

Exelon Corporation (EXC)

Equity Review
Energy
10/27/2020



Company: Exelon Corporation NASDAQ: (EXC)

Ownership: Common Stock publicly traded via the ticker EXC on the NASDAQ. They have a Market Cap of ~\$41.3 Billion. There are no notable holders of their common stock.

Ratings: Baa2/BBB+

Portfolio Holdings:

Symbol	Last Price	Quantity	Price Paid	Market Value	Percent Gain	Weight	Index Weight	Bloomberg	Sector
KMI	\$12.68	1,500	\$12.54	\$19,020.00	1.12%	2.13%	0.1%	KMI US Equity	Energy
XLU	\$63.84	500	\$58.45	\$31,920.00	9.22%	3.57%	0.0%	XLU US Equity	Utilities

Index Weighting:

- ~ 1bp of the S&P 500
- ~ 4.5% of XLU ETF

Recommendation:

After thorough qualitative and quantitative analysis, the Energy Sector has come to a BUY recommendation, with a price target of \$47.46, yielding a 19.46% upside compared to EXC's current share price coupled with a 3.54% dividend yield. Given the impending election and the COVID-19 pandemic, volatility in markets is highly likely and utility sector companies with stable earnings can be a strong defensive play. Exelon is a top utility provider in the United States with over 10 million electricity and natural gas customers as well as 2 million energy products and services customers. They provide electricity and power in a sustainable manner through nuclear power, natural gas, and renewable energy. Having the lowest carbon impact out of all utility companies; they are poised to take advantage of the expansion of renewable energy. Additionally, this defensive play is trading at a steep discount compared to their peers on a P/E and EV/EBITDA basis. Additionally, their 3.54% dividend yield will provide steady cash flows to the portfolio over the coming years.

Comparable Company Analysis:

Name	Ticker	Price	Market Cap	EV / EBITDA	Net Debt / EBITDA	P / E	Dvd Yld	Ratings
EXELON CORP	EXC US	\$ 41.70	\$ 40,870.97	7.91x	3.83x	14.18x	3.54%	BBB+/Baa2
NEXTERA ENERGY INC	NEE US	\$ 75.66	\$ 148,752.50	21.68x	4.94x	33.97x	1.79%	A-/Baa1
DOMINION ENERGY INC	D US	\$ 81.72	\$ 69,622.06	9.20x	5.91x	16.19x	5.54%	BBB+
DUKE ENERGY CORP	DUK US	\$ 93.18	\$ 68,943.09	12.17x	5.87x	18.34x	4.04%	A-/Baa1
SOUTHERN CO/THE	SO US	\$ 60.61	\$ 64,276.58	12.89x	5.41x	19.46x	4.11%	A-
AMERICAN ELECTRIC POWE	FE P US	\$ 93.59	\$ 46,332.69	14.01x	5.93x	23.98x	3.04%	A-
CONSOLIDATED EDISON INC	ED US	\$ 82.74	\$ 27,907.05	10.76x	4.88x	19.19x	3.57%	A-/Baa2
PPL CORP	PPL US	\$ 28.92	\$ 22,179.41	10.74x	5.43x	12.13x	5.74%	A-/Baa2
EDISON INTERNATIONAL	EIX US	\$ 58.19	\$ 22,084.32	10.45x	5.53x	14.30x	4.32%	BBB/Baa3
FIRSTENERGY CORP	FE US	\$ 33.32	\$ 18,204.07	11.88x	6.26x	18.70x	4.59%	BBB/Baa3
Median		\$ 68.14	\$ 43,601.83	11.32x	5.48x	18.52x	4.08%	

Comps Valuation:

P/E Valuation Method	
Implied Multiple	18.52x
EXC EPS	\$ 2.96
EXC Implied Target Price	\$ 54.82
Percentage Upside	31.56%

Company Description:

Exelon is one of the largest utilities companies in the S&P 500. They are a leader in energy delivery, generation, and sales. They provide electricity and natural gas to approximately 10 million customers in various states along the East Coast and in the Midwest. Exelon is able to do this as they produce ~31,600 megawatts. Exelon is also the largest owner and operator of nuclear power plants in the US and is the largest producer of emissions-free energy. Exelon also owns a competitive retail and wholesale energy business called Constellation. This branch of the firm provides energy products and services to ~1.9million residential, public sector and business customers, including more than 3/4 of the Fortune 100.

