

\$HE - Maui Wildfire Litigation Trade

Hawaiian Electric Industries (HE) is a diversified holding company that operates through two major segments: banking and electric utilities. Through its electric utilities, the Company generates, transmits, and sells electricity to a variety of customers in the state of Hawaii. The bank segment, American Savings Bank, has ~35 branches across the Hawaiian Islands and ~\$10bn of assets.

On August 8, 2023, several brush fires in the West Maui area caused widespread property damage (~3,450 acres burned), and sadly led to 101 confirmed fatalities. Although some of the earliest morning fires of that day were attributed to power lines that fell in high winds, the Maui Fire Department has subsequently reported that they had successfully extinguished these fires by the afternoon. Later in the afternoon, however, when Hawaiian Electric's power lines were already shut off and not energized, workers saw an additional fire ("Afternoon Fire") which was not able to be contained and led to most of the property damage and all of the fatalities on that day. No official determination has been made to the cause of the Afternoon Fire.

Since the time of the wildfires, Hawaiian Electric, which supplies power to approximately 95% of Hawaii's population and is actively working to decarbonize and modernize the grid for resilience and public safety, has seen its stock decrease from the mid \$30s/share range to a low of about \$9/share as multiple lawsuits have been filed against HE and its utility subsidiaries, credit ratings agencies have downgraded HE's debt, and the Company has suspended its dividend. After over a year of negotiations, however, the litigation overhang is nearing its final stages as the Plaintiffs (victims) and Defendants (including Hawaiian Electric) have agreed in principle to a \$4.0bn global settlement of which Hawaiian Electric's share will be ~\$1.8bn, to be paid out over 4 years. In order to fund this settlement amount, HE has announced that it will sell American Savings Bank (~\$500mm) and has already raised over \$500mm of equity. Even if the balance of the settlement amount would have to be raised in the debt markets at a punitive interest rate, there is a clear path for HE to normalize at around \$1.00/share in EPS in FY25E/26E and reinstate its dividend. Utilizing a conservative ~14/15x P/E multiple could result in 40-50% upside to the current share price.

Risks to the thesis include a current effort by various property insurers to hold up the global settlement via litigation, the validity of which has now been sent up to Hawaii State Supreme Court (decision expected to be rendered by late December).

"But utilities are capital intensive beasts. It sounds nice to say "bankrupt HE and take everything they're worth for victims....." but if you do that it's going to be very hard to get investors to pony up capital (particularly equity capital) to literally keep the lights on. Utilities are astute lobbying machines, and HE is a massive employer ([Hawaiian Electric is the 12th largest employer in Hawaii, and ASB is #33](#)) with decades of lobbying relationships built. They are going to call in every favor they have to let politicians know how dangerous it will be for the islands long term health / capacity to rebuild if they try to completely ax HE in a downside scenario."

TLDR: Market is/was pricing in 75% chance of bankruptcy, we argue they will survive and EPS will normalize as they only sold off the banking portion of the company, not main operations.

Shares Outstanding		110000																
	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25
Net Income QoQ	64,831	64,345	63,886	53,104	69,640	53,014	62,553	55,931	55,194	55,083	41,589	47,372	42,595	(1,295,011)	(103,931)			
YoY				246,166				241,138				199,238			(1,356,347)			
Add Backs (Fines)														1,644,440	104,564			
Adjusted Net Income QoQ	64,831	64,345	63,886	53,104	69,640	53,014	62,553	55,931	55,194	55,083	41,589	47,372	42,595	105,271	633	40,000	48,000	50,000
				246,166				241,138				199,238				188,499		
Growth Rate		-1%	-1%	-20%	24%	-31%	15%	-12%	-1%	0%	-32%	12%	-11%	60%	-16530%			
Basic EPS QoQ	0.59	0.58	0.58	0.5	0.63	0.48	0.57	0.52	0.5	0.5	0.37	0.45	0.38	(11.74)	(00.91)			
YoY				2.25				2.2				1.82						
Adjusted Basic EPS QoQ	0.59	0.58	0.58	0.5	0.63	0.48	0.57	0.52	0.5	0.5	0.37	0.45	0.38	00.96	00.01	00.36	0.44	0.45
YoY				2.25				2.2				1.82				01.71	1.75	1.82

Market Data			Valuation	
Company	Ticker	Share Price	P/E	
American Electric Power	AEP	96	16.21x	
Duke Energy Corporation	DUK	111	18.02x	
Xcel Energy	XEL	67	11.73x	
WEC Energy Group	WEC	95	18.28x	
Edison International	EIX	81	14.41x	
Eversource Energy	ES	61	12.61x	
Exelon Corporation	EXC	38	14.51x	
NiSource Inc	NI	35	18.90x	
Average			15.58x	
HE			6.69x	

HE Implied Valuation	EOY 2024	1Q2025	2Q2025
EPS	1.71	1.75	1.82
Implied Share Price based on HE P/E	11.44	11.71	12.18
Implied Share Price based on comps P/E	26.65	27.27	28.36