%	23	EVRG 18.6%	23	SO (7.6%)	23	NI 10.6%	23	NEE 10.3%
24	FE 3.5%	24	AGR 2.5%	24	CNP 18.5%	24	PNW (7.7%)	24	ED 9.1%	24	CNP 9.8%
25	SO 2.4%	25	NI 1.8%	25	SO 13.8%	25	VST (7.9%)	25	SO 5.3%	25	ES 9.5%
26	OGE 2.1%	26	PPL (3.2%)	26	PEG 11.6%	26	PNM (8.1%)	26	PEG 4.2%	26	D 8.6%
27	AES (2.7%)	27	SO (3.7%)	27	AGR 8.3%	27	PPL (8.1%)	27	AGR 2.6%	27	NRG 5.6%
28	EVRG (3.5%)	28	EIX (6.4%)	28	VST 3.1%	28	NI (8.2%)	28	EIX (0.6%)	28	DUK 4.5%
29	PPL (4.5%)	29	ED (6.6%)	29	EIX 3.1%	29	AES (8.4%)	29	VST (5.0%)	29	EVRG 2.0%
30	EIX (9.1%)	30	D (7.7%)	30	SRE 1.9%	30	ED (8.9%)	30	SRE (5.4%)	30	AGR 0.9%
31	PCG (23.7%)	31	PCG (47.0%)	31	PCG (33.3%)	31	PCG (10.4%)	31	PCG (40.3%)	31	PCG (24.2%)

Updated as of 4/1/19 close; columns during or after '18 exclude PCG from regulated performance average

Source: FactSet, Evercore ISI Research

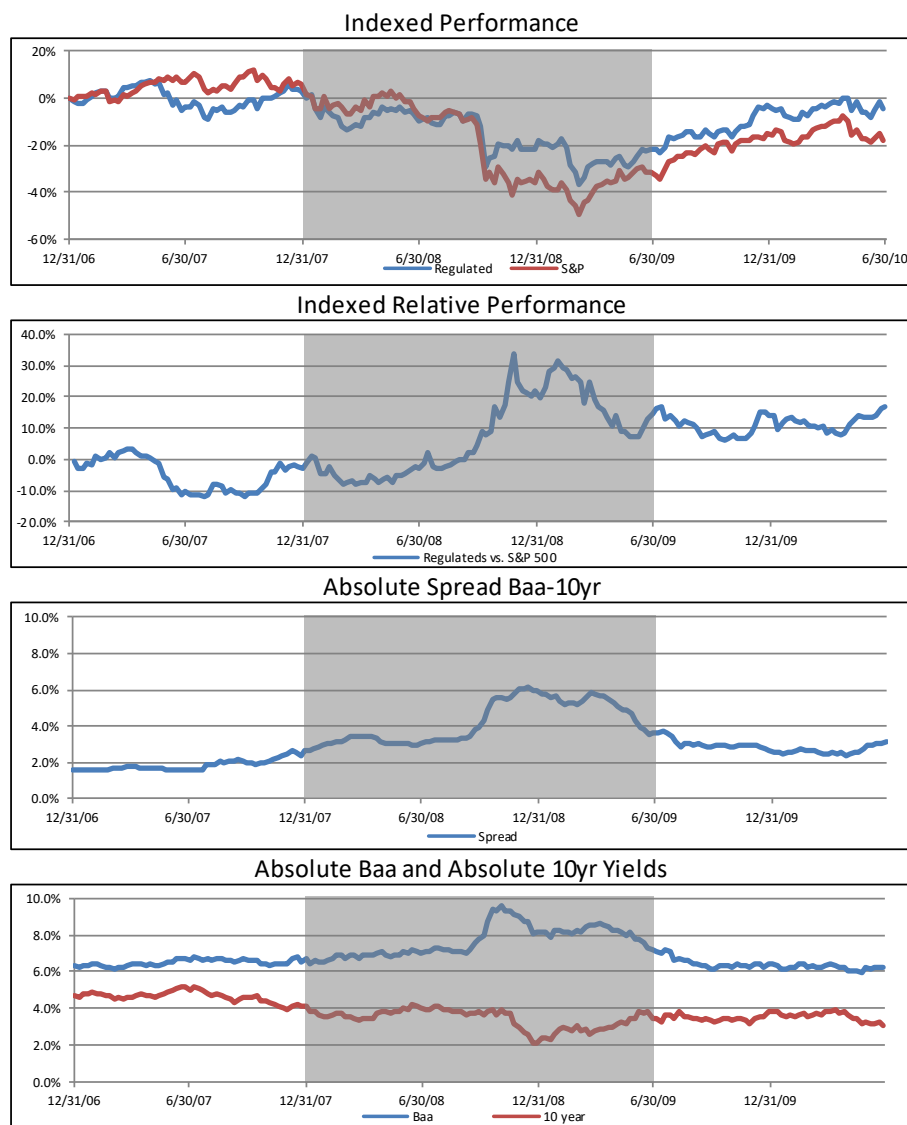
## Utility Stock Price Performance vs. SP500 From YE '17 To Present



