Utilities and Energy Sector Reports

Ryan Crook

Investment Management Program 2021 Fall Semester

Utilities

Size and Comparison

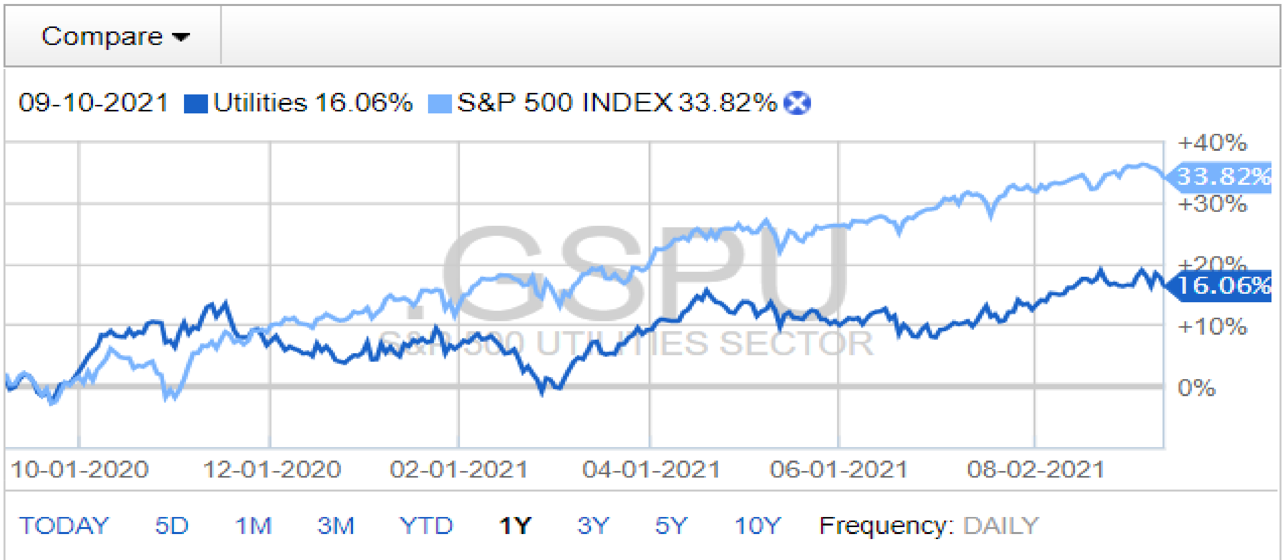
As of July 31st, 2021, the utilities sector accounts for 2.76% of the total S&P 500 index. This makes utilities the fourth lowest weighted sector in the S&P 500 index. Currently, the Wisman Fund weighs the utilities sector at 1.89%, and YTD offers a return of 3.12%.

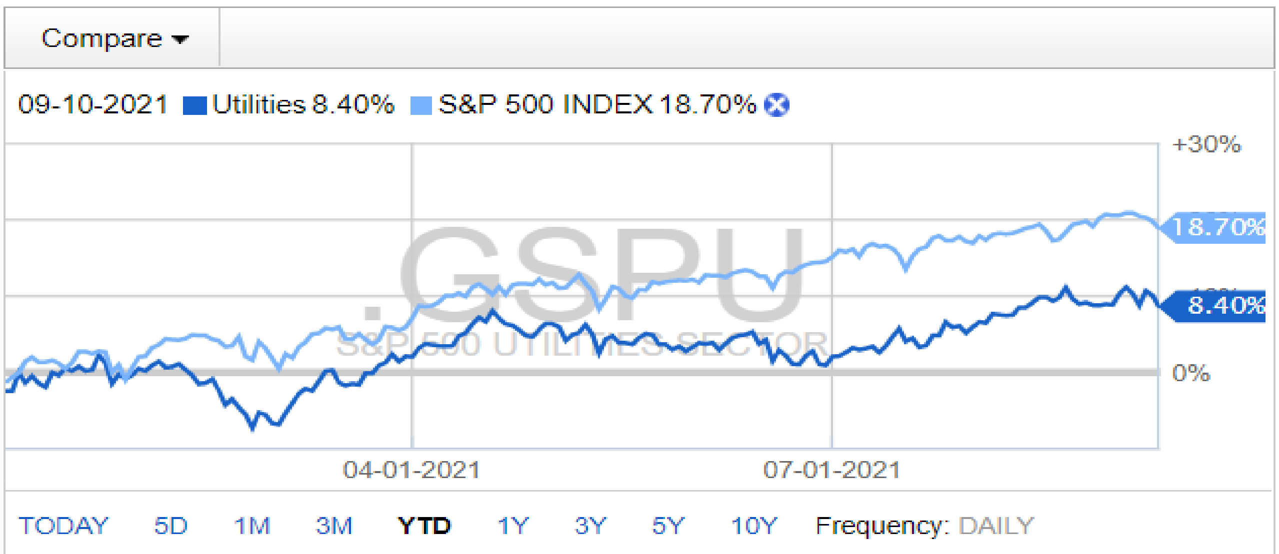
Over the past TTM, the utilities sector has considerably underperformed the S&P 500 index. The S&P 500 index has offered a TTM return of 33.82% while the utilities sector has a return of 16.06%.

