

Exelon

Growth slows to 5-7%, as expected. Move from Illinois distribution to transmission.

Maintain Rating: NEUTRAL | PO: 36.00 USD | Price: 36.12 USD

Cut EPS CAGR to 5-7% from 6-8% after Illinois

We maintain Neutral on shares of distribution & transmission regulated utility Exelon Corp (EXC) after the comprehensive 4Q23 update. Exelon lowered its long-term EPS guidance to 5-7% 2023-2027 from 6-8% 2021-2025 and 2022-2026, consistent with our expectations after the adverse Illinois regulatory outcome in December. Please see background in our [December downgrade here](#) and subsequent [4Q23 preview here](#). From our initial review, the new plan supports 5.5-6.0% adjusted EPS without improved returns/regulation versus mgmt. expectation to be at 6%+. The update was generally in-line with our forecast with slightly better long-term EPS guidance than we anticipated.

FY23 & FY24 EPS favorably surprise and beat BofAe

\$2.40-\$2.50 FY24 adjusted EPS guidance was initiated, better than \$2.33 BofAe/\$2.42 Consensus and representing +3% YoY growth versus expectations for flat/down. EXC assumes that 2024 Commonwealth Edison (ComEd) revenue requirement is conservatively in-line with the 2023 final order with potential for improvement based on a 2024 update. We estimate \$0.08 annualized benefit potential upside for FY24. \$2.38 FY23 adjusted EPS beat \$2.35 BofA/\$2.36 Consensus and the \$2.36 guidance midpoint. The better-than-expected performance is despite +\$100Mn higher adjusted O&M than original guidance, largely related to the late 2023 ACE strike/contracting costs due to a variety of small positive elements, including the BGE reconciliation.

~\$2.80 FY26 implied EPS guide in-line with BofA/Street

The updated annual point guidance slide implies +\$2.80 2026, consistent with BofA and \$2.79 Consensus. The point guidance implied for 2025 and 2027 is +1% higher than BofA. This is a -\$0.07 (-3%) decline vs the prior plan and consistent with the rebase.

Capital plan +10% as rate base growth slows to 7.5%

The capital plan was increased \$3.2Bn to \$345Bn (+10%) on the roll-forward with the increases entirely concentrated at electric transmission +\$3Bn. Natural gas spending is flat and electric distribution spending is +\$200Mn, despite cutting -\$1.2Bn Illinois ComEd capex. Rate base is decline and growth is slowing to 7.5% 2024-2027 from 7.9% 2023-2026 versus the prior plan.

Balance sheet a critical element

The relatively weak credit metrics remains an investor top focus. EXC announced an incremental \$1.3Bn equity to finance 41% of the +\$3.2Bn growth capital. EXC issued \$142Mn equity in 2023 versus the prior plan to not issuing equity in 2023-2024 with \$425Mn in 2025. There is now \$150Mn equity in 2024, followed by \$450-\$500Mn annually. EXC guides to an unchanged 13-14% average FFO / debt The 2024-2027 adjusted cash flow from operations is +\$2Bn higher versus the prior plan at ~\$19Bn. Previously Exelon was in the low-end of the 13-14% range and we model 12-13% prior to the new higher equity issuance (~\$333Mn BofA vs ~\$475Mn new guidance).

21 February 2024

Equity

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Stock Data

Price	36.12 USD
Price Objective	36.00 USD
Date Established	19-Jan-2024
Investment Opinion	B-2-7
52-Week Range	33.35 USD - 43.71 USD
Mrkt Val (mn) / Shares Out (mn)	36,012 USD / 997.0
Free Float	99.9%
Average Daily Value (mn)	250.89 USD
BofA Ticker / Exchange	EXC / NAS
Bloomberg / Reuters	EXC US / EXC.OQ
ROE (2023E)	9.3%
Net Dbt to Eqty (Dec-2022A)	159.7%
ESGMeter™	High

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ComEd: Commonwealth Edison
ACE: Atlantic City Electric
BGE: Baltimore Gas & Electric
FFO: funds from operations

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Timestamp: 21 February 2024 12:45PM EST

Exelon cut its 2023 rate base -\$800Mn which was attributed to a delay in a customer billing system into 2024 as well as other Illinois customer advances. The rate base guidance is ~\$500Mn lower 2024-2026 than the prior plan as near-term ComEd capex is removed. By 2028 we believe that prior rate base will converge with the updated rate base at ~\$80Bn, despite the net increase in capex. This is because some of the major new transmission projects are for 2028 (Brandon Shores replacement) and 2030 (regional transmission). As a result the growth in 2029+ should be stronger than 7.5%.

Exhibit 1: Exelon Rate Base Update

Rate base declines in the near- and intermediate-term years of the plan.

Exelon Rate Base Update	2022	2023	2024	2025	2026	2027	2028	'22-'26	'23-'27
4Q22 Rate Base Guidance	51.4	56.2	60.8	65.0	69.6	74.5	79.8	7.9%	7.3%
4Q23 Rate Base Guidance	51.4	55.4	60.3	64.7	69.0	73.9	79.8	7.6%	7.5%
Delta (\$Bn)	-	(0.80)	(0.50)	(0.30)	(0.60)	(0.64)	(0.02)		
Delta (%)	0.0%	-1.4%	-0.8%	-0.5%	-0.9%	-0.9%	0.0%		

Source: Company Filings and BofA Global Research

BofA GLOBAL RESEARCH

Using the high level building blocks in the new guidance, we see our 2026-2027 EPS as reasonable, consistent with the 5.7% EPS CAGR modeled. The FY24 is +5% above our expectations and FY23 did surpass our forecast as well and we look to see if there are elements of conservatism embedded.