Updated as of 4/1/19 close, compounded return, 7 day intervals

Source: FactSet, Evercore ISI Research

## History Lesson: Utilities Outperformed Before The Last Recession, During The Credit Crisis, And Out The Back End

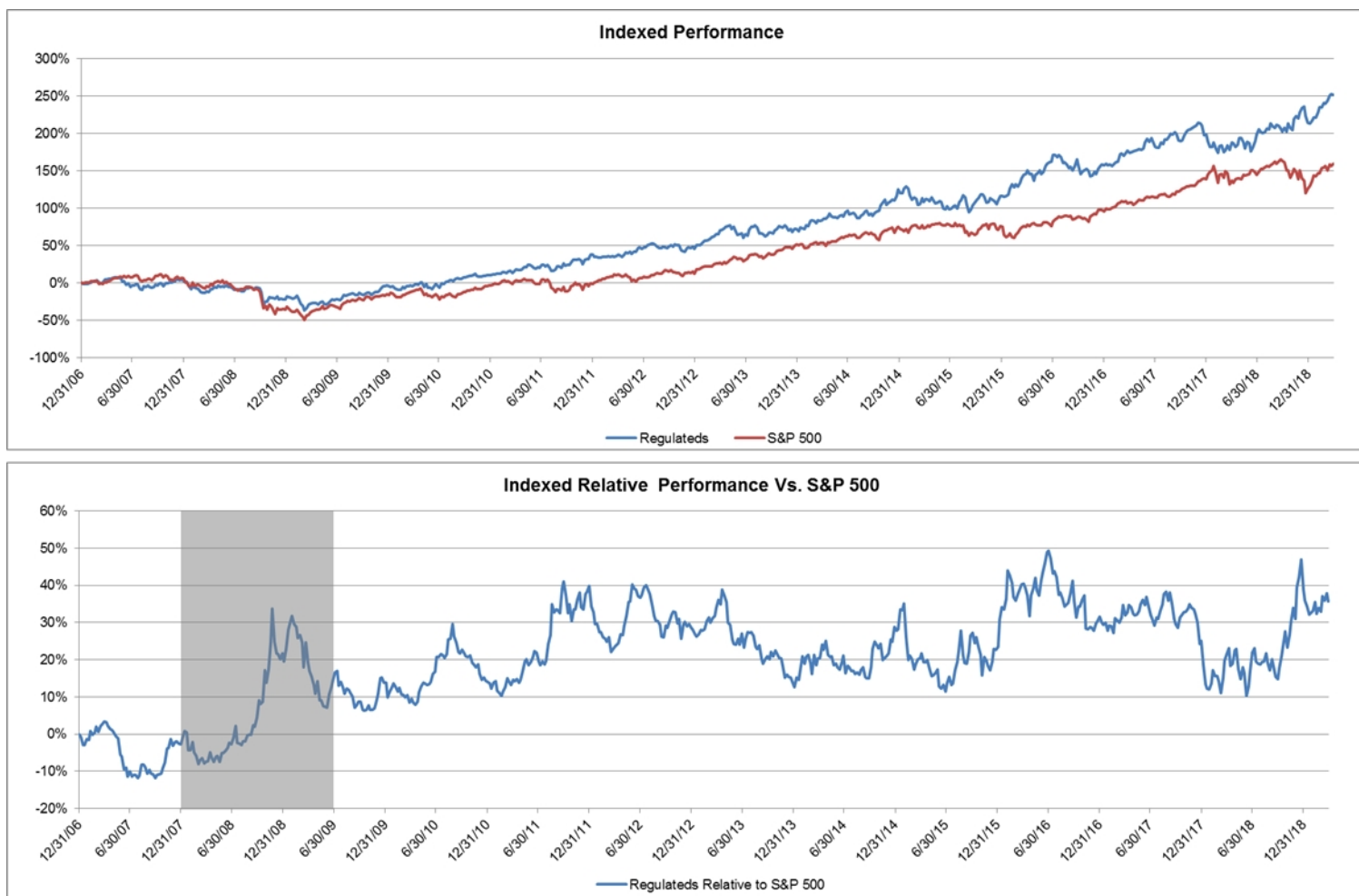


- On the charts to the left we show that regulated utilities outperformed the market in the latter half of '07 when they first peaked in valuation in our bond model (see page 4).
- From 6/30/07 through 12/31/07 utilities were up 6.3% vs. -1.4% for the SP500.
- Then performance tracked somewhat tight to the SP500 until the credit crisis hit a crescendo in late '08 / early '09 and utilities significantly outperformed, hitting very high valuations again in the bond model due to the blowout in Baa Yields (see page 4).
