PlanningTrader

Edison International Inc. (EIX)

www.edison.com

Investment Thesis:

Edison International visionary transformation of electric power towards a clean energy future is highly likely to happen. With ongoing infrastructure projects to strengthen its grid and improving efficiency, EIX provides investors with a prominent opportunity to invest in the company to benefit from its potential growth. The main prominent features allowing EIX future performance consist of growth opportunity, and monopoly control.

Current Price:	$57.55	**Market Cap ($mil):**	21,787
Fiscal Year End:	September	**3 Mo. Avg Daily ($mil) Vol:**	1.7

Upside Target: $105.04 80.3%

EBIT Margin of 19% applied to 2021 revenue give $2.02 EPS x 52= $105.04

Downside Target: $20.20 -65.7%

EBIT Margin of 19% applied to 2021 revenue give $2.02 EPS x 10 = $ 20.20

Differentiation from Consensus

FY	Consensus EPS	P/E	EPS	P/E	EPS Above/Below
2021 Est	$4.67	12.32	$4.13	13.93x	-11.6%
2022 Est	$4.85	11.86	$4.57	12.59x	-5.8%
FY	**Consensus Revenue**	**P/S**	**Revenue**	**P/S**	**SPS Above/Below**
2021 Est	$14.38	4.0x	$14.38	4.0x	-
2022 Est	$15.37	3.74x	$15.37	3.74x	-

Headquarters California	**YTD Chg.** -5.12%	**LTM PE** 15.6x
Sector Utilities	**1 Yr. Chg.** -10.17%	**Price to Book** 1.55x
Industry Utilities—Regulated Electric	**52 Wk L/H** 66.68/ 43.63	**Price to Sales** 1.58x
Exchange NYSE	**Beta** .60	**Price to EBITDA** 25.23x
Dividend Payout 130.05%	**L.T. Growth Rate** 6.71%	**EV to EBITDA** 15.69x

Edilberto Romero
April 19, 2021

Company Background:

Edison International is a distributor and generator of electric power and leading in renewable energy. Edison's subsidiary, Southern California Edison, has grown to become one of the largest electric utilities in the United States. Also, SEC has provided quality electric services for 135 years and serves 15 million people in a 50,000 square mile area.

Edison is one of the few utility companies generating over $13.58 billion in revenue and an average gross profit margin of 47%. Over the years, Edison reveals consistent revenue growth.

Figure 1 displays the breakdown of year-over-year revenue and gross profit margins. EIX's historical gross profit margin tells us a lot about the economic nature of the company. As shown below, EIX has an excellent long-term economic working in its favor due to its revenue and high gross profit margins.

Figure 1: EIX Revenue (in billion) and Gross profit margin

Edison International Inc. has shown a consistently higher gross profit margin due to the GRC approval of higher-than-average CAGR rate-making structures. Southern California Edison can make rate adjustments to protect against interest rates, and the rate of return will then be aligned with meeting revenue targets, known as revenue decoupling. Given all that, Edison has a durable competitive advantage, which allows the company the freedom to price its services well more than its cost of goods sold.

Reasons to Buy:

Growth opportunity for Southern California Edison

Growth opportunities at Southern California Edison are highly likely due to the California regulator's progressive goal in reducing GHG emissions and improving local air quality. California stands strong to reduce GHG emissions by 40% by 2030 and 80% by 2050. Additionally, the state is setting a deadline to be carbon neutral by 2045. **Figure 2** displays California's aggressive mission target in reducing GHG and carbon neutral.

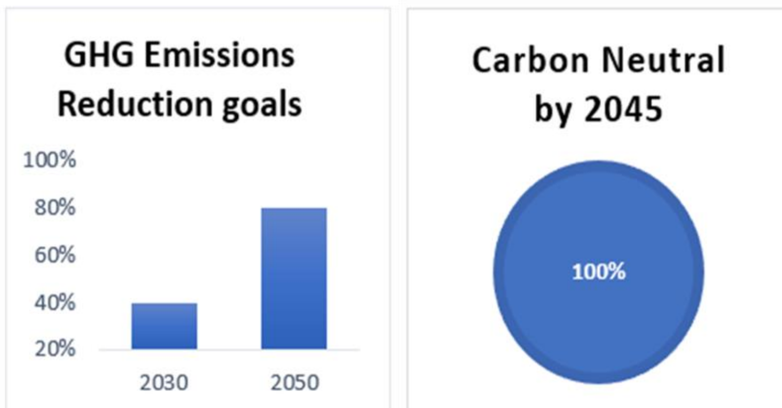


Figure 2: California GHG emission from 1990 levels & Carbon Neutral target

Edison is currently on track with achieving the state goal in carbon-free energy by 2045 target--it permits Edison to gain regulatory support for its investment plan.

