

## Entergy Corp.

NYSE:ETR

**Analyst:** Nicholas Luca

**Sector:** Utilities

**BUY**

Price Target: \$103.42

### Key Statistics as of 03/19/2015

Market Price:	\$77.94
Industry:	Electric Utilities
Market Cap:	\$14.11B
52-Week Range:	\$63.87 - 92.02
Beta:	0.28

### Thesis Points:

- Consistent earnings growth through demand, not price increases
- Undervalued by market due to last earnings miss
- High yield distribution
- Financially improving through restructured cost structure and new revenue streams

### Company Description:

Entergy Corporation, together with its subsidiaries, engages in the electric power production and retail electric distribution operations in the United States. It operates in two segments, Utility and Entergy Wholesale Commodities. The Utility segment generates, transmits, distributes, and sells electric power in portions of Arkansas, Mississippi, Texas, and Louisiana, including the City of New Orleans; and distributes natural gas. The Entergy Wholesale Commodities segment is engaged in the ownership, operation, and decommissioning of nuclear power plants located in the northern United States; sells the electric power to wholesale customers; offers services to other nuclear power plant owners; and owns interests in non-nuclear power plants that sell the electric power to wholesale customers. This segment sells energy to retail power providers, utilities, electric power co-operatives, power trading organizations, and other power generation companies. It generates electricity through wind, gas/oil, nuclear, coal, and hydro power. The company's power plants have approximately 30,000 megawatts (MW) of aggregate electric generating capacity, including approximately 10,000 MW of nuclear-fueled capacity. It delivers electricity to 2.8 million utility customers in Arkansas, Louisiana, Mississippi, and Texas. The company was founded in 1989 and is based in New Orleans, Louisiana (Yahoo Finance).



## Thesis

As of March 19<sup>th</sup>, 2015, Entergy Corp. (ETR) is a BUY at \$77.94 due to an increase in demand for electricity that Entergy will continue to meet as they invest in transmissions projects to further meet future demands, and keep prices from increasing. Entergy is a safe investment as they are the leading electricity provider of the Gulf Coast, and are continue investing into nuclear energy in the Northeast. Along with their nuclear power segment, they have also restructured their cost structure that should show some serious cost reduction in 2015. Entergy Corp. interest in increasing shareholder value and their distribution of nearly a 5% dividend make them an attractive company to invest in.

## Cost Structure - New Revenue Streams

Entergy operates primarily through two business segments: Utility and Entergy Wholesale Commodities. The Utility business segment includes the generation, transmission, distribution, and sale of electric power in parts of Arkansas, Mississippi, Texas, and Louisiana, including the City of New Orleans; and operates a small natural gas distribution business. The Entergy Wholesale Commodities business segment includes the ownership and operation of six nuclear power plants located in the northern United States and the sale of the electric power produced by those plants to wholesale customers. This business also provides services to other nuclear power plant owners. Entergy Wholesale Commodities also owns interests in non-nuclear power plants that sell the electric power produced by those plants to wholesale customers.

Segment	% of Revenue			% of Net Income			% of Total Assets		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Utility	78	80	78	88	116	110	82	82	82
Entergy Wholesale Commodities	22	20	22	31	6	5	22	22	22
Parent & Other	—	—	—	(19)	(22)	(15)	(4)	(4)	(4)

Their Entergy Wholesale commodities segment has undergone some changes that have bettered the company's financial position. This has been primarily stimulated through the shutting down of the Vermont Yankee nuclear plant. The plant was shut down in 2012 due to no longer being able to compete with low natural gas prices and a complex cost structure. After investing the money to actually divest the plant, annual costs have reduced severely; the reflection in net income is inevitable, growing from 5% in 2012 to 31% in 2014. Entergy expects these reductions in costs to be even

more heavily reflected in 2015 as they have finally wrapped up the closing in 2014.