- During the '08 recession (from 12/31/07 until 6/30/09) regulated utility stocks delivered a total return of -23.4%% vs. -35.0% for the SP500.
- In the year subsequent to the recession utilities returned 19.9% vs. 14.4% for the SP500.

Source: FactSet, Evercore ISI Research

## History Lesson: Utility Stock Price Performance vs. SP500 From 2006 To Present

- This shows the performance of regulated utilities vs. the SP500 from YE '06, through the recession, until present.
- Assuming compounding returns and dividends reinvested, utilities are up 252% vs. 159% for the SP500 from YE '06 to present.

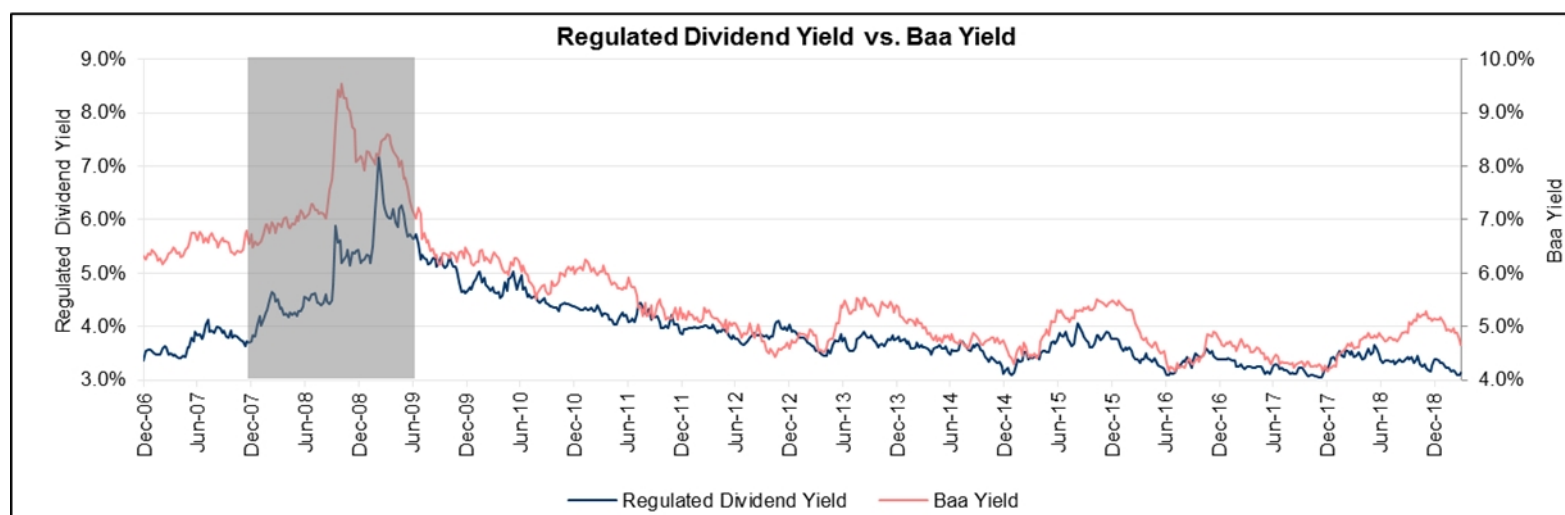
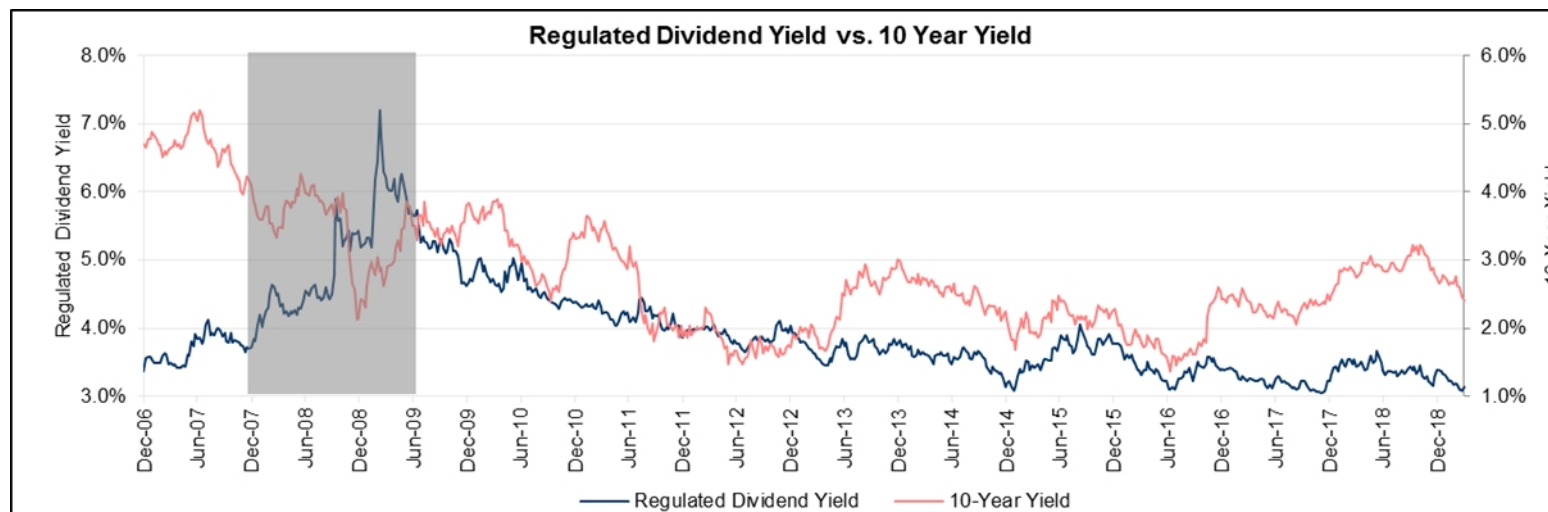