Growth opportunities at Southern California Edison include address grid safety, renewable energy, and energy services. Edison is rethinking the way they produce and use electricity.

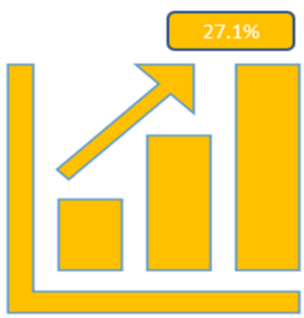
To achieve regulators' goals, SCE is creating a next-generation energy service in electrify transportation and buildings--the company is projecting to electrify 75% of vehicles (26 million EVs) and 70% of buildings. These growth opportunities in expanding its services will allow the company to increase its revenue year over year.

Edison Monopoly Control

Southern California Edison's service territory monopoly is a primary reason for higher profit margins. California regulators allow SCE the right to charge customer rates that permit it to earn a fair return on and return on its investments—such as; maintaining its infrastructure, grid modernization, and system hardening. As the result of limited pushback from state and federal regulators, Edison's infrastructure investments simultaneously get support and strengthen its earned return on capital.

Figure 3 displays SCE results of the proposal of a 14.4% rate increase in 2021. SCE filed a General Rate Case (GRC) application with the California Public Utilities Commission (CPUC) in August 2019. Southern California applied for approval to increase the company's revenues for electric services in 2021.

As of February 01, 2021, the customer average rate increase from 18.1 cents/kWh to 23 cents/kWh baseline allocation. This rate increase will cover its estimated cost for its employees to inspect, repair poles and distribution lines. Also, this includes decreasing wildfire risk and modernizing the grid.



Customer Group	Previous Average rates as of July 2019 (cents/kWh)	Current Average Rates as of February 2021	Total Change (cent/kWh)	Percentage change (% increase)
Residential	18.1 cent/kWh	23 cent/kWh	4.9 cents/kWh	27.1%

Figure 3: SEC 27.1% Rate Increase for 2021

This implicit contract between regulators and SCE, generally, allows the company to achieve revenue returns exceeding their cost of goods sold expenses.

Risks:

Regulatory Risk

Edison International's major risk is California rate regulation. Southern California Edison had requested a rate increase in its general rate case application for the years covering 2021-2023.

Edison's investment plan will continue rising customer rates, which are among the highest rate in the country. We could expect some degree of regulatory risk; California regulator decisions could create tension to decrease Edison's motive to increase customer rates and to be particularly methodical with its investment cost.

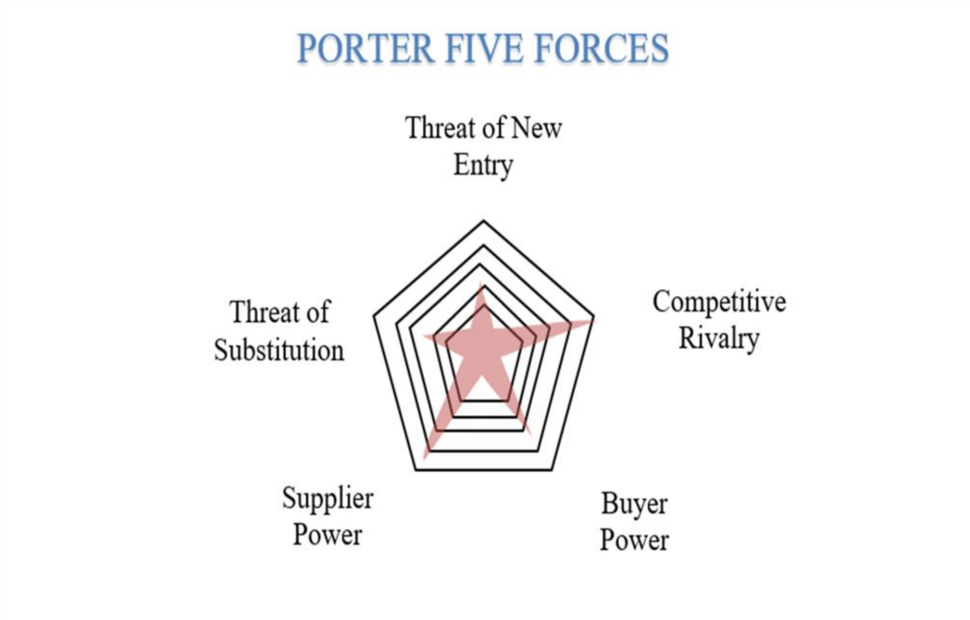
A proposed decision on the general rate case application will be anticipated in the first quarter of 2021. Edison International's first-quarter conference call will be held on April 27, 2021. We anticipate a constructive result in the GRC rate case, mainly, due to the previous year's GRC rate approval cases in recent years.