As of September 13th, 2021, the utilities sector has performed only half as well as the S&P 500 index in terms of YTD return. The sector offers a YTD return of 8.40% compared to the S&P 500's 18.70%. While we are currently in the early-mid stage of expansion, we should not expect the utilities sector to fare any better. During stages expansion, the utilities sector tends to contract in terms of growth, compared to the market.

This sector has a total market cap of $1.65 trillion. In terms of YTD return, there are no industries within the sector that are outperforming the S&P 500 index. Over the last five years, the only industry within the sector that has outperformed the S&P 500 index, is the independent power and renewable energy producers industry, and I believe that this industry will only continue to grow. Even though that this sector has a poor YTD performance, this industry has better long term hold value than the rest of the industries, as it is in line with the current administration's green initiative. The industry of independent power and renewable electricity producers has the lowest market cap of any of the industries within the utilities sector, with a market cap of $111.61B, but I believe this will grow exponentially. This industry will continue to experience the most growth in years to come.

Over the past 3 months, the utilities sector has performed nearly as well as the S&P 500, with a return of 5.44% vs 5.47%. The market as a whole has slowed down the past couple of months due to the Covid-19 Delta variant becoming a notable problem. Because of this, it has allowed the utilities sector to act defensively and perform just as well as the S&P 500.





Industries in This Sector

Industry	Last % Change 04:20 PM ET 09/13/2021	% CHANGE 09/10/2021 YTD	1 - Year	3 - Year	5 - Year
Utilities	-0.18%	+8.40%	+14.61%	+26.98%	+41.51%
Electric Utilities	-0.05%	+9.21%	+18.06%	+30.85%	+43.07%
Gas Utilities	--	--	--	--	--
Independent Power and Renewable Electricity Producers	+0.42%	+1.15%	+35.52%	+57.38%	+161.01%
Multi-Utilities	-0.39%	+6.36%	+6.38%	+14.43%	+27.83%
Water Utilities	--	--	--	--	--
S&P 500 ® Index	+0.23%	+18.70%	+31.17%	+55.26%	+109.54%