Updated as of 4/1/19 close

Source: FactSet, Evercore ISI Research

## Regulated Dividend Yields vs. 10Y UST and Baa Yields Since 2006

- Below we show the dividend yield on regulated utility stocks as compared to the 10-year US Treasury yield and also as compared to the Moody's Baa Corporate Bond Yield Average. The widening spread between the utility dividend yields and bond yields is indicative of a rising valuation due to the perceived risk of a recession / prolonged market downturn. Thus the expensive reading in our bond model.



Updated as of 4/1/19 close

Source: FactSet, Evercore ISI Research

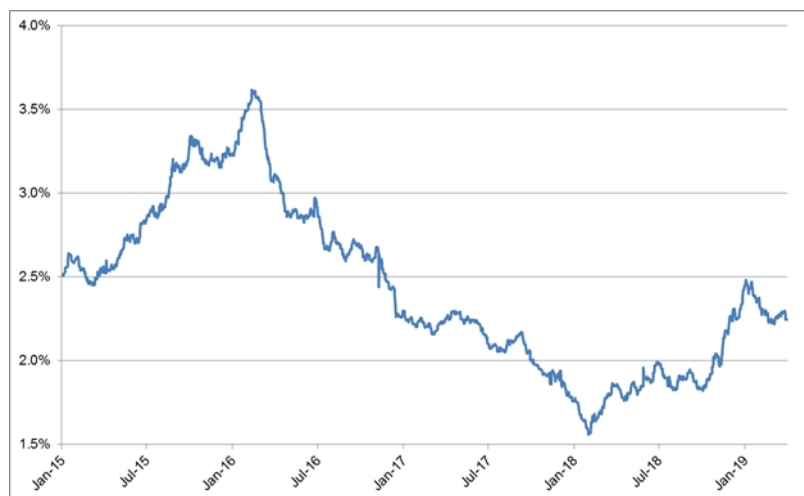


## The Spread Between Corporates And Treasuries Is Now Close to “Normal”

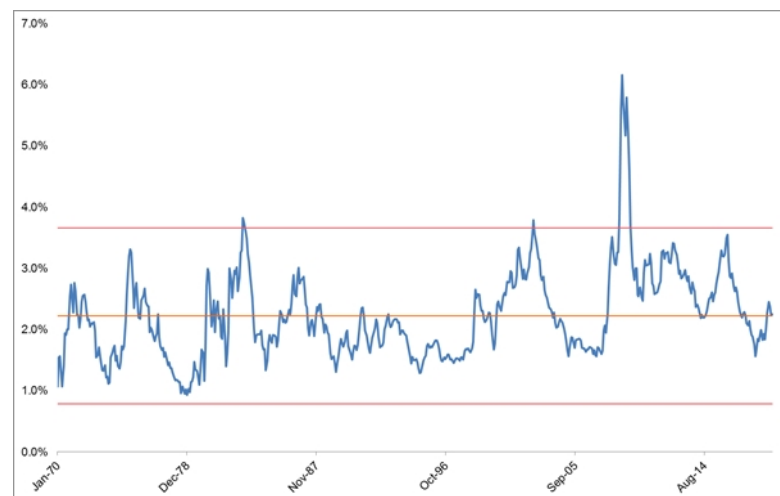
- The spread between corporates and Treasuries has averaged 222bp since 1970.
- At the beginning of 2015 the 10-Year was ~2.2% and corporates were 4.7%, a spread of 250bp.
- The wide spread between Treasuries and Corporates was the key factor that made utilities look fully priced in our bond model from 10/2015 through early April 2016.
- That spread peaked last at 363bp on 2/16/16, with the 10-year yield at 1.74% and corporate bond yield average at 5.37%.
- The tightening spread between corporates and Treasuries in the back half of 2016 was a key factor that allowed utilities to maintain value post the election despite rising inflation expectations.
- Today the spread is 225bp.

