

Initiating Coverage:

# Edison International

Growth, Resilience, Sustainability

**Key Take-away:** Edison International (\$EIX) is one of the largest sustainable energy producers in the United States, with the bulk of operations taking place in the Southern California region through its subsidiary Southern California Edison (SCE). SCE has set up over 50,000 miles of power lines throughout the region, and this subsidiary alone has yielded over \$1.7 billion in revenue for the firm. EIX also offers energy consulting services nationwide to help clients with sustainable strategies and infrastructure optimization.

By Q3 2024, EIX has seen incredibly strong revenue growth compared to last year by the same time of year, with SCE alone accounting for most of this trend and beating analyst expectations. EIX is dedicated to California's clean energy transition and reaching net zero emissions by 2045 through the delivery of carbon-free power to SCE customers and reducing operational emissions. Analysts have estimated a 6-8% growth rate, which is especially driven by settlements involving the 2017 Thomas and Koenigstein fires and the 2018 Montecito Mudslides (TKM).

**Commitment to Net Zero Emissions in California:** Through SCE, EIX is committed to supplying carbon-free power to over 15 million residents in Southern California, helping EIX achieve their goal of net-zero emissions in the region by 2045. A key part of this strategy involves the implementation of renewable energy sources such as solar, wind, and battery storage as an alternative to traditional fossil fuel-based energy. EIX also intends on expanding operations beyond the front of stationary establishments, hoping to be a clean energy provider for transportation companies as well. This strategy combined with EIX's continuous investments in renewable energy infrastructure will aid in the company achieving this ambition.

**TKM Settlements:** A couple years back, a series of fires and mudslides dubbed the TKM severed EIX's financial performance and outlook, as these events were linked to the operation of SCE electrical infrastructure. As a response to legal losses and liabilities, EIX issued numerous settlements to affected parties that included insurance payouts and legal agreements. As the last of these settlements were paid off in Q3 2024, their role in revenue growth became clear. The ability for EIX to reinvest in its core business without the risk of unexpected financial burden allowed them to further develop energy systems over the course of the past few years, contributing to the exceptionally high earnings.

**Valuation:** We initiate coverage with a \$85.00 PT.



Consortium Equity Research  
Energy & Sustainability  
December 14, 2024

Stock Rating: Overweight

Price Target: \$85.00

Price: \$82.13

Potential Upside: 3.94%

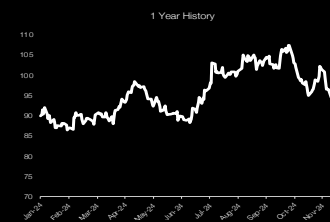
Ticker(s): \$EIX

Market Cap: \$31.6b

Shares Outstanding: 387,000

Free Float (%): 99.88%

Dividend Yield: 3.81%



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## Peer Comparisons

Comparable Companies					
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Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Constellation Energy Corp	\$86,030,000	\$92,650,000	30.2x	\$23,980,000	\$6,000,000
Dominion Energy Inc	\$49,031,000	\$91,630,000	21.5x	\$14,393,000	\$7,424,000
Xcel Energy	\$30,989,000	\$69,250,000	21.2x	\$14,206,000	\$2,597,000
FirstEnergy Corp	\$40,989,000	\$47,590,000	27.1x	\$12,870,000	\$3,771,000.00
<b>Edison International</b>	<b>\$31,580,000</b>	<b>\$69,630,000</b>	<b>25.5x</b>	<b>\$16,338,000</b>	<b>\$5,960,000</b>

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
Constellation Energy Corp	15.4x	11.90%	25.0%	22.40%	7.20%
Dominion Energy Inc	12.3x	17.00%	51.6%	36.00%	3.40%
Xcel Energy	26.7x	13.70%	18.3%	25.20%	-0.50%
FirstEnergy Corp	12.6x	6.70%	29.3%	22.20%	6.90%
<b>Edison International</b>	<b>11.7x</b>	<b>7.60%</b>	<b>36.5%</b>	<b>21.20%</b>	<b>10.60%</b>