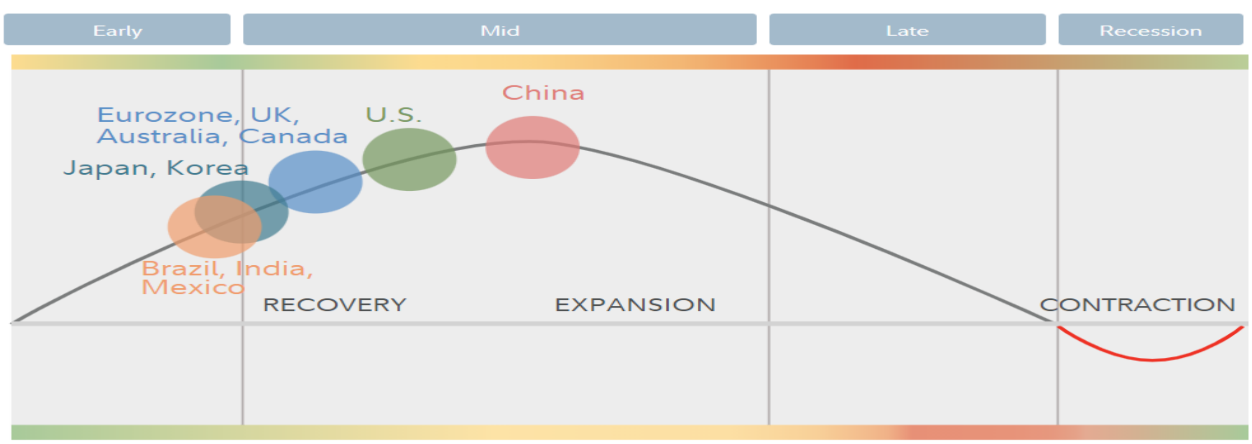
Business Analysis

Fidelity indicates that the economy is in the mid stage of the business cycle.

During the early and mid stages of the utilities sector underperforms its peers. During the late and recession periods, the utilities sector outperforms its peers.

Due to Covid-19, the economy was accelerated into a recession. The stock market as a whole experienced excessive drops in prices, but has been going through stages of improvement ever since. The improvement indicates that the economy has transitioned from a recession, into stages of recovery. I believe that due to the entrance of the delta variant, the mid stage of the business cycle could have been delayed, and we are not quite as far as fideltity indicates. Because of the stages of the business cycle, the utilities sector will not perform as well as its peers. It will underperform relative to the market, as it tends to be a stable sector. History records indicate that the US undergoes a recession every four years on average. The economy should not enter a recession for years to come, which means that the utilities sector will continue to underperform the market for the next couple of years.

The utilities sector offers investors consistent dividends as well as low price volatility relative to the market. This provides investors with safer investments during times of recession. Utilities generally earn a profit, but because they are a public service, they have substantial regulation, which limits the profit that the sector could receive. As the economy improves and interest rates rise, investors can find higher-yielding alternatives elsewhere. The utilities sector requires a significant amount of infrastructure, which constitutes a large amount of debt. This sector requires a continuous inflow of funds to be able to finance infrastructure upgrades and acquire new assets. Because of their high debt, utilities are sensitive to changes in the market interest rate. Consumers significantly influence the performance of the utilities sector. Generally, one utilities company has monopolistic characteristics in a specific area, consumers generally choose the least expensive company, which eliminates the higher-cost producers from the market. When interest rates rise and cause bond yields to rise, then the utilities will have to pay out higher dividends in order for their stocks to be more attractive. When interest rates rise and treasury bills have a higher yield than the utilities stocks, then investors tend to sell off those stocks.



Economic Analysis

Covid-19 presents the factor that most influences the market today. With the appearance of the delta variant, the economy has slowed compared to the growth experienced at the beginning of the year. This has allowed the utilities sector to perform just as well as the S&P 500 index. Covid-19 originally impacted the economy, almost every sector dropped in considerable value. Even utilities, which performs the best during times of recession, was impacted by the negative effects of Covid-19. Over the last TTM, the utilities sector has considerably underperformed the market, and will continue to do so until the economy enters stages of late expansion and contraction/recession. There is no timeframe of how long expansion is expected to occur, but the delta variant could prove troublesome and momentarily halt the growth of the economy. Once the delta variant becomes more under control, I believe the expansion stage will be prolonged and the economy will not enter into the stages of late expansion or contraction for another one to three years.