Exhibit 2: Exelon Updated vs Prior EPS Guidance and Simplifying Underlying Elements

Exelon's new 7.5% EPS growth rate appears to support a 5.5-6.0% EPS growth rate without earned return improvement

Exelon Long-Term EPS Point Guidance	2023E	2024E	2025E	2026E	2027E	'23-'27
Prior Guidance Point Estimate: 6-8%	\$2.36	\$2.50	\$2.69	\$2.88	\$3.09	7.0%
Updated Guidance Point Estimate: 5-7%	\$2.36	\$2.45	\$2.67	\$2.80	\$2.99	6.1%
Delta	\$0.00	(\$0.05)	(\$0.02)	(\$0.07)	(\$0.11)	
Delta %	0.0%	-2.1%	-0.7%	-2.6%	-3.5%	
BofA	\$2.35	\$2.33	\$2.64	\$2.79	\$2.94	5.7%
Updated Point Guidance vs BofA	0.4%	5.0%	1.0%	0.5%	1.6%	
Consensus	\$2.36	\$2.42	\$2.62	\$2.79	\$2.98	6.0%
Updated Point Guidance vs Consensus	0.0%	1.4%	2.0%	0.7%	0.2%	
Rate Base Growth						7.5%
Annual Equity Dilution		-\$0.01	-\$0.03	-\$0.03	-\$0.03	-0.8%
Corporate Debt Issuance		(\$0.05)	(\$0.07)	(\$0.09)	(\$0.11)	-0.7%
Annual Refinancing		\$0.00	\$0.00	-\$0.01	-\$0.02	-0.1%
EPS CAGR						5.7%

Source: Company Filings, Bloomberg, & BofA Global Research

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Dividend growth is slowing YoY to 5.5% for 2024 from ~7% for 2023. EXC is still targeting a ~60% payout ratio but reducing growth to 5-7% to align with EPS growth.

Exelon indicated that FY24 FFO / debt is below the 13% level but above the 12% rating agency downgrade threshold and improves in 2025+ from cash flow reconciliation items.

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Title: Subtitle

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Price objective basis & risk

Exelon (EXC)

Our \$36 PO is based on an sum of the parts valuation. Our base electric peer 2026 P/E multiple of 13.2x is grossed up for a year by 5% to reflect capital appreciation across the sector. We apply an -0.5x discounted multiple across EXC utilities PECO, BGE, PHI with average consolidated EPS growth and a below-average balance sheet warranting a lower valuation. The large Illinois ComEd jurisdiction has a -2.0x (-15%) discount applied to reflect the 8.9% authorized return on equity in the multi-year plan which is punitive relative to most other utility jurisdictions.

Risks to achievement our price objective are: 1) Adverse regulatory, political, and legislative outcomes, 2) inability to deploy the guided capital expenditures, 3) equity needs that differ from guidance, 4) storms, weather, and other natural disasters, 5) inability to control operating costs, 6) changes in effective tax and interest rates, and 7) changes in credit rating agency metric requirements.

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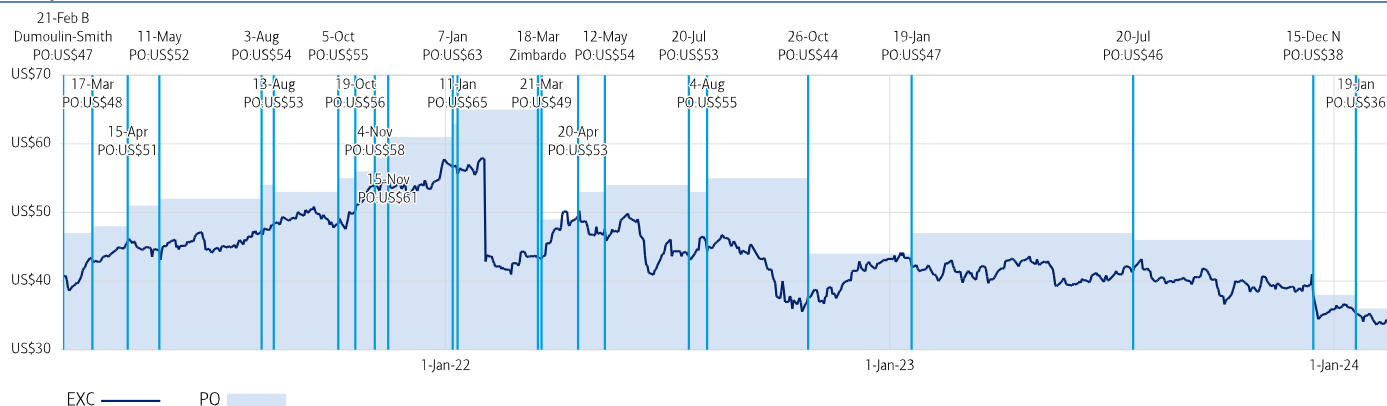
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Exelon Corp (EXC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	46.45%	Buy	52	72.22%
Hold	45	29.03%	Hold	32	71.11%
Sell	38	24.52%	Sell	21	55.26%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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