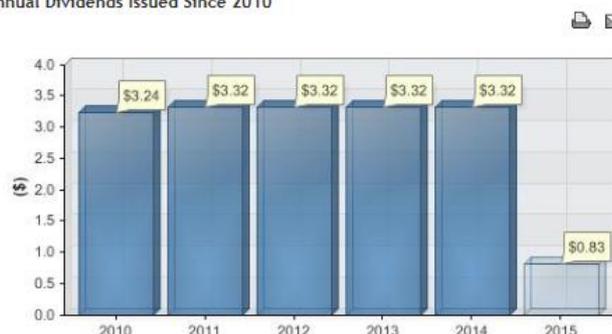
Along with restructuring, they are also investing in a new transmissions project referred to as the Lake Charles Transmission Project, which will prepare them for future demand in the area. Entergy is upgrading its transmission network and building a new power plant in Lake Charles, Louisiana. This new gas-powered plant, called 9-Mile Six, is the first new power plant in Louisiana in thirty years.. Preliminary plans call for an estimated \$187 million, including contingency, investment in the Lake Charles area. The project represents one of the largest single transmission projects in Entergy's history. It includes construction of two new substations, expansion of a third, and adding about 25 total miles of high-voltage transmission lines – including both 500 kV and 230 kV lines – to move power more reliably and efficiently into a region projected to have the fastest job growth rate in the state.

In addition to enhancing reliability, operational flexibility, and helping meet the increased demand in the region, the project will also improve access to lower cost generation in the Midcontinent Independent System Operator, Inc. market, potentially reducing costs for all customers in the area.

## High Yield Distribution

One of the ways that Entergy hopes to boost shareholder value is through share repurchases. Although share repurchases don't necessarily put money directly into investors' pockets, they do make a company appear cheaper on a P/E basis by reducing the number of shares outstanding. The main allure for Entergy is its dividend. Entergy currently offers a dividend yield of 4.4%. Even though Entergy is not a high-flying growth stock, its dividends can make money for its shareholders.

Annual Dividends Issued Since 2010

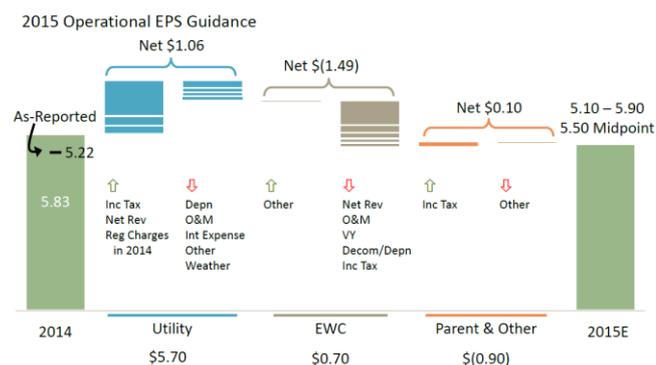
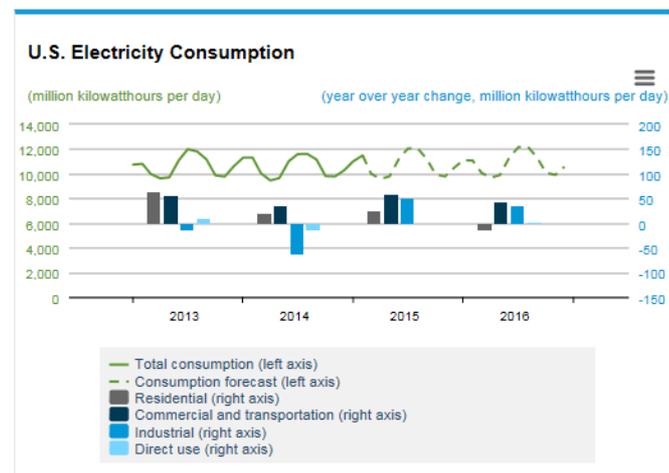


## Undervaluation by the Market Due to Overdramatic Response to Earnings

Entergy's other business, nuclear generation has taken a hit as dry gas prices sunk from \$4.00/mcfe to about \$2.75/mcfe over the last few months. Nuclear electricity must compete with natural gas for electricity demand. Entergy based its multi-year earnings expectations on the assumption of about \$4/ mcfe natural gas. The effect on 'EWC,' the nuclear business, is illustrated below. As you can see, in 2015, the earnings hit from low dry gas prices is roughly equal to the earnings growth in transmission. Going by strip pricing only, earnings will down by mid-single digits this year, assuming midpoint guidance.

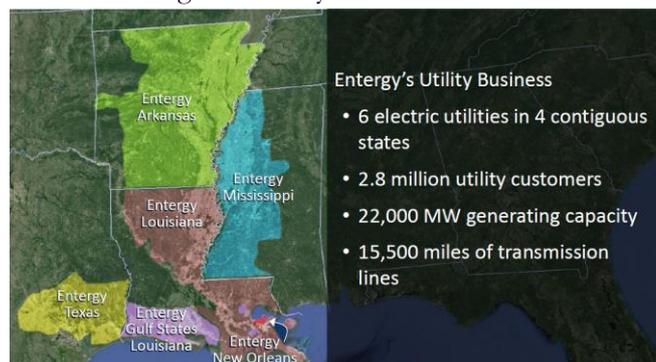
Although they missed earnings estimates by roughly 6%, I believe that it was primarily due to the natural gas prices. Commodities go up and down, but Entergy continues to build the base of their business and are preparing for future demands.