Sector	Early	Mid	Late	Recession
Financials	+			
Real Estate	++			−−
Consumer Discretionary	++	−	−−	
Info. Tech	+	+	−−	−−
Industrials	++			−−
Materials	+	−−	++	
Consumer Staples			++	++
Health Care	−−		++	++
Energy	−−		++	
Communication Services		+		−
Utilities	−−	−	+	++

++ Consistently Overperform −− Consistently Underperform No Clear Pattern
+ Overperform − Underperform

Financial Analysis

For the utilities sector as a whole, revenue growth is at 4.65% compared to the prior TTM. Earnings per share growth is at 239.53% and the EPS for the sector is $2.48. The enterprise value is at $76.82B, which indicates how much money it would take for a theoretical takeover of the entire sector.

The utilities sector has a return on equity of 7.63% over the last twelve months. This indicates how well the sector reinvested earnings in order to generate additional earnings. The return on investment is 3.01% which is a measure of how effectively the sector uses its capital to generate profit. The sector has a large total debt/equity of 192.25, which is to be expected due to the costly and vast amount of infrastructure that utility needs in order to grow. The sector is also highly regulated, so profits are decreased as a result.

Sector Fundamentals AS OF 09/10/2021

P/E (Last Year GAAP Actual)	26.92
P/E (This Year's Estimate)	28.67
Enterprise Value	$76.82B
EPS (TTM)	$2.48
EPS Growth (TTM vs. Prior TTM)	239.53%
Revenue Growth (TTM vs. Prior TTM)	4.65%
Return on Equity (TTM)	7.63%
Return on Investment (TTM)	3.01%
Total Debt/Equity (TTM)	192.25
Dividend Yield	3.56%

Valuation

The P/E ratio for the utilities sector is 25.76 for the last TTM, meaning investors are willing to pay $25.76 for every $1 of earnings. The P/E ratio is expected to decrease to $20.89 over the course of the next twelve months, which means investors will pay $4.87 less for every $1 of earnings. Both the TTM and the projected twelve months are less than the P/E ratios of the S&P 500 in figure 11. The P/B ratio is 2.20, meaning that investors are willing to pay $2.20 for every $1 of the current book value of assets in the sector. This is also less than the P/B ratio of the S&P 500, which currently sits at 4.29. This means that the sector has a low stock price compared to its book value. The utilities sector has a dividend yield of 3.06% which is more than two times higher than the dividend yield of the S&P 500. The P/S ratio of the utilities sector is 2.86 which indicates that an investor is willing to pay $2.70 for every $1 of sales for a stock. This is only .01 over the S&P 500. The sector has a very slightly higher price compared to its sales than the S&P 500.

Fundamentals

P/E (TRAILING)	P/E (PROJECTED)	P/B	INDICATED DIV YIELD	P/SALES	P/CASH FLOW
25.76	20.89	2.2	3.06%	2.86	N/A

P/E (Projected) and Dividend Yield are as of August 31, 2021; P/E (Trailing), P/B, P/Sales, and P/Cash Flow are as of March 31, 2021. Fundamentals are updated on approximately the fifth business day of each month.

Fundamentals

P/E (TRAILING)	P/E (PROJECTED)	P/B	INDICATED DIV YIELD	P/SALES	P/CASH FLOW
30.99	22.12	4.29	1.33%	2.85	27.95

P/E (Projected) and Dividend Yield are as of August 31, 2021; P/E (Trailing), P/B, P/Sales, and P/Cash Flow are as of March 31, 2021. Fundamentals are updated on approximately the fifth business day of each month.

Recommendation

I recommend that the IMP class continues to underweight the utilities sector. Given the stage of the business cycle that we are in, the utilities sector is expected to continue to underperform the market. The utilities sector offers generally stable revenues, but the sector has not acted as defensively as expected during recent periods of market weakness. The utilities sector offers relatively high dividends compared to the market, but as interest rates continue to rise, there will be better investment opportunities. The recent rise in inflation has and will continue to induce higher interest rates. Since we are in economic expansion, that makes this sector less attractive relative to other sectors.