Wildfire Risk

Edison's exposure to wildfire has been increasing in Southern California. Based on the 2020 annual report, "This includes the buildup of dry vegetation in areas severely impacted by years of historical drought, lack of adequate clearing of hazardous fuels by responsible parties, higher temperatures, lower humidity, increased incidence of dry lightning." Southern California Edison has implemented strategies to considerably reduced the risk of wildfire followed during the 2017-2018 Wildfire case.

In response to the rising risk of wildfire, SCE has implemented wildfire modification to ease its risk by installing fire-resistant poles, fast-acting fuses, covered conductors, sectionalizing devices, and high-definition wildfire cameras. It also includes transmission asset inspection, distribution asset inspection, hazard tree management, and community resource centers.

Competitive Positioning:



Threat of New Entry

The threat of new entry in Edison International brings innovations, a new approach to doing things. The threat of new entry puts pressure on Edison through a lower pricing strategy, reducing cost, and offering new quality value. Edison must oversee these obstacles and build effective barriers to protect its competitive advantage. An advantage for a utility company is that it requires substantial investment and does not allow easy access. As a result, the threat of new entry is **moderately low.**

Threat of Substitution

Many utility companies are starting to place more prominence on finding non-traditional or renewable methods to generate electrical power. Some of the most important methods include wind, solar, hydro, biofuel, and nuclear. Edison is among the few utilities to be well-position and prepared to focus on clean energy and efficient electrification. Also, SCE delivered an estimated 48% carbon-free electricity to the customer (which is up 46% in 2018). Edison is among a few utilities that have no direct contact with fossil fuel or green gas emissions. The threat of carbon fuel is reducing dramatically due to the substantial fight to achieve carbon neutrality. As a result, the threat of substitution is **moderately low.**

Supplier Power

With 135 years of innovation, Edison a core vision is to lead the transformation of the electric power industry towards a clean energy future. Suppliers play a major role in Edison's transformation to a clean energy future and can decrease the margins Edison International can earn in the market. The dominant supplier can dominate with their negotiating power to draw higher prices. To safeguard from suppliers, Edison has adopted SAP Ariba as a tool to negotiate a contract with the supplier, manage cost, and value quality during the purchasing decision. As a result, the threat of supplier power is **moderately high.**

Buyer Power

Buyers are often demanding a lot. The buyer wants to buy the best offering service accessible by paying the lowest price possible. This situation put pressure on Edison International's profitability. However, with the limited pushback from state and federal regulators, Edison has been able (for many years) to charge customer rates that permit it to earn a fair return on and return on its investments. Edison’s rate is among the highest rate in California; therefore, the regulator may place a gridlock for any rate hikes. As a result, the threat of power is **moderately medium**.

Competitive Rivalry

Edison International faces intense competition in the utility industry. This intense competitive rivalry can drive down prices and decrease the overall profitability of the utility industry. As a result, the threat of competitive rivalry is **moderately high**.

Monitoring Points:

Track 1 of the 2021 GRC

In the 2021 GRC, Southern California Edison has requested a test year revenue requirement of $7.6 billion—an increase of roughly $1.3 billion. SCE's requested an increase in its revenue is generally due to lessening wildfire risk. Edison believes that obtaining a suggested decision on track 1 of the 2021 GRC and the CPUC's schedule for track 1 is not likely to happen. Therefore, SCE cannot foresee the revenue requirement the CPUC will eventually authorize. The proposed decision is expected to be announced at the end of the 1st quarter of 2021.

