MARKETWEEK

As US utilities prepare for downturn, 'liquidity is paramount'

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By Ellen Meyers
Market Intelligence

U.S. investor-owned utilities continue to have access to capital but are taking precautions to maintain liquidity in an increasingly perilous economy wrought by the novel coronavirus.

Nearly all the large-cap utilities have raised new debt in the past two weeks, CreditSights analyst Andrew DeVries said. Several of these companies, including Exelon Corp. and Southern Co., ended the first quarter with multibillion-dollar debt offerings, which is "definitely not normal to come at the end of the quarter."

So far in 2020, U.S. utilities have collectively raised more than $25 billion, including roughly $15 billion in March alone, according to Scotia Capital (USA) Inc. analyst Andrew Weisel. Banks also have stronger balance sheets and capital positions compared to 2008 and 2009, giving utilities open access to bond markets.

"Companies seem to be taking preemptive actions to bolster their cash and liquidity positions in case we have a prolonged downturn," Weisel said in an April 9 email, adding that one CFO described the activity levels as "preparing for doomsday."

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While the fully regulated utility sector has been spared the hard hits that oil and gas companies have received in the past month, the traditionally defensive industry has still been vulnerable to market volatility, and the recent debt raises reflect that "this market that is entirely focused on liquidity these days," DeVries said.

"It's all related to the volatility in the market," DeVries said in an April 8 interview. "Because if you are the CFO, you don't care about paying an extra 10 basis points, 20 basis points, 30 basis points — at least you don't have any liquidity issues. The liquidity is paramount for these guys."

Financial metrics of top 10 US utilities

Ranked by market capitalization as of April 8, 2020

		FY2019				
Company (ticker)	Market cap as of 4/8/20 ($B)	Total debt ($B)	Net income ($B)	Total debt/ total equity (x)	Current ratio (x)*	Dividend payout ratio (%)
● NextEra Energy Inc. (NEE)	114.28	43.14	3.39	1.04	0.53	64.4
● Dominion Energy Inc. (D)^	65.57	38.40	1.38	1.13	0.61	226.5
● Duke Energy Corp. (DUK)	62.76	62.90	3.57	1.31	0.62	74.0
● Southern Co. (SO)	61.28	48.69	4.74	1.53	0.78	54.7
● American Electric Power Co. Inc. (AEP)	41.22	30.84	1.92	1.55	0.40	69.8
● Exelon Corp. (EXC)	36.62	39.33	3.03	1.14	0.85	48.2
● Sempra Energy (SRE)	35.69	26.51	2.36	1.22	0.36	53.1
● Xcel Energy Inc. (XEL)	32.97	20.53	1.37	1.55	0.68	61.4
● WEC Energy Group Inc. (WEC)	29.08	12.78	1.13	1.25	0.66	67.1
● Consolidated Edison Inc. (ED)	28.00	22.54	1.44	1.24	0.68	72.5

Primary industry: ● Electric utilities ● Multi-utilities

Data compiled April 9, 2020.
Analysis limited to publicly traded operating companies headquartered in the U.S. and classified by S&P Global Market Intelligence as electric utilities or multi-utilities.
* Reflects a ratio of current assets to current liabilities.
^ Dominion Energy's fiscal year 2019 financial results, including the dividend payout ratio, account for costs tied to the close of its $13.5-billion acquisition of SCANA Corp. on Jan. 1, 2019.
Source: S&P Global Market Intelligence

Utilities by nature are regulated monopolies that are less sensitive to stocks' recent slide, Glenrock Associates LLC analyst said Paul Patterson. However, "COVID-19 is kind of an unknown" because there has not been a similar global pandemic, and related economic downturn, in modern times.

"We're really in uncharted territory" with the virus and the broader implications for the global economy, Patterson said in an April 8 phone interview.

"I don't want to be Chicken Little and say, 'the sky is falling.' I'm just saying it's not clear what the economic environment is going to be," Patterson added.

If the virus outbreak persists and government-mandated restrictions are extended, then utilities can pursue other measures to shield their liquidity, analysts said.

Utilities would first delay certain investments but keep capital expenditures plans at the same levels and then reduce operational and maintenance costs, DeVries said. If the economy deteriorates further, then utilities would consider permanently cutting capex budgets.

Executives are already considering how to slash operations and maintenance costs because the winter was mild, Weisel said. That will help with companies' EPS and their ability to meet guidance, though "cash savings are relatively modest compared to the size of capital raises."

Slashing dividends would be the last lever utilities would pull to get cash. Moody's recently said utilities, particularly ones with high payout ratios, could reduce their payout plans if the economy severely worsens, but analysts do not see the sector taking that route.

"That would be extreme," Patterson said. "Dividends aren't frequently cut in the utility sector, but obviously, if things get difficult, that could happen. But that's probably one of the less-likely immediate moves that would happen in that situation."

With most utility companies likely to keep dividend plans intact, executives will wait until the end of 2020 or the beginning of 2021 to announce their next dividend increase, Weisel said, "by when we'll have a much better sense of the magnitude of the COVID-19 impact on the economy."

If utilities ever reach a point where they are in a financial spiral, Patterson said the sector would be one of the key industries the U.S. government would assist.

"If there was a perception that utilities were in trouble, I think they would rank pretty high as one that the government would want to make sure they're not impaired," Patterson said.

Stephanie Tsao contributed to this article.

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