President Biden's agenda to push the growth of green and renewable energy could provide the sector with more than expected growth. But, there could also be more regulations set on the utilities sector, which will negatively impact profits. Overall, the potential growth for the utilities sector will not be enough to outperform the market. That said, we should underweight this sector and place holdings into other sectors with more growth potential.

The current target weight for the utilities sector is 2.25% but our actual weight is 1.89%. Our new target weight should be around 2.00%. If we want our sector to outperform the market, withdrawing some of our holdings in the utilities sector and reallocating them into the Independent Power and Renewable Electricity Producers industry is the best option to increase potential returns.

Energy

Size and Comparison

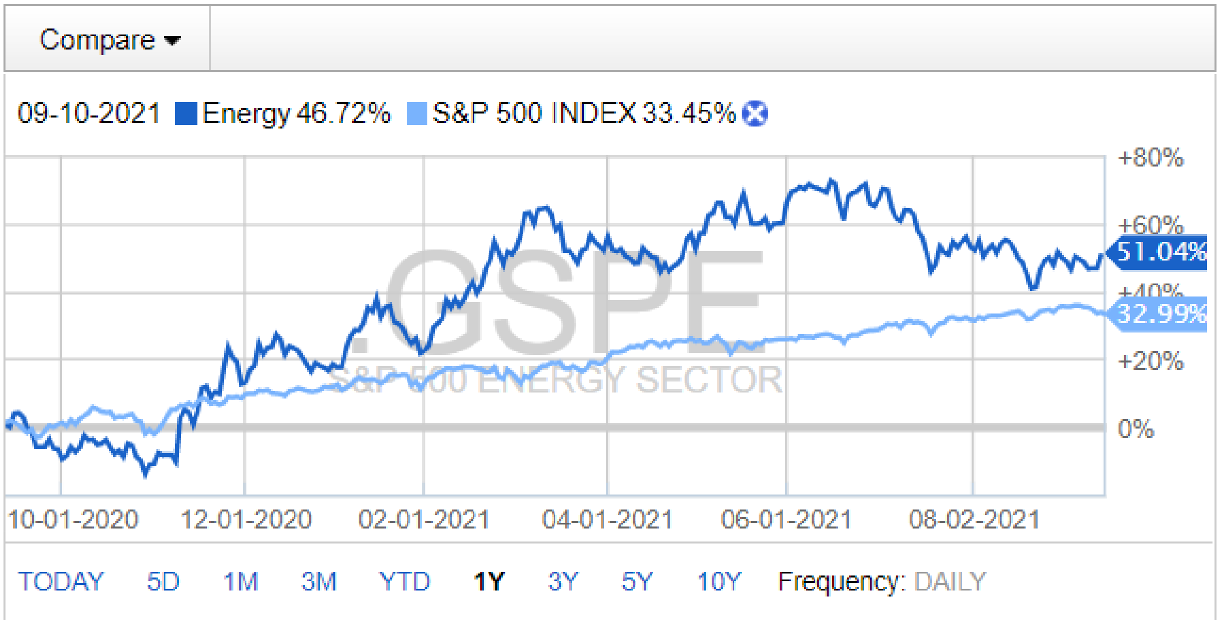
As of July 31st, 2021, the energy sector accounts for 2.28% of the total S&P 500 index. This makes energy the lowest weighted sector in the S&P 500 index. Currently, the Wisman Fund weighs the energy sector at 2.48%, and YTD offers a return of 30.18%.