Potential Risk in Wildfire and Mudslide

Southern California Edison has undertaken numerous actions to reduce the risk of potentially devastating wildfire destruction. The risk of wildfire can ultimately worsen Edison's competitive condition by investing heavily in wildfire claims.

California Regulators Accelerating Carbon Neutrality

California regulators are undergoing a remarkable evolution. The state is pushing to achieve carbon neutrality to reduce the threat of climate change. As global warming worsens, the state and the federal regulator can push utility companies to accelerate carbon neutrality. Regulators will recognize the important role SEC plays in achieving the state's environmental and energy policies. With the help of the California regulator, Edison could potentially obtain approval in infrastructure investment, grid modernization, system hardening, and increase GRC revenue requirement.

Income Statement

Income Statement	Dec '16	Dec '17	Dec '18	Dec '19	Dec '20	Dec '21E	Dec '22E
Sales/Revenue	**11,869.0**	**12,320.0**	**12,657.0**	**12,347.0**	**13,578.0**	**14,320.00**	**15,250.00**
Sales Growth (%)		3.8	2.7	(2.4)	10.0	5.5	6.5
Cost of Good Sold (Excl	5,491.0	7,694.0	8,182.0	5,577.0	6,437.0	7616.38	8111.02
Gross Income	6,378.0	4,626.0	4,475.0	6,770.0	7,141.0	6,703.62	7,138.98
Gross Income Growth (%)		(27.5)	(3.3)	51.3	5.5	(6.1)	6.5
Gross Margin	53.7	37.5	35.4	54.8	52.6	46.8	46.8
SG&A Expense	1900	0	0	2251	2075	1,418.29	1,510.40
Other Operating Exp.	-388	-354	-337	-350	-217	(379.13)	(403.75)
EBITDA	4,090.0	4,272.0	4,138.0	4,169.0	4,849.0	4,906.19	5,224.82
EBITDA Growth (%)		4.4	(3.1)	0.7	16.3	1.2	6.5
EBITDA Margin (%)	34.5	34.7	32.7	33.8	35.7	34.3	34.3
Depreciation & Amortiza	2,007.00	2,041.00	1,871.00	1,730.00	1,967.00	2,198.31	2,341.08
EBIT	2,471.0	2,585.0	2,604.0	2,789.0	3,099.0	2,707.88	2,883.75
EBIT Growth (%)		4.6	0.7	7.1	11.1	(12.6)	6.5
EBIT Margin	20.8	21.0	20.6	22.6	22.8	18.9	18.9
Interest Expense	(701.0)	(756.0)	(831.0)	(925.0)	(1,014.0)	-1014	-1014
Other Operating Exp. &	85.0	(650.0)	(2,646.0)	(508.0)	(1,434.0)	(1,149.63)	(1,224.29)
Pretax Income	1,467.0	825.0	(1,210.0)	1,006.0	434.0	544.25	645.45
Pretax Income Growth (%)		(43.8)	(246.7)	(183.1)	(56.9)	25.4	18.6
Pretax Margin	12.4	6.7	(9.6)	8.1	3.2	3.8	4.2
Income Taxes	177	281	-739	-278	-305	(188.00)	(200.21)
Tax Rate (%)	12.07	34.06	61.07	-	-	-	-
Net income	1,311.0	565.0	(423.0)	1,284.0	739.0	753.07	867.83
Net Income Growth (%)		(56.9)	(174.9)	(403.5)	(42.4)	1.9	15.2
Net Margin (%)	11.0	4.6	(3.3)	10.4	5.4	5.3	5.7

