

## Portland General Electric Company

# Disappointing FY23 EPS but FY24 in-line. Capex jumps from grid spending plans

Maintain Rating: NEUTRAL | PO: 43.00 USD | Price: 40.80 USD

## 4Q23/FY23 well below guidance/BofA/Consensus

We maintain Neutral on shares of Portland General Electric (POR), an Oregon based regulated utility after a mixed earnings update. Portland General Electric (POR) reported \$0.67 4Q23 GAAP EPS, well below the recent \$0.90-\$0.97 quarterly guidance and \$0.84 BofA/\$0.88 Consensus. \$2.38 FY23 adj EPS was also a wide miss vs the lowered \$2.60-\$2.65 guidance which was reduced in late October from \$2.60-\$2.75. \$2.55 BofA/Consensus were already below the low-end of the guidance range. The FY23 EPS bridge is not comparable with the quarterly drivers but the largest new negative appears to be -\$0.14 retail revenue YoY that more than offset +\$0.10 cost cuts. The FY23 retail revenue decline implies a ~\$0.30 impact from customer price mix/volume, a significant fluctuation vs guidance. POR guides to a 10-15% effective tax rate vs 15-20% 2023 guidance and 16% GAAP effective tax rate. Tax credits causes volatility in the effective tax rate line and it is unclear exactly how much of this change is a positive earnings driver into 2024 given the large new renewables in-service for 2024. Portland reaffirmed its 5-7% EPS CAGR off 2022 adjusted EPS and 5-7% dividend per share growth targets. Total retail electric sales were +0.9% with net unfavorable weather (-6% lower heating degree days) driving with declining residential. POR estimated that it had +1.4% weather adjusted sales growth with -0.5% residential and +5.9% industrial.

## FY24 beats but excludes non-deferrable costs

\$2.98-\$3.18 FY24 guidance was initiated with a \$3.08 midpoint above \$3.04 BofA/\$3.06 Consensus; however, the guidance excludes non-deferrable January storm costs. Management does not include the non-deferrable storm restoration costs and the non-deferrable power costs (reliability contingency event). We assumed a -\$0.03 drag from the January event so our comparable \$3.07 would be in-line with guidance.

## T&D capex increases significantly

2023 actual stated capex \$1,462Mn was in-line with \$1,475Mn, a positive given the large implied spending in 4Q23; however, the cash flows from investing was \$1,358Mn with \$212Mn accrued capex. FY24 capex guidance was increased to \$1,310Mn from \$1,050Mn previously with higher capex along the curve as well. POR increased annual capex to ~\$1.2Bn annually 2025-2028 vs ~\$0.8Bn annually 2026-2027. The increases are driven by a mix of distribution and transmission primarily as well as general spending. We estimate that transmission is increasing from ~\$170Mn per year in the prior plan to \$255-\$265Mn in 2026-2027 then a jump to \$435Mn in 2028.

## Mixed update with EPS disappointing but LT capex up

The large increase in capex should support EPS growth, although will come with even greater reliance on the capital markets to finance. This is still a net favorable development; however, the consistent poor execution on earnings versus guidance is a setback for confidence in the outlook. Portland's FY23 adjusted EPS is lower than the FY19 \$2.39 and the ability to consistently achieve a reasonable earned ROE is key.

16 February 2024

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### Stock Data

Price	40.80 USD
Price Objective	43.00 USD
Date Established	5-Feb-2024
Investment Opinion	B-2-7
52-Week Range	38.01 USD - 51.58 USD
Mrkt Val (mn) / Shares Out (mn)	3,983 USD / 97.6
Free Float	99.5%
Average Daily Value (mn)	41.69 USD
BofA Ticker / Exchange	POR / NYS
Bloomberg / Reuters	POR US / POR.N
ROE (2023E)	8.1%
Net Dbt to Eqty (Dec-2022A)	125.3%
ESGMeter™	High

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T&D: Transmission and distribution  
ETR: Effective tax rate  
Capex: Capital expenditures

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Timestamp: 16 February 2024 11:11AM EST

## Capex increasing \$250-\$350Mn 2024-2027

We look to understand the customer bill impact of the new increase in T&D spending and if/how these interplays with the generation opportunities.

### Exhibit 1: Portland General Electric (POR) Annual Capex Comparison

Large increases in distribution and transmission spending with transmission accelerating in the later years

POR Annual Capex Comparison	2023	2024	2025	2026	2027	2028
<b>4Q23 Update</b>						
Generation		165	160	165	170	175
Distribution		620	590	610	600	625
General		120	115	120	120	120
Storage		235	155	-	-	-
Transmission		170	180	255	265	435
4Q23 Update Total	1,462	1,310	1,200	1,150	1,155	1,355
<b>3Q23 Update</b>						
Generation	580	150	150	150	150	150
Distribution	420	392	399	399	399	399
General	180	100	80	80	80	80
Storage	115	240	150	-	-	-
Transmission (~30% of prior Distribution)	180	168	171	171	171	171
3Q23 Update Total	1,475	1,050	950	800	800	800
<b>4Q23 Plan vs 3Q23 Plan</b>						
	2023	2024	2025	2026	2027	2028
Generation		15	10	15	20	25
Distribution		228	191	211	201	226
General		20	35	40	40	40
Storage		(5)	5	-	-	-
Transmission		2	9	84	94	264
<b>Total Change in Plan (\$Mn)</b>	<b>(13)</b>	<b>260</b>	<b>250</b>	<b>350</b>	<b>355</b>	<b>555</b>
Total Change in Plan (%)	-1%	25%	26%	44%	44%	69%