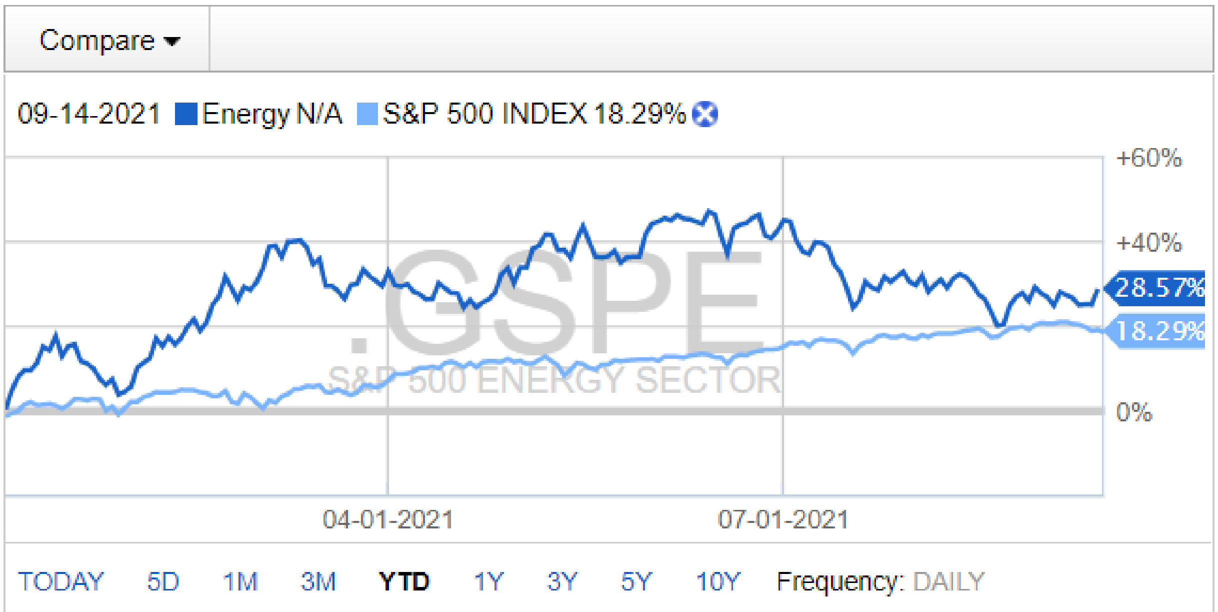
Over the past TTM, the energy sector has outperformed the S&P 500 index. The S&P 500 index has offered a TTM return of 32.99% while the energy sector has a return of 51.04%.

As of September 13th, 2021, the energy sector has outperformed the S&P 500 by approximately 10% so far YTD. The sector offers a YTD return of 28.57% compared to the S&P 500's 18.29%. The energy sector has performed unusually well during the early stage of the business cycle. During the early stages of the business cycle, the energy sector tends to considerably underperform the market. I believe that this change could be attributed to the change in the current administration and their plans for green energy. The infrastructure bills that are going through congress also heavily factor in green energy, which is another factor contributed to their great YTD performance. The final factor for the energy sector's great performance is the rise of oil price. Oil prices have nearly doubled over the past year and there is a possibility that they will continue to rise once the economy opens up even more (once the delta variant becomes less of a threat).

This sector has a total market cap of $2.64 trillion. Over the TTM, both industries have outperformed the S&P 500 index. So far YTD, only the industry that has outperformed the benchmark is oil, gas, and consumable fuels industry, though energy equipment & services is close behind. Over the last three and five year periods, both industries have a negative return. The entry of the new administration has the potential to bring new life into the energy sector, which we have seen already YTD. With the introduction of new infrastructure bills and green energy acts, the energy sector could have great long-term value.

Over the past 3 months, the energy sector has vastly underperformed the benchmark, -14.48% vs 5.47%. The market as a whole has slowed down the past couple of months due to the Covid-19 delta variant becoming a notable problem. The appearance of the delta variant is a key component to this poor performance. Gas prices have remained relatively stagnent over the past three months because of less travel. Once the effects of the delta variant begin to diminish, it will open more travel and grant the ability to have similar returns to the TTM.