### The Spread Between Baa Corporate Bond Yields and the 10 YR Treasury Yield Has Continued to Decrease YTD

Daily Moody's Baa / 10 Year Spread



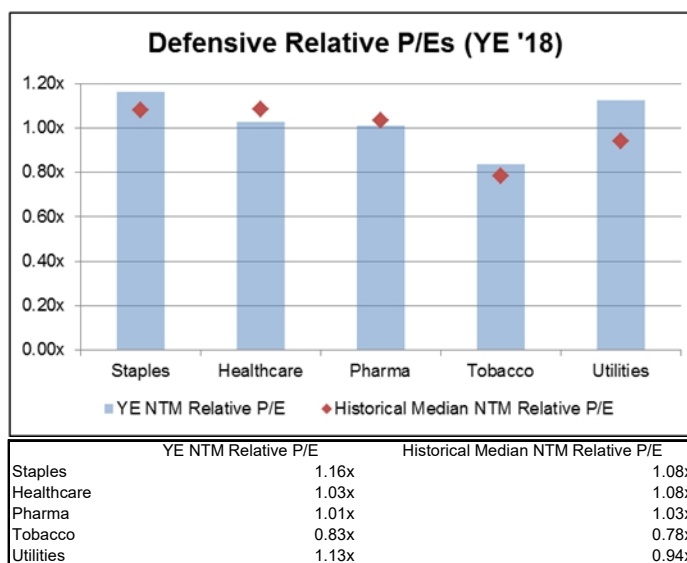
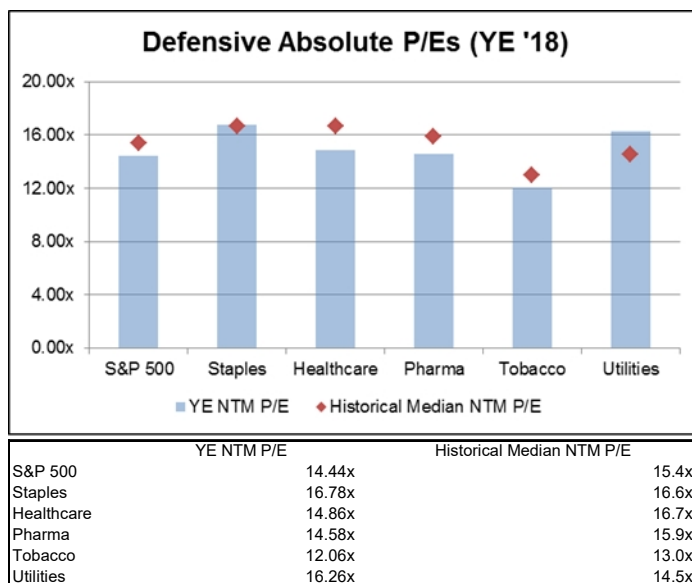
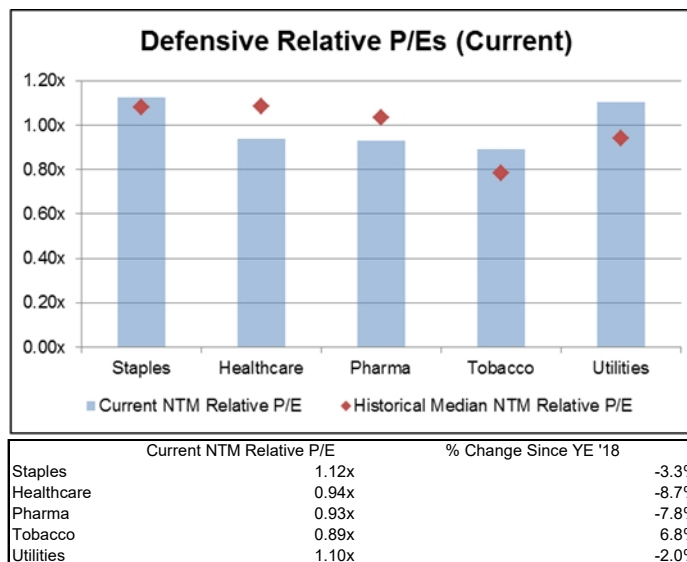
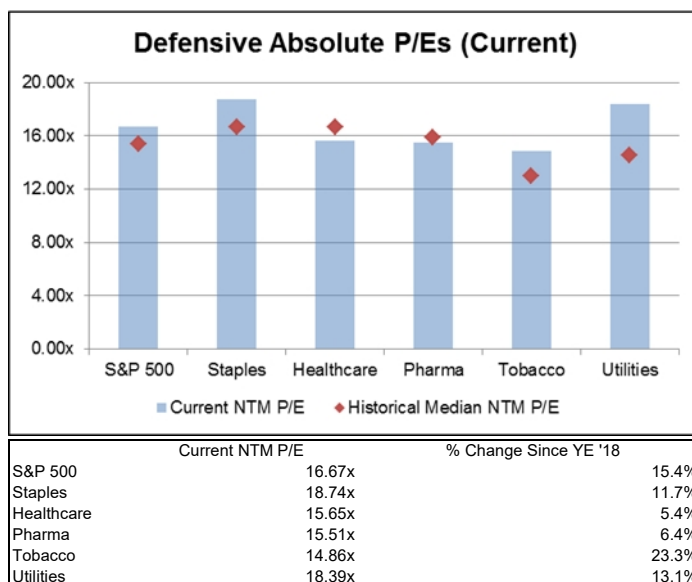
Monthly Moody's BAA / 10 Year Spread



Updated as of 4/1/19 close

Source: FactSet, Evercore ISI Research

## Utilities Also Look Rich Relative To Several Other Defensive Sectors Of The Market



Updated as of 4/1/19 close

Source: FactSet, Evercore ISI Research

## Our Proprietary DDM Shows Utilities Are Now Trading Above Fair Value

- **The forward P/E multiple that utility investors are willing to pay (based on our DDM) is highly influenced by how quickly investors believe the yield curve will steepen**
  - Back in December '18 they were discounting something closer to case 2, in which utility companies' ability to essentially over-earn is maintained (earnings declining but still robust authorized ROE's in a sustained low interest rate environment) and we achieve status quo rate base growth expectations.
  - When you look at the current valuation of +/-18.0x '21 it is once again more reflective of our "case 2" scenario which means we are discounting an insurance premium against an economic downturn.
  - Our base case assumes an orderly transition to higher interest rates, with authorized ROEs falling to 9.25% from 9.75%, and 10- year Treasury yields rising over the next several years, resulting at the end in a 2.25% spread between the return on equity and the calculated cost of equity.
  - Under our "case 3" scenario we assume authorized ROE's moderate and interest rates rise more rapidly, resulting in a more meaningful near term reduction in profitability.
  - **Using this framework our DDM analysis more or less explains the assumptions implicit in recent peak and trough valuations for utility stocks**
  - Our target P/E multiple of 17.0x '21 EPS is basically assuming we trend to economic assumptions in our base case