Management:

- **Christopher M. Crane, President and CEO** - Joined Exelon in 1998 and was promoted to President and CEO in 2012
- **Joseph Nigro, Senior Exec VP and CFO** - Joined Exelon in 1996 and was promoted to CFO in 2018
- **William A Von Hoene Jr, Senior Exec VP and CSO** - Joined Exelon in 2002 and was promoted to CSO in 2012
- **Kenneth W. Cornew, CEO of Exelon Generation (Subsidiary)** - President and CEO of Exelon Generation since 2013

Industry Overview:

- Low concentration industry, highest market share is Exelon with 3.6%
- Key revenue drivers are new housing starts and the Industrial Production Index
- Both electricity and nuclear are highly regulated, price of electricity is set by state PUCs rather than by the companies
- Existing tax credits for generation using renewable energy, could increase with Democrat victories in Congress and for president
- Profitability is heavily dependent on a firm's ability to negotiate with regulators and reduce costs within the constraints of a fixed price
- Price of Natural Gas at \$ 2.937 and up 33% on the year with higher demand than expected

Liquidity:

- \$2.1bn in cash
- ~\$5.5bn in available line of credit
- ~\$7.6bn in total liquidity

Equity Strengths:

- Price Target: \$49.78
- Upside: 19.46%
- Top utility provider in the U.S.
 - 10M electricity and natural gas customers
 - 2M energy products and services customers
- Diverse company holdings
 - Nuclear
 - Natural Gas
 - Renewables
- Prepared to capture growth in renewable energy industry
- Investing \$23B over next 3 years into grid network
- It has decreased its carbon emissions more than any of its utilities competitors
- Strong presence in the US, operating in 48 states
 - Generates and delivers power in Mid-Atlantic, Midwest, New England
- Has received 20-year operating license renewals for all but one nuclear unit
 - Ensures long term uninterrupted power supply, license renewal process takes 4-5 years
- Regulating utility growth targeting utility EPS rising 6-8% annually form 2019-2023
- In more uncertain times (COVID), regulated utilities produce more stable returns
- Subsidiaries all have received strong credit ratings from Moody's and S&P
- Maintained 5% dividend growth commitment through 2020

Equity Weaknesses:

- Growth in the industry is mainly through technological growth or through acquisitions which have their own risks
- Decreased demand for nuclear could make nuclear plants stranded assets
- Commodity price risks – electricity, natural gas, etc.
- Exelon’s dividend yield has been relatively volatile over the past 10 years
- Recent focus on lower cost construction-based infrastructure projects could be a sign that the industry is maturing faster than expected. (ex. Quad Cities)
- Nuclear plants are risky to operate and it is difficult to find buyers given the current economic conditions

Competitors:

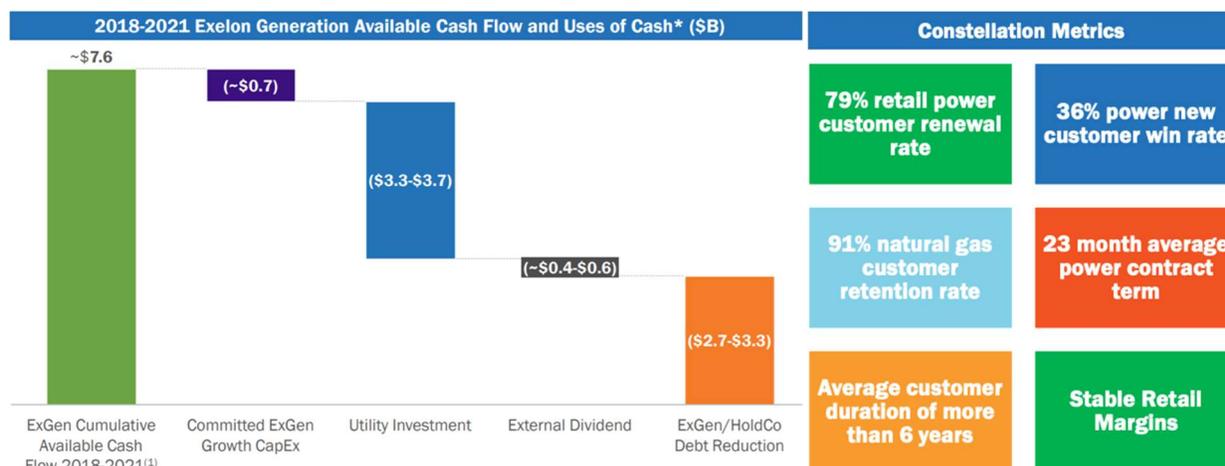
- Duke Energy Corp - Energy company that also specializes in nuclear energy
- Southern Co - Public utility holding company that generates and sells electricity in the southeastern US - also provides telecommunication services
- Public Service Enterprise GP - Generates, transmits and distributes electricity and natural gas in the Northeast and Mid-Atlantic US
- Consolidated Edison Inc - provides energy services and supplies electric service in New York, New Jersey, and Pennsylvania
- Nextera Energy Inc - provides sustainable energy generation and distribution services - Generates electricity through wind, solar, and natural gas

Customers:

- Notable Customers include Atlantic City Electric, BGE, Pepco, PECO, ComEd, and Delmarva Power
- ~10 million customers in Delaware, the District of Columbia, Illinois, Maryland, New Jersey and Pennsylvania through subsidiaries
- Constellation serves approximately 1.9 million residential, public sector and business customers, including more than three-quarters of the Fortune 100
- No Customer accounts for 10% of Revenue

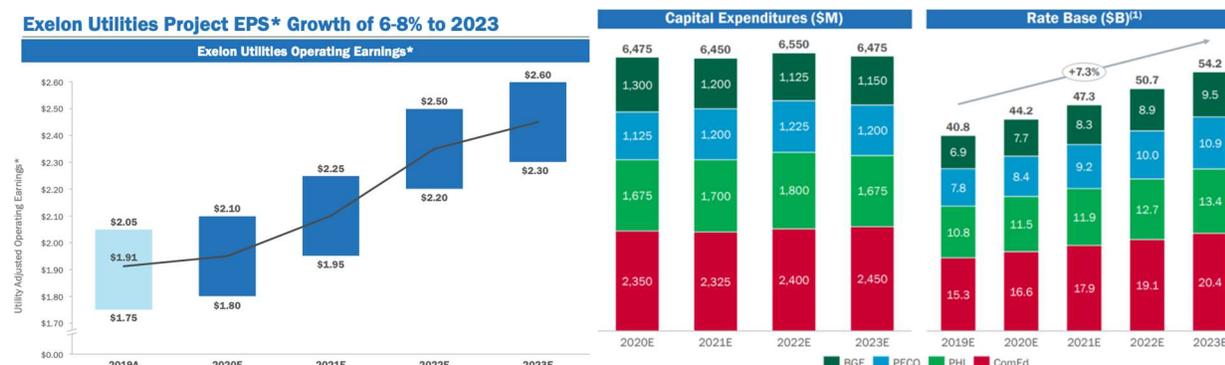
Competitive Advantages:

- One of the largest, low carbon generators in the United States
- Subsidiaries have access to Exelon’s investment-grade balance sheet
- As a holding company, there is less legal and financial risk
- Diversified business operations
- Not significantly affected by environmental regulation compared to fossil fuel competitors
- Sufficient liquidity with \$8.5 billion from cash and availability on their revolving credit facility
- One of the largest, lowest-carbon electric generators in the United States (carbon intensity is four times lower than the next cleanest large producer)
- Nuclear plants have zero-emissions
 - For states like Illinois (50% of power generated from nuclear), see value in zero emission, otherwise they would be replaced by fossil fuels
- Large scope of business operations
 - Utility segment provides stability while the Generation (Nuclear) segment provides cash to invest and reduce debt
- Due to its low emission portfolio, Exelon has not been significantly affected by environmental regulation compared to competitors more reliant on fossil fuels
- High free cash flow from ExGen subsidy is being used to support growth in the core utility segments, reduce debt, and maintain the dividend
- Can adjust to renewable energy efficiently once fossil fuels are less demanded
- Subsidiary companies have access to Exelon’s investment-grade balance sheet