High	26.67x	17.0%	51.6%	36.0%	10.6%
75th Percentile	15.44x	13.7%	36.5%	25.2%	7.2%
Average	15.75x	11.4%	32.1%	25.4%	5.5%
Median	12.62x	11.9%	29.3%	22.4%	6.9%
25th Percentile	12.34x	7.6%	25.0%	22.2%	3.4%
Low	11.68x	6.7%	18.3%	21.2%	-0.5%

Edison International Valuation	
Implied Enterprise Value (25th Percentile)	\$ 73,560,722
<b>Implied Enterprise Value (Median)</b>	<b>\$ 75,215,168</b>
Implied Enterprise Value (75th Percentile)	\$ 92,032,333

Implied Share Price (25th Percentile)	\$ 65.89
<b>Implied Share Price (Median)</b>	<b>\$ 70.16</b>
Implied Share Price (75th Percentile)	\$ 113.62

Source: (Mergent Online)

## EIX Overview

**EIX Description:** Founded in 1886, Edison International (EIX) has been instrumental in providing clean, reliable, and affordable electricity to 15 million residents across California through their subsidiary Southern California Edison (SCE). The company's ability to separate itself from competitors through prioritizing sustainability and technological innovation in its operations has been a key player in advancing California's energy transition through the means of millions of residents. Beyond SCE, the company operates Trio, a global energy consulting division offering solutions to industrial clients regarding optimal energy sourcing and infrastructure developments.

**Technological Innovation:** EIX is no stranger to investing in technological research and development, proving worthy over the past few years as numerous developments have helped EIX closer reach their visions for decarbonization. Efficient battery systems are notable, playing a crucial role in supporting and conserving renewable energy sources like solar and wind. By storing surplus energy generated during peak production times and releasing it when demand is higher, EIX can ensure a steady and reliable clean energy supply to its customers. EIX has also found success in developing innovative and modern solutions in the electrification of vehicles and smart grid technology.

**Accessible Energy for All:** Another priority of EIX is making clean energy accessible across diverse communities, implementing programs through SCE to making options available for all residents. Energy equity programs have been key to this, where EIX offers financial assistance to low-income households for energy services, reducing upfront costs and enabling families to save long term. Microgrids projects have also been a priority, helping energy get to establishments in remote and underserved area. These

efforts help ensure that the benefits of clean energy extend across borders of varying realms, empowering all Californians to participate and benefit from the state's green energy transformation.

## Energy & Sustainability Industry Overview

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**Corporate Responsibility:** The growing Environmental, Social, and Governance (ESG) movement reflects consumer and industry demand for companies to prioritize sustainability and social accountability. Investors are starting to favor businesses that satisfy ESG criteria, driving renewable energy firms to adopt new practices and be transparent about them to the public. Firms across all industries from Microsoft to Unilever have shifted their company agency to better satisfy ESG and achieve net-zero emission operations. These trends are further reinforced by stricter regulations, social media influence, growing stakeholder demand for corporate responsibility & transparency.

**Rapidly Developing Technologies:** Key technological advances throughout the world have revolutionized clean energy production by improving efficiency and reducing costs. Key developments such as AI, green hydrogen, complex battery systems, and electric mobility have demonstrated how rapidly evolving technologies have driven sustainability for all firms. A prominent example is Tesla, which has employed some the developments listed above to scale operations and drive down expenses, making their EVs more accessible for consumers and favorable as a substitute to gas-powered vehicles.

**Supply Chain Evolution:** Modern supply chains are being transformed by above mentioned technology and sustainability pressures, which increases the demand and focus on green supply chains across the globe. Especially further down the supplier side of operations, the ripple effect of these changes in operations affects a wide array of firms. For instance, the choices made by Apple's suppliers to source recycled materials have influenced Apple and their transition to more renewable operations. Since, the company has stated they intend to shift their operations to source from carbon neutral suppliers by 2030. The need for efficiency, geopolitical instability, and environmental concerns has all fed into this trend.