Growth Assumptions	
Year 1 to 5 Rate Base Growth	5.25%
<b>Yr 6-10 RB Grwth</b>	<b>3.50%</b>
Yr 11 fwd and Terminal Growth	2.50%
<b>Terminal Value (beyond 35 years)</b>	<b>Yes</b>
35 Year Average Payout Ratio - Implied	71%

W/ Base Case Growth Assumptions	Case 1	Case 2	Case 3
ROE and Ke Assumptions	Base Case	Rates Low Long Time	ROEs Fade Rates Rise
Yr 1 ROE	9.75%	9.75%	9.75%
Annual ROE Fade (+/-)	-0.10%	-0.05%	-0.10%
Final ROE	9.25%	9.25%	9.25%
Years Until LT Spread	5	5	5
Implied Annual Ke Change (+/-)	0.24%	0.19%	0.29%
Final year ROE / Ke Spread	2.25%	2.50%	2.00%
<b>2020 P/E Multiple</b>	<b>17.1x</b>	<b>18.1x</b>	<b>16.2x</b>

Source: FactSet, Evercore ISI Research

## Outperform Rated Stocks

**FE – Outperform, TP: \$44, ETR: 10%:** Our 12-month target price is \$44/sh which is 16.7x our '21 EPS forecast of \$2.65/share. Our valuation uses a SOTP methodology that takes in to account a risk adjustment for parent leverage and credit metrics being below the average for our coverage universe. For the distribution business, we apply 17.0x multiple – in line with what we view fair value for an average utility. For the transmission business, we apply an 18.7x multiple, a 10% premium to the 17.0x multiple that we view as fair value for an average utility, due to the transmission segment's higher-than-average authorized ROE, formula rates, and higher earnings growth profile. The result is a consolidated P/E multiple target of 16.6x, a 2% discount to our group average target multiple.

**SRE – Outperform, TP: \$130, ETR: 6%:** Our 12-month target price is \$130/sh, which is above our nearly \$119/sh “base case” valuation but below the ~\$148/sh valuation targeted by the Sustainable Sempra plan. With a business mix that is now regulated utility centric and fewer places in the forecast that seem to have high underlying levels of volatility, the current SRE L-T plan looks like a credible one which we think will be validated at their analyst day the week of 3/25/19. We derive a ~\$119/sh baseline target for the stock, inclusive of the recent equity value degradation at IEnova. Our base case SOTP uses in-line multiples vs. their peer groups for SDG&E and SoCalGas. The inverse condemnation overhang—which may get incrementally fixed through legislative action in '19—has stoked investor debate as to whether valuation should be lower than our base case due to CA regulatory risk. If we get better legislative/regulatory clarity in '19 and they get good rate case outcomes, our “base case” target price could rerate up to \$125/sh due to a premium multiple being once again applied to SRE's utilities on higher earnings power. Our valuation for the LNG segment includes only the DCF value of Cameron LNG trains 1-3. If they start seeing line of sight to commercial success building more trains at Cameron or developing Port Arthur (the firming of the agreement with PGNiG announced on 12/19/18 represents more progress on that front) or an export opportunity at Costa Azul, valuation would also rise. For example, Phase 1 at ECA alone, assuming 50/50 ownership between SRE and IEnova, could potentially be worth another ~\$4.50/sh of upside to our base case valuation. If they execute on Port Arthur Mid-Scale assuming similar economics to Cameron we see potentially another \$2.25/sh of upside to our base case valuation.

Source: FactSet, Evercore ISI Research

## Outperform Rated Stocks

**EVRG – Outperform, TP: \$58, ETR: 5%:** Our \$58/sh target price supports a total return profile of 6% and our Outperform rating. We start with '22 earnings power of ~\$3.45/sh as a “clean base case” once the buyback is complete and assuming they earn at their authorized ROEs across the core utilities. We then flex for upside / downside to that number to come up with a \$58 target price, which is a modest premium to our target multiple of 17.0x '21 EPS that we use for the regulated peer group as we still think there is the possibility that they can get in to the ROE sharing bands in Kansas and earn back the rate credits / share further benefits with consumers (although we have removed \$0.05 of expected earnings from that expectation from what was our old base case). Our EPS forecast is now \$2.90 / \$3.20 / \$3.35 for '19-'21: we updated our model for latest management guidance and 4Q18 financial results. Using our sum-of-the-parts forecasts for WR and GXP, assuming recent rate decisions coupled with merger synergies drive the company to earnings allowed ROEs and assume the company executes its financial plan, which includes repurchasing 60mm shares total by mid-2020 while still maintaining strong credit metrics.

