

## PNM Resources Inc.

# Growth Rate Set to Accelerate In Standalone Plan: Maintain Buy

Maintain Rating: BUY | PO: 44.00 USD | Price: 34.74 USD

## Non-linear CAGR with 2027 acceleration

We maintain Buy rating on Texas- and New Mexico-based electric utility PNM Resources (PNM). On February 6<sup>th</sup>, PNM initiated a new 6-7% 2024-2028 EPS CAGR versus the prior 5% 2022+ EPS CAGR. The new implied growth rate is -1% lower in 2025, in-line in 2026, and +2% in 2027. In the near-term, growth is below average at 5% CAGR 2024-2026 before an acceleration with +10% YoY in 2027 to return the outlook to a position of strength. The new 6-7% guidance is supported by 10.0% rate base growth (consistent with 10.3% 2023-2027 previously), less ~70bp aggregate regulatory lag, leading to 9.3% utility EPS growth with parent corporate costs growing in-line with earnings. There is 2-4% dilution (~3.5% with ~\$0.10 average drag) that declines with \$100Mn annual equity flat throughout the period. Overall we see the new plan as achievable with the earnings power slide 1-2% below BofA 2026-2027 and +3% higher in 2024-2025.

## FY24 guidance above BofA expectations

FY24 guidance was better than we feared at \$2.65-\$2.75 with the \$2.70 midpoint in-line with Consensus and ahead of \$2.62 BofAe which did not have offsets to the New Mexico rate case embedded. TNMP volumetric load up 3% at midpoint and demand-based load up 2% at midpoint; PNM retail load projected to rise 3.5% YoY on deferred expansion of existing industrial customers, with retail avg. customers up 0.8% YoY. Consolidated load growth adding 3-6c to FY24 EPS; adjusting out abnormal weather in FY23 creates a -8c headwind YoY. \$2.82 FY23 adjusted EPS outperformed the \$2.78 BofA/Consensus, \$2.75-\$2.80 revised guidance, and \$2.65-\$2.75 original guidance.

## Financing plan largely intact to support credit

Management reaffirmed the \$100Mn annual equity 2024-2028 and introduced a planned corporate debt issuance with “equity-content securities”. On the earnings call the company indicated that it is considering junior subordinated notes (JSN). The financing plan is designed to support funds from operations (FFO) to debt ratios of at least 13% at Moody’s and at least 14% at S&P. PNM’s Baa3/Stable credit rating at Moody’s is one of the lowest in our utilities coverage and a frequent area of investor pushback.

## ‘Upside to the upside’ sits in Texas

Management indicated on the earnings call that there are areas of incremental capital expenditures, particularly in Texas, that are not in the current financial plan. Under the current plan before incremental Texas spending, Texas (TNMP 44%) surpasses New Mexico (PNM Retail 43%) as a percentage of rate base. While New Mexico regulation has historically been less certain, we believe that the evolving business mix supports a higher valuation than the discount embedded in shares today. Watch batteries.

## M&A in wait and see mode after Avangrid

PNM indicated that it is still in its “*deep breath phase*” after the Avangrid merger was terminated and still sees merits to consolidation with a larger platform. The company reiterated that it is looking to see a fact pattern of constructive regulation in New Mexico, implying a subsequent rate case filing is an important element of the plan

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### Stock Data

Price	34.74 USD
Price Objective	44.00 USD
Date Established	4-Jan-2024
Investment Opinion	A-1-7
52-Week Range	34.63 USD - 49.47 USD
Mrkt Val (mn) / Shares Out (mn)	2,982 USD / 85.8
Free Float	98.7%
Average Daily Value (mn)	73.47 USD
BofA Ticker / Exchange	PNM / NYS
Bloomberg / Reuters	PNM US / PNM.N
ROE (2023E)	10.2%
Net Dbt to Eqty (Dec-2022A)	190.8%
ESGMeter™	Medium

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TNMP: Texas-New Mexico Power  
PNM Retail: New Mexico subsidiary

## Guidance refresh backloads EPS growth

Below we detail the year-by-year cadence of EPS growth implied by PNM's earnings power and stated annual EPS CAGR relative to Street expectations. Base year 2024 EPS of \$2.70 presents a higher starting point than BofA \$2.62, yet the annual growth implied by PNM's earnings power significant lags prior guidance and Street estimates in both 2025 and 2026, indicative of the long-term effects of January's unfavorable GRC outcome with respect to cost of capital. Not until 2027 does PNM's implied earnings power "catch up" with the midpoint of stated long-term 6-7% EPS guidance. We had previously expected EPS to be nonlinear given the shaping of annual capex and lag in recognition of recent investment in rate base, but the update pushes the "catch up" year back to 2027 from 2026 prior. However, implied earnings power EPS of \$3.47 in 2028 outpaces both Street and BofA estimates.