Balance Sheet

Balance Sheet	Dec '16	Dec '17	Dec '18	Dec '19	Dec '20	Dec '21E	Dec '22E
Cash & Equivalents (Cash & ST Investments)	96	1091	144	68	87	(2,465.74)	(5,804.52)
Accounts Receivable	1,085.00	1,153.00	1,403.00	1,394.00	2,427.00	**1,579.16**	**1,681.72**
Inventories	239.00	242.00	282.00	364.00	405.00	**579.46**	**617.09**
Prepaid Exp.	103.0	233.0	148.0	214.0	281.0	281.0	281.0
Restricted Cash	0	40.0	8.0	2.0	2.0	2.0	2.0
Other Current Assets	600.00	970.00	1,374.00	1,518.00	1,859.00	1,859.00	1,859.00
Gross Property, Plant & Equipment	45,973.00	48,393.00	50,866.00	54,893.00	59,571.00	64,677.53	70,115.70
Accumulated Depreciation	(9,099.00)	(9,469.00)	(9,648.00)	(10,044.00)	(10,775.00)	(12,973.31)	(15,314.39)
Net PP&E	36,874.00	38,924.00	41,218.00	44,849.00	48,796.00	**51,704.22**	**54,801.31**
Net Nuclear Fuel	126.0	126.0	130.0	129.0	131.0	131.0	131.0
Regulatory Assets	7,455.0	4,914.0	5,380.0	6,088.0	7,120.0	7,120.0	7,120.0
Long-term Investments	83.0	73.0	63.0	64.0	53.0	53.0	53.0
Deferred Charges, LT	10.0	15.0	0	0	0.00	0.00	0
Other Long-Term Assets	4,648.0	4,799.0	6,565.0	9,692.0	8,211.0	8,211.0	8,211.0
Total Assets	51,319.00	52,580.00	56,715.00	64,382.00	69,372.00	69,054.10	68,952.60
Short Term Debt	1,307.00	2,393.00	720.00	550.00	2,398.00	2,398.00	2,398.00
Accounts Payable	1,342.00	1,503.00	1,511.00	1,752.00	1,980.00	**1,854.69**	**1,975.14**
Other Current Liabilities	2,232.00	2,668.00	3,085.00	2,662.00	4,655.00	4,655.00	4,655.00
Long Term Debt	10,175.00	11,642.00	14,632.00	17,864.00	19,632.00	19,632.00	19,632.00
Curr. Port. of LT Debt	981.00	481.00	79.00	479.00	1,029.00	1,029.00	1,029.00
Curr. Port. of Leases	-	-	-	80.00	215.00	215.00	215.00
Curr. Income Taxes Payable	50.00	23.00	-	-	0.00	0.00	-
Long-Term Leases	-	-	-	613.00	873.00	873.00	873.00
Pension & Other Post-Retire. Benefits	1,354.00	969.00	1,054.00	1,090.00	1,234.00	1,234.00	1,234.00
Def. Tax Liability, Non-Curr.	8,327.00	7,459.00	7,352.00	7,502.00	7,651.00	7,651.00	7,651.00
Other Non-Current Liab., Total	11,359.00	11,557.00	15,630.00	16,294.00	13,756.00	13,756.00	13,756.00
Total Liabilities	37,127.00	38,695.00	44,063.00	48,886.00	53,423.00	53,297.69	53,418.14
Preferred Stock	0	0	0	0	0		
Common Stock	2505	2526	2545	4990	5962	5962	5962
Retained Earnings	9544	9188	7964	8382	8155	7,962.40	7,740.46
Comprehensive Inc. and Other	-53	-43	-50	-69	-69	-69	-69
Stockholder's Equity	11996	11671	10459	13303	14048	13,855.40	13,633.46
Minority Interest	2196	2214	2193	2193	1901	1,901.00	1,901.00
Total Liab. & Equity	51,319.00	52,580.00	56,715.00	64,382.00	69,372.00	69,054.10	68,952.60

Statement of Cash Flows

Cash Flow	Dec '16	Dec '17	Dec '18	Dec '19	Dec '20	Dec '21E	Dec '22E
Funds from Operations	3,318.00	2,606.00	1,448.00	3,014.00	2,706.00	2,951.38	3,208.90
Net Cash Flow - Operating	3254	3597	3177	-307	1263	3,499.45	3,189.17
Capital Expenditures	-3749	-3844	-4509	-4877	-5484	(5,106.53)	(5,438.17)
Net Cash Flow - Investing	-3403	-3586	-4239	-4678	-4971	(5,106.53)	(5,438.17)
Cash Dividends	-626	-707	-788	-810	-928	-945.66	-1089.77
Net Cash Flow - Financing	95	1007	82	4903	3727	-945.66	-1089.77
± in Cash & ST Invests.	-54	1018	-980	-82	19	(2,552.74)	(3,338.78)
Free Cash Flow	(495.00)	(247.00)	(1,332.00)	(5,184.00)	(4,221.00)	(1,607.08)	(2,249.00)

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