



# UConn Student Managed Fund

## Exelon Corp (NASDAQ: EXC)

December 9, 2020

Target Price: \$49.01  
 Current Price: \$41.03  
 Stop loss: \$30.77  
 52 Week High/Low: \$50.54/\$29.28

Market Cap (\$B): \$39.93  
 Dividend Yield: 3.74%  
 Beta: 0.40  
 ROE: 6.7%

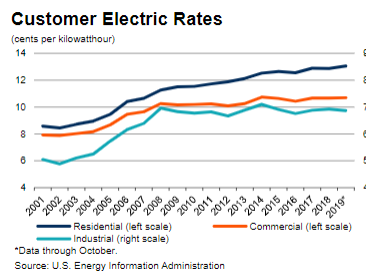
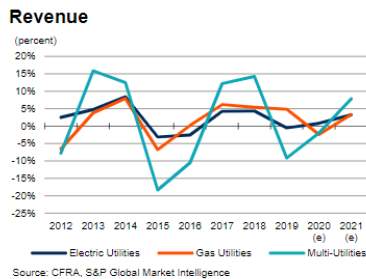
P/E Ratio (TTM): 16.8x  
 EV/EBITDA: 8.9x  
 Debt/Equity: 0.67  
 Profit Margin: 7.1%

### Company Overview

Exelon Corp. is a FORTUNE 100 company that works in every stage of the energy business: power generation, competitive energy sales, as well as transmission and delivery. As the nation's leading competitive energy provider, Exelon does business in 48 U.S. states, as well as in D.C. and Canada. Exelon is one of the largest competitive U.S. power generators, with more than 31,000 megawatts of nuclear, gas, wind, solar and hydroelectric generating capacity comprising one of the nation's cleanest and lowest-cost power generation fleets. Exelon is also the largest regulated electric utility in the United States by customer base with more than 10 million customers. The power generation and constellation business comprise 53 % of total revenues whereas the distribution and transmission unit comprise the remaining 47% percentage.

### Industry Outlook

As stated by the CFRA, the outlook for the Utilities sector is neutral. While we expect relatively mixed earnings in 2020, driven by macroeconomic headwinds underpinning the global pandemic, we think utilities offer a logical defensive play. we expect near-term revenues to be hurt by lower commercial and industrial demand and less favorable weather. High and growing capital expenditure levels over the last few years have driven the rate base higher leading to growth in customer rates. We see that trend continuing as we go forward.



### Investment Thesis

**Transmission & Distribution Growth Engine:** Exelon's growth engine is its regulated gas and electric transmission and distribution utilities. A stable and growing rate base led by continued capital investment is the key component here. Strong capital spending of approximately 7.3% over the next several years will likely continue to help utilities drive rate base growth. Exelon has done a solid job developing good regulatory relationships and we expect Exelon will be able to maintain solid returns at its regulated utilities. Exelon's political savvy, particularly in Illinois, New York, and New Jersey, now limits the impact from volatile power markets and provides more certainty. All of these components combined give this segment more growth certainty.

**Transition to a Zero-Carbon Future:** Our country's shift to a zero-carbon future will require nuclear power. Exelon zero-carbon generation assets must and will remain a part of that solution. Nuclear facilities produce over 60% of America's clean energy. And nuclear power generates baseload electricity with no output of carbon, the core element of global warming. Nuclear power plants operate at much higher capacity factors than renewable energy sources or fossil fuels. Capacity factor is a measure of what percentage of the time a power plant actually produces energy. Exelon has seen rising capacity factors over the last three years, way above the industry average, indicating the reliability of their power generation unmatched to any other carbon-free energy source currently available. Exelon continues to seek additional compensation via zero emissions tax credits as well as various government subsidies, and both state and federal governments have begun recognizing nuclear energy as a key player in mitigating climate change. Exelon's power generation business will act as a stabilizer to the firm's revenues as well as provide modest growth potential.

### Investment Risks

**COVID-19:** As a result of the pandemic, and more people working from home, power consumption at the commercial and industrial level is at all time low resulting in lower revenues in the power generation and transmission and distribution business. Additionally, payment deferrals for residential customers will weigh on revenues in the near term.

**Regulation:** Exelon is regulated at both the federal and state level and there is always the chance for an unfavorable regulatory environment, however, Exelon's political savvy, particularly in

Illinois, New York, and New Jersey, now limits the impact from volatile power markets and provides more certainty.

demand for either summer cooling or winter heating. Less favorable long-term weather patterns and the impact of climate change will increase overall costs to the company.