### Exhibit 1: PNM Resources Adjusted EPS

Comparison of the prior and updated EPS drivers

PNM Resources Adjusted EPS	2024E	2025E	2026E	2027E	2028E	CAGR
Earnings power guidance midpoint	\$2.70	\$2.80	\$2.98	\$3.27	\$3.47	6.5%
New 6-7% guidance 2024 base	\$2.70	\$2.88	\$3.06	\$3.26	\$3.47	6.5%
Earnings Power vs CAGR	0.0%	-2.6%	-2.7%	0.3%	-0.2%	
Prior 5% EPS guidance 2020 base	\$2.77	\$2.91	\$3.06	\$3.21	\$3.37	5.0%
Change in CAGR Guidance	-2.6%	-1.2%	0.2%	1.7%	3.1%	
BofA Estimates	\$2.62	\$2.72	\$3.04	\$3.31	\$3.42	6.9%
Earnings Power Guide vs BofA	3.1%	2.9%	-2.0%	-1.2%	1.4%	
Consensus Estimates	\$2.69	\$2.89	\$3.10	\$3.40	NA	8.0%
Earnings Power Guide vs Street	0.2%	-3.2%	-3.9%	-3.7%	NA	
Prior Capex Guidance	1,166	1,245	1,163	1,178		
New Capex Guidance	1,176	1,273	1,153	1,178	1,273	
Prior Rate Base Guidance	\$6,100	\$6,600	\$7,500	\$8,300		10.3%
New Rate Base Guidance	\$6,000	\$6,600	\$7,400	\$8,300	\$8,800	10.0%
Segment Guidance/Earnings Power	2024	2025	2026	2027	2028	CAGR
PNM EPS	\$2.01	\$2.13	\$2.35	\$2.57	\$2.66	7.3%
TNMP EPS	\$1.18	\$1.31	\$1.50	\$1.71	\$1.89	12.5%
Utility EPS	\$3.19	\$3.44	\$3.85	\$4.28	\$4.55	9.3%
Parent Drag	-\$0.49	-\$0.57	-\$0.67	-\$0.72	-\$0.70	9.3%
EPS Pre Equity Issuances	\$2.70	\$2.88	\$3.18	\$3.56	\$3.85	9.3%
Incremental Dilution		-\$0.08	-\$0.20	-\$0.29	-\$0.38	-2.5%
Net Earnings Power	\$2.70	\$2.80	\$2.98	\$3.27	\$3.48	6.5%

Source: Company Filings, Bloomberg, & BofA Global Research

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## Step function growth in 2027 is notable

The new 2025+ EPS guidance is 3-4% below Consensus estimates but 2026 Street estimates for PNM are only slightly changed following the resolution of the New Mexico rate case conclusion in January 2024 and termination of the Avangrid merger. Still, while it was well understood from our investor conversations that PNM's EPS growth could deviate from the linear CAGR from year-to-year, the extent of the catchup required in 2027 is notable. Management indicated that the step function improvement in 2027 relates to a variety of factors including Texas. PNM Retail EPS grows 9-10% and Texas grows 14-15% in 2026-2027.

## Price objective basis & risk

### PNM Resources Inc. (PNM)

We value PNM Resources at \$44 based on a 2026E sum of the parts valuation methodology utilizing P/E multiples for each business segment. We mark-to-market the electric utility average 13.8x 2026E (versus 14.1x in our last update) which we gross up for +5% reflect capital appreciation across the sector. This is a consistent approach for

the coverage universe. We now apply a -1x discount to the NM utility versus a +1x premium prior, reflecting more adverse ratemaking parameters following the most recent general rate case. We still apply a +1.0x premium to the TX and FERC jurisdictions due to their strong growth and attractive investment opportunities.

Risks to the achievement of our price objective and estimates are changes in: 1) regulatory, political, judicial, and legislative outcomes, 2) operating and financing costs, 3) interest rates and asset returns, 4) potential M&A activity, 6) natural disasters and weather, 8) commodity prices, 9) capital expenditures, 10) credit rating agency actions.

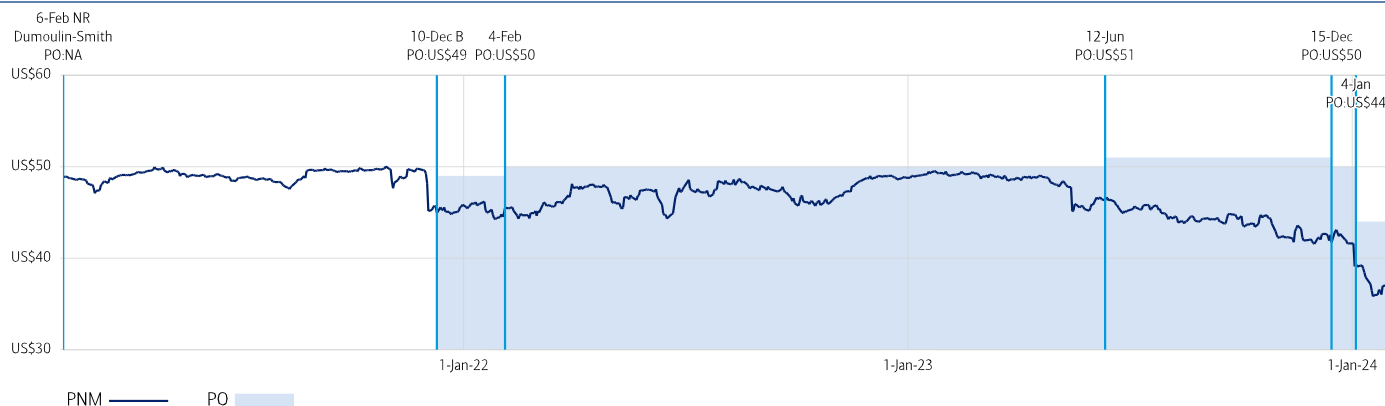
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### PNM Resources Inc. (PNM) Price Chart



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 <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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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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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