**NEE – Outperform, TP: \$191, ETR: 3%:** Our \$191/sh target is 20.0x our FY'21 EPS estimate of \$9.55 and is based on a weighted average of several valuation cases. We assign a 15% premium to our 17.0x P/E target multiple on '21 EPS (which is 19.6x '21 EPS) owing to NEE's above-average EPS growth profile and very strong balance sheet which drives a “base case” valuation of \$187/sh on our current EPS estimate of \$9.55. But our base case forecast is conservative. Assuming they can hit the high end of their EPS growth guidance (which is an implied 9% growth target) that would support a “better case” target price closer to \$195/sh using 19.6x '21 EPS. Also neither NEE's guidance nor our forecast assumes deployment of \$4-\$6bn of unused balance sheet debt capacity. Assuming they can utilize the \$6B of dry powder to execute on profitable, incremental capital investments or acquisition opportunities the stock could rise in value to \$202/sh under our “best case” scenario (19.6x '21 EPS of \$10.32).

**CMS – Outperform, TP: \$54, ETR: 1%:** Our price target for CMS is 18.8x our '21 EPS estimate, a ~10% premium to our group average target multiple of 17.0x '20. Looking at our dividend discount model and assuming CMS continues to achieve the remarkable consistency it has exhibited regarding its growth aspirations over the 10-year period of its current capital plan, the stock deserves a significant P/E premium vs. peers. CMS remains best in class in terms of operational and financial consistency, management of regulatory risk, and execution of its business plans and is in our view a core holding that should trade at a wider premium.

Source: FactSet, Evercore ISI Research

## Underperform Rated Stocks

**ED – Underperform, TP: \$76.50, ETR: -6%:** Following 4Q18 earnings ED issued adjusted EPS guidance for FY'19 of \$4.25-\$4.45 (\$4.35 midpoint). There are two issues with this guidance vs. our / consensus numbers to consider: firstly, that guidance excludes a \$0.20/sh drag that will hit GAAP earnings due to the recent acquisition of the SRE renewable business. Secondly, they said they will only issue ~\$500mm of equity in FY '19 (incremental to regular DRIP and employee stock plans) and that is way lower than our current forecast and probably lower than the average Street estimate. We expect to lose the argument on ED in the short run but we still don't think the risk / reward is palatable here. Our valuation of \$76.50/share is based on a SOTP approach that applies a 17.0x '20 P/E to ED's core utilities, 9.25x EBITDA to the CEBs (which include its Renewables and Electric and Gas Transmission segments), and then adjusting for parent leverage.

**HE – Underperform, TP: \$35.50, ETR: -9%:** Our \$35.50 target price is based on a SOTP valuation: for the utility we use a 16.5x P/E multiple on our '21 EPS (a ~3% discount to our '21 P/E multiple for the regulated peer group of 17.0x), which is \$26.40/sh and add \$0.50 for Pacific Current (which will technically not reside at the utility). We utilize an equal-weighted methodology on P/E and P/TBV based on a set of comparable banks to derive our ASB valuation of \$12.22. Although we expect that the structural earned ROE lag at the utilities to diminish over time as HE continues to progress to their triennial rate case cycle, they still face regulatory risk with last year's passage of SB 2939 (The Hawaii Ratepayer Protection Act), which mandates the HI PUC to implement performance-based regulation mechanisms by the beginning of '20.

Source: FactSet, Evercore ISI Research

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**In Line-** the total forecasted return is expected to be in line with the expected total return of the analyst's universe

**Underperform-** the total forecasted return is expected to be less than the expected total return of the analyst's universe

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Strong Buy- Return > 20%

Buy- Return 10% to 20%

Neutral - Return 0% to 10%

Cautious- Return -10% to 0%

Sell- Return< -10%

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Equal-Weight- the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.

Underweight -the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.

Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

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Ratings	Count	Pct.	Ratings	Count	Pct.
Buy	369	52	Buy	246	67
Hold	278	39	Hold	138	50
Sell	39	5	Sell	18	46
Coverage Suspended	18	3	Coverage Suspended	13	72
Rating Suspended	8	1	Rating Suspended	5	63

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## Price Charts

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