**Weather:** Distribution volumes are generally higher during the summer and winter months when temperature extremes create

## Financial Performance

Company Financials Fiscal year ending Dec 31										
Per Share Data [USD]	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Tangible Book Value	26.26	24.85	24.10	20.74	25.13	23.19	23.45	22.00	17.73	16.52
Free Cash Flow	-0.65	0.93	-0.11	-0.10	-0.01	-1.88	1.11	0.39	1.22	2.90
Earnings	3.01	2.07	3.98	1.21	2.54	1.88	2.00	1.42	3.75	3.87
Earnings (Normalized)	2.44	1.71	2.65	1.94	2.44	1.38	1.90	1.64	3.70	3.88
Dividends	1.45	1.38	1.31	1.26	1.24	1.24	1.46	2.10	2.10	2.10
Payout Ratio [%]	48.00	66.00	33.00	104.00	49.00	66.00	73.00	148.00	56.00	54.00
Prices: High	51.18	47.40	42.67	37.70	38.25	38.93	37.80	43.70	45.45	49.88
Prices: Low	43.42	35.57	33.30	26.26	25.09	26.45	26.64	28.40	39.06	37.24
P/E Ratio: High	17.00	22.90	10.70	31.20	15.10	20.70	18.90	30.80	12.10	12.90
P/E Ratio: Low	14.40	17.20	8.40	21.70	9.90	14.10	13.30	20.00	10.40	9.60
Income Statement Analysis (Million USD)										
Revenue	34,438	35,978	33,558	31,366	29,447	27,429	24,888	23,489	19,063	18,644
Depreciation + Amortization	5,023	4,820	4,687	4,397	3,817	3,677	3,567	3,950	2,253	2,012
Operating Expenses	1,719	1,830	1,840	1,692	1,200	1,154	1,095	1,019	785.00	808.00
Effective Tax Rate [%]	20.40	5.40	-3.40	38.60	32.30	26.80	37.60	34.90	36.80	39.30
Net Income	2,936	2,005	3,779	1,121	2,269	1,623	1,719	1,160	2,495	2,563
Net Income (Normalized)	2,374	1,657	2,519	1,796	2,175	1,188	1,636	1,340	2,459	2,573
Balance Sheet and Other Financial Data (Million USD)										
Gross Property	100,105	93,652	88,846	84,178	67,430	60,965	55,847	52,555	39,304	36,280
Net Property	78,749	73,719	70,941	68,195	53,916	48,896	44,505	42,449	30,129	27,808
Capital Expenditures	7,289	7,748	7,584	8,553	7,624	6,077	5,395	5,810	4,042	3,326
Capital Expend to Revenue [%]	21.20	21.50	22.60	27.30	25.90	22.20	21.70	24.70	21.20	17.80
% Long Term Debt of Capitalization	44.70	49.50	48.10	50.70	45.30	42.90	42.40	44.50	44.00	45.70
Capitalization: Common	32,224	30,741	29,896	25,837	25,793	22,608	22,732	21,431	14,385	13,560
Capitalization: Preferred	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fixed Charges Coverage	2.80	2.84	3.02	2.79	4.25	2.87	2.72	3.12	6.18	5.78
% Operating Ratio	27.74	25.67	28.01	27.66	27.87	24.55	29.15	29.16	35.36	36.14
% Net Income Margin	8.53	5.57	11.26	3.57	7.71	5.92	6.91	4.94	13.09	13.75
% Return on Invested Capital	3.95	4.02	4.49	4.56	5.49	4.28	5.46	5.23	10.32	11.40
% Return on Common Equity	9.30	6.60	13.60	4.30	9.40	7.20	7.80	6.50	17.90	19.60

## Valuation Assumptions

We give a BUY recommendation for Exelon based on a target price of \$49.01 per share. This target price reflects a 19.46% margin of safety based on its current trading price of \$41.03 as of 10:20 AM on December 9, 2020. We used the company's WACC of 3.85% to discount our projected cash flows. We assumed a terminal growth rate of 2.0% and an 8.90x exit EV/EBITDA while computing the Perpetuity Growth and terminal EV/EBITDA valuation method, respectively.

Summary					Inputs	
	PerPetuity	EBITDA	Weight	Value		
Bull	64.19	45.82	25%	53.17	Current Price	41.03
Base	56.34	44.31	50%	49.12	WACC	3.85%
Bear	47.61	42.64	25%	44.63	Terminal Growth	2.00%
				<b>Intrinsic Value</b>	<b>Exit Multiple</b>	<b>8.90</b>
				<b>49.01</b>		
				<b>MOS</b>		
				<b>19.46%</b>		

## ESG Considerations

MSCI gives Exelon a AA rating for being one of the nation's largest and most efficient clean energy producers in the U.S. Exelon is a **top performer** among its competitors for its carbon footprint as well as a **top performer** amongst pollution prevention.