Source: Company Filings & BofA Global Research

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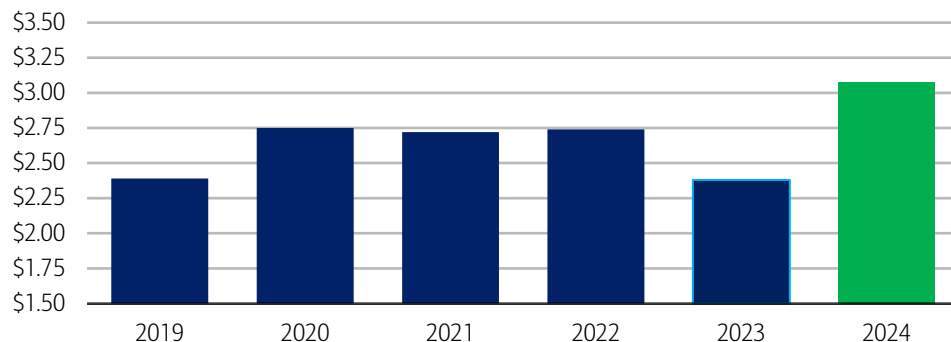
## Balance sheet always in focus

FY23 operating cash flows were also below guidance at \$420Mn, a multi-year low, vs \$500-\$550Mn (\$794Mn pre changes in working capital). POR sold \$24Mn of tax credits during the year, a novel driver for the company and sector. Management projects operating cash flows to improve to \$700-\$800Mn. The shortfall in cash flow/earnings in 2023 relative to guidance is a challenging backdrop the takes away from the positive in long-term capital increase.

The new capex should require additional equity issuances which will grow the already top-decile equity issuance as a percentage of market capitalization.

### Exhibit 2: POR Annual EPS: 2019-2023 Actual Adjusted and 2024 Guidance

Portland guides to a large increase in FY24 which we see as largely supported from the 2023 rate case



Source: Company Filings

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## Price objective basis & risk

### Portland General Electric Company (POR)

Our \$43 price objective is based on our 2026E EPS estimate using the 13.4x electric peer P/E base multiple. We gross-up +5% to reflect capital appreciation across the sector, a consistent approach across the coverage universe. We value shares based on a 2025E P/E methodology applying a -1x discount which we believe is appropriate for the below-average growth profile that is based in part on success in forthcoming competitive generation solicitations.

Upside risks 1) constructive political, regulatory, or legislative changes 2) lower volatility in power costs in the PCAM and RCE, 3) no wildfires and other natural disasters, 4) ability to deploy capital, 5) ability to control opex to achieve the allowed rate of return, 6) lower interest rates, 7) favorable changes in equity issuance amounts and pricing, 8) load growth, 9) High RFP approvals, and 9) trading profits, and 10) higher non-qualified benefit trust performance. Downside risks are 1) challenging political, regulatory, or legislative changes 2) higher volatility in power costs in the PCAM and RCE, 3) wildfires and other natural disasters, 4) unable to deploy capital, 5) unable to control opex to achieve the allowed rate of return, 6) higher interest rates, 7) unfavorable changes in equity issuance amounts and pricing, 8) load contraction, 9) Low RFP approvals, and 9) trading or losses, and 10) poor non-qualified benefit trust performance.

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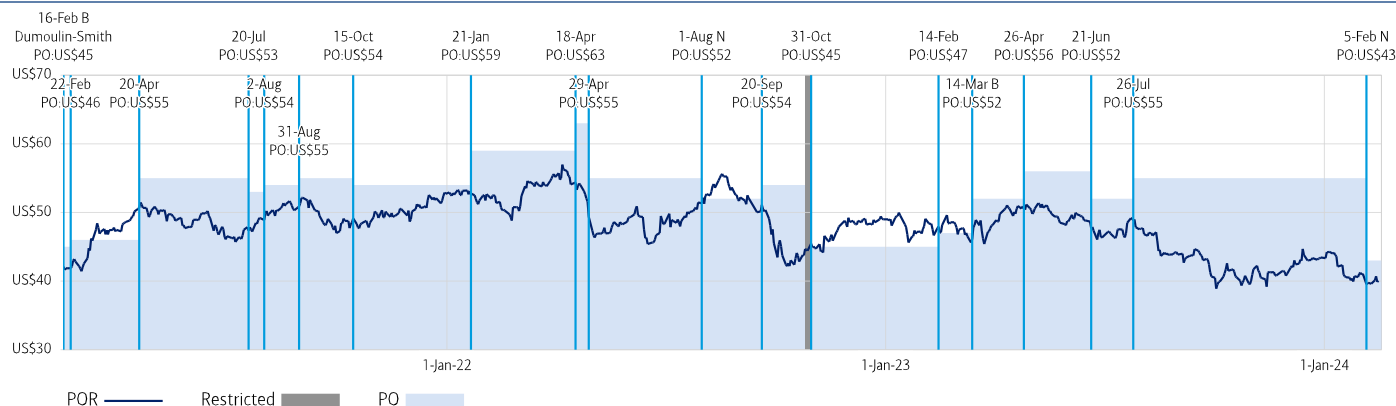
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### Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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