Industries in This Sector

Industry	Last % Change 05:19 PM ET 09/14/2021	% CHANGE YTD	1 - Year	3 - Year	5 - Year
		09/13/2021			
Energy	-1.55%	+28.57%	+51.04%	-32.22%	-28.73%
Energy Equipment & Services	-1.20%	+18.61%	+54.33%	-51.45%	-57.31%
Oil, Gas & Consumable Fuels	-1.58%	+29.61%	+50.68%	-29.58%	-23.84%
S&P 500 ® Index	-0.57%	+18.97%	+33.76%	+54.69%	+106.98%

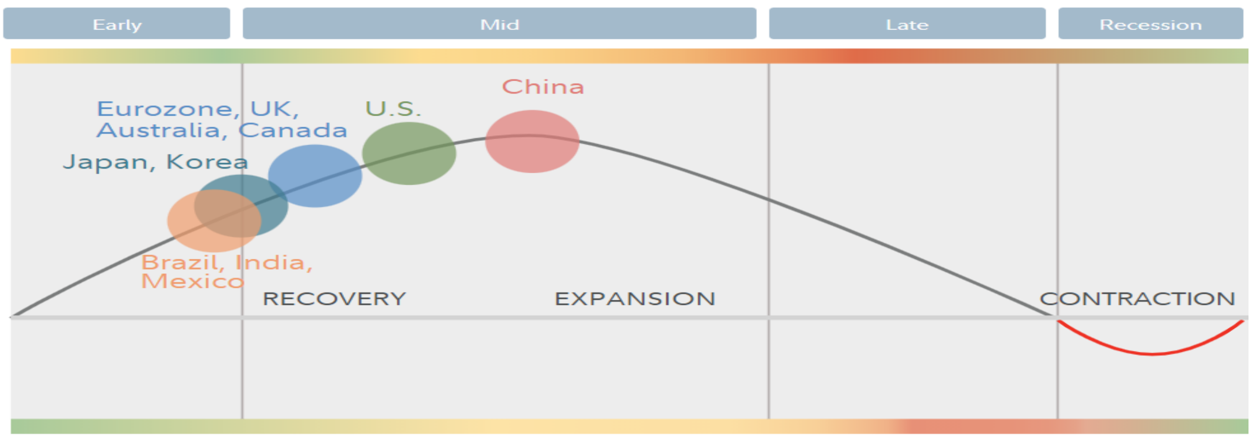
Business Analysis

Fidelity indicates that the economy is in the mid stage of the business cycle.

During the early stages of the business cycle, the energy sector underperforms its peers. During the late stages of the business cycle, the energy sector outperforms its peers.

Due to Covid-19, the economy was accelerated into a recession. The stock market as a whole experienced excessive drops in prices, but has been going through stages of improvement ever since. The improvement indicates that the economy has transitioned from a recession, into stages of recovery. I believe that due to the entrance of the delta variant, the mid stage of the business cycle could have been delayed, and we are not quite as far as fideltity indicates. Because of the stages of the business cycle, the energy sector is supposed to underperform its peers in the early stages of the business cycle and outperform during the late stage of the business cycle. This does not appear to be the case so far this cycle, as the energy sector has outperformed the S&P 500.

The energy sector offers investors higher and more consistent dividends than most other sectors.



Economic Analysis

Covid-19 is the factor that most influences the market today. With the appearance of the delta variant, the economy has slowed compared to the growth experienced at the beginning of the year. This has driven the energy sector to have negative growth over the past three months. Covid-19 originally impacted the economy, almost every sector dropped in considerable value. Over the past TTM, the energy sector has unexpectedly outperformed the market compared to histroical data. This is mainly atributed to the change in the current administration and their plans to promote green energy and provide the infrastructure to do so. Also with the reopening of the economy, oil prices have skyrocketed, as there is more demand for travel. There is no timeframe of how long expansion is expected to occur, but the delta variant could prove troublesome and momentarily halt the growth of the economy. Once the delta variant becomes more under control, I believe the expansion stage will be prolonged and the economy will not enter into the stages of late expansion or contraction for another one to three years.