## Investment Theses

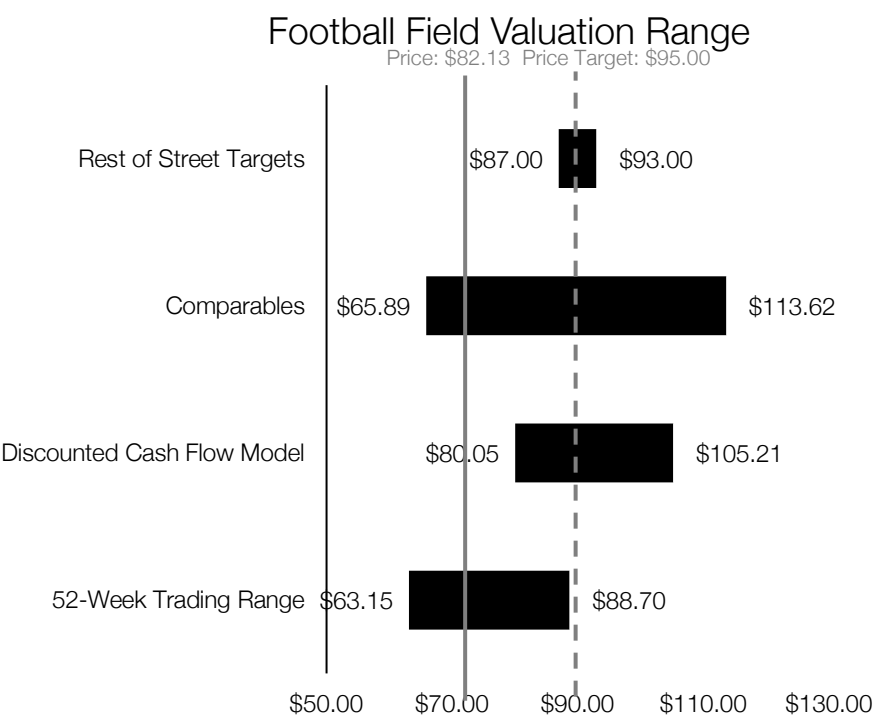
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**Infrastructure Expansion:** Over the course of the next decade, SCE anticipates over 20,000 miles of 500kV transmission circuits to interconnect and provide clean energy to individuals, increasing the mileage of circuits to over 30% more than today's. SCE expects the distribution system to be 25% larger by 2045, with roughly 85 new distribution substations being currently developed. Additionally, SEC intends to upgrade nearly 400 existing substations, through electrifying operational vehicles and buildings.

**Decarbonized Electrification:** Experts have predicted that by 2045, electricity demand is projected to increase by over 80% from today, primarily due to increasing climate concerns among customers/investors and the fact that solar-electrified homes are a lot cheaper for homeowners, with total energy expenses for consumers that adopt SCE services dropping by 40%. Households will benefit from these savings well before 2045, driven by the reduced reliance on fossil fuel expenses that SCE's services offer. Improvements in equipment efficiency, energy efficiency, and demand response programs give renewable energy and promising outlook for company growth.

Price Target & Valuation

Our analysis gives EIX a price target of \$85.00 and an overweight rating.



Potential Downsides to Our Rating

**Battle with Arenas:** Given that the bulk of operations for EIX lies within the Southern California region, the company and its operations is prone to wildfires especially. Ongoing droughts, high winds, and rising temperatures have contributed significantly to this, and the presence of this threat may potentially prompt higher insurance premiums and tight regulations. Such became evident in the 2017 Thomas Fire & 2018 Montecito Mudslides (TKM), where EIX faced legal liabilities and settlement costs despite investments in infrastructure resilience, limiting EIX’s financial flexibility.

**Execution & Operating Risk:** EIX’s goals of achieving net-zero emissions by 2045 is ambitious and requires extensive investment in clean energy innovations. With tens of thousands of miles in power lines, truly modernizing and keeping up with the pace of research for already existing structures is difficult to meet. Especially considering that EIX operates in an industry that is heavily consumer based, the risk that customers may straight up

Our Price Target: **\$85.00**

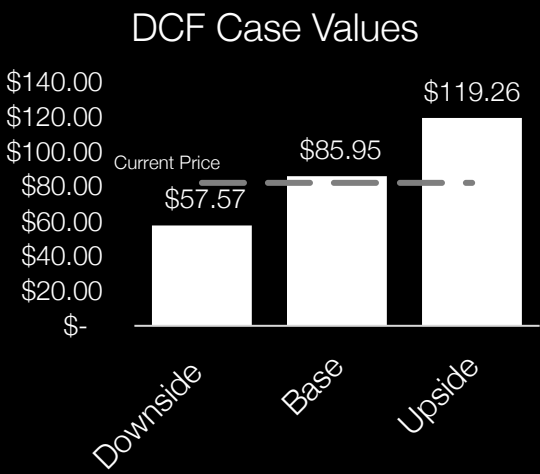
With infrastructure expansion being a huge investment for EIX, this may be a point of concern for investors. At this point it is unclear what financing method EIX’s anticipates implementing with this project, though any negative effects of this may be ‘canceled out’ by a growth in sales for EIX sourced by the draw towards clean energy by consumers.