Growth Opportunities:

- Diversify company through investments in core markets and promising technology
- ~\$26Bb of capital planned to be invested in Exelon utilities from 2020 – 2023 for grid modernization and resiliency
- Government investment in and tax credits for energy innovation
- Increased investment in renewable energy
 - Already invested ~\$5B in clean energy projects
- Adoption of new technology
 - RNG, battery storage, fuel cells, hydrogen, etc.
- Growth through acquisition
 - Acquired 8 companies in the last 5 years



Covid-19 Response:

- Minimal impact on ROE
- YoY gain in GAAP EPS for 2Q 2020
- Revising full year operating earnings guidance to \$2.80 - \$3.10 per share
- Seeking cost savings
 - Reducing ExGen CapEx by \$125M
- Increased customer support
 - Offering flexible payment arrangements for customers suffering financially
 - Creating contingency plans to create faster response times for outages

Model:

Discounted Cash Flow (DCF) Analysis: EXC

(\$ in millions)

Discounted Cash Flow	Fiscal Year Ending Approximately December 31,					Terminal Value Calculation	
	2020	2021	2022	2023	2024		
EBIT	\$5,069.3	\$5,170.7	\$5,274.1	\$5,379.6	\$5,487.1	\$5,596.9	
Less: Taxes	780.4	803.0	826.1	849.6	873.6	898.1	
Unlevered earnings	4,288.9	4,367.7	4,448.0	4,529.9	4,613.5	4,698.8	
Plus: Depreciation and Amortization	5,611.1	5,723.3	5,837.7	5,954.5	6,073.6	6,195.1	
Less: Capital Expenditures	7,287.1	7,432.8	7,581.5	7,733.1	7,887.8	8,045.5	2024 EBITDA
Less: Change in Net Working Capital	(1,132.1)	85.4	82.3	88.3	101.3	102.3	Terminal Multiple
Unlevered Free Cash Flow	3,745.0	2,662.7	2,606.9	2,652.0	2,698.1	2,745.0	Terminal Value
							\$11,560.7
Discount Period	0.50	1.50	2.50	3.50	4.50	5.50	Discount Period
Discount Factor	1.02	1.07	1.12	1.18	1.23	1.29	Discount Factor
Present Value of Unlevered Free Cash Flow	3,658.2	2,388.6	2,318.6	2,250.7	2,184.9	2,121.1	PV of Terminal Value
							Terminal Value % of TEV
							82.65%

DCF Assumptions	
Tax Rate	21.0%
Terminal multiple	7.96x
WACC	4.8%

Total Enterprise Value (TEV)	\$86,028.8
Less: Total Debt	40,135.0
Less: Preferred Stock	0.0
Less: Minority Interest	2,168.0
Plus: Adjustments	373.0
Plus: Cash	2,129.0
Market Value of Equity	46,227.8
Fully Diluted Shares	974.0
Equity Value Per Share	\$47.46

Gross Margin %	Revenue Growth % After 2020				
	0.00%	1.00%	2.00%	3.00%	4.00%
52.0%	\$ 28.37	\$ 30.73	\$ 33.16	\$ 35.67	\$ 38.24
54.0%	\$ 35.06	\$ 37.65	\$ 40.31	\$ 43.05	\$ 45.88
56.0%	\$ 41.75	\$ 44.56	\$ 47.46	\$ 50.44	\$ 53.51
58.0%	\$ 48.44	\$ 51.48	\$ 54.61	\$ 57.83	\$ 61.15
60.0%	\$ 55.12	\$ 58.39	\$ 61.76	\$ 65.22	\$ 68.79

Valuation:

- DCF Bear Case (5%): \$28.37
- DCF Base Case (60%): \$47.46
- DCF Bull Case (5%): 68.79
- Comps (30%): \$54.82
- Price Target: \$49.78
- Upside: 19.46%