Sector	Early	Mid	Late	Recession
Financials	+			
Real Estate	++			−−
Consumer Discretionary	++	−	−−	
Info. Tech	+	+	−−	−−
Industrials	++			−−
Materials	+	−−	++	
Consumer Staples			++	++
Health Care	−−		++	++
Energy	−−		++	
Communication Services		+		−
Utilities	−−	−	+	++

++ Consistently Overperform −− Consistently Underperform No Clear Pattern
+ Overperform − Underperform

Financial Analysis

For the energy sector as a whole, revenue growth is at -.57% compared to the prior TTM. Earnings per share growth is at 367.06% and the EPS for the sector is $0.58. The enterprise value is at $109.90B, which indicates how much money it would take for a theoretical takeover of the entire sector.

The energy sector has a return on equity of 22.53% over the last twelve months. This indicates how well the sector reinvested earnings in order to generate additional earnings. The return on investment is 2.85% which is a measure of how effectively the sector uses its capital to generate profit. The sector has a large total debt/equity of -824.89.

Sector Fundamentals AS OF 09/13/2021

P/E (Last Year GAAP Actual)	67.12
P/E (This Year's Estimate)	14.66
Enterprise Value	$109.90B
EPS (TTM)	$0.58
EPS Growth (TTM vs. Prior TTM)	367.06%
Revenue Growth (TTM vs. Prior TTM)	-0.57%
Return on Equity (TTM)	22.53%
Return on Investment (TTM)	2.85%
Total Debt/Equity (TTM)	-824.89
Dividend Yield	5.02%

Valuation

The expected P/E ratio is 12.32, which means investors are willing to pay $12.32 for every $1 of earnings. The P/E ratio of the sector is less than half of the current P/E ratio of the S&P 500. The P/B ratio is 1.69, meaning that investors are willing to pay $1.69 for every $1 of the current book value of assets in the sector. This is also less than the P/B ratio of the S&P 500, which currently sits at 4.29. This means that the sector has a low stock price compared to its book value. The energy sector has a dividend yield of 4.55% which is more than three times higher than the dividend yield of the S&P 500. The P/S ratio of the energy sector is 1.41 which indicates that an investor is willing to pay $1.41 for every $1 of sales for a stock. This is less than half of the S&P 500. The sector has a lower price compared to its sales than the S&P 500. The P/CF ratio is 23.74, meaning that investors are willing to pay $23.74 for every $1 of cash generated. This is also less than the S&P 500, indicating that the sector could be undervalued relative to the market.

Fundamentals

P/E (TRAILING)	P/E (PROJECTED)	P/B	INDICATED DIV YIELD	P/SALES	P/CASH FLOW
N/A	12.32	1.69	4.55%	1.41	23.74

P/E (Projected) and Dividend Yield are as of August 31, 2021; P/E (Trailing), P/B, P/Sales, and P/Cash Flow are as of March 31, 2021. Fundamentals are updated on approximately the fifth business day of each month.

Fundamentals

P/E (TRAILING)	P/E (PROJECTED)	P/B	INDICATED DIV YIELD	P/SALES	P/CASH FLOW
30.99	22.12	4.29	1.33%	2.85	27.95

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Recommendation

I recommend that the IMP class overweights the energy sector. According to the stage of the business cycle that we are in, the energy sector is supposed to perform on par with the market. Once we enter the late stage of the business cycle, the energy sector is expected to consistently outperform it's peers. Given how the energy sector performed during the stages of recovery, we should expect that to continue and buy now before the energy sector hits another growth period. The energy sector grants one of the highest dividend yields of all the sectors and with the high returns we are currently seeing, that will only add to the benefit of owning energy stocks. Once the delta variant begins to dwindle, oil and gas prices will go up, as there will be more opportunities to travel. Energy stocks are currently down from 2019 and 2015, so there is great opportunity to buy low and hold for years to come.

President Biden's agenda to push the growth of green and renewable energy could provide the sector with more than expected growth. If infrastructure bills are passed to promote green energy, then this sector will continue to grow. With this in mind, we should look to overweight the energy sector

The current target weight for the energy sector is 2.75% but our actual weight is 2.48%. Our new target weight should be around 3.50%. With the way that the energy sector has experience groth over the past TTM, we should expect this to continue. With plans for

energy infrastructure spending to continue to grow, it should solidify the potential for the sector in years to come.

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