Our Upside Case: **\$120.00**

Geographical expansion for EIX could be a huge play for the firm, operating and offering services to strategic geographic regions. As the Southern California region becomes less and less affordable by the day, the opportunity to cut energy costs for residents is appetizing.

Our Downside Case: **\$60.00**

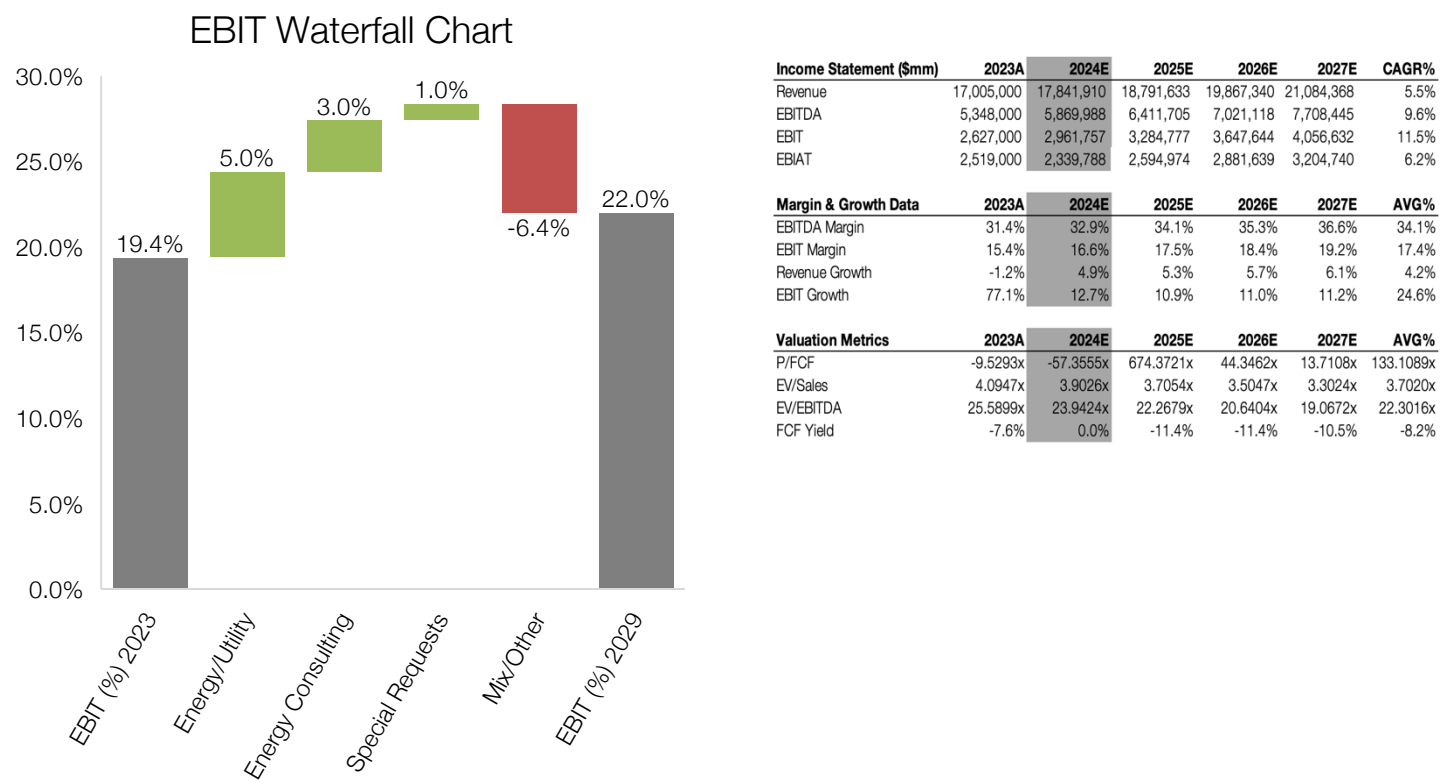
Our downside case factors in the risk of natural disaster. The TKM case hindered growth and tainted reputation for EIX for some years, and it will still take some years before EIX is completely based on solar & wind energy. Thus, the risk of another wildfire, which is common in the region, is apparent.



not adopt these services and initiatives is existent to potentially undermine EIX’s growth projections.