Entergy is the dominant leader, and have little to no competition in the Gulf Coast. This was a concern because the change in demand is already a big factor in their success, so if they can at least eliminate their competition, and with demand expected to continuously increase (see chart below), then they are in good position to grow and remain the market leader



## Consistent Earnings Growth

The petrochemical boom has been sparked in the United States due to low dry gas and NGL input prices. Because of this, there is an increase in power demand, more specifically in Louisiana. Entergy Corp. is the largest provider in Louisiana as well as the Gulf Coast, of which should lead to growth this year.



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Energy Corporation		ETR	Analyst	Current Price	Intrinsic Value	Target Value	Dividend Yield	Target Return	BULLISH
			Nicholas Luca	\$79.05	\$85.85	\$103.42	4%	35.03%	
<b>General Info</b>		<b>Peers</b>		<b>Market Cap</b>		<b>Management</b>			
sector	Utilities	Xcel Energy Inc	\$17,598.16	Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014	
industry	Electric Utilities	Dominion Resources, Inc	\$42,474.86	Denahit, Leo	Chairman, Chief Executive Officer	\$ 3,043,594.00	\$ 7,665,652.00	\$ 11,824,034.00	
last guidance	Feb-05-2015	FirstEnergy Corp.	\$15,322.60	Marsh, Andrew	Chief Financial Officer and Exec.	\$ -	\$ 2,503,136.00	\$ 3,242,418.00	
next earnings date	4/28/2015	Consolidated Edison, Inc	\$18,003.89	Saroff, Mark	Chief Operating Officer and Exec.	\$ 2,439,265.00	\$ 2,338,973.00	\$ 3,441,371.00	
<b>Market Data</b>		<b>Current Capital Structure</b>		<b>Historical Performance</b>					
Enterprise value	\$27,179.87	Total debt/market cap	51.62%	Growth	ETR	Peers	Industry	All U.S. firms	
Market Capitalization	\$14,267.02	Cost of Borrowing	5.18%	Retention Ratio	2.0%	2.7%	4.1%	6.0%	
Daily volume	3.04	Interest Coverage	322.88%	ROIC	18.8%	30.4%	28.1%	61.6%	
Shares outstanding	180.48	Altman Z		EBITDA Margin	30.3%	10.7%	19.2%	11.8%	
Diluted shares outstanding	180.30	Debt Rating	CCC	Revenue / Invested capital	17.7%	19.6%	17.2%	13.7%	
% Shares held by institutions	91.07%	Levered Beta	1.23	Excess Cash / Revenue	61.8%	50.8%	54.3%	202.3%	
% Shares held by insiders	0.45%	WACC (based on market value weights)	6.94%	Unlevered Beta	10.9%	4.2%	6.1%	18.5%	
Short interest	1.98%	<b>Past Earning Surprises</b>		TEV/REV	0.31	0.33	0.40	0.95	
Days to cover short interest	2.40	Revenue		TEV/EBITDA	2.3x	2.6x	2.5x	2.4x	
12-week high	\$92.02	EBITDA		TEV/EBITDA	7.4x	8.5x	9.3x	11.3x	
12-week low	\$65.42	Norm. EPS		TEV/EBITDA	12.9x	12.7x	14.7x	15.4x	
Beta	0.28			TEV/UCF	14.9x	38.9x	43.7x	26.8x	
1-month volatility	20.66%			<b>Non-GAAP Adjustments</b>					
<b>Profit Assumptions</b>		Revenue	-13.4%	Operating Leases Capitalization	100%	Staightline		10 years	
1st Quarter	4.4%	EBITDA	-8.6%	R&D Exp. Capitalization	100%	Staightline		10 years	
2nd Quarter	2.1%		0.1%	Expl./Dilling Exp. Capitalization	0%	N/A		N/A	
3rd Quarter	1.9%		-3.9%	SG&A Capitalization	0%	N/A		N/A	
4th Quarter	13.4%		-13.5%						
5th Quarter	8.3%								
<b>Forecast Assumptions</b>		<b>Period</b>		<b>Rev. Growth</b>	<b>Adj. Op. Cost/Rev</b>	<b>Forecasted Profitability</b>			
Opening Cash/Cash	0.0%	LTM	10%	10%	67%	Revenue	NOPLAT	Invested capital	UCF
Levered Beta	0.75	LTM+1Y	4%	4%	68%	\$12,494.92	\$1,825.74	\$20,216.41	\$1,825.74
Rev./Invested Capital	62.0%	LTM+2Y	4%	4%	68%	\$12,950.89	\$1,543.06	\$19,066.52	\$2,692.94
Continuing Period Revenue Growth	2.0%	LTM+3Y	5%	5%	68%	\$13,451.57	\$1,476.59	\$18,532.04	\$2,011.07
Long Term ROIC	14.3%	LTM+4Y	5%	5%	68%	\$14,083.79	\$1,497.54	\$18,296.87	\$1,732.70
Invested Capital Growth	Equals to Maintenance	LTM+5Y	4%	4%	68%	\$14,731.64	\$1,534.54	\$18,211.02	\$1,640.38
Adjusted TEV/REV	2.0x	LTM+6Y	4%	4%	68%	\$15,394.57	\$1,614.55	\$18,200.84	\$1,624.74
Adjusted TEV/EBITDA	7.4x	LTM+7Y	4%	4%	68%	\$16,071.93	\$1,682.60	\$18,422.65	\$1,460.79
Adjusted TEV/EBITDA	12.9x	LTM+8Y	4%	4%	68%	\$16,763.02	\$1,755.61	\$18,483.98	\$1,694.29
Adjusted TEV/UCF	14.9x	LTM+9Y	4%	4%	68%	\$17,467.07	\$1,837.83	\$18,542.62	\$1,779.19
						\$18,183.22	\$1,926.12	\$18,594.40	\$1,874.34
<b>Valuation</b>									
	<b>ROIC</b>	<b>WACC</b>	<b>EVA</b>	<b>Enterprise Value</b>	<b>Total Debt</b>	<b>Other claims</b>	<b>Equity</b>	<b>Adjusted Price</b>	
LTM	9.0%	6.9%	\$422.82	\$30,911.33	\$14,030.11	\$1,990.91	\$14,890.31	\$86.81	
LTM+1Y	7.6%	7.0%	\$126.00	\$31,831.72	\$14,030.11	-\$635.99	\$18,437.60	\$104.17	
LTM+2Y	7.7%	7.1%	\$123.60	\$31,112.22	\$14,030.11	-\$2,781.88	\$19,863.99	\$112.45	
LTM+3Y	8.1%	7.2%	\$169.14	\$31,119.67	\$14,030.11	-\$4,768.23	\$21,857.80	\$123.96	
LTM+4Y	8.5%	7.2%	\$229.30	\$31,459.86	\$14,030.11	-\$6,801.75	\$24,231.50	\$137.36	
LTM+5Y	8.9%	7.3%	\$281.30	\$31,931.81	\$14,030.11	-\$8,915.38	\$26,817.09	\$152.08	
LTM+6Y	9.2%	7.3%	\$363.48	\$32,459.99	\$14,030.11	-\$10,960.35	\$29,390.22	\$166.59	
LTM+7Y	9.5%	7.3%	\$403.49	\$33,234.95	\$14,030.11	-\$13,348.52	\$32,553.37	\$184.14	
LTM+8Y	9.9%	7.4%	\$463.51	\$33,836.28	\$14,030.11	-\$15,928.32	\$35,734.49	\$201.97	
LTM+9Y	10.4%	7.5%	\$530.31	\$34,401.99	\$14,030.11	-\$18,719.30	\$39,091.18	\$216.59	
<b>Monte Carlo Simulation Assumptions</b>									
	<b>Base</b>	<b>Stdev</b>	<b>Min</b>	<b>Max</b>	<b>Distribution</b>	<b>Monte Carlo Simulation Results</b>			
Revenue Variation	0	10%	N/A	N/A	Normal	Mean est.	\$86.81	\$104.17	
Op. Costs Variation	0	10%	N/A	N/A	Normal	σ(e)	\$0.32	\$0.25	
Market Risk Premium	6%	N/A	5%	7%	Triangular	3 σ(s) adjusted price	\$85.85	\$103.42	
Long term Growth	2%	N/A	2%	6%	Triangular	Current Price	\$79.05		
Forecasted Volatility	0	0.1	N/A	N/A	Normal	Adjusted market cap	\$85.10		