**Supply Chain Disruption:** The renewable energy industry relies heavily on global supply chains for essential materials that include lithium, cobalt, and other rare earth elements used in solar panels, wind turbines, and energy storage systems. The potential for geopolitical tensions, material shortages, and transportation issues creates a systematic risk that could slow EIX’s growth considerably. The finite nature of EIX’s supply chain leaves the door open for price volatility that is hard to account for, creating concerns regarding the certainty of future cash inflows for EIX.

Projections



About EIX

Edison International (EIX), founded in 1886, is headquartered in Rosemead, California, and operates primarily in Southern and Central California through its main subsidiary, Southern California Edison (SCE). The company focuses on electric utility services, including power generation, transmission, and distribution, serving approximately 15 million residents. Its key business segments include regulated electric utility operations and investments in clean energy solutions through its competitive business arm, Edison Energy. EIX's strategic purpose is to provide safe, reliable, and affordable electricity while advancing California’s clean energy goals, including decarbonization and electrification initiatives.

## Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities. **Overweight** means the analyst team believes the stock price will outperform the coverage industry in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry. **Underweight** means the team expects underperformance relative to the industry.

## Appendix

Edison International  
Discounted Cash Flow

Active Case:	2 Base
Current Share Price	\$82.13

DCF Analysis							
	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029
Stub		0.08	0.08	0.08	0.08	0.08	0.08
Discount Period		0.04	0.58	1.58	2.58	3.58	4.58
Revenue	17,005,000.00	17,841,910.00	18,720,265.30	19,642,126.16	20,609,655.49	21,625,123.98	22,690,915.46
Revenue Growth	1047%	5%	5%	5%	5%	5%	5%
Electric/Utility	16,338,000.00	17,154,900.00	18,012,645.00	18,913,277.25	19,858,941.11	20,851,888.17	21,894,482.58
Special Charges	667,000.00	687,010.00	707,620.30	728,848.91	750,714.38	773,235.81	796,432.88
EBIT	3,294,000.00	3,568,382.00	3,781,493.59	4,006,993.74	4,245,589.03	4,498,025.79	4,765,092.25
EBIT Margin	19%	20%	20%	20%	21%	21%	21%
Tax Expense	108,000.00	749,360.22	794,113.65	841,468.68	891,573.70	944,585.42	1,000,669.37
Effective Tax Rate	3%	21%	21%	21%	21%	21%	21%
NOPAT	3,186,000.00	2,819,021.78	2,987,379.94	3,165,525.05	3,354,015.33	3,553,440.37	3,764,422.87
D&A	2,721,000.00	2,908,231.33	3,115,052.15	3,335,233.02	3,569,592.33	3,818,996.89	4,084,364.78
Capex	5,448,000.00	5,352,573.00	5,241,674.28	5,106,952.80	4,946,317.32	4,757,527.27	4,538,183.09
Changes in NWC	(385,000.00)	446,047.75	411,845.84	373,200.40	329,754.49	281,126.61	226,909.15
UFCF	(2,647,000.00)	(71,367.64)	448,911.96	1,020,604.88	1,647,535.86	2,333,783.38	3,083,695.41
PV of FCF		(71,200.03)	433,318.93	926,577.24	1,406,813.00	1,874,301.90	2,329,313.72

Weighted Average Cost of Capital	
Market Risk Premium	4.24%
Beta	0.95
Risk Free Rate	4.55%
Cost of Equity	3.89%
Weighted Average Cost of Debt	5.63%
Tax Rate	21.00%
Cost of Debt	2.43%
Total Equity	\$31,580,000
Total Debt	\$38,050,000
Equity/Total Capitalization	45.35%
Debt/Total Capitalization	54.65%
